

**Internationalisation of Traditional,  
Small and Medium-Sized Family Businesses:  
An Absorptive Capacity Approach**

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## Abstract

This thesis investigates the internationalisation of Maltese small and medium-sized family businesses (SMFBs) engaged in more traditional economic activity. Despite family businesses dominating enterprise populations worldwide, and increasing policy awareness acknowledging their leading role in socio-economic development, research into the internationalisation of family businesses remains extremely limited. Addressing this gap, this study examines the internationalisation of these under-researched firms, investigating how their unique characteristics and circumstances impact and effect on internationalisation dynamics and processes. The overarching exploratory research question driving the central thrust of this study is: *'What is the nature and extent of internationalisation among SMFBs in this context?'* In increasingly competitive globalised markets, understanding such dynamics is important at firm and national levels. Subsequently, given the established fundamental role of knowledge in internationalisation, this study seeks further understanding asking: *'How do such SMFBs approach knowledge requirements associated with internationalisation, as proposed by the absorptive capacity (ACAP) approach?'* In adopting an ACAP approach, this research explores and examines how information and knowledge associated with internationalisation is acquired, assimilated and exploited.

Given that hardly any research exists at the domain intersects which this thesis addresses, it synthesises and draws together research from the distinct fields of small firm internationalisation, family business, and emerging ACAP research. Seeking context-rich meanings, a qualitative, case-based approach involving eight SMFBs was adopted. Focus converged onto specific internationalisation events. First, in-depth analysis of the SMFBs' outward internationalisation processes from first steps was undertaken – tracing SMFBs' evolution, development and international activity over time. Secondly, adopting an ACAP approach and building on acquired insights guiding further investigation, an analytic framework was developed integrating internationalisation events with associated ACAP dynamics.

The SMFBs' internationalisation was found to be mainly influenced by the entrepreneur system, managers' characteristics and volition, idiosyncratic circumstances and environmental dynamics. Contrasting with internationalisation process theories (IPT) traditionally attributed to this context, SMFBs were also observed internationalising from inception, or rapidly as 'born-again internationals' at a mature stage. Despite size-related resource limitations, in instances owner-MDs creatively engaged in more committing modes and FDI – leapfrogging internationalisation stages. Such behaviour not being sufficiently explained or accommodated by IPT or INV perspectives, this thesis underlined importance in adopting more holistic approaches, integrating social and relational as well as resource perspectives in investigating complex phenomena associated with internationalisation.

Novel in adopting an ACAP approach in this context, key findings converged on the crucial centrality of the founder / owner-MD and the vital role of social contacts and relationships in determining SMFB internationalisation and associated ACAP. A main contribution of this research inheres in its empirically derived insights and the development of a conceptual approach on these tacit core elements organically determining internationalisation, associated ACAP dynamics and capability in traditionally-oriented SMFBs. This departs from existing operationalisations which emphasise formal and structured knowledge processes within knowledge-intensive corporate environments – incompatible with this research's context, notwithstanding ACAP's universal relevance. Findings highlight the importance of delicately balancing management and family dynamics, a double-edged prime source of competitive advantage (or disadvantage) directly influencing both ACAP and internationalisation capability. This thesis concludes with a discussion of the implications for theory, management and policy.



*To Teresa*



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## **Declaration of originality**

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

I declare that the thesis embodies the results of my own work. Following normal academic conventions, I have made due acknowledgement of the work of others.

## **Copyright statement**

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## Acronym glossary

ACAP	Absorptive capacity
BC	Before Christ
DC	Dynamic capabilities
EC	European Commission
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GNP	Gross national product
iACAP	Internationalisation absorptive capacity
IB	International business
ICT	Information and communication technologies
IE	International entrepreneurship
IFERA	International Family Enterprise Research Academy
IMF	International Monetary Fund
I-model	Innovation-related internationalisation stage model
INV	International new venture
IPT	Internationalisation process theory
iSMFB	Internationally active (outward) small and medium-sized family business
JV	Joint venture
KBV	Knowledge-based view of the firm
MBA	Master of Business Administration degree
MD	Managing Director
MNE	Multinational enterprise
NSO	National Statistics Office (Malta)
OECD	Organisation for economic cooperation and development
PwC	PriceWaterhouseCoopers
RBV	Resource-based view of the firm
SME	Small and medium-sized enterprise
SMFB	Small and medium-sized family business
TMT	Top management team
UK	United Kingdom
U-model	Uppsala internationalisation stage model
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
US(A)	United States of America
WEF	World Economic Forum



# Chapter 1

Introduction





# 1 Introduction

## Internationalisation of Traditional, Small and Medium-Sized Family Businesses: An Absorptive Capacity Approach

### 1.1 Research background: Rationale and objectives

This thesis examines the internationalisation of Maltese small and medium-sized family businesses (SMFBs) engaged in traditionally-oriented economic activity. It draws together research from distinct fields: *small firm internationalisation*, *family business*, and emerging research on *absorptive capacity*.

This purpose of this study derives from an explicit need to better understand the impact and effect of these prevalent yet under-researched organisational forms' unique characteristics and circumstances on internationalisation dynamics and processes. In adopting an absorptive capacity (ACAP) approach, the important attendant role of associated knowledge and related processes involved are also integrated and explored. Better understanding such dynamics in this particular context is important, at firm and national levels, especially given increasingly competitive and dynamic globalised environments. Key emergent findings converge on the centrality of the founder / owner-manager and the important role of social contacts and relationships. Apart from contributions to literature and theory, this study provides insight and important recommendations for practitioners and policy.

Considered the 'motor' of their economy, small firms are by far the most dominant business category the world over. In the European Union (EU) 99.8% of all enterprises are small- and medium-sized enterprises<sup>1</sup> (SMEs), 92% of which employ less than 10 persons. Constituting two-thirds of private-sector employment, SMEs accounted for 58% of value added at factor costs (EC 2008).

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<sup>1</sup> This study adopts the EU SME definition. While general reference is made here, definitional considerations are discussed in detail later.

Traditionally domestically focussed, shifting trends in globalisation, advances in technology and transportation, and regional integration have increasingly seen small firms internationalise (Oviatt and McDougall 1994; Etemad and Wright 1999; Dimitratos *et al* 2010; Andersson 2011). Their internationalisation is of interest at both firm and national levels (Jones 1999; OECD 2000; Lu and Beamish 2001; George, Wicklund and Zahra 2005). Policy and resources are being increasingly directed towards better understanding the dynamics involved, towards supporting and facilitating SMEs' international activity. Internationalisation impacts directly on competitiveness, innovation and entrepreneurial activity at firm and national levels, as well as employment and socio-economic growth at national and regional levels (Fletcher 2004). For example the 25% of EU SMEs that are internationally active outwards, are more innovative and generate more jobs than their domestically focussed counterparts (EC 2010).

Although family businesses dominate SME populations and world economies<sup>2</sup> (Donckels and Frohlich 1991; Sharma *et al* 1996; Gomez-Mejia *et al* 2001; IFERA 2003; Zahra 2003; Sharma 2004), and notwithstanding discerning research confirming that such SMFBs possess unique characteristics and particular operational processes impinging directly on strategic considerations (Donckels and Frohlich 1991; Sirmon and Hitt 2003; Zahra 2003), research on this important organisational form remains sparse, “*in its infancy*” (Schulze and Gedajlovic 2010: 191; Neubauer and Lank 1998; Moores 2009).

Echoing a chorus of scholars encouraging further research in this important area (e.g. Neubauer and Lank 1998; Bird *et al* 2002; Astrachan 2003; Chrisman *et al* 2003; Sharma 2004; Zahra and Sharma 2004; Casillas *et al* 2007), Sharma *et al* (1997: 8) observed:

*“There is much we do not know. We know little about how family firms scan their environments, assess their capabilities, or search for and evaluate alternative strategies; how the strategy formulation process is influenced by family considerations and interests; whether the alternatives considered are many or few, or better or worse than those generated by non-family firms; how the dynamics and politics of decision making are different in the family business; and which types of family influences are advantageous and which deleterious to the process.”*

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<sup>2</sup> More than half of all registered companies in the EU are family businesses – nationally ranging between 66% and 83%. In Latin America and the US prevalence rises to 90% and more (Donckels and Frohlich 1991; PwC 2008).

Notwithstanding family businesses represent a “*very important share*” of countries’ international activity (Gallo and Garcia Pont 1996: 45), and one also observes SMFBs successfully going international, internationalisation in family business remains more severely under-researched (Casillas and Acedo 2005; Fernandez and Nieto 2005, 2006; Casillas *et al* 2007; Kontinen and Oija 2010b). The implications of ownership and family business characteristics on small firm internationalisation have “*almost never been analysed*” (Casillas and Acedo 2005: 135). Researchers suggest that in small family businesses, performance and internationalisation may be more closely linked to the capabilities, attitude and entrepreneurial skills of key individuals rather than to management skills and strategic factors (Gallo and Garcia Pont 1996; Penn *et al* 1998).

Given that “*internationalisation is the most complex strategy that any firm can undertake*”, within the context of dynamic and globalised environments, increasingly manifested in ever competitive domestic markets, scholars have recently stressed “*that more effort should be devoted to studying forms of international expansion for family firms and how to improve them*” (Fernandez and Nieto 2005: 77). In view of this:

**The overall aim of this research is to investigate and examine the outward internationalisation of small and medium-sized family businesses (SMFBs) engaged in traditional business activity.**

Since the early days of research in internationalisation of the firm, scholars established that information, learning and knowledge are key elements in the internationalisation process. Indeed, at a broader level, scholars recognise that “*knowledge constitutes the most critical resource for surviving and developing*” (Mejri and Umemoto 2010: 161; Nonaka and Takeuchi 1995; Grant 1996, 2000).

Building on Uppsala research, ‘stage’ theorists had posited that ‘firm internationalisation follows a sequacious process of acquisition, integration and use of knowledge about foreign markets’ (Johanson and Vahlne 1977; Loustarinen 1978, 1979; Cavusgil 1984; Welch and Luostarinen 1988) – this, the viewpoint most commonly attributed to small firms, particularly those involved in traditional, non-high tech or knowledge intensive activity. While a variety of critiques and alternative perspectives on internationalisation exist (e.g. Andersen 1993; Oviatt and McDougall 1994; Coviello and McAuley 1999; Jones 2001), the viewpoint that learning and knowledge are critical and fundamentally core to the internationalisation process persist (Petersen, Pedersen and Sharma 2001). This, crucially

more so for smaller organisations typically characterised by resource limitations, and whose competitiveness and strategic advantage requires greater emphases on knowledge and other tacit resources to overcome deficiencies related to size and scale (e.g. Calof 1993; Reuber and Fischer 1997; Burpitt and Rondinelli 2000; Lu and Beamish 2001; Wolff and Pett 2004; Dimitratos *et al* 2010; Mejri and Umemoto 2010; Musteen and Deepak 2011). Indeed, EU exporting SMEs cited ‘lack of knowledge about foreign markets’ as the prime export obstacle (EC 2007). In this regard, this study also seeks to examine how and to what effect these SMFBs use external knowledge in the process of outward internationalisation.

Thus, this research also aims to:

**investigate and better understand how SMFBs employ prior knowledge, as well as acquire new external information and knowledge relevant to internationalisation activity, assimilate it and eventually leverage it towards exploiting internationalisation opportunities in increasingly competitive dynamic markets.**

To this effect, it seeks to determine how absorptive capacity (ACAP) with regard to internationalisation is developed and applied in the context of these family businesses in an island economy. ACAP underlines the firm’s acquisition of external knowledge, enabling it to do new things and innovate. At a fundamental level it contends with the ability to recognise the value of new, external information and knowledge, and acquire, assimilate and eventually exploit it by applying it to commercial ends (Cohen and Levinthal 1990). Essentially a set of learning and knowledge-based routines and processes generating dynamic capabilities resulting in competitive advantage (Cohen and Levinthal 1990; Zahra and George 2002; Gao *et al* 2008). Directly linked to growth, innovation and competitive advantage, and complementary to the resource-based view of the firm (RBV) that recognises the importance of a firm’s internal tacit knowledge-based resources in facilitating sustained competitive advantage (Barney 2001), ACAP is acknowledged as “*one of the most important constructs to emerge in organisational research over the past decades*” (Lane, Koka and Pathak 2002: 1).

Given SMFBs’ infrastructure and resource limitations when compared to their larger corporate brethren, **this research explores and investigates SMFBs’ internationalisation also from an ACAP approach** – emphasising their intangible, often tacit resources and capabilities, and learning and knowledge processes towards enhanced international performance, competitive advantage, market entry and ultimately survival.

Albeit, while fundamental tenets of ACAP apply universally, research in this nascent field maintains emphasis on formal, structured processes, infrastructure and initiatives focussing on “*R&D activities ... relating to certain areas of science and technology*” generally associated with larger corporate forms involved in high-technology, knowledge-intensive operations (Lane, Koka and Pathak 2006; see also Cohen and Levinthal 1989, 1990). Such extant frameworks and conceptualisations based on R&D budgets and facilities, registered patents and other structured and explicit approaches, are indeed incompatible and alien to the SMFB context this research contends with. Here too, in this evolving area, scholars call for ACAP research in “*non-R&D contexts*” (Lane *et al* 2006: 853) and the adoption of qualitative methods in order to shed needed insight on its key processes (Easterby-Smith *et al* 2008). Additionally, “*a lack of systematic research on the construct of knowledge in family business*” is observed (Chirico 2008: 434). The important role of ACAP in small firm internationalisation, particularly in an SMFB context, has not been directly researched. Given aforementioned consensus on the fundamental and critical importance of learning and knowledge at the core of the internationalisation process, further value in this study derives from insight in also adopting a novel ACAP approach.

## **1.2 Focus and research questions**

Internationalisation literature observes that small firms internationalise because of a multitude of possible reasons depending on circumstance and an interplay of factors. Scholars emphasise factors ranging from personal, entrepreneurial and managerial characteristics, to internal motivations and environmental dynamics (Cavusgil and Naor 1987; Aaby and Slater 1989; Zou and Stan 1998; Fletcher 2001; Zucchella *et al* 2007).

In parallel, family business research established that whether their unique characteristics and resources result in a comparative strategic advantage or not depends on several variables incorporated in three key types of factors that enable or limit family businesses’ internationalisation processes: top management attitudes, internal organisation factors and external factors (Gallo and Sveen 1991; Goffee 1996; Gallo and Garcia Pont 1996: 46).

In this light, the overall aim of this research being to *firstly* investigate the outward internationalisation of SMFBs engaged in traditional business activity, the following overarching exploratory research question drives the central thrust of this study:

► **What** is the nature and extent of internationalisation among SMFBs in this context?

Thus, this research primarily embarks on an event-driven, context-sensitive in-depth examination of SMFBs' outward internationalisation processes from first steps, tracing their evolution and development, growth and international activity over time. The unique circumstances of each SMFB were analysed – including personal and internal organisational, as well as external environmental factors involved. Towards this purpose the following sub-questions were directed:

**What** are the main drivers, motivations and processes involved in these SMFBs' internationalisation?

**How** do they go about it and **what** role do family dynamics play in this?

**Secondly**, aligned with the established centrality of knowledge in internationalisation, also viewed as an innovative process involving new knowledge, processes and markets (Cavusgil 1980; Reid 1981) where small firms seek to earn, learn and grow (Burpitt and Rondinelli 2000), the following research question was established:

► **How** do such SMFBs approach knowledge requirements associated with internationalisation, as proposed by the absorptive capacity approach?

In adopting this ACAP approach, the following sub-questions were presented:

In **what** way and **how** is information and knowledge associated with internationalisation acquired and assimilated, utilised and leveraged in internationalisation and exploiting international opportunities, and **what** is the influence of these SMFBs' dynamics?

Towards this end, an emergent framework was conceptualised, integrating fundamental ACAP elements with specific SMFB internationalisation events. This framework served as a basis, guiding further analysis into internationalisation and related ACAP dynamics – an ongoing process of growth and development, enhancing internationalisation capabilities.

Additionally, drawing from the literature synthesis and incorporating preliminary insight as the research progressed, two further core corollary research questions ensued:

- ▶▶ **What** is the role of the founder / owner-MD in these SMFBs' internationalisation and associated absorptive capacity processes, and **how** does this impact on overall internationalisation?
  
- ▶▶ **What** role do contacts and relationships play in these SMFBs' internationalisation and absorptive capacity processes? **How** and **why** are these often social and informal contacts and relationships employed, operationalized and leveraged?

### 1.3 Research approach

The objectives and underlying rationale for this study also derive from theoretical and empirical gaps outlined in the three key literature streams within which this research is positioned – moreover highlighting a general incompatibility with existing ACAP operationalization. This research is concerned with qualitative phenomena set in rich contexts necessitating deep understanding from a holistic perspective. Qualitative and exploratory, this study explores and investigates in a context-rich way:

- SMFBs' internationalisation processes and key factors (from initial internationalisation), manifested in specific internationalisation ventures and critical events,
  
- How SMFBs acquire, assimilate and exploit, information and knowledge in this regard – towards understanding and defining the dynamics and general nature of ACAP within such contexts and its overall role in SMFB internationalisation.

Seeking to answer ‘what’, ‘why’, ‘who’ and ‘how’ questions on phenomena occurring in complex realities and organisation-specific circumstances where existing theory might seem inadequate, this study adopts a case study approach (Eisenhardt 1989; Yin 2003; Ghauri 2004). Focus converged from firm- to individual-level, emphasising specific internationalisation events (Eisenhardt 1989; Miles and Huberman 1994; Yin 2003).

Seeking general explanations, a multiple-case design was adopted (Ghauri 2004). Pauwels and Matthyssens (2004) cite various established scholars specifically stressing that in the ‘niche’ of qualitative research in international business, multiple case studies are the most important research method – allowing for comparative insight across a range of situations or contexts (Ghauri 2004). In this regard, apart from adding confidence to findings, such approaches also contribute towards breadth in extending findings to broader inferences (Gummesson 2000; Miles and Huberman 1994:29). Such an approach enables the researcher to explore patterns and themes across cases to provide for accurate and reliable theory and capture novel findings that may exist in the data (Eisenhardt 1989; Miles and Huberman 1994).

A total of eight case organisations were engaged in this study, approaching the higher limit recommended for such approaches (Eisenhardt 1989). In line with the objectives of the study, all SMFBs were involved in traditional business activity – yet operating in different sectors. Varying in size and age, they spanned founder- to third generation-managed SMFBs.

Large volumes of primary and secondary data were obtained and engaged in analyses. Multiple composite unstructured and semi-structured interviews were held with the founders / owner-Managing Directors. Where relevant, interviews and insights were obtained from other family members or employees in direct involvement assisting with internationalisation. Primary data collection involving ongoing interaction and interviews was undertaken between 2006 and 2011. Additionally, numerous other forms of secondary data were acquired in support of analysis. A longitudinal aspect allowed for important insight into the current behaviour and evolution of the SMFBs’ internationalisation development in relation to their circumstances and shifting realities.

Various methods of analysis were employed, including within case and cross-case methods of investigation (Miles and Huberman 1994). Synthesising ‘stories’ from numerous



sources were written up into case narratives along themes central to the research objectives. Tables and matrices drawing from multiple data sources were used in analysis and the presentation of observations.

## 1.4 Research value and main contributions

This research contributes to knowledge on the internationalisation of family businesses. While research into the internationalisation of SMEs has been attracting more interest in recent years, most of it does not contend with more traditionally-oriented economic activity. Within this context hardly any research has been undertaken in the case of family businesses. Ensuing value from this study is at three levels:

*At a research level* it brings together concepts and notions from the fields of small firm internationalisation, family business research and ACAP. Further to the aforementioned gaps in the literature at the interface of internationalisation and family business research, developments in the ACAP field have “*been largely at a conceptual level with major contributions building on secondary data and literature reviews. There are very few studies that seriously address the concept based on fresh primary data*” (Easterby-Smith *et al* 2005: 2; 2008). Since the early 1990s conceptual progress and development has been disappointing and limited due “*the dominance of quantitative studies which have failed to develop insights into the processes of absorptive capacity*” (Easterby-Smith *et al* 2008: 483). Besides, “*few studies have examined the internal processes of absorptive capacity*” (see also Jansen *et al*, 2005). Additionally, R&D related perspectives dominating empirical studies resulted in technological emphases at the expense of process-oriented knowledge. “*Few have examined the role of absorptive capacity in the acquisition, assimilation and commercial application of other types of knowledge, including managerial techniques, marketing knowledge and manufacturing know-how*” (Lane *et al* 2006: 852; see also Lane *et al* 2001; Easterby-Smith *et al* 2008). This study investigates the internationalisation of SMFBs seeking synergies and interrelationships among and between these three fields.

*At managerial level*, this study provides founders / owner-MDs with important insights into processes and factors that most likely affect internationalisation and the realisation of international opportunities as a result of judicious leveraging of internal resources – generally tacit knowledge resources and dynamic capabilities. Towards growth and survival in competitive environments.

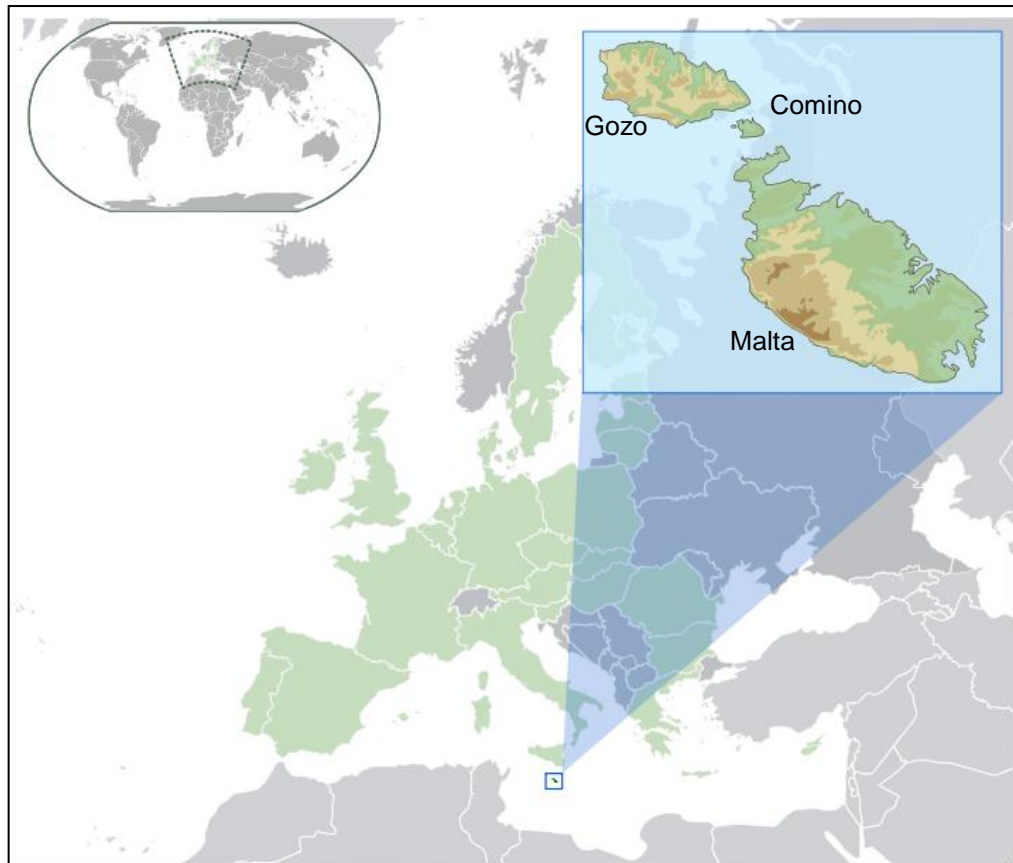
*At policy level*, it also provides government and relevant agencies with insight on key factors that influence internationalisation and growth of SMFBs, towards maximising value and effectiveness from investments in aid and support, impacting on competitive and socio-economic policies at micro and macro levels.

## **1.5 Off an island archipelago: Research context**

In social sciences, qualitatively researched phenomena seeking richness and depth of understanding, highlight the importance of the context or setting within which the phenomena under investigation take place. In this study, the broader context within which this research explores SMFB internationalisation is the Maltese Islands. While noting from the outset that ‘island studies’ do not form a central part of this research, it is acknowledged that varying attendant circumstances and related factors may influence the dynamics involved in such firms’ internationalisation and ACAP. For this reason it is thus relevant to briefly outline the context within which this research is undertaken.

At the centre of the Mediterranean Sea, 58 miles south of Sicily, the Maltese archipelago comprises three main inhabited islands: Malta, Gozo and Comino – strategically located between Italy and North Africa, and halfway between Gibraltar and Alexandria from West to East (Figure 1.1). Guarded by western cliffs, Malta’s eastern coast is characterised by sheltered inlets, beaches and natural harbours. Its capital, Valletta, is located on the island of Malta by the large natural Grand Harbour, tactically used since Phoenician times, later heavily fortified by the Knights of Malta. An EU country since 2004, with an area of just 122 square miles and a population of 410,000, Malta is one of the smallest and most densely populated countries in the world.

**Figure 1.1 – Map of Malta, Gozo and Comino**



### ***Brief history***

Considered an asset for trade as well as regional power and military logistics, this cluster of islands was over centuries, fought over, occupied and controlled by various civilisations, empires and regional powers.

Though inhabited as early as 5,200BC, the Phoenicians colonised the Islands from around 800BC. Following Greek influence and Carthaginian rule, Malta formed part of the Roman Empire by 218BC. Arabs ruled in the 9<sup>th</sup> and 10<sup>th</sup> centuries until Sicilian and Aragonese control. The Spanish Emperor handed Malta to the knights of the Hospitaller Order of St John in 1530. Holding strong in the face of an Ottoman quest for control and supremacy in Mediterranean, against all odds surviving the Turkish empire's full-scale onslaught and siege, the Knights of Malta governed until Napoleon's arrival in 1798 and French occupation. By 1800 the Maltese had ousted the French with the help of the British – opting to become a colony in 1814. Strategically located, Malta became an important naval base, particularly during World War II.

A British colony for over 150 years till the recent past, Malta's economy depended almost completely on thriving commercial activity generated by strong British military presence – a fortress economy. In 1959 colonial government introduced measures to facilitate decolonisation<sup>3</sup>. Independence in 1964 initiated a rundown of the military base – bringing about economic downturn and uncertainty. Malta started a transformation, striving to build a sustainable economy from scratch. Thousands fearing job scarcity emigrated<sup>4</sup>. At the time economic and enterprise activity was undeveloped, mainly craft industry with some post-craft activity<sup>5</sup>. Without rudimentary infrastructure and unreliable basic services, national government targeted tourism, manufacturing and agriculture – all labour intensive exploiting low wages at the time.

The hotel and catering industry (then mainly serving the British market) gathered impetus. Foreign investment mainly in textile and manufacturing sectors trickled in during the 1960s. GDP growth gathered momentum and an Association Agreement was struck with the EU in 1970<sup>6</sup>. Rising labour costs in the 1980s necessitated a rethink of government's economic strategy with regards to commercial and enterprise activity towards high added value industries namely in electronics and precision and electrical engineering.

## ***Economy***

With an increasingly liberalised and open economy from 1987 following government change, lacking natural resources and dependent on imports, exports and foreign direct investment became evermore important for the Maltese economy. Investing in infrastructure, intellectual and property rights legislation, ICT and education, Malta, characterised by a highly-educated and productive, flexible workforce, its primary resource, increased its attractiveness as a destination for investment. At the turn of the millennium, at 18% of GDP, Malta had the highest foreign investment income per capita compared to

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<sup>3</sup> 1959 Ordinance. Measures included tax incentives as well as grants and loans to encourage foreign direct investment.

<sup>4</sup> Malta's diaspora of first generation émigrés mainly to Australia, Canada, USA and Great Britain exceeds the Maltese population.

<sup>5</sup> Post-craft industry included a handful of businesses with comparatively sizable operations in woodwork, wine and beer as well as canning.

<sup>6</sup> The EU Association Agreement made it possible for Maltese enterprise to source raw materials outside the EU, process them into finished products and export them into the EU as goods originating in Europe (EU) – realizing tax advantages.

12 other EU candidate countries (Montfort 2001)<sup>7</sup>. EU accession enhanced the Islands' attractiveness and by 2006 Malta was the main destination for FDI outflows from EU-15 countries to new member states (EC 2008). UNCTAD (2010) ranked Malta 10<sup>th</sup> from among 141 economies worldwide for 'inward FDI performance'.

More recently ranking 50<sup>th</sup> among 139 countries in the World Economic Forum's 'Global Competitiveness Index', Malta outperformed other larger, resource-endowed EU countries<sup>8</sup> (WEF 2010). That said, Malta had ranked a better 32<sup>nd</sup> out of 104 countries a mere six years earlier. Nonetheless, Malta consistently ranks highly in 'financial market development' (11<sup>th</sup>) and 'technological readiness' (29<sup>th</sup>), while performing strongly in 'goods market efficiency' and 'higher education and training' (WEF 2010). Beyond a good overall performance in this index, other factors, also associated with Malta's characteristics, present competitiveness challenges.

With a stable and relatively strong economy, Malta ranks 38<sup>th</sup> for GDP per capita (IMF 2010). Classified at the top of the development scale, as an 'innovation-driven' country (WEF 2010), apart from tourism and related activity, which contributes a third of GDP also employing a third of the workforce, Malta's major industries today include: electronics, Freeport container transshipment, financial and business services, ICT, and value added manufacturing such as pharmaceuticals and semi-conductors. That said, when one excludes the comparatively few large businesses and subsidiaries of foreign MNEs, notwithstanding a national thrust to increase SMEs' activity in 'high' and 'medium' technology sectors, most SME business activity currently entails wholesale and retail activity, traditional manufacturing and services.

Nonetheless, inherent potential weaknesses demand attention in increasingly globalised competitive environments – the need to remain competitive is imperative. Malta produces only about 20% of its food needs, fresh water is limited and energy supply depends on imported fuel. Furthermore, a bureaucratic public sector tending to lack client focus and private sector efficiency absorbs a good proportion of human resources and others.

Although at 99.9% Malta's proportion of SMEs is comparable to other countries', these are skewed towards smaller 'micro' organisations. Ninety-seven per cent of Malta's enterprise

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<sup>7</sup> See also: Financial Times 19 November 2001.

<sup>8</sup> Hungary, Slovak Republic, Romania, Latvia, Bulgaria and Greece.

population employs less than 10 employees – a considerably higher proportion when compared to other EU countries (NSO 2011).

Malta's island status coupled with size and limited resources bears intrinsic implications on production, diversification and a tight labour situation. A small open economy dependent on foreign trade and tourism, necessarily seeks growth through international trade and FDI in high value sectors – this not without balance of trade implications. EU countries as a group constitute Malta's principal trading partners. The clear majority of exported goods are electronics and electrical parts, followed by pharmaceuticals, chemicals and mineral fuels, and others – with Malta's main export destinations being: Germany, Singapore, France, USA, UK, Italy and Japan (NSO 2011).

### ***Internationalisation considerations***

Malta's context presents challenges for firms' seeking access to foreign markets. Significant physical segregation from the continental mainland presents additional costs and challenges on various fronts, while recent accession to the EU keeps competition in this restricted market. Smallness offers a limited and quickly saturated domestic market. Consequently, outward internationalisation becomes a more enticing growth option – increasingly the road to survival. EU markets purportedly more attractive and accessible since membership.

A small island economy quickly imposes an off-island orientation to any local entrepreneur – the export-or-perish syndrome is powerful and may, in relevant instances, compensate for the absence of valuable domestic firm rivalry that elsewhere pushes firms into higher quality products and processes, creating competitive advantage (Briguglio and Buttigieg 2003: 7; Porter, 1990: 92). Absence of raw materials implies that most manufacturing firms directly or indirectly internationalise inwards in the process of sourcing suppliers. Among EU countries, at 75% Malta has the highest proportion of SMEs engaged in direct imports – the EU average 29% (EU 2010). Malta's size limits possibilities for diversification and economies of scale, while enterprise or industry 'thinness' limits establishment of a critical mass of expertise through clustering and knowledge sharing through close proximity (local) networks.

Baldacchino (2005a, 2005b: 22) underlines the contextual implications presented here stressing that these challenges tend to be so overpowering to businesses that a number of international organisations (such as UNCTAD) “*are in general agreement that small territories, especially small-island regions, share a set of characteristics which pose specific development problems*”.

However, despite the structural challenges, costs and liabilities, as well as increased variables and risks to contend with in internationalisation, foreign companies and multinationals have successfully operated with profit from the Islands. The same contextual characteristics present the opposite side of the same coin – possibly pushing firms seeking growth and survival beyond Malta’s restricting shores.

Notwithstanding the challenges, complexity and risks involved in internationalisation, notable examples of enterprising, small, family-run Maltese firms have internationalised with success. As Armstrong and Read (2003: 255) suggest “[B]eing an island does not seem to be the handicap to economic performance that one would intuitively expect”.

### ***Contextual antecedents***

Trade and economy in Malta have always depended on the resilience of family businesses, and the resources of colonial powers that over centuries had governed the island.

Forget the fact that artefacts unearthed provide evidence that since the 2<sup>nd</sup> century BC there existed Phoenician, Greek and Roman “*maritime trade in Malta’s direction and ... for re-export*” (Bonanno 1990: 210; Parker 1976). Twelfth century documentation confirms Maltese family businesses were exporting “*Maltese raw and spun cotton*” to Syracuse in exchange for grain, barley and pulses, and by the 14<sup>th</sup> century this prized cotton was being exported direct to Tripoli, Venice, Genoa and Bari (Mallia Milanese 1974; Wettinger 1981; see also Lopez and Raymond 2001). A century later, Maltese entrepreneurs were exporting the finest white cotton to mills in Montpellier, such that Rabelais commented on “*blanc comme cotton de Malthe*” (Burgaud des Marets and Ratheri 1534). Indeed, until the arrival of the Knights of the Order of St John in 1530 the economy of the Maltese islands depended almost exclusively on cultivation and export of cotton.

Throughout the 18<sup>th</sup> century, merchant families Camilleri, Cini, Delceppo in league with Maltese cotton farmers, dominated Barcelona's cotton market, “*selling, collecting and remitting proceeds, and arranging for return cargoes*” – most important of all “*sending back priceless market information*” (Vassallo 1997: 129).

In Spain and Portugal, Maltese owner-managers established networks and, despite aggressive Turkish competition, survived. Using fast *brigantines*, Maltese entrepreneurs stocked up with fine local cotton, then “*hugging the coast for safety*” sailed to Italy and France trading in seaside towns, until they reached Spain where their business flourished<sup>9</sup>.

In Barcelona, Cadiz and Lisbon, Maltese entrepreneurs relied on networks involving family members or close relatives. Although fostering honour and trust in business conduct, they were not averse to slightly bending the rules to gain trade advantage (Vassallo 2005). Through judicious commercial contacts they achieved competitive advantage, eventually all but edging out Turkish cotton from the market (del Treppo 1968). International trade in cotton, silk, coffee, carpets and embroidered *indianas* (Vassallo 1997),<sup>10</sup> was so lucrative that Maltese export trade to Cadiz and Barcelona lasted well beyond the eighteenth century (La Force 1965).

Maltese trading families were no less enterprising towards the latter half of the 18<sup>th</sup> century. Through judicious negotiation with leaders on both sides of the American Civil War, they were exporting prized Maltese jackasses (Dent 1972)!<sup>11</sup>

Throughout the 19<sup>th</sup> century, in Port Said, Tripoli and Sfax, Maltese traders linked up with ship chandlers and agents, to discover competitors’ weaknesses in the markets. Maltese entrepreneurs’ ability to exploit three or four languages established a lucrative trade with the French, Catalans, Italians and Arabs. Their traditional symbiotic relationship with Arab families is borne out by the fact that even today in *souks* of Tunis and Tripoli, locals wink

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<sup>9</sup> 18<sup>th</sup> Century manuscript “*Nuovo Dizionario della Marina - Lib.Ms.223*”. National Library of Malta. Considered foolhardy to venture beyond the straits of Gibraltar, by the eighteenth century they were trading in Lisbon: “*Maltese traders have filled that vast city with fine Maltese cotton products which used to be a rarity in those lands but are now commonplace. ... Their strength is in their musketry and swivel guns ... they can defend themselves very well from competition from Turkish galleons which do not dare to attack them*”

<sup>10</sup> Vassallo (1997) mentions the Sacco, Said, Dimech entrepreneurial families, heavily involved in exporting *indianas* to the Americas, and finds it intriguing that despite long-term interactions with Barcelona's *indiana* industry, “*the Maltese never seem to have been tempted into setting up as manufacturers in a big way.*”

<sup>11</sup> In the US in the early 1800s, Marquis de Lafayette and Confederate General Joseph Shelby both commended the superior strain of Maltese jackass, “*entitled to the same rank and dignity in his race that is accorded to the Arabian Horse in his*” (Dent 1972: 107).



knowingly tripping out the rhyme “*Malta ħanina ħobza w’sardina,*”<sup>12</sup> an oblique request to share whisky in countries where hard liquor is prohibited.

In addition, Maltese *patruni* who owned fishing-boats and *xprunari*, employing intrepid risk-taking gun-running corsairs-turned-sailors, guaranteed timely export of the finest cotton from Malta to Algiers and the Maghreb in exchange for cereals, hides, fruit and dates (Attard 1989; Vassallo 1997).

Cardinal Lavigerie, archbishop of Carthage and Algiers, urged a different kind of export. After 1882, recognising their flair for languages, and convinced that Maltese traders were ‘providential instruments’ to augment the Catholic population of francophone North Africa, he urged them to proselytize Arab middle classes. However, while keeping trade channels open with Lavigerie, alert Maltese traders were cautious not to jeopardize material exports by mixing economics with religion (Beane 2008).

In the light of such maritime antecedents relevant even to present-day realities and economic opportunities, the power of the sea to foster trade encounters and complex international relationships, is highlighted:

*“Strife and friction often went hand in hand with coexistence and commingling. Scholars, prophets and merchants wandered across the sea or hopped from port to port, communicating and cooperating”* (Borg Barthet 2009: xii).

Such challenging environments often encouraged Maltese traders to adopt a “somehow or other we’ll manage” attitude, solving problems through indirect lateral approaches.

Edward de Bono, Maltese ‘Lateral Thinking’ guru<sup>13</sup> (de Bono 1967), confesses to adopting the Maltese way of doing things, acting on reasoning not immediately obvious, ‘*nirrangaw - si arrangia come può*’, somehow or other we’ll manage (Azzopardi 2002). Resilience and creative innovation, coupled with the need for exploration beyond limiting shores, manifested itself subliminally in Maltese traders.

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<sup>12</sup> A rhyme: ‘*Malta is kind – a loaf and a sardine*’, always a prelude to “*Let’s share a meal and have some whisky together*”.

<sup>13</sup> The term first appeared in Edward de Bono (1967) ‘New Think: The Use of Lateral Thinking in the generation of New Ideas’.

Such subliminal bias or basis indicated a need to ‘re-search’ the notion of internationalisation of small and medium-sized Maltese family businesses engaged in traditionally-oriented economic activity to rediscover challenging fundamentals issuing from challenging antecedents.

## 1.6 Thesis structure

This chapter provided the background to this study. It underlines the researcher’s interest in SMFBs’ internationalisation as well as attendant ACAP involved. The main objectives of this study were introduced and its rationale based on identified research gaps was established.

The literature on the research fields informing the basis of this study – *Small Firm Internationalisation*, *Family Business Research* and *Absorptive Capacity* are reviewed, applied and critiqued in subsequent Chapters 2, 3 and 4.

Chapter 5, *Consolidation and Articulation of the Research Questions*, draws together findings and theoretical insight emerging from the reviews and critique of the literature and consolidates this with a view to focussing the investigative thrust of thesis. The research questions driving this study are established and discussed.

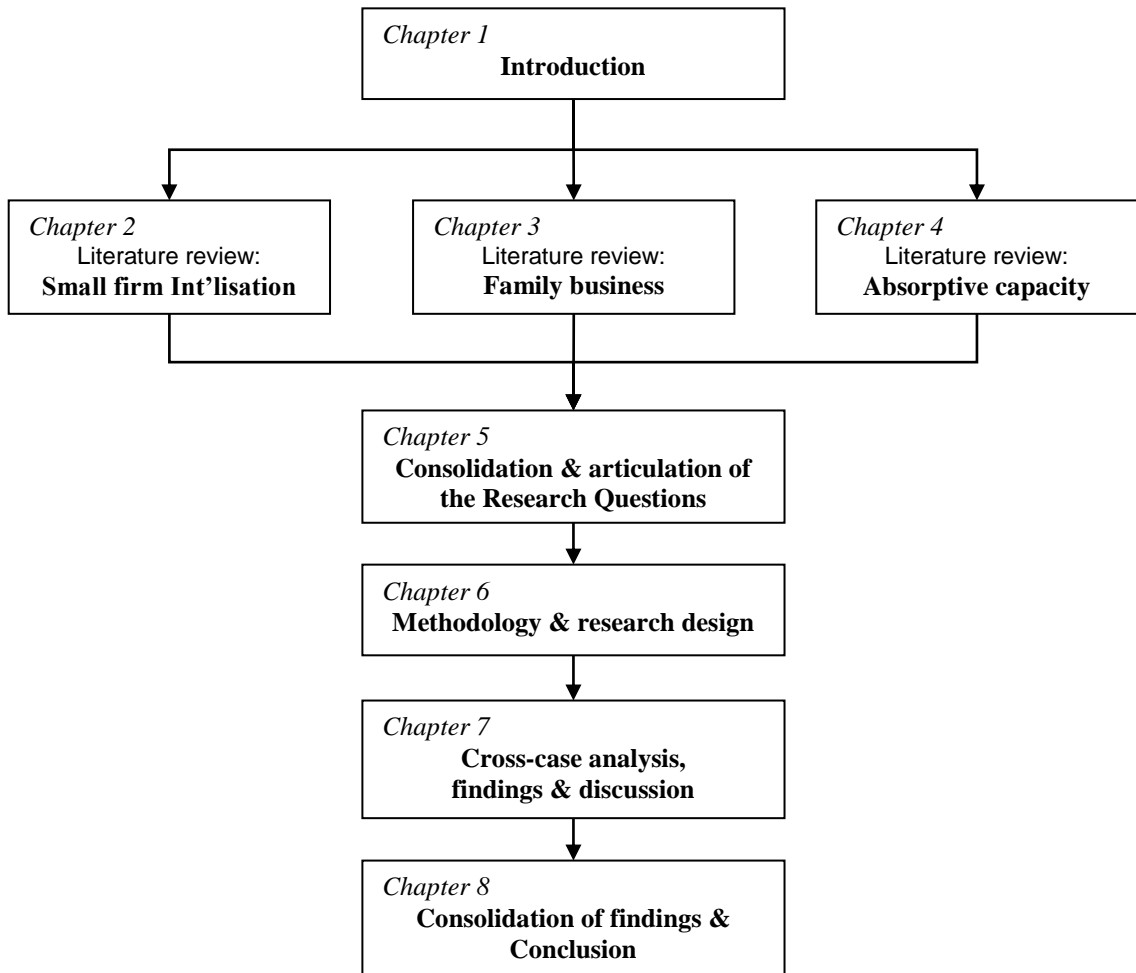
Following through, the *Methodology and Research Design* adopted is discussed and justified in Chapter 6. A detailed review and rationale of the tools and methods used throughout the study is presented, together with the conceptualised analytic research framework.

Building on extensive within-case analysis undertaken, consolidating cross-case analysis and in-depth investigation is presented in Chapter 7, *Cross-case Analysis, Findings and Discussion*. Findings and ensuing insight are discussed in relation to the literature.

Finally, drawing from the analysis and findings, an emergent conceptual model detailing the key characteristics and components involved in the internationalisation ACAP of SMFBs is presented in Chapter 8, *Consolidation of Findings and Conclusion*. Findings are consolidated and related to research objectives. Implications and contributions are highlighted and areas for future research indicated. Various supporting material, including

key elements of within-case analysis and data directly relevant to analysis are available in appendices. Figure 1.2 shows the structure of the thesis.

**Figure 1.2 – Thesis structure**





# Chapter 2

## Small firm Internationalisation



## 2 Small firm internationalisation

### 2.1 Introduction

This thesis examines the internationalisation of Maltese SMFBs engaged in traditional economic activity. Internationalisation is the central theme of this research. In adopting an ACAP approach, it also seeks to investigate how SMFBs and their founders / owner-MDs gain experience and acquire new knowledge associated with internationalisation, assimilate it and exploit it, as an inextricable, symbiotic part of this process sustaining their development as they seek to thrive and survive.

This chapter provides a theoretical and conceptual overview and synthesis of current frameworks and extant knowledge associated with small firm internationalisation. An exhaustive review is not the aim, it focuses more closely on aspects associated with the SMFB context of this research. In consolidation, key elements and aspects of knowledge associated with internationalisation are examined and discussed – contributing towards the establishment of an ACAP perspective on small firm internationalisation.

In emphasising theoretical foundations and frameworks of small firm internationalisation *per se*, this chapter, does not in the main contend with empirical research focussing on family businesses. Current knowledge and research on family businesses, also including internationalisation aspects are discussed in the following Chapter 3, *Family Business Research*. Empirical discussion focussing on family businesses follows through from the theoretical and conceptual aspects of small firm internationalisation discussed here, and will be further integrated in Chapter 5, *Consolidation and Articulation of the Research Questions*.

This chapter is structured as follows: following the establishment of definitions, it starts with a review of the motivations and stimuli for small firm internationalisation (2.3) followed by barriers and impediments (2.4), and performance outcomes from internationalisation (2.5). Next, extant knowledge in main theories and frameworks contributing to the understanding of small firm internationalisation are critically reviewed (2.6). Finally, in line with the ACAP approach adopted, knowledge forms and types associated with internationalisation are reviewed and examined (2.7).

## 2.2 Defining internationalisation

Since the 1980s research on internationalisation has attracted considerable interest. As globalisation gathered momentum and firms increasingly engaged in international activity, research gradually shifted from an emphasis on exporting *per se* towards better understanding processes by which smaller firms looked beyond national boundaries to promote growth through increasing international activity (Coviello and McAuley 1999). The growth of the firm (Penrose 1959) became the backdrop to internationalisation (Ruzzier 2006) so that to an extent concepts of internationalisation and growth became intertwined (Buckley and Ghauri 1993).

However, notwithstanding the established body of literature in the field, no universally accepted definition for internationalisation exists (Young 1987; Calof and Beamish 1995; Coviello and McAuley 1999; Fletcher 2001; Jones and Coviello 2005; Mejri and Umemoto 2010). Beyond interpretations emanating from emphasis on economic trade and location advantages (Williamson 1975; Dunning 1988), definitions continued to evolve. In their early work, Johanson and Vahlne (1977) defined internationalisation as an evolving ongoing process through which firms gradually increase international activity in stages, as they progressively learn from experience and interaction – increasing knowledge and consequently (foreign) market commitments.

Welch and Luostarinen's (1988: 36) work on the conceptual emergence of internationalisation, defined it as: "*the process of increasing involvement in international operations*". Recognising *outbound* as well as *inbound* international activity and expansion, it acknowledged important links between imports and a firm's interaction with e.g. foreign suppliers, and its outward international activity (e.g. Coviello and Munro 1997; Jones 1999, 2001). This process of gradually increasing international involvement, built on Johanson and Vahlne (1977), who had implied that international involvement takes place mainly in the foreign markets entered and the methods employed for entry. Additionally, Welch and Luostarinen (1988) considered international involvement to also embrace the firm's market offering, its organisational capacity, personnel and structure.

Beamish (1990: 77) defined internationalisation as "*the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries*". Recognising



behavioural and economic elements, it consolidates earlier perspectives. It includes learning processes, is open to inward-outward transactions, and implies that useful relationships ensue from international activity – possibly enabling further internationalisation (Coviello and McAuley 1999). Also considering internationalisation as an evolutionary process (Melin 1992), Calof and Beamish (1995: 116) broadly defined it as *“the process of adapting firms’ operations (strategy, structure, resources) to international environments”*. Tracing the definitional evolution of internationalisation with reference to SMEs, Ruzzier *et al* (2006b: 479) classified key definitions by their focus and research approach (Table 2.1), noting that *“generally, the overall research focus has shifted from the definition and analyses in terms of international activities to the resources needed for internationalization”*.

**Table 2.1 – Select definitions of SME internationalisation classified by focus and research approach**

Author	Definition	Focus
Welch and Luostarinen (1993)	Internationalization is the outward movement of a firm’s international operations	Process, firm’s operations
Calof and Beamish (1995)	Internationalization is the process of increasing involvement in international operations	Process, firm’s operations
Johanson and Mattson (1993)	Internationalization is the process of adapting firms’ operations (strategy, structure, resources etc.) to international environments	Process, firm’s operations
Johanson and Vahlne (1990)	Internationalization as a cumulative process in which relationships are continually established, developed, maintained and dissolved in order to achieve the firm’s objectives	Relationships, process
Lehtinen and Penttinen (1999)	Internationalization as developing networks of business relationships in other countries through extension, penetration and integration	Networks, relationships
Lehtinen and Penttinen (1999)	Internationalization concerns the relationships between the firm and its international environment, derives its origin from the development and utilization process of the personnel’s cognitive and attitudinal readiness and is concretely manifested in the development and utilization process of different international activities, primarily inward, outward and cooperative operations	Relationships, firm’s operations, process, int. environment
Ahokangas (1998)	Internationalization is the process of mobilizing, accumulating and developing resource stocks for international activities	Resources, process

Source: Ruzzier, Hisrich and Antoncic (2006: 479)

Investigating internationally-active, traditional SMFBs operating from a small island nation such as Malta carries scale implications. Scarce natural resources impel the majority of traditional and manufacturing businesses to source raw materials and other supply chain activities from abroad. Consequently, while this study acknowledges that internationalisation includes *inward* flows, indeed also investigating its effect on outward activity, for the purposes of eligibility, this research contends with SMFBs involved in *outward* internationalisation.

## 2.3 Motivations and stimuli to internationalisation

SMEs internationalise for multiple possible reasons depending on circumstance and innumerable factors ranging from personal, entrepreneurial and managerial characteristics, to internal motivations and environmental dynamics (Cavusgil and Naor 1987; Aaby and Slater 1989; Zhou and Stan 1998; Fletcher 2001; Zucchella *et al* 2007; Leonidou *et al* 2007). Especially in small firms in the early process of development, internationalisation has been related more to growth than functional activity (Jones 1998). Elsewhere, internationalisation has been viewed as innovation, involving new knowledge, processes and markets (Cavusgil 1980; Reid 1981; cf Schumpeter 1934) – seeking to “*earn and learn ... from international experiences that build organizational capacity*” (Burpitt and Rondinelli 2000: 1, 13). Functioning in dynamic markets, using various inputs and providing outputs – internationalisation may result as the flow of tangible and intangible inputs and outputs across borders.

SMEs’ objectives generally derive from managerial or firm-based perspectives where, growth, development and survival are key objectives. Within their context and circumstantial realities, small firms are thus adapting through internationalisation (Calof and Beamish 1995).

Traditionally, key internal motivators for internationalisation may relate to strategic advantage such as technical advantage (Tesar and Tarleton 1982), or a unique product or marketing advantage (Johnston and Czinkota 1982). Also excess capacity (Brooks and Rosson 1982), or importantly in the case of smaller firms, decision-maker characteristics playing a crucial role (Roux 1979; Andersson and Floren 2008).

External stimuli include unsolicited orders (Bilkey and Tesar 1977), the extent of competition or economic conditions such as a saturated domestic market, characteristic of Malta's small domestic market, or a recession (Kaynak and Stevenson 1982) – or better opportunities for rents and cultural implications.

Beyond these internal and external perspectives on stimuli for internationalisation, small firms are also internationalising to gain access to resources, and knowledge (Burpitt and Rondinelli 2000), where the role of contacts and networks are increasingly recognised as playing a central role. Furthermore, in high-technology and knowledge-intensive sectors rapid internationalisation becomes a necessity to quickly roll-out products, maximising international exposure towards attaining *de facto* industry standard in global markets.

Internal and external stimuli can be categorised in terms of reactive or proactive motivators, while external factors can be considered as either 'push' or 'pull' factors (Havnes 1994).

Calof and Beamish (1995: 126) identified five stimuli, all moderated by the decision-maker's perception of risks, potential and costs:

1. Opportunity,
2. Environmental change,
3. Internal change,
4. Performance, and
5. Learning.

Increasingly, research views SMEs' internationalisation in terms of internal and external, constraints and motivations (Leonidou *et al* 2007).

Organisational size presents resource and capability implications – often manifest in knowledge limitations, especially on foreign opportunities and markets; capital and financial challenges; marketing and distribution problems, hindrances in documentation and red tape; problems related to trade impediments; and a lack of qualified staff and available management time. Sometimes the same factors might encourage or discourage the owner-MD to engage in foreign activity, depending on the situation and circumstances, as well as the external environment or country relativities.

## 2.4 Barriers and impediments to internationalisation

Barriers challenging SME internationalisation have been well documented (e.g. Leonidou 1995a, 1995b; Morgan and Katsikeas 1997). Often associated with resource and capability limitations related to size, as indicated, these generally include “*limited financial, operational, logistical and learning resources*” (Hutchinson *et al* 2006: 26).

Researching the nature of barriers hindering the export development of small firms Leonidou (1995b: 281) defined them as “*all those constraints that hinder the firm’s ability to initiate, to develop, or sustain business operations in overseas markets*”. Leonidou (2004) extensively reviewed, empirically examined and classified these as ‘internal’, related to organisational resources and capabilities, including attitudes towards exporting, and ‘external’, associated with the domestic and broader host environment:

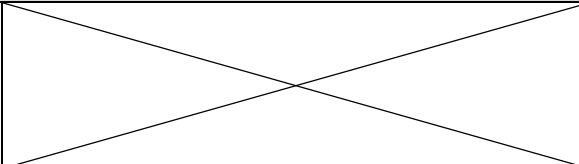
Internal barriers:	informational, functional, marketing
External barriers:	procedural, governmental, task, environmental

Obstacles can be experienced to different extents at any stage of internationalisation (Bilkey and Tesar 1977). Furthermore, though firms might be at a similar stage of internationalisation, smaller firms tend to emphasise the significance of barriers (Ghauri and Kumar 1989), while Sharkey *et al* 1989 observed differences in export barrier perception between aggressive and passive exporters. Additionally, Leonidou (2004a) noted studies observing small firms’ functional barriers associated with marketing, finance and operations tending to lessen with ongoing internationalisation, yet management-related barriers seemed to persist – though others reported the contrary as a result of experience (e.g. Bilkey and Tesar 1977). Conflicting empirical observations result from various factors ranging from methodological to firms’ unique circumstances and management characteristics. Leonidou (2004: 284) posited that constraints “*alone will neither prohibit nor ... inhibit the firms’ progress in exporting. Other factors are required to make these latent barriers operative ... idiosyncratic characteristics of the **manager**, the **organization**, and the **environment**.*”

While noting that “*in the last thirty years the literature on internationalization has studied export barriers without establishing a common classification*” (Arteaga-Ortiz and Fernandez-Ortiz 2010: 395), and that particular idiosyncratic aspects of firms and their

contexts greatly influence internationalisation impediments (Fillis 2002; Leonidou 2004), the literature on export development is well established, and reference to Leonidou's (2004) often cited categorisation and ranking can be taken as base for generic internationalisation barriers faced by SMEs (Table 2.2). This is appropriate given that this study contends with SMFBs engaged in traditional economic activity, rather than services or high-technology sectors.

**Table 2.2 – Internal and external barriers hindering small business export development**

INTERNAL	EXTERNAL
<b>Very high impact</b>	
Limited information to locate/analyse markets (1) Inability to contact overseas customers (2) Identifying foreign business opportunities (3) Difficulty in matching competitor's prices (4) Excessive transportation/insurance costs (5)	Different foreign customer habits/attitudes (6) Poor/deteriorating economic conditions abroad (7) Political instability in foreign markets (8)
<b>High impact</b>	
Offering satisfactory prices to customers (9) Accessing export distribution channels (10) Obtaining reliable foreign representation (11) Granting credit facilities to foreign customers (12)	Unfamiliar exporting procedures/documentation (13) Unfavourable home rules and regulations (14) Foreign currency exchange risks (15) Strict foreign rules and regulations (16)
<b>Moderate impact</b>	
Problematic international market data (17) Lack of managerial time to deal with exports (18) Inadequate/untrained personnel for exporting (19) Shortage of working capital to finance exports (20) Providing technical/after-sales service (21) Complexity of foreign distribution channels (22) Adjusting export promotional activities (23)	Problematic comms. with overseas customers (24) Slow collection of payments from abroad (25) Lack of home govt. assistance/incentives (26) Keen competition in overseas markets (27) High tariff and non-tariff barriers (28) Unfamiliar foreign business practices (29) Different sociocultural traits (30)
<b>Low impact</b>	
Meeting export product quality standards/specs (31) Lack of excess production capacity for export (32)	Verbal/non-verbal language differences (33)
<b>Very low impact</b>	
Developing new products for foreign markets (34) Adapting export product design/style (35) Meeting export packaging/label requirements (36) Maintaining control over foreign middlemen (37) Difficulty in supplying inventory abroad (38) Unavailability of warehousing facilities abroad (39)	

Source: Author's adaptation from Leonidou (2004)      Note: Leonidou's aggregate rank in parentheses

It is evident that information and knowledge limitations on foreign markets ranked as the barrier with highest impact impeding small firms' export development. Leonidou's empirical findings generally correspond with those in policy domains. EU exporting SMEs ranked 'lack of knowledge about foreign markets' as the key export obstacle (EU 2007). The OECD's report specifically researching SME internationalisation barriers (adopting Leonidou's classification) observed the following top 10 impediments (OECD 2009):

1. Shortage of working capital to finance exports
2. Identifying foreign business opportunities
3. Limited information to locate/analyse markets
4. Inability to contact potential overseas customers
5. Obtaining reliable foreign representation
6. Lack of managerial time to deal with internationalisation
7. Inadequate quantity of and/or untrained personnel for internationalisation
8. Difficulty in matching competitors' prices
9. Lack of home government assistance/incentives
10. Excessive transportation costs

More recently, the most important barriers reported by SMEs across EU countries were (EU 2010):

Internal barriers: Price of their own product or service and the high cost of internationalisation.

External barriers: Lack of capital, lack of adequate information, and lack of adequate public support and the costs of or difficulties with paperwork associated with transport.

Key international stimuli cited in the literature as motivating and assisting SMEs to overcome these obstacles to foreign expansion include: *“international strategy, entrepreneurial vision/experience, firm networks and external assistance”* (Hutchinson *et al* 2006: 28). In line with a trend in the literature increasingly emphasising the softer, hard-to-pin-down underlying factors influencing SME internationalisation behaviour, Chetty and Campbell-Hunt (2003a: 814) stressed that:

*“it is important to note that the attitudes and motivations of decision makers in SMEs determine the path and pace of internationalisation. ... they need to be aware of the importance of issues such as their own attitudes and motivations, timing, coherence, managed growth, business networks and learning in the internationalisation process. In fact, managers need to be aware that the mental models they have could be their main barriers to internationalisation”*.

Also, given the tendency for limitations in management capacity and administrative setup, contrary to larger strategically guided MNEs, *“the management of SME internationalisation is ... less likely to be pre-conceived and planned in detail”* (Chetty and Campbell-Hunt 2003: 814). Indeed, in various instances, internationalisation among SMEs is triggered by serendipitous circumstances, resulting from social interaction (Prashantham

and Dhanaraj 2010), being at the right place at the right time, or unsolicited orders. This places greater emphasis on the importance of alertness and the owner-manager's attitudes, perceptions and entrepreneurial characteristics in opportunistically exploiting potential internationalisation opportunities as they emerge (Morgan and Katsikeas 1997).

Indeed, especially in these smaller firms, the owner-manager's characteristics and orientation are considered both antecedent and driver of SME internationalisation (Miesenbock 1988; Reuber and Fischer 1997; Burpitt and Rondinelli 2000). Recently reviewing the literature, Leonidou *et al* (2007: 738) underlined, "*management enthusiasm and drive is a decisive force in initiating and developing successful export business, probably because in smaller-sized enterprises decision making is usually made by a single (and sometimes by a few) manager(s)*". In parallel, the owner-manager's network of formal and informal contacts and relationships are also seen as a driver, central to SMEs' international expansion, providing access to important information, and potentially resources and informal business facilitation (Hutchinson *et al* 2006). Ultimately, notwithstanding numerous challenges presented, small firms increasingly internationalise and "*overcome such barriers to expansion, stimulated by competitive strategies, and driven by entrepreneurial vision and networks*" (Hutchinson *et al* 2006: 26).

## **2.5 Performance outcomes from internationalisation**

While apart from knowledge and access to resources, growth and financial performance outcomes are expected through SME internationalisation, extant research is challenged by lack of consensus on measures for 'performance' (as the key dependent variable) and the 'degree of internationalisation' (as the independent variable) (Pangarkar 2008).

In this regard, scholars adopt various performance measures such as sales growth (e.g. Grant 1987), 'return on assets' (ROA) or 'return on equity' (ROE) (Lu and Beamish 2001), and other market-based measures (Goerzen and Beamish 2003).

With respect to SMEs' degree of internationalisation, many studies adopt the proportion of foreign sales as a measure. Only a rough proxy, this does not consider the dispersion of foreign sales across diverse international markets – which has a bearing on performance. The extent of international dispersion may be more important than sales proportionality (Thomas and Eden 2004). Thus, two firms might both export 50% of their sales. If the

first firm exports to only one country, and the second exports to several, the latter stands to gain more benefits:

*“due to uncorrelated economic cycles in the different countries, [the latter firm] may enjoy smoother sales and profits. Also, due to the diversity in the environment, it might have richer learning opportunities and there may be possibilities to leverage the learning across multiple markets, thus enhancing performance”* (Pangarkar 2008: 476; see also Preece *et al* 1998)

Other measures for degree of internationalisation include number of business ventures or foreign markets entered (Delios and Beamish 1999, 2010; Lu and Beamish 2001). Yet such measures do not distinguish between markets in terms of penetration or importance, while cultural aspects such as ‘psychic distance’<sup>14</sup> remain unaccounted for.

Though different perspectives for measuring internationalisation and firm performance contribute to conflicting findings, in general, empirical results show that a higher degree of internationalisation leads to better performance and capabilities (Lu and Beamish 2006), and therefore despite constraints, *“SMEs should indeed internationalize since the benefits due to internationalisation seem to outweigh the costs”* (Pangarkar 2008: 482). Indeed in increasingly competitive and globalised markets, internationalisation might be the only route for survival.

While aspects pertaining to ‘psychic distance’ are commonly observed with respect to internationalisation and performance, learning new knowledge was underlined as a key benefit from internationalisation – generally manifesting itself in further internationalisation and enhanced performance. Here capability building is central. Although leveraging learning opportunities acquired through internationalisation might pose organisational challenges (Qian 2002), SMEs, typically lacking specialist executives, are nonetheless *“in an advantageous position to capitalize on the learning opportunities in several respects”* (Pangarkar 2008: 483). It should indeed be relatively easier to exploit, dissipate and communicate learning and knowledge in a smaller informal organisation. No

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<sup>14</sup> Psychic distance, as opposed to physical or geographic distance, is based on extent of differences or dissimilarities among important factors relevant to international business interaction – differences in language, culture, customs, political system, levels of education etc... (Johanson and Vahlne 1977: 24) – these increase unfamiliarity and perceived risk – presenting asymmetry of information or knowledge in the first instance, disrupting the flow of information between firms and the foreign market. Increasing familiarity and knowledge mitigates psychic distance and the risk element.



bureaucracy and centralised decision-making implies SMEs are in position to overcome various obstacles to sharing and swiftly leveraging acquired knowledge (Pangarkar 2008).

Given limited, formally established routines, SMEs also potentially possess learning advantages of newness (Autio *et al* 2000). In comparison to larger corporate forms, smaller firms' size and attendant resource implications do not necessarily influence relative internationalisation performance (Reuber and Fisher 1997; Wolff and Pett 2000). This emphasises individual perspectives accentuating the decision-maker's experience and competencies. Indeed size *per se* need not be a barrier to internationalisation (Calof 1994).

## **2.6 Review of key theories and frameworks**

Since early interest in the phenomenon, scholars generally viewed internationalisation as a multidimensional construct (Sullivan 1994, 1996; Ramaswamy, Kroeck and Renforth 1996). Lu and Beamish (2006) acknowledge two of the most prominent avenues on internationalisation relate to exporting and FDI.

International business (IB) literature and theories have traditionally contended with large resource-endowed organisations and multinationals (MNEs). However, globalisation, new communication technologies, regional integration and removal of artificial trade barriers, together with increased competition have seen small businesses look for growth beyond their countries' confines (Miesenbock 1988; Etemad and Wright 1999).

Generally scholars identify three main research perspectives on internationalisation: (i) foreign direct investment (FDI) theory deriving from economic perspectives; (ii) stage process models; (iii) emergent network perspectives (Andersen 1997; Coviello and McAuley 1999; Etemad and Wright 1999).

It is acknowledged that the conceptual perspectives above originally derive from domains emphasising large MNEs as unit of analysis, whereas the smaller businesses which this thesis focuses on are distinctly different in their characteristics, capabilities and internationalisation processes (Coviello and McAuley 1999). Key distinctions include decision-making, managerial style, ownership, and logically, scale and the scope of operations (Schollhammer and Kuriloff 1979; Smith *et al* 1988; Julien 1993; Carrier 1994;

Carson *et al* 1995; O’Farell *et al* 1998). Succinctly put, “*smaller businesses are not smaller versions of big businesses*” (Shuman and Seeger 1986: 8).

Reiterating that size need not be a barrier to internationalisation (Calof 1994), indeed, seeking to thrive and survive, small firms seek unique solutions to overcome challenges and mitigate restrictions – internationalising in innovative ways (Bonaccorsi 1992; Gomes-Casseres 1997).

Forming a basis for this study, an overview of key perspectives on internationalisation follows.

### **2.6.1 FDI theory on internationalisation**

This economic perspective derives from the realm of large resource endowed MNEs with operations spanning various countries. It is informed by Hymer’s (1976) work on ‘monopolistic advantage’ and the exploitation of ‘firm-specific advantages’ in a foreign market. Despite ‘liabilities of foreignness’, until such advantage is competitively eroded, it allows businesses to compete effectively with indigenous firms (Etemad and Wright 1999). Building on industrial trade theory (Coviello and McAuley 1999), FDI theory embraces the idea that firms internationalising through FDI would ‘internalise’ processes and activities as they expand internationally (Williamson 1975; Dunning 1981, 1988; Anderson and Gatignon 1986, Buckley and Casson 1993). Consequently, firms structure operations optimally, evaluating economic transaction costs related to each stage of the production process, adapting organisational structure and geographical location of functions and operations to minimise total costs. Transactions deemed high risk (including threats to intellectual capital or proprietary technologies) or requiring significant management time and energy (e.g. monitoring quality) or other resource commitments are “*likely to be internalised as part of a hierarchically structured organisation*” (Coviello and McAuley 1999: 225).

While ‘firm-specific advantages’ generally erode over time, the concept of time does not generally feature as a driver, motivator or inhibitor to embark on FDI (Etemad and Wright 1999). Rather, FDI is perceived as an empowering option enabling firms to leverage and combine ‘firm-specific advantages’ with ‘location-specific advantages’, exploiting them internally through the establishment of their own foreign subsidiaries. Since

‘firm-specific advantages’ may be mitigated through knowledge transfer when partnering with other organisations, maintaining independence is important.

### **2.6.1.1 Critique of FDI theory**

A criticism levelled at FDI perspectives is that they generally contend with investment patterns (usually the extent and location of production processes) rather than international expansion itself over time (Johanson and Mattsson 1987; Melin 1992; Coviello and McAuley 1999).

With regards to FDI theory’s applicability to explain SME internationalisation, scholars empirically observe that export strategies, rather than FDI, are the primary internationalisation entry-mode adopted by small businesses. This mainly results from size, capability and resource limitations – export strategies offering SMEs greater flexibility and lesser commitment – consequently less risk (Young *et al* 1989; Leonidou and Katsikeas 1996; Wolff and Pett 2000; Jones 2001).

Albeit, early scholars (Aharoni 1966; Newbould *et al* 1978) found FDI to be a managerial decision-making process – also adopting an evolutionary internationalisation approach resulting in incremental investment from progressive managerial learning and experience.

This non-mainstream perspective provides an element of conceptual overlap with the stages process models discussed next. Beyond export, a number of SMFBs in this study used alternative entry-modes including FDI. From a conceptual perspective, however, although contemplated, the motivating factor for these SMFBs tended to *not* be an emphasis on transaction costs.

## **2.6.2 Stage models of internationalisation**

Stages perspectives started early 1970s when researchers in smaller open economies sought to understand the dynamics of the internal processes of (generally) small firms on internationalisation (Bloodgood *et al* 1996; Korhonen 1999; Ruzzier *et al* 2006b). Reviewing the foundations of the established ‘stages’ frameworks and emergence from seminal works (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977; Bilkey

1978; Cavusgil 1980; Turnbull 1987; and Welch and Loustarinen 1988), Gankema *et al* (2000) reaffirmed this perspective's relevance and acceptance in the literature (e.g. Bradley 1991; Buckley and Ghauri 1993; Leonidou and Katsikeas 1996).

Stage models derive insight from behaviour, organisational growth and learning theory. The internationalisation process is viewed as development in distinct gradual steps or 'stages' (Melin 1992; Gankema *et al* 2000). This perspective, also referred to as 'internationalisation process theory' (IPT), emphasises managerial learning and accrued experience, with internationalisation observed in terms of market selection and market entry methods (Coviello and McAuley 1999) – implying internationalisation is an incremental learning process resulting in firms' increasing commitment to specific foreign markets (Johanson and Vahlne 1977; Coviello and McAuley 1999).

Two major convergent viewpoints are discerned in stage model literature. More dominant, the 'Uppsala' or 'U-model' emanates from Johanson and Weiderseim-Paul (1975) and Johanson and Vahlne (1977). The other viewpoint referred to as 'Innovation-related', or the 'I-model', derives from the work of Cavusgil (1980).

Both models focus on firms' involvement in foreign markets, a growth process of gradual internationalisation in incremental stages. As knowledge, experience and confidence are gained, and risk perceptions mitigated, firms progressively commit to increasing extents. Minimising 'liabilities of foreignness' costs and risks, while marshalling required resources including knowledge to 'safely' maximise revenues, this approach might for example explain a firm initially engaging in *ad hoc* exports, proceeding to regular direct exports, gradually establishing a foreign joint-venture and eventually extending to fully-owned FDI. Unlike FDI theory, this viewpoint requires no superior firm-specific advantage nor time related urgency to exploit any advantages – should they exist (Etemad and Wright 1999).

### **2.6.2.1 Uppsala stages model (U-model)**

The Uppsala model is the viewpoint most often associated with individual firm internationalisation (Andersen 1993). Johanson and Wiedersheim-Paul (1975) distinguished four successive stages increasing in international involvement:

- Stage 1: No regular exports
- Stage 2: Export via independent representatives

- Stage 3: Establishment of overseas sales subsidiary
- Stage 4: Overseas production / manufacturing units

They assumed the internationalisation process developed according to a chain of establishment as observed in the Swedish firms their case-based research investigated.

Two years later, Johanson and Vahlne (1977: 36) defined internationalisation as a process of “*gradual acquisition, integration and use of knowledge about foreign markets and operations and a ... successively increasing commitment to foreign markets*”. Two variables were presented: (i) level of firms’ commitment in foreign markets, and (ii) level of foreign market knowledge acquired.

The Uppsala model centres around ‘strategic choices’ and ‘organisational forms’ – influenced by various factors (Leonidou and Katsikeas 1996; Gankema *et al* 2000):

- Forces facilitating or inhibiting exporting
- Information needs and acquisition of information
- Foreign market selection and entry (including effects of cultural distance)
- Expansion
- Marketing strategies

The Uppsala model portrays internationalisation, a process of organisational learning focussing on experience (Nordstrom 1991). Johanson and Vahlne’s (1990) later accretions reinforced knowledge as the fundamental basis for this model, moderating an initial emphasis on psychic distance. The firm seen as “*a loosely coupled system involving actors ... This aspect is connected to the industrial network model*” (Hadjikani 1997: 4), suggesting importance in relationships resulting from interaction nurtured through reciprocal trust, knowledge and mutual commitment (Turnbull and Valla 1986; Young and Wilkinson 1989).

### **2.6.2.2 Innovation-related models (I-model)**

Deriving from Vernon’s (1966) product life-cycle model, akin to stages of product adoption (Gankema *et al* 2000), I-models perceive progressive stages of internationalisation as firm

innovation, generally operationalised through measuring ratio of export sales to total sales. Although most models are restricted to exports as a mode (e.g. Bilkey and Tesar 1977; Reid 1981; Czinkota 1982), Cavusgil (1980) includes other progressively committing modes such as licensing agreements and direct investments (Table 2.3).

**Table 2.3 – I-Model stages of Internationalisation (Cavusgil 1980)**

Stage	Description
1: Domestic Marketing	Exclusively interested in domestic market, firms do not export. Firms not willing to experiment with exporting— busy doing other things, or not capable of handling export orders. - <i>Export/sales ratio is 0.</i>
2: Pre-Export	Firms seek information, evaluate feasibility of exporting activities. Basic information about costs, exchange risks, distribution, etc, still lacking. - <i>Export/sales ratio is at or near 0.</i>
3: Experimental Involvement	Firms start export on limited basis. Physical and cultural distances are limited. Involvement of an experimental exporter is usually marginal and intermittent. - <i>Export/sales ratio varies from 0-9%.</i>
4: Active Involvement	There is a systematic effort to increase sales through export to multiple countries, A suitable organizational structure supports export activities. - <i>Export/sales ratio varies from 10-39%.</i>
5: Committed Involvement	Firms depend heavily on foreign markets. Managers continuously face choices for allocation of limited resources to either domestic or foreign markets. Many firms are engaged in licensing arrangements or direct investments. - <i>Export/sales ratio is 40% or more.</i>

Source: Cavusgil (1980); Gankema *et al* (2000: 17)

### 2.6.2.3 Consolidation of stage models and critique

Both main stages streams strive to explain internationalisation processes through a dynamic model – output from one stage feeding in as input for the next. One of the most influential theories on the internationalisation process, especially where export development is central, stage models are broadly applied and frequently adopted by researchers. Conceived in the realm of ‘big business’, stage models may also be applied effectively to smaller firms.

Nonetheless, from an operationalisation perspective, various factors present challenges to Uppsala and stage models (Gankema *et al* 2000). Deterministic in nature, first steps are assumed to be *ad hoc* irregular exports, progressing through stages with concomitant commitment (Reid 1983; Turnbull 1987; Young *et al* 1989). Whereas indeed, empirical research observes small firms leapfrogging specific stages, rapidly internationalising

(through FDI), or phenomena of ‘born-global’ firms or ‘international new ventures’ (INVs) internationalizing almost from inception (Oviatt and McDougall 1994; Jones 1999, 2001).

Although psychic distance influence had early on, often been dismissed (Millington and Bayliss 1990; Sullivan and Bauerschmidt 1990; Hadjikhani 1997) it remains central in ‘stage’ perspectives on internationalisation. Here learning and acquired knowledge on foreign markets mitigate psychic distance, motivating firms to internationalise with greater commitment.

‘Stage’ models offer but partial explanations of the internationalisation process (Andersen 1993). Economic variables (firm size, technology, economies of scale, strategic considerations) being discounted, predictions are difficult to extend. Another partiality includes the models’ emphasis on manufacturing and consequentially questionable applicability in the case of services.

Notwithstanding critique, stages’ potential for explaining initial stages of internationalisation and entry into international markets is acknowledged (Forsgren 1989; Andersen 1993).

#### **2.6.2.4 Uppsala stage model in relation to FDI theory**

While as noted, an element of overlap may exist among FDI and Uppsala perspectives, Johanson and Vahlne (1990) insist that their own model is theoretically based in the behavioural theory of the firm (Cyert and March 1963; Aharoni 1966), and Penrose’s (1959) theory of the growth of the firm – conceptually detached from FDI theory.

Although Johanson and Vahlne (1990: 18) argue that Uppsala and FDI paradigms are “*inconsistent as the basic assumptions are so different*”, Coviello and McAuley (1999: 226) maintain the Uppsala model reflects FDI underpinnings, complementing Aharoni (1966) and Newbould *et al*’s (1978) arguments based on a managerial learning process, that firms ‘internalise’ activities, advancing from exclusively domestic operations to host country production (FDI).

### **2.6.3 Network perspectives on internationalisation**

Respectively deriving from the economics and behavioural schools, FDI and stage models (Benito and Welch 1994; Coviello and McAuley 1999) both assume that over time firms engage in decision-making behaviour, “*with planning centred in the hub or parent company*” (Coviello and McAuley 1999: 227). From a Network perspective, internationalisation strategies aim to (Johanson and Mattsson 1993):

- Minimise need for knowledge development,
- Minimise need for adjustment,
- Exploit established network positions.

This alternative view emphasises actors involved in SME networks at various stages of the internationalisation process – critical in offsetting resource limitations, seeking knowledge and facilitating identification and exploitation of international opportunities (Johanson and Mattsson 1988). Early studies found that business and social networks resulted in a synergistic impetus ‘greater than its individual parts’ driving small firms’ rate and pattern of internationalisation, especially with regard to market selection and entry mode (Axelsson and Johanson 1992; Johanson and Vahlne 1992; Coviello and Munro 1997; Holmlund and Kock 1998). Owner-MDs initially engaging with external public or semi-public actors, proceeding to establish linkages with other firms, clients or suppliers, for specific market knowledge, and later, possibly sustained relationships with partners for strategic direction (Nummela 2002). An overview is seen in Figure 2.1.



Figure 2.1 – Internationalisation and the network model (Johanson and Mattsson 1988)

		Degree of Internationalisation of Market (production net)	
		( - ) LOW	( + ) HIGH
Degree of Internationalisation of the Firm	(-) LOW	<p><b>Early Starter</b></p> <p>Lacking knowledge of foreign markets or important relationships with firms abroad, cannot use relationships in home country to gain it (Hinttu, Forsman and Kock 2002; Hadley and Wilson 2003; Johanson and Mattsson 1988).</p> <p>Should firm start to export, it might not meet internationally active competitors or customers (Wilkinson, Mattsson and Easton 2000).</p> <p>Lack of experience. Usually begins in nearby markets often using agents, distributors or customers abroad to internationalize, reduce cost, risks and uncertainty, benefitting from agent's prior knowledge and investments in that market.</p> <p>The initiative to go abroad often started by other counterparts rather than the firm itself. The alternative strategy, to start with an acquisition or "greenfield" investment, is mainly possible for companies that are large and resourceful in the home market (Johanson and Mattsson 1988).</p> <p>If firm's suppliers, customers and competitors are international, it has a number of indirect relations with foreign networks even if it is purely domestic (Johanson and Mattsson 1988). Thus, its relationships in the home market may drive it to enter foreign markets</p>	<p><b>Late Starter</b></p> <p>If suppliers, customers and competitors of the firm are international, even a purely domestic firm has a number of indirect relations with foreign networks. Internationalisation may also be led by indirect foreign network relationships i.e. be "pulled out" by customers or suppliers e.g. in 'big projects'. Thus market investments (and links) in the home market can be used when going abroad.</p> <p>The closest markets, however, might be difficult to enter (as competitors have more knowledge and because it is hard to break into existing networks), so the company might start internationalization by entering more distant countries (Chetty and Blankenburg Holm 2000).</p> <p>Late starter has general disadvantages in terms of market knowledge compared competitors. It also generally must have greater adaptation capabilities or customer specialisation.</p>
	(+) HIGH	<p><b>Lonely International</b></p> <p>Firm has experience of relationships with and in foreign countries. It has acquired knowledge and means to handle international environments inc. cultures and institutions: consequently, failures less likely (Chetty and Blankenburg Holm 2000; Johanson and Mattsson 1988).</p> <p>Its network, on the other hand, is only limitedly internationalized (Johanson and Mattsson 1988).</p> <p>This enterprise may work with suppliers to upgrade inputs and enhance competitiveness, but the latter are only indirect exporters (Wilkinson, Mattsson and Easton 2000).</p>	<p><b>International Among Others</b></p> <p>Both the firm and its environment are highly internationalised. Further internationalisation of the firm only means marginal changes in extension and penetration.</p> <p>With regards to extension and penetration, firm has possibilities to use positions in one net for bridging over the other nets (Johanson and Mattsson 1988), for example, penetrating third countries.</p> <p>Its suppliers belong to highly internationalized networks (Wilkinson, Mattsson and Easton 2000). An important issue for this type of enterprise is co-ordination of activities in different markets (Andersson 2002): the company may increasingly purchase components and sub-assemblies rather than do the manufacturing itself (Johanson and Mattsson 1988).</p>

Source: Compiled by Author from Johanson and Mattsson (1988) and complementary works

Viewing social transactions and interaction as basis for international business activity (e.g. Johanson and Vahlne 2009: 1411), this perspective would efficiently employ existing contacts to enhance performance and competitive advantage in complex and competitive international environments. While Hymer (1976) emphasises internationalisation as a social process, in parallel, social capital embedded in the firm's networks, has been considered an important antecedent in the ACAP process (Zahra and George 2002; Todorova and Durusin 2007).

Network research generally focuses on "*non-hierarchical systems*" (Coviello and McAuley 1999: 227), firms investing energy and resources to establish their position in international networks (Johanson and Mattsson 1988, 1992; Sharma 1992, 2003). Drawing from social exchange and resource dependency theories (cf Pfeffer and Salancik 1978), it focuses on "*firm behaviour in the context of a network of inter-organisational and interpersonal relationships*" (Coviello and McAuley 1999: 227; Axelsson and Easton 1992), this perspective broadens organisational boundaries, incorporating formal business and informal social relationships, 'strong' as well as 'weak' and sometimes 'casual' ties (Granovetter 1983, 1985), with "*customers, suppliers, competitors, support agencies, family friends and so on*" (Coviello and McAuley 1999: 227; Gomes-Casseres 1994; Chetty and Blankenburg Holm 2000) – where judicious discernment of hard to observe 'organic' social aspects of interaction and relationships are "*critical for ... network success*" (Ghauri *et al* 2003: 729).

Madhok (1996) emphasises that firms' *capabilities* (internal) and *competitive forces* (external) are key factors "*forcing firms to collaborate*" (Chetty and Blankenburg Holm 2000: 78). Collaborative capabilities help firms acquire trust and reputation (Gulati 1995, 1999). Ghauri *et al* (2003: 741) note that "*successful networks are characterised by the existence of a concrete market opportunity (threat), a will to cooperate ... together with a process creating solidarity, cohesion and commitment among group members*" – they observed firms' networks mitigating export problems or enabling export expansion. Beyond international business opportunities and penetrating new foreign markets, other benefits associated with networks included personal bonds and trusted ties, learning and knowledge, operational aspects e.g. product standardization, improved quality and capacity building. Especially crucial for SMEs, collaboration derived from networks – sometimes also including competitors (Chetty and Wilson 2003) – is leveraged to offset resource

limitations (Welch and Luostarinen 1988; Bonaccorsi 1992; Hadley and Wilson 2003: 703):

*“Decisions related to committing resources to the internationalisation process are generally made on the basis of the collective experience of the firm’s business network. These communication networks are important in the gathering of knowledge from the markets and are often shared through a strong interpersonal network”*

Thus, though generally investigating internationalisation at firm level, here scholars acknowledge the centrality of the manager (Chetty and Blankenburg Holm 2000: 91):

*“In [SMEs], the manager plays an important role identifying stimuli for internationalisation ... The manager may not have the knowledge ... to recognise these internationalisation stimuli .... It is the manager who decides whether the firm will pursue internationalisation opportunities ... A manager can inhibit internationalisation of the firm although the network wants to drive it into internationalisation.”*

Ruzzier *et al*’s (2006: 485) review of extant research underlines that for SMEs, *“knowledge embedded in long-term relationships is often concentrated in one person in the firm, who will have a substantial impact on internationalization through close social relationships with other individuals”*.

Acquiring resources and contacts without long-term trust-based relationships would be difficult (Chetty and Wilson 2003). Research indicates SMEs are unfortunately not knowledgeable enough to exploit networks of contacts and associations effectively (Rothwell and Dodgson 1991; Bell *et al* 1992; Nummela 2002) The Network approach indeed underlines trust-based relationships with suppliers customers and others (Bjorkman and Forsgren 2000; Hadley and Wilson 2003) – unstable relationships may inhibit foreign market entry, or result in termination of business activity and de-internationalisation (Ford 1998; Viisak 2004).

Nonetheless, even in the case of first steps in internationalisation, or ‘late starters’, where only indirect contacts may exist with the international marketplace, Granovetterian (1982) weak ties are very useful in increasing awareness of new business environments, gaining knowledge and access to new contacts, enabling the firm to *“keep abreast of a range of developments that may result in opportunities for business”* (Hadley and Wilson 2003: 706; Chetty and Eriksson 2002; Sharma and Blomstermo 2003).

### 2.6.3.1 Network perspectives in relation to FDI theory and Stage models

While FDI theory emphasises ‘internalising’ processes, network perspectives stress that internationalisation depends on networks and relationships rather than firm-specific advantage. Thus, ‘externalising’ through network perspective’s lens is complementary to FDI theory, since the latter “*fails to account for the role and influence of social relationships in business transactions*” (Coviello and McAuley 1999: 227; cf Granovetter 1985). Additionally, while FDI theory implies rational strategic decision-making, network perspectives imply internationalisation decisions and business activity emerge as “*patterns of behaviour influenced by various network members*” (Coviello and McAuley 1999: 227). That said, scholars note the importance of ‘matching’ relationships and the role of networks in researching FDI abroad as a market entry mode (Ghauri and Holstius 1996; Bridgewater 1999; Salmi 2000).

Contrasting unilateral stage models, the network viewpoint presents a “*more multilateral element*” (Johanson and Vahlne 1992: 12). However, Coviello and McAuley (1999: 228) note that, “*interestingly, this [network] perspective has evolved from Johanson and Vahlne's early work, and reflects their ongoing research exploring the management of foreign market entry*”. Johanson and Mattsson (1988) had suggested that a firm’s successful entry into new foreign markets depended more on relationships within current markets, rather than on market and cultural characteristics.

Johanson and Vahlne’s (1992) research observed Uppsala-type gradual internationalisation, yet resulting from social interaction and relationships. Revisiting their original Uppsala model, in 1990 they highlighted the role of networks, later introducing an “*experiential learning-commitment mechanism focussing on business network relationships ... we see firms learning in relationships, which enable them to enter new country markets in which they can develop new relationships which give them a platform for entering other country markets*” (Johanson and Vahlne 2003: 83). Recommending adjustments both to their original Uppsala model, and their 2009 ‘business network internationalisation process model’, they urge that “*internationalization should be seen as either a by-product of a firm’s efforts to improve its position within its network or networks, or as the result of an entrepreneurial action*” (Schweizer, Johanson and Vahlne 2010: 343).

Building on Sarasvathy (2001) and Ardichvili *et al* (2003), Schweizer, Johanson and Vahlne (2010: 348) critically emphasise the *unique* role of decision-makers particularly with respect to opportunity identification and exploitation:

*“Characteristics of decision makers, such as who they are, what they know, and whom they know, form the primary set of means that combine with contingencies to create an effect that is not preselected but that gets constructed as an integral part of the effectuation process.”<sup>15</sup>*

Decision-makers’ unique characteristics affecting internationalisation are *“identity, including value systems, beliefs, intentions, and aspirations, knowledge base, and social network”* (Dew and Sarasvathy 2002; Schweizer, Johanson and Vahlne 2010: 348). Schweizer, Johanson and Vahlne (2010: 348) agree with Dew and Sarasvathy (2002) that effectuation processes are very actor dependent:

*“since effectuations begin with an agent or decision maker ... every commitment both enables as well as restricts future actions. Thus a key to understanding the effectuation decision process is in recognizing that entrepreneurs have resource dependencies, but that they are able to develop an understanding of opportunities that resource providers seek, especially, as Ventkatamaran (1997) observes, when information asymmetries exist.”*

*“Widely recognised as influential in the internationalisation process”* (Coviello 2006: 714), McAuley (1999) observed Scottish crafts firms internationalising within a year from inception, *“instant internationals”* (Oviatt and McDougall 1994). Rapid internationalisation normally associated with high-technology rather than craft activity, McAuley (1999) noted that these small traditional companies’ internationalisation resulted from strong network partners.

The crucial central role of owner-managers and their personal contact networks in synergistically driving internationalisation had also been reflected in the work of Coviello and Munro (1995), Holmlund and Kock (1998), Coviello and McAuley (1999), Dew and Sarasvathy (2002), Jones and Coviello (2005), Prashantham (2008), Schweizer, Johanson and Vahlne (2010).

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<sup>15</sup> In contrast to causal thinking, ‘effectual’ thinking is completely different. Saravathy explains, “it begins with a given set of means and allows goals to emerge contingently over time from the varied imagination and diverse aspirations of the founders and the people they deal with”.

### **2.6.3.2 Critique of the network perspective**

The Network model has been criticised for its limited ability to explain internationalisation patterns. Manifold shortcomings critiqued include limited ability explaining internationalisation patterns given too many variables, offering imprecise conclusions (Bjorkman and Forsgren 2000) e.g. difficulty establishing reliable models differentiating between ‘early’ and ‘late’ starters (Bjorkman and Forsgren 2000); inadequately explains how firms shift positions e.g. in Johanson and Mattsson’s (1988) typology (Chetty and Blankenburg Holm 2000); its focussing on larger and / or manufacturing organisations (Nuumela 2002); and limited insight into the creation of relationships where none exist (Andersson 2002). Additionally, Vissak (2004) observed that other factors involved in internationalisation – high levels of domestic competition, un-solicited orders and agency export promotion, competitor relationships (Chetty and Wilson 2003), interpersonal linkages (Agndal and Axelsson 2002), and decision-maker and firm characteristics in exploiting opportunities (Chetty and Blankenburg Holm 2000) are also generally neglected by the Network perspective.

As inferred earlier, despite all other network dynamics resulting in a potential opportunity and stimulus for internationalisation, an owner-manager might not identify or exploit potential opportunity because of various issues that might include unwillingness due to risk perception, personal circumstance or reluctance to lose control over aspects of the business (Hinttu, Forsman and Kock 2002). However, as Ruzzier *et al* (2006b: 486) observe, despite shortcomings,

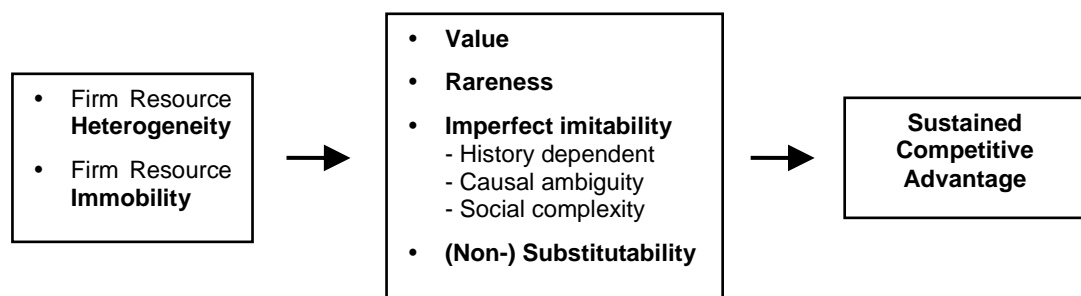
*“network theory can shed light on how the resources, activities, and actors within networks affect the different dimensions of the internationalization processes of SMEs, whether at the level of individual firms or for groups of firms ... the network of a firm is capable of providing the context for international activities.”*

### **2.6.4 Resource-based approach to internationalisation**

Deriving from strategic management and underscoring knowledge creation and other critical intangible firm resources, the resource-based view of the firm (RBV) emerged from Penrose’s (1959) seminal work on the growth of the firm. Coined by Wernerfelt (1984) in

his award-winning paper ‘A resource-based view of the firm’, the term took off in Jay Barney (1991), whom many consider the father of the RBV concept. Contrary to other external environmental models of competitive advantage (cf Porter’s 5 forces), the RBV looks internally and is based on heterogeneous and immobile firm resources, and the importance of valuable, rare, imperfectly imitable and non-substitutability of resources (VRIN) for achieving sustainable competitive advantage (Figure 2.2).

**Figure 2.2 – RBV - Relationship between firm resource heterogeneity, immobility and sustained competitive advantage**



Source: Barney (1991: 112)

Based on the concept of ‘economic rent’<sup>16</sup>, the RBV views firms as bundles of resources and capabilities. Economic theory suggests that, in the absence of market imperfections, any abnormal economic rents get competed away by rivals or new entrants. RBV’s basic premise is that a firm can earn *sustainable* above normal returns if it has superior resources that can be protected from imitation by rivals, consequently preventing their diffusion throughout the industry.

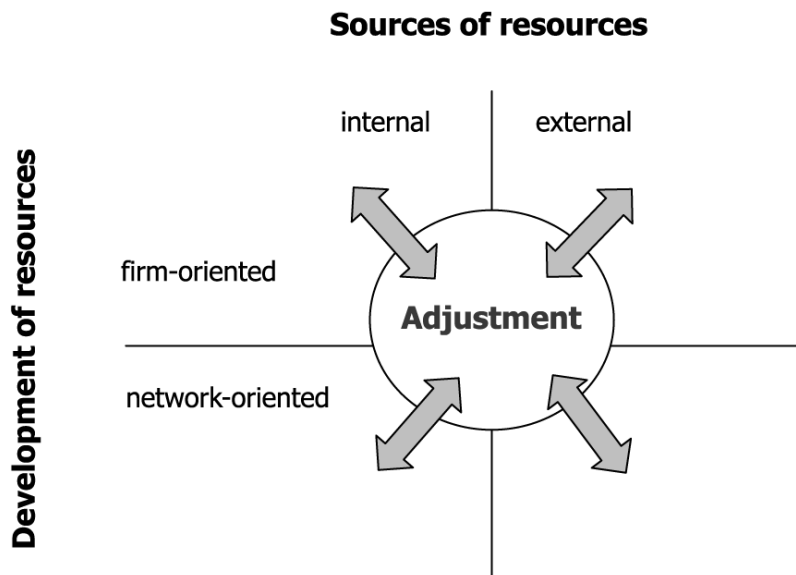
Highlighting intangible knowledge resources, RBV addresses both the ownership of resources as well as the dynamic ability for organisational learning, required to develop new resources (Ruzzier *et al* 2006a, 2006b). This led to a better understanding of firms’ diversification strategies (Montgomery and Wernerfelt 1997), including internationalisation (Ruzzier *et al* 2006a).

Ruzzier *et al* (2006b: 486) single out Ahokangas’ (1998) resource-centred conceptualisation as “*the most promising*” research strategy addressing SME

<sup>16</sup> *Economic rent* is a payment to a factor of production or input in excess of that which is needed to keep it employed in its current use. Major components of economic rent include monopoly rent (income accruing due to some degree of monopoly power) and land rent. Modern neoclassical economics has generalised this theory to suggest owners of any kind can receive economic rent due to *unique* qualities of their input. Rent is thus a payment received for special advantages of any sort.

internationalisation from an RBV perspective. Ahokangas' (1998) model (Figure 2.3) combines strategic as well as network perspectives of resources.

**Figure 2.3 – Models of resource adjustment**



Source: Ahokangas 1998

Ahokangas' (1998) model suggests firms might develop different strategies and engage in different international activities over time. The resource development strategies adopted could be either *firm-* or *network-*oriented, or a combination of the two, utilising internal and external resources (Figure 2.4).



**Figure 2.4 – SME internationalisation. Ahokangas' model of resource adjustment**

		<b>Sources of resources</b>	
		<b>Internal</b>	<b>External</b>
<b>Development of resources</b>	<b>Firm-oriented (Int)</b>	<p style="text-align: center;"><b>Firm-oriented</b> adjustment of <b>internal</b> resources</p> <p>Development of a strategy where a firm tries alone to develop critical resources needed for internationalisation by entering into international activities and learning from experience, without depending on externally available resources.</p>	<p style="text-align: center;"><b>Firm-oriented</b> adjustment of <b>external</b> resources</p> <p>A development strategy involving external resources in development of the firm's internal resources, would include relationships with various expert organisations, research institutions or universities etc...</p>
	<b>Network-oriented (Ext)</b>	<p style="text-align: center;"><b>Network-oriented</b> adjustment of <b>internal</b> resources</p> <p>The adjustment of internal resources in a network-oriented mode involves development of activities traditionally associated with co-operation in any field from R&amp;D to international after-sales services (usually in the form of alliances between firms), where both partners share an interest in developing resources jointly.</p>	<p style="text-align: center;"><b>Network-oriented</b> adjustment of <b>external</b> resources</p> <p>A strategy involving adjustment of external resources directed outwardly comprises networking behaviour that is taken a step further, from sharing only resource stock interdependencies to also sharing control over the firm's resources. Some examples are mergers between two firms or joint ventures.</p>

Source: Author. Consolidated from Ahokangas (1998) and Ruzzier *et al* (2006)

### **2.6.4.1 Dynamic capabilities and their association with RBV**

Alongside and drawing from RBV is the complementary dynamic capabilities (DC) view. Teece, Pisano and Shuen (1997: 516) define dynamic capabilities as “*the ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments*”. Dynamic capabilities enable a firm to adapt and involve learning and knowledge generation, reconfiguration and transformation of existing assets (Amit and Schoemaker 1993), development of new assets to face challenges in the external environment (Teece *et al* 1997; Eisenhardt and Martin 2000). The DC view addresses a potential shortcoming in the RBV which given its focus on resources, generally ignores certain important factors around those same resources, often assuming they simply exist.

In RBV literature, scholars consider competitiveness arises from firms' capability to combine their bundle of *resources* and *capabilities* (Conner 1991) towards performance

enhancing strategies (Amit and Schoemaker 1993; Barney 1991; Halawi *et al* 2005; Peteraf 1993).

Distinguishing between resources and capabilities, Kogut and Zander (1992) stress that valuable *resources* do not by themselves generate competitive advantage – the equation also involves the *capability* to combine and deploy the resources to develop new competencies and knowledge towards enhanced performance and competitive advantage. Know-*what* is only half the story. Know-*how*, the generally tacit, hard-to transfer experiential component, is the important second part in its deployment (Amit and Schoemaker 1993; and Nonaka 1994). Another enabling tacit resource associated with knowledge is know-*who* – contacts, relationships and networks.

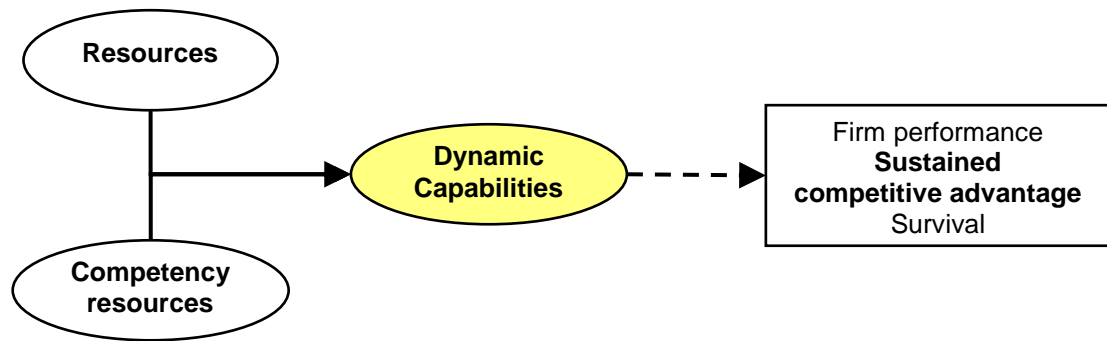
Indeed, Amit and Schoemaker (1993) distinguish between ‘*resources*’ tradable and non-specific to the firm, and firm-specific ‘*capabilities*’ engaged in utilising resources, e.g. implicit processes involved in transferring knowledge within the firm. This distinction has been widely adopted in the RBV literature (e.g. Conner and Prahalad 1996; Makadok 2001, 2003; Barney, Wright and Ketchen, 2001).

In RBV and in practice, knowledge is a core potential source of sustainable competitive advantage (e.g. Wernerfelt 1984; Barney 1986, 1991; Prahalad and Hamel 1990; Conner 1991; Peteraf 1993; Halawi *et al* 2005). Considering the RBV derived knowledge-based view of the firm, Grant (1995, 1996) argues that while knowledge can be considered a stock or reserve resource, it is logically also the core of any learned capability. Kogut and Zander (1992: 384) define firms’ ‘knowledge base’ as a “*set of capabilities, that enhance the chance for growth and survival*”.

Penrose (1959: 21) had emphasised that a firm “*is also a collection of productive resources, the disposal of which between different users and over time is determined by administrative decision*”. Elsewhere, Penrose described an organisation as a “*collection of competencies*”. Understandably, this emphasis on capabilities, and competencies places the role of strategic decision making, “*Management’s role*”, at the core.

An organisation comprises both resources and competencies (human resourcefulness) as well as closely related and ensuing capabilities (Figure 2.5).

**Figure 2.5 – The resource, competency and dynamic capability interrelationship**



Source: Author's synthesis

The general view is that (dynamic) capabilities enhance resources enabling their effective deployment (e.g. Eisenhardt and Martin 2000). While distinctions are made, others have considered capabilities and competencies as firm resources. Citing Daft (1983) Barney (1991: 101) argued that “*firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc.; controlled by a firm*” enabling it to implement strategies improving its efficiency and effectiveness towards sustained performance and competitive advantage.

Indeed, *resources* and *capabilities* combined constitute an organisation's *core competencies*, the potential source of sustainable competitive advantage (Hamel and Prahalad 1990). In line with the logic developed earlier, “*a capability is the capacity for a set of resources to be integrated effectively within the firm*” (Fletcher 2007: 53). Such capabilities strengthen as well as become more idiosyncratic and difficult for competitors to replicate (Schoemaker and Amit 1994; Hitt *et al* 2001).

Given the complexity and risk, and variables resulting from operating in a dynamic and competitive international context, one may infer that such resources, competencies and capabilities assume a more critical relevance for the small family businesses which this thesis investigates – where resources and capability limitations are associated with size dimension.

#### 2.6.4.2 RBV perspective in relation to other models on internationalisation

Ruzzier *et al* (2006b: 488) observe that:

*“The development of resource-based theory and the network perspective seem to have gone hand in hand ... internal and external resources available to the firm are seen as constituting the total set of resources available to the firm ... to gain access to strategic resources, firms may co-operate vertically, with respect to the product flow, or horizontally with competitors in other words by entering into network relations.”*

The two perspectives merge in Ahokangas’ (1998) model discussed earlier. The network viewpoint, suggesting that the network and individual actors comprising it, provide tacit resources crucial for internationalisation, offers a complementary view on resource availability.

From an entrepreneurship point of view, the networks of individuals and their tacit knowledge are resources in themselves – also including their social capital (Arenius 2002a, 2002b; Prashantham 2005a, 2005b). *“Individual entrepreneurs (and their firms) are connected through networks with other entrepreneurs (companies) in the same industry and a wider (international) environment. And it is through networks that entrepreneurs get access to resources and information for entrepreneurial actions”* (Ruzzier *et al* 2006b: 488).

With respect to stage models, while the RBV might be distinguished at a fundamental theoretical level (Andersen and Kheam 1998; Ahokangas 1998), Ruzzier *et al* (2006b: 488) explain that:

*“The central construct of the models rests on (organizational) experimental learning that increases (market) knowledge and leads the firm to increased (market) commitment. Market knowledge is based on Penrose’s (1959) definition of experimental knowledge, which can be learned only through personal experience. In experimental learning, the organizational capabilities of firms within a dynamic nature of a model can be recognized.”*

Offering insight into the role of learning and knowledge crucial for internationally active firms, RBV perspectives identified unique resources and competencies affecting small firm internationalisation (McDougall *et al* 1994). Fletcher (2007) identified Shane’s (2000) work highlighting the central role of the entrepreneur and attendant idiosyncratic

interpretations and capabilities in seizing international opportunities. Additionally, researchers observe that experienced founders equipped with resources and information, extensive contacts and networks, and considerable managerial know-how are more likely to internationalise (e.g. Jones 2001; Westhead *et al* 2001).

### 2.6.4.3 Critique of the RBV perspective

As an emerging perspective the RBV has its fair share of criticism. With respect to the context of this thesis, given myriad divergences in the operating environment of small businesses, there exist “*fundamental difficulties*” to identify and define specific resources required for internationalisation (Ruzzier *et al* 2006: 486). Barney (1991) established that to sustain competitive advantage resources must be valuable, rare, inimitable and non-substitutable (VRIN). Other researchers proposed different attributes (Petrarf 1993; Wernerfelt 1997; Mahoney and Pandian 1997). Grant (1991) stressed durability, transparency, transferability and replicability. From an operationalisation perspective, however, Grant’s attributes are considered ‘relatively broad and hazy’ (Winter 1995: 149) and “*the boundaries between the concepts of resources, skills and capabilities are not clear*” (Andersen and Kheam 1998: 164).

Hunt and Morgan (1996), whose perspective is “*considered more robust*” compared to Barney’s (Jambulingam *et al* 2005: 25; Priem and Butler 2001) argue that ‘resource advantage theory’ posits that superior performance results from a firm’s competitive advantage in resources – defined as “*tangible or intangible entities available to firms that enable them to produce efficiency and/or effective market offerings that have value to some market segments*” (Jambulingam *et al* 2005: 25). Competition is seen as a struggle between vying firms for resources that yield marketplace positions of competitive advantage, and consequently superior performance (Jambulingam *et al* 2005). In this respect, resource advantage theory recognises entrepreneurial capabilities as organisational resources. Complementarily, Dimitratos *et al* (2011) emphasise the importance of an ‘international entrepreneurial culture’ associated with opportunity-based behaviour. Echoing fundamentals eschewed by the notion of dynamic capabilities, entrepreneurial orientation directly relates to processes, practices and decision-making activities leading to innovation and differentiation towards competitive advantage (Lumpkin and Dess 1996).

On the relevance of various theoretical perspectives for understanding SME internationalisation, Ruzzier *et al* (2006) conclude that resources may be considered as ‘stocks’ of tangible or intangible factors that the firm owns, controls or has access to – which can be converted into products or services, through the use and application of other resources and ‘bonding mechanisms’.

### **2.6.5 International Entrepreneurship**

Research on international new ventures (INVs) and born-globals was spawned mainly from criticism by scholars that “*the old models of incremental internationalization are no longer valid*”, giving rise to “*a need for new models of internationalization*” (Johanson and Vahlne 2003: 83). Observing firms increasingly establish themselves as INVs or born-globals against stage model expectations, scholars adjusted their perspectives on firms’ internationalisation processes (e.g. Oviatt and McDougall 1994; Madsen and Servais 1997; Jones 1999; Servais *et al* 2008).

In this regard, the Uppsala model originators, Johanson and Vahlne (2003: 84) observe that, “*A common feature of much of this research is that it places attention on networks and network relationships when trying to understand and explain the rapid internationalization of the firms (Oviatt and McDougall 1994; Bell 1995; Coviello and Munro 1997; Chetty and Blankenburg Holm 2000)*”. Yet in their defence, they also note various “*studies during the last decades have supported ideas and concepts from some of the behavioural models of internationalisation. Thus, it seems that experiential learning has become a critical concept in internationalization research (Kogut and Singh 1988; Erramilli 1991; Chang 1995; Barkema et al 1996; Eriksson et al 1997; Delios and Beamish 2000; Luo and Peng 2001)*”.

In scope, INV and the ‘process theory of internationalisation’ frameworks “*appear complementary, rather than contradictory*” (Autio 2005: 10) – the former focussing on explaining how early and rapid internationalisation of ventures is possible; the latter on the internationalisation process itself. Scholars note that while the economic view is useful in offering insight on the foreign establishment of production facilities in later stages of internationalisation (Vahlne and Nordstrom 1993), it fails to account for process aspects of internationalisation. On the other hand, the process or stages perspective addresses this, like the economic viewpoint, it overlooks the possibility of individuals making strategic

choices (Reid 1983; Turnbull 1988; Andersson 2000), and seems less suited in scenarios involving radical strategic change, where top managers' roles are crucial (Reid 1981; Andersson 2000).

In line with observations on the centrality of individual characteristics and dynamics crucial to internationalisation in SMEs (cf Ardichvili *et al* 2003; Sarasvathy 2001; Dew and Sarasvathy 2002; Schweizer, Johanson and Vahlne 2010), scholars stress that entrepreneurs, widely acknowledged the main variables in SME internationalisation cannot be neglected in research (Miesenbock 1988). Hitt *et al* (2001) stress entrepreneurial firms maximise value generation through combining entrepreneurial and strategic thinking. Entrepreneurs are thus strategists pairing firms' capabilities (strengths and weaknesses) with its context of possibilities (environmental opportunities and threats) (Foss *et al* 1995). Coviello and Jones (2005: 297) conceptualise such internationalisation behaviour as "*fingerprints*" unique to each firm, evolving through iterative learning, influenced by the entrepreneur's interaction with the firm and environment (see also Jones *et al* 2011).

Emerging from earlier studies on INVs centring around high-technology firms, this broader perspective on SME internationalisation gave rise to 'international entrepreneurship' (IE), at the intersection of entrepreneurship and international business (McDougall and Oviatt 2000; Jones and Nuumela 2008). Comparing domestic and international entrepreneurship, McDougall's (1989) seminal work was published when research questions driving this perspective were trying to explain why "*small, new and resource-constrained firms were seen to internationalise rapidly and sometimes immediately after inception*" (Jones and Nuumela 2008: 349). Research consequently evolved around international new ventures (INVs), and born-globals and the entrepreneurs driving them (Oviatt and McDougall 1994; Knight and Cavusgil 1996; Madsen and Servais 1997; Jones 1999). In their AMJ decade award article, McDougall and Oviatt (2000: 903) defined IE:

*"a combination of innovative, proactive and risk-seeking behavior that crosses national borders and is intended to create value in organizations. ... the study of IE includes research on such behavior and research comparing domestic entrepreneurial behaviour in multiple countries"*

Clearly drawing from other entrepreneurship literature, highlighting international business opportunity discovery and exploitation (Shane and Venkataraman 2000), more recently, Oviatt and McDougall (2005 : 540) redefined their interpretation:

*“international entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services”*

Dealing with complex phenomena and spanning domains, no single unifying framework exists in international entrepreneurship. Albeit, in their recent extensive review of research in the field, Jones *et al* (2011) observed emerging coherence. Besides emphases on entrepreneurship, and individual / founder capabilities, the research embraces the notion of innovation. This entails ‘alert’ entrepreneurs exploiting international opportunities by combining (often intangible and tacit) resources and competencies from different markets acquired through earlier international activity (McDougall *et al* 1994). This ‘prior’ knowledge complements both RBV and ACAP perspectives. Emphasising knowledge, Fernhaber *et al* (2009) observed international knowledge sources accessed through exposure and social interaction are of most benefit to management teams with limited international experience. Focussing on the entrepreneur and drawing on Schumpeter (1934), internationalization is then “*seen as innovation adoption, which gives richer insight into how international activities are initiated and developed (Reid 1981) and recognizes the idea of innovation-related models*” (Ruzzier *et al* 2006b: 490).

### **2.6.6 Synthesising perspectives on small firm internationalisation**

Traditionally, FDI theory, stage models, and network perspectives engaged in exploring internationalisation in large multinational firms. Citing Schollhammer and Kuriloff (1979) and O’Farrell *et al* (1988), Coviello and McAuley (1999) were concerned that such perspectives were increasingly being applied to smaller firms obviously with simpler managerial and operational setups (Smith *et al* 1988; Julien 1993; Carrier 1994; Carson *et al* 1995). Shuman and Seeger (1986: 8) aptly noted:

*“Smaller businesses are not smaller versions of big business ... smaller businesses deal with unique size-related issues as well, and they behave differently in their analysis of, and interaction with, their environment.”*

Having noted that size is not necessarily a barrier to internationalisation (Calof 1994; see also Bilkey and Tesar 1977; Bonaccorsi 1992), SMEs discover unique ways to overcome smallness (Bonaccorsi 1992; Gomes-Casseres 1997). Unique ways depend on human



resourcefulness to exploit tacit idiosyncratic resources, including leveraging knowledge, experience and networks.

Nonetheless, SMEs do face constraints – limited capital, management capability, experience, time and information resources (Buckley 1989) – challenging international growth. Externally, government or entrenched firms pose external barriers (Acs *et al* 1997). Coviello and McAuley (1999) therefore differentiated SME internationalisation from that of larger firms in respect of a) firm-specific characteristics, and b) behaviours engaged to overcome size-related challenges.

FDI theory, stages models and network perspectives emerged independently from different theoretical assumptions – each competed for exclusive recognition in explicating internationalisation. Entrenched perspectives recall the ‘blind men and the elephant’ syndrome. In the absence of holistic perspectives, the risk of over-specialisation or narrow-blinkering was evident (Dunning 1989, 1993; Buckley 1983, 1991). Van den Ven’s (1989: 487) impatience was understandable:

*“Proponents for each theory engage in activities to make their theory better by increasing its internal consistency, often at the expense of limiting its scope. As a result ... a way of seeing is not seeing ... such impeccable logic is creating macro-nonsense.”*

In reality, despite the irony, all three perspectives contribute to understanding SME internationalisation. Coviello and Martin (1999) observed firms adopting complex processes from various internationalisation theories, according to their exigencies. Similarly, Jones (2001: 194) observed that first steps in internationalisation occur in response to both internal and external factors in addition to foreign market factors, emphasising that *“the types of cross-border activities undertaken are likely to correspond to the firm’s own imperatives and influences from its industry or cluster rather than exclusively from the foreign market”*. Managers adapted to market realities ‘irrespective to what the theories might have implied’. Firms engaging in diverse modes of initial internationalisation derive from their own unique contexts and circumstances, rather than from specific preordained stages of international development.

Thus, though Coviello and McAuley (1999: 229) claimed that *“FDI and Stage model[s] ... are well developed, and research on the Network perspective is fast emerging”*, scholars’

continued calls requiring more holistic approaches in addressing emerging patterns in SME internationalisation have gained relevance (e.g. Coviello and McAuley 1999; Coviello and Jones 2004; Ruzzier *et al* 2006b; Servais *et al* 2008; McAuley 2010; Mejri and Umemoto 2010).

Dunning (1993) observed that as global landscapes changed and SMEs' international behaviour evolved, research initiatives stood to gain from network perspectives. Several scholars had noted conceptual convergence or overlap among the FDI, Stages, and Network perspectives. It became increasingly evident that though *“the network perspective is perhaps the most useful in understanding SME internationalisation ... it is difficult to capture the internationalisation concept using only one theoretical framework”* (Coviello and McAuley 1999: 244, 243).

The emergence of resource-based approaches gradually gained ground (Teece *et al* 1997; Teece 1998; Etemad and Wright 1999; Peng 2001; Westhead *et al* 2001; Ruzzier *et al* 2006a, 2006b; Ratten *et al* 2007, Easterby-Smith *et al* 2008; Mejri and Umemoto 2010). Studying SME internationalisation across 27 European countries, Rattan *et al* (2007: 361) emphasised that from an internal perspective, *“in both established market economies and transition economies, SME international entrepreneurship is driven by internal resources and capabilities [and] membership in networks or clusters”*. In competitive international environments, *“firms seek to nurture and refine the resources that make them different and unique compared with their rivals”* (Dimitratos and Jones 2010: 1).

Continuing this holistic trend, scholars extended RBV's analytical focus from the firm-level closer to the individual-level, implicitly viewing entrepreneurs as the source of competitive advantage (Rangone 1999; Alvarez and Busenitz 2001), conceptually aligning with 'resource advantage theory' (Hunt and Morgan 1995, 1996). Striving to develop an integrative model of small firm internationalisation, Bell *et al* (2003) placed the manager's characteristics and mental model at the centre of their integrative framework – linking with key conceptual aspects of international entrepreneurship, confirmed by Johanson and Vahlne's recent work viewing SME 'internationalisation as an entrepreneurial process' (Schweizer, Johanson and Vahlne's 2010). Autio *et al* (2011: 28) note that in the case of internationally active small entrepreneurial firms, *“the link between managerial cognition and capability deployment is likely to be particularly direct, highlighting the salience of top management team's cognitive processes for the entrepreneurial firm's ability to proactively*

*adjust*". This characteristic is reflected in this thesis' context – in the absence of management layers, the role of the founder / owner-MD is emphasised in these SMFBs' ability to deploy resources and adjust to dynamic environments and international markets.

Although the more recent network, RBV and attendant KBV viewpoints cusped with IE perspectives may offer acceptable approaches, the need for new perspectives remained (Bell *et al* 2003; Coviello and Jones 2004; Etemad 2004; Mejri and Umemoto 2010). Factors influencing internationalisation include decision-makers, networks, firm characteristics, cultures, and the environment (Mejri and Umemoto 2010). Such complexity requires integrative approaches to understand more fully SME internationalisation.

## **2.7 Knowledge forms and types in SME internationalisation**

It is beyond the remit of this study to provide an exhaustive ontological or epistemological review of philosophical perspectives on knowledge. 'What is knowledge?' has "*intrigued some of the world's greatest thinkers from Plato to Popper without the emergence of a clear consensus*" (Grant 1996: 110). The objective here is to provide an overview and synthesis of key types of knowledge established by various perspectives on small firm internationalisation reviewed earlier.

There exists scholarly consensus in diverse fields even beyond internationalisation, such as in strategy and entrepreneurship, that increasingly, as economies evolve, knowledge in its various forms is the single most valuable and critical resource for sustained competitive advantage, firm performance and survival (Penrose 1959; Wernerfelt 1984; Barney 1991). A strategic asset of utmost importance (Nelson and Winter 1982; Grant 1996) at the core of individual and organisational capabilities (Dierickx and Cool 1989; Nonaka and Takeuchi 1995; Conner and Prahalad 1996). Internationalisation activity presents added complexity, variables, information and various forms of asymmetry and risk – rendering knowledge an ever more crucial resource (Prashantham 2005). All theories and perspectives on small firm internationalisation reviewed acknowledged learning and the accumulation and exploitation of knowledge as central and critical in internationalisation. Working towards an integrative model of internationalisation, Bell *et al* (2003: 339) emphasised the

knowledge base of the firm as a fundamental source of competitive advantage influencing both the patterns and pace of internationalisation.

Learning, knowledge development and commitment formed the basis of the Uppsala model (Johanson and Vahlne 1977, 1990), “*the interplay between knowledge development and increasing foreign commitments*” (Johanson and Vahlne 2006: 166). More specifically, directly in parallel with ACAP definitions, they characterise internationalisation as “*the gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments to [those] foreign markets*” (Johanson and Vahlne 1977: 23; Chetty and Eriksson 2002). Thus commitments to foreign markets are made depending on perceived risks, problems and opportunities – which perception is informed by acquired and accumulated, prior knowledge. Prior knowledge is core to ACAP (Cohen and Levinthal 1990; Zahra and George 2002) and entrepreneurship (Shane 2000). Indeed, “*what firms learn depends on what firms know*” (McDonald and Madhavaram 2007: 171), forming a ‘knowledge corridor’ (Ronstadt 1988) enabling the recognition of specific potentially useful information and perception of opportunities. Here it is assumed that current foreign market activity is the key source of experience – upon which commitment decisions are based. Thus each progressively committing step in internationalisation in a foreign market adds to this knowledge stock – where learning about internationalisation is viewed as a path dependent process (Johanson and Vahlne 1977, 2006; Eriksson *et al* 2000a). Consequently, from an initial focus on the domestic market, the firm gradually and progressively increases its commitment to international markets, moves to establishing foreign production operations, as a result of managerial learning (Coviello and McAuley 1999). The key differences between domestic and international operations assumed by this model, essentially differences in language and / or cultural aspects for instance, hinder the firm from acquiring market information (Johanson and Vahlne 1977), consequently firms will generally first target more familiar countries with less ‘psychic distance’, mitigating perceived risk and lessening uncertainty (Johanson and Wiedersheim-Paul 1975). In certain instances the firm would also be able to transfer its experiential knowledge from a foreign market to another similar foreign market (Fletcher 2007).

Johanson and Vahlne’s (1977) model is based on specific foreign *market knowledge* as the key resource – the lack of which becomes a considerable impediment to internationalisation. Including knowledge of opportunities, market knowledge is taken to mean knowledge that

*“relates to present and future demand and supply, to competition, and to channels for distribution, to payment conditions and the transferability of money, and those things vary from country to country and time to time”* (Carlson 1974 cited in Johanson and Vahlne 1977: 27). While acknowledging that this knowledge could be market or general, experiential or objective (cf Penrose 1959), Johanson and Vahlne emphasise *experiential knowledge*. Thus a key characteristic of this knowledge becomes its tacit nature and acquisition through direct interaction. Furthermore they postulate that *“by market knowledge we mean information about markets, and operations in those markets ... in the mind of individuals, in computer memories and in written reports”* (Johanson and Vahlne 1977: 26). It is assumed that experiential knowledge rather than objective knowledge enables the perception of tangible opportunities. While the key source of experience is internally derived from first hand interaction, Johanson and Vahlne (1977) recognise the possibility of acquiring experience through the engagement of employees or advice from professionals – although the internal experience remains key in interpreting and assimilating this external knowledge towards engaging in international activity. Thus most experience is gained from current operations by persons at the interface between the organisation and the foreign market – gaining exposure through direct interaction with others – including clients, and suppliers.

While the Uppsala model focuses on specific market knowledge, it fails to acknowledge general experiential knowledge applicable to all markets or relating to internationalisation *per se* (Eriksson *et al* 1997; Li *et al* 2004; Fletcher 2007). Eriksson *et al* (1997, 2000) identify *internationalisation knowledge* as general accumulated *experiential knowledge* derived from international interaction and operations. Not specific to either country or mode of entry, internationalisation knowledge involves the firms’ knowledge on its resource capabilities, its *modus operandi*. Including knowledge on foreign institutions and procedures, this has an important bearing on future international activity.

Beyond the Uppsala model’s limited view on experiential knowledge acquisition through current foreign market activities, other scholars note the possibility of vicarious learning through observation and imitation, and the recruitment of experienced employees, as well as knowledge deriving from alliances and networks – especially in smaller firms (Welch and Welch 1996; McDougall *et al* 1994). For example, studies observed traditional, small crafts companies internationalising rapidly within a year from inception through association with partners and riding on the contacts and information obtained from active participation

at conferences and international trade shows (McAuley 1999). Generally a combination of both personal and formal methods for acquiring foreign market information are utilised (Leonidou and Adams-Florou 1998).

In the case of active scanning and focussed research (Huber 1991), Reid (1984) identified six key information sources:

1. participation in government programmes,
2. international media publications,
3. export publications,
4. trade associations,
5. attendance at international trade fairs,
6. managers' international predisposition.

The process perspective on internationalisation (stage models) pays hardly any attention to *product knowledge*. Hymer's (1976) work relating to direct foreign investment suggested that a firm's *technological knowledge* assets drives internationalisation. This view is also shared with research on the internal determinants of export marketing behaviour (Fletcher 2007; Fletcher and Harris 2011), where the firm's products and technology are recognised as elements in the firm's unique differential advantage (Bilkey 1978; Cavusgil and Nevin 1981). This includes technological advantages in the firm's production processes, competitively better priced products and / or technically superior products. Associated with the more recent and holistic perspectives on internationalisation, this knowledge type is relevant to both traditional established and internationalised small firms (whose first international order is likely to be for relatively simple uncomplicated product – unless sufficiently unique) as well as, especially in the case of INVs, 'born globals' and technologically-inclined rapidly internationalising small firms. In this respect, a contrast observed by Brennan and Garvey (2009: 129) is that earlier models such as Uppsala "*view knowledge as a barrier to internationalisation*", perspectives such as the 'born global' phenomenon are on the other hand "*driven by knowledge*".

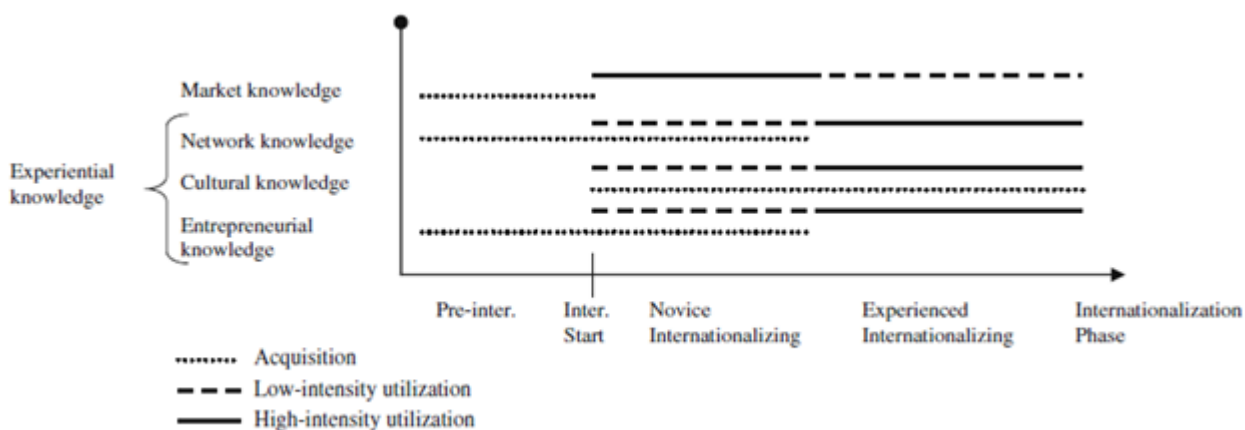
As mentioned earlier, developed in the 1990's and deriving from the RBV, the knowledge-based view (KBV) takes knowledge as the most critical resource for survival and development (Mejri and Umemoto 2010). While some aspects of this research emphasise *organisational* knowledge, others underline the importance of *individual* knowledge and knowledge application (Grant 1996). The view here is that essentially internationalisation

results from knowledge. Especially given the shift towards the knowledge-economy, and having comparatively less resources than larger companies, for SMEs all this is “*making knowledge vital for their survival and growth*” (Mejri and Umemoto 2010: 161). In order to compete effectively, the lack of tangible resources needs to be compensated for by intangible resources. This is recognised and established, e.g.:

*“SMEs compete on their know-how and hence have to use knowledge to their advantage, even more so than traditional resources. ... Since SMEs are resource constrained, and cannot spend efforts to create knowledge, they look outside the organization for knowledge.”* (Desouza and Awazu 2006: 38,40)

More recently, striving to broaden existing conceptualisations towards a fuller understanding of SME internationalisation, Mejri and Umemoto (2010) reviewed extant knowledge and frameworks on internationalisation and adopting a knowledge perspective proposed a model holistically conceptualising small firm internationalisation (Figure 2.6).

**Figure 2.6 – A knowledge-based model of SME internationalisation**



Source: Mejri and Umemoto (2010: 162)

Oviatt and McDougall (1994) and McDougall *et al* (1994) explicitly recognise the entrepreneur as a crucial source of the firm’s knowledge resources, from experience. Leaning towards an individual-based perspective, Mejri and Umemoto’s (2010) model considers three distinct phases in the internationalisation process:

1. Pre-internationalisation phase,
2. Novice internationalising phase,
3. Experienced internationalising phase.

Novice internationalising relates to the individual experiencing first steps in internationalising – for the first time. As experience is accrued and knowledge accumulated the individual and consequently the firm gradually becomes experienced in internationalisation.

In each of the phases of internationalisation four different knowledge factors come into play. From the literature on SME internationalisation Mejri and Umemoto (2010) categorised four key types of knowledge in the internationalisation process: *market knowledge* and *experiential knowledge*, the latter comprising network, cultural and entrepreneurial knowledge:

1. Market knowledge
2. Network knowledge (*experiential*)
3. Cultural knowledge (*experiential*)
4. Entrepreneurial knowledge (*experiential*)

Categorising knowledge on the basis of acquisition, Mejri and Umemoto (2010) distinguish between objective / explicit knowledge and experiential / tacit knowledge (Nonaka and Takeuchi 1995). The former derived from explicit materials, written documents and reports – here labelled as '*market knowledge*'. Acquired only through experience, the '*experiential knowledge*' includes different types of knowledge.

Most recently, deeming "*international knowledge a key intangible resource*", Fernhaber *et al* (2009: 297) also adopt a knowledge-based view, towards empirically investigating the internal and external sources of international knowledge within the context of international entrepreneurship. This emphasis on the importance of *international knowledge* (information, beliefs and skills organisations can apply in their international activity) especially for new ventures arises from the acknowledgement that while the use of leveraging tangible resources in foreign markets is noted, it is the intangible resources that increasingly relate to sustainable competitive advantage since they cannot be easily replicated and competed away (Kotha, Rindova and Rothaermel 2001; Knight and Cavusgil 2004). Scholars highlighted *international knowledge* as a crucial and important intangible resource leading to internationalisation (e.g. Bloodgood *et al* 1996; Reuber and Fischer 1997; Carpenter *et al* 2003; Fernhaber *et al* 2009).



Beyond traditional international entrepreneurship emphasis on TMTs' (top management teams) prior experience and knowledge stocks, i.e. *internal* knowledge, Fernhaber *et al* (2009: 298) also bring to the fore the importance of knowledge on the external environment and *external* sources of international knowledge – which are “*important to overcome liabilities of newness and foreignness*”. This is directly in line with the central premise of ACAP (Cohen and Levinthal 1990; Zahra and George 2002). Fernhaber *et al* (2009) express surprise that this dimension of *external* knowledge is often overlooked in the field of international entrepreneurship – particularly since the importance of the external environment for new venture internationalisation is well established (e.g. Johanson and Vahlne 2003; Coviello 2006).

Fernhaber *et al*'s (2009: 298) empirical study presents a framework for understanding this (ACAP) knowledge integration process and demonstrate that international “*new ventures with low levels of internal knowledge were found to benefit more from the knowledge vicariously exploited through alliance partners and capital firms*”, i.e. through relationships and contacts with others mutually connected in internationalisation activity. In this regard, they also emphasise the importance of networks and argue that it is not only technical knowledge that is subject to ‘spill-over effects’ and is transferable through networks and collaboration. Fernhaber *et al* (2009) argue that transfer is also possible for this type of knowledge: *international knowledge*. At a basic level, this characteristic seems conducive to the context of the internationalising small family businesses which this thesis investigates – leveraging contacts, relationships and their networks to gain access to *external international knowledge* in the absence of sufficient experience or professional executive management teams.

Fernhaber *et al* (2009) identify three external sources of *international knowledge* relevant to new ventures for the purpose of internationalisation. These are (i) *alliance partners* with international knowledge, (ii) *venture capital firms*, inevitably imparting important international knowledge together with finance, and (iii) the spill-over of international knowledge derived from *formal or social coincidental interaction with others* in close geographical proximity who are also internationally active. They suggest that their findings might seem to contradict the ACAP premise suggesting that prior (internal) knowledge is required in order to effectively assimilate external information and knowledge. This, since from their findings it appears that it was those firms with least *internal* knowledge and least experienced and internationally knowledgeable TMTs that seem to have benefitted most

from *external* knowledge in having utilised and leveraged most the sources and types of *international knowledge* for internationalisation. In this case, understandably the TMTs with least *internal* knowledge had a comparatively much greater motivation to seek and utilise *external* international knowledge to compensate for their deficit in a critical tacit resource indispensable for successful internationalisation: knowledge.

Coming back ‘full-circle’, keeping in mind the various internationalisation knowledge categories discussed above – as well as the established case for viewing small firm internationalisation from a more holistic perspective – it becomes particularly relevant to note that in instances where no single theory seemed to comprehensively explain the internationalisation process of firms under study, Jones (1999: 17) underlined that “*small firms begin internationalisation through least risk, lowest investment methods, such as indirect export, and move to higher risk, higher investment modes as the firm develops and gains experiential knowledge*” – the most significant, common factor determining the rate and scope of international expansion of the small firms researched was the accumulation of experiential knowledge – a key explanatory factor of stage models.

### **2.7.1 Consolidating: Knowledge in SME internationalisation**

It is acknowledged that dynamics at the level of the individual are of crucial importance, particularly in smaller firms’ internationalisation activity – this has been established, especially given that decision-making in such firms tends to be informally centralised and convergent on a key individual, often the founder / entrepreneur. Beyond traditional resource limitations, it is sometimes the all-important entrepreneur’s “*volition*” that is imperative for internationalisation (Jones and Coviello 2005: 288), as well as their instinctive outlook or attitude – a cognitive set, seeing proverbial glasses as ‘half full’ rather than ‘half empty’. In his research on traditional, small crafts companies who as “*instant internationals*” (Oviatt and McDougall 1994) had internationalised within a year from inception, McAuley (1999) underlined the entrepreneur’s strong self-perception and ‘can do and will do’ attitude in explaining their rapid internationalisation. A common characteristic of the entrepreneurs at the helm of these successful crafts companies, was that this strong self-motivation was generally combined with establishing various relationships and leveraging networking contacts – leading to early opportunity identification which when exploited propelled these ‘unlikely’ small firms into new and distant international markets. This, in direct contrast to received stage model wisdom indicating gradual step-

wise internationalisation, initially to geographically and culturally close foreign markets (Johanson and Vahlne 1977; see Etemad and Wright 1999).

Indeed, as seen previously, more holistic perspectives on small firm internationalisation are increasingly viewing such activity from an entrepreneurial perspective, emphasising individual characteristics and dynamics (e.g. Chetty and Blankenburg Holm 2000; Dew and Sarasvaty 2002; Bell *et al* 2003; Schweizer, Johanson and Vahlne 2010), and their contacts and relationships, or social capital (e.g. Coviello and Munro 1995; Holmlund and Kock 1998; Arenius 2002; Ruzzier *et al* 2006; Zain and Imm Ng 2006; Johanson and Vahlne 2009).

In this regard, more recently, Mejri and Umemoto (2010) introduced into their knowledge-based SME internationalisation model these *experiential* knowledge types: *entrepreneurial knowledge* and *network knowledge*.

*Entrepreneurial knowledge* contends with individual characteristics and learning-related dynamics including alertness (Kirzner 1973) and international opportunity identification and exploitation (Shane 2004). Indeed, in many cases this is what constitutes the reason behind firms' internationalisation. Acknowledging network perspectives on internationalisation, *network knowledge* represents knowledge embodied in the contacts and relationships constituting the network. Where the network is recognised as an external knowledge resource in itself (Kogut 2000).

On the other hand, a potential limitation in Mejri and Umemoto's (2010) model in aspiring towards a complete and full account for key knowledge categories involved in small firm internationalisation, is that it fails to explicitly address certain firm-specific knowledge-types related to processes, *modus operandi* and technologies – which can be a valuable source of idiosyncratic and tacit, 'internationalisable' competitive advantage (Bilkey 1978; Cavusgil and Nevin 1981). Here direct reference is made to *product knowledge* and *technological knowledge*, as discussed earlier emanating from Hymer (1976) and integrated into the technologically-inclined literature on INVs – yet relevant more broadly.

The central importance of foreign *market knowledge* is universally incorporated in internationalisation viewpoints ranging from the stages models to entrepreneurship perspectives, and is equally represented in Mejri and Umemoto (2010). Albeit a different

perspective is adopted from that of the Uppsala viewpoint. While Johanson and Vahlne (1977) emphasise *experiential market knowledge* from direct engagement and interaction in specific foreign markets, Mejri and Umemoto (2010) exclude this experiential component from their *market knowledge* categorisation. Mejri and Umemoto's (2010) *market knowledge* focuses on pre-export information gathering activity (Weidersheim-Paul *et al* 1978), crucial for initial internationalisation and early entry stages into foreign markets, gradually diminishing in importance once entered into, as emphasis shifts to other increasingly important forms of knowledge – such as '*network*' and '*entrepreneurial knowledge*' in the case of Mejri and Umemoto (2010) (Johanson and Weidersheim-Paul 1975; Johanson and Vahlne 1977; Cavusgil 1980). In contrast Johanson and Vahlne's (1977, 1990) emphasises the tacit experiential dimension, where market knowledge acquisition and accumulation is ongoing, increasing in value while activity is taking place in a particular foreign market. This increases familiarity with people, organisations and their institutions, cultural elements, and the way things are done, thereby lessening 'psychic distance' and risk perception – leading to progressively increasing commitments in that market. These 'Uppsala' perspectives on experiential market knowledge dynamics are, in Mejri and Umemoto's (2010) model, incorporated into experiential: *network*, *cultural* and *entrepreneurial* knowledge types.

On the other hand, Eriksson *et al*'s (1997, 2000) *internationalisation knowledge* is considered a general accumulated stock experiential knowledge, also including 'self-awareness' on the firms' resources and capabilities, as well as knowledge on foreign institutions and internationalisation procedures. It includes "*abilities to search for information, to identify and evaluate opportunities, screen country markets, evaluate strategic partners, and manage customs operations and foreign exchange* (Fletcher and Harris 2011: 2; Prashantham and Young 2011). Being non-market or entry-mode specific, this knowledge is transferable to different settings. In this regard, reference is made to "*learning-by export / internationalisation*" (Branstetter 2006; Chuang 1998) linking internationalisation to innovation as a result. These learning effects can occur because foreign market activities provide firms with access to knowledge and technologies that are not available in the domestic market (EC 2010: 51). Acquisition of important *internationalisation knowledge* is positively related to geographical scope in market diversity in international activity – it is key, and considered to mediate other knowledge types (Eriksson *et al* 2000). In relation to Mejri and Umemoto's (2010) model, Eriksson *et al*'s (1997) experiential *internationalisation knowledge* partly overlaps with Mejri and

Umemoto's (2010) experiential *entrepreneurial* and *cultural knowledge* categories. For example, contending with international opportunity exploitation, *entrepreneurial knowledge* requires an awareness of firm resources and capabilities and is directly associated with *internationalisation knowledge* (Eriksson *et al* 1997, 2000), and *cultural knowledge*, which includes experience and familiarity with languages, norms, laws and institutional procedures. In this respect, experiential *cultural knowledge* also associates with elements of psychic distance as observed in the stage models' *market knowledge* – influencing risk perception and internationalisation motivations (Johanson and Vahlne 1977).

Mejri and Umemoto's (2010) experiential *network knowledge* incorporates important aspects of network and social capital perspectives on small firm internationalisation – underlining the importance of contacts, relationships in networks, for opportunity identification and access, resource acquisition and business facilitation. Furthermore, networks in themselves constitute knowledge (Kogut 2000, Kogut *et al* 1993). Stressing that “*SMEs' survival and long-term viability also depend on their ability to innovate. By gaining and exploiting knowledge from international markets, SMEs are well positioned to develop new products that enable them to achieve profitability and growth*”, Zahra *et al* (2009: 81) emphasise the role of social knowledge in accessing information and enabling innovation in an international context. In this regard, whether innovations pertain to the end products or production processes, the extent to which SMEs gain knowledge in international markets greatly depends on the scope of their operations and the entry modes and commitments they have in those markets (Zahra *et al* 2000) – which reinforces the central importance of established contacts and networks. This runs parallel to Zahra *et al's* (2009) recent work on *social knowledge* (cf Sohn 1994) in relation to SMEs' innovative gains from internationalisation – where they cite Nelson's (1993) definition of *social knowledge*: an asset that “*allows SMEs to comprehend, assimilate and exploit the types of knowledge that exist in these markets*” (p. 81). Again, this network-borne process, also echoes the definitional key aspects of ACAP, which contend with the acquisition, assimilation and exploitation of external knowledge (Cohen and Levinthal 1990).

The concept of socially embedded knowledge converges on the core role of the founder / owner-manager in SMEs (Thorpe *et al* 2005; Clarke *et al* 2006) – especially more so in enabling internationalisation, strengthening and magnifying the effects of international market scope and mode of entry on SMEs' product innovation (Zahra *et al* 2009).

As discussed, no single categorisation of specific knowledge types or forms attributable to small firm internationalisation exists in the literature. Though an extent of convergence is observed in the literature, particularly with respect to the nature of the knowledge (e.g. explicit or tacit, objective or specific), different perspectives exist on actual knowledge type categories and classifications. In instances, different scholars also attribute different characteristics and qualities to the same knowledge type or ‘label’, resulting in an extent of overlap within and between knowledge types. An overview of the key knowledge types associated with SME internationalisation reviewed, discussed and synthesised can be seen in Table 2.4.

**Table 2.4 – Key knowledge types in SME internationalisation**

<b>Market</b> knowledge
<ul style="list-style-type: none"> <li>● <b>Characteristics:</b> <ul style="list-style-type: none"> <li>- Experiential, tacit. Market specific (Johanson and Vahlne 1977).</li> <li>- Non-experiential, explicit &amp; objective. Relevant to general int'l. (Mejri &amp; Umemoto 2010).</li> </ul> </li> <li>● <b>Focus:</b> <ul style="list-style-type: none"> <li>- Firm &amp; country specific. Ongoing. Capabilities, resources &amp; entry modes (Johanson and Vahlne 1977).</li> <li>- General, objective knowledge transferable to other markets. Pertaining to (pre-) internationalization (Mejri &amp; Umemoto 2010).</li> </ul> </li> <li>● <b>Acquisition and source:</b> <ul style="list-style-type: none"> <li>- Gradual, experiential. Primarily entrepreneur's direct exposure in specific foreign market: interaction with people, organisations and institutions. Also engaging employees or professionals' advice (Johanson and Vahlne 1977). Personal / formal (Leonidou &amp; Adams-Florou 1998).</li> <li>- Objective information search: explicit materials, written documents and reports. Acquired pre-internationalisation (Mejri &amp; Umemoto 2010).</li> </ul> </li> <li>● <b>Role and application:</b> <ul style="list-style-type: none"> <li>- Gradual integration. Familiarity with people &amp; organisations in specific markets. Mitigates risk &amp; psychic distance, increases int'l commitment (Johanson and Vahlne 1977). Includes knowledge on: languages, cultural aspects, competition, distribution channels, payment methods. <i>"things that vary from country to country"</i>.</li> <li>- Non-experiential, explicit, applicable to general int'l. Knowledge mostly used for 1st steps and 'novice' stages. Value and use diminishes 'experienced' (Mejri &amp; Umemoto 2010).</li> </ul> </li> <li>● <b>Contributing literature or theory:</b> <ul style="list-style-type: none"> <li>- Uppsala (experiential, tacit MK), Johanson and Vahlne 1977; Eriksson <i>et al</i> 2000.</li> <li>- (Objective, explicit – pre-int'l. MK) Weidersheim-Paul <i>et al</i> 1978; Dichtl <i>et al</i> 1984a, b; Mejri &amp; Umemoto 2010.</li> </ul> </li> <li>● <b>Note:</b> <ul style="list-style-type: none"> <li>- Uppsala: Fails to acknowledge MK transferrable to other markets. Pays little attention to P&amp;TK. Includes aspects overlapping with CK.</li> <li>- Mejri &amp; Umemoto's (2009) MK overlaps with IK.</li> </ul> </li> </ul>

## Internationalisation knowledge

- **Characteristics:**
  - Based on 'know-how', procedural element of experiential knowledge (Eriksson *et al* 1997)
  - Experiential, tacit. Generic & transferrable to other markets (Eriksson *et al* 1997; Li *et al* 2004).
- **Focus:**
  - Firm specific. Capabilities, resources and entry modes. Processes entailed in internationalisation.
- **Acquisition and source:**
  - Derived from int'l interaction & operations. Fernhaber *et al* (2009): 3 external sources: (i) Alliance partners; (ii) Venture capital firms; and (iii) Spill-over from formal or social interaction with others.
  - Grows with geographic scope & market diversity (Eriksson *et al* 2000; Hadley & Wilson 2003)
- **Role and application:**
  - Not specific to country or entry mode. Involves firm's knowledge on its resource capabilities & modus operandi to affect international activity & transact. Inc. knowledge on foreign institutions & procedures.
  - Fernhaber *et al* (2009): IK includes: information, beliefs and skills firms apply in their int'l activity. Suggest that IK transfer can also occur via networks and social interaction.
- **Contributing literature or theory:**
  - Bloodgood *et al* 1996; Eriksson *et al* 1997; Reuber & Fischer 1997; Carpenter *et al* 2003; Fernhaber *et al* 2009.
- **Note:**
  - IK considered key variable mediating effect of other knowledge type variables , e.g. foreign institutional knowledge & foreign business knowledge (Eriksson *et al* 2000; Fletcher and Harris 2011). Specific IK is often developed by combining MK and P&TK (Fletcher 2007).

## Product & technology knowledge

- **Characteristics:**
  - Internal processes & *modus operandi*, idiosyncratic know-how, tacit (Bilkey 1978; Cavusgil & Nevin 1981).
  - Can be explicit and formal.
- **Focus:**
  - Firm specific. P&TK part of firm's unique differential advantage.
- **Acquisition and source:**
  - Through *internal* experience, know-how – in this case firm-specific (Bilkey 1978; Cavusgil & Nevin 1981).
  - Also through *external* contacts, alliances and partners – knowledge transfer (Fernhaber *et al* 2009).
- **Role and application:**
  - P&TK are internal determinants of internationalisation, firm's unique differential advantage (Bilkey 1978; Cavusgil & Nevin 1981). Includes technological advantages in production processes, better priced and / or technologically superior products.
  - Results in enhancing 'internationalisability', generating competitive advantage (Bilkey 1978; Cavusgil & Nevin 1981).
- **Contributing literature or theory:**
  - INV literature: Oviatt & McDougall 1994, 1999; Zahra *et al* 2000.
- **Note:**
  - Relevant to both traditional as well as INVs and tech-inclined firms.
  - P&TK often combined with MK to develop specific IK (Fletcher 2007).

## Network knowledge

- **Characteristics:**
  - Tacit, broad and non-specific. Experiential (Mejri & Umemoto 2010).
- **Focus:**
  - Informal & formal, social & business networks (Leonidou & Adams-Florou 1998). The network is recognised as an external knowledge resource in itself (Kogut 2000).
- **Acquisition and source:**
  - Knowledge embodied in contacts and relationships: Contacts, partners, clients, suppliers, conferences, int'l trade shows (Reid 1984; McAuley 1999).
  - NK influenced by scope of internationalisation, entry-modes and commitments, i.e. extent of contacts, relationships and social interaction (Zahra *et al* 2000).
- **Role and application:**
  - Non-specific, entails various forms of knowledge. Results in opportunity identification, resource acquisition, business facilitation. Knowledge transfer via social interaction leads to new products and innovation (Johanson and Mattsson 1988; Axelsson and Johanson 1992; see Zahra *et al* 2009).
  - Mejri & Umemoto (2010) see experiential NK acquired in the 'pre-int'l' and 'novice' stages. It is utilised with low-intensity during the 'novice' and extensively in 'experienced' internationalisation stages.
- **Contributing literature or theory:**
  - In internationalisation: Johanson and Mattsson 1988; Axelsson and Johanson 1992; Johanson and Vahlne 1992; see also: McAuley 1999; Kogut 2000; Zahra *et al* 2000; Spence & Crick 2004; Thorpe *et al* 2005; Coviello 2006; Clarke *et al* 2006; Mejri & Umemoto 2010.
  - Associated with Social knowledge: Sohn 1994; Nelson 1993; Zahra *et al* 2009.
- **Note:**
  - NK considered external knowledge resource in itself, a "conduit" for all other forms of knowledge & business facilitation (Szulanski 1996; Nahapiet & Ghoshal 1998; Gulati 1999; Inkpen & Tsang 2005).

## Cultural knowledge

- **Characteristics:**
  - Experiential, tacit. Also associated with foreign institutional knowledge Eriksson *et al* 1997. (see also Mejri & Umemoto 2010).
- **Focus:**
  - Specific to country or region. Knowledge of language, habits, norms, laws; behavioural modus operandi etc....
- **Acquisition and source:**
  - Acquired when firm begins international activity direct interaction and exposure. Also to lesser extent includes pre export exposure and social interaction e.g. via travel and fairs.
  - Also somewhat via contacts and social interaction with foreign suppliers.
- **Role and application:**
  - CK mainly acquired through direct experience via int'l activity. Acquired post-int'l throughout int'l activity spanning 'novice' and 'experienced' stages. Utilised with low-intensity during 'novice' stage and high-intensity when 'experienced' internationaliser. Mejri & Umemoto (2010).
- **Contributing literature or theory:**
  - Hofstede 1991, 2005; Mejri & Umemoto 2010.
- **Note:**
  - Experiential CK is integrated into experiential MK (Uppsala) involving languages, culture, psychic distance, and foreign institutional knowledge (Eriksson *et al* 1997).



## Entrepreneurial knowledge

- **Characteristics:**
  - Experiential / tacit.
- **Focus:**
  - Knowledge on existence of opportunities and exploiting them.
- **Acquisition and source:**
  - “Can only be learned through personal experience” (Penrose 1959).
- **Role and application:**
  - Seeking to capture and exploit experiential knowledge associated with clients, competitors and the market. Also related to foreign business knowledge (Eriksson *et al* 1997).
  - Contends with individual’s characteristics and learning dynamics including alertness (Kirzner 1973), opportunity recognition and exploitation (Shane 2004). Generally drives the SMEs’ internationalisation.
  - Mejri & Umemoto (2010) see EK as acquired through direct experience in ‘pre-int’l and during ‘novice’ int’l stages. Utilised post-int’l, with low-intensity at ‘novice’ stage, and high-intensity as ‘experienced’ internationaliser.
- **Contributing literature or theory:**
  - Entrepreneurship, cognition: Kirzner 1973; Shane 2004.
- **Note:**
  - Mejri & Umemoto’s (2009) EK with respect to internationalisation overlaps with IK.

Key: **MK:** Market knowledge

**P&TK:** Product & Technology knowledge

**CK:** Cultural knowledge

**IK:** Internationalisation knowledge

**NK:** Network knowledge

**EK:** Entrepreneurial knowledge

Source: Author’s synthesis from various sources

In consolidating, the important relevance of tacit, experiential knowledge to both internationalisation and sustained competitive advantage is emphasised (Kogut and Zander 1992; Grant 1995, 1996). From a dynamic capability perspective, it is not sufficient to know, or ‘know-*what*’. As Kogut and Zander (1992) argued, that is but half the story, and in itself fails to deliver. It is experiential ‘know-*how*’, idiosyncratically acquired and tacit, which crucially engages ‘know-*what*’, transforming it into realisable and tangible, exploited opportunities.

Essentially different kinds of knowledge manifest themselves at different levels within the firm (Van Den Bosch and Van Wijk 2001) – generally residing with individuals and management manifested in capability. Ultimately it is this knowledge that shapes volition and behaviour, informs decisions and enables the identification or otherwise of international opportunities. In the traditional SMFBs which this study investigates, such processes tend to converge on the founder or owner-manager (Zucchella *et al* 2007).

## **2.8 Conclusion**

This chapter investigated and evaluated conceptual frameworks and theories on small firm internationalisation – forming a foundation guiding the thrust of this study into the internationalisation of traditional SMFBs adopting an ACAP approach. Core to internationalisation and ACAP, knowledge types and their role in extant internationalisation literature were also examined and synthesised. The next chapter extends the discussion and critiques the research literature relating to family businesses, their unique characteristics and their associated implications on international activity.

# Chapter 3

## Family Business Research



## 3 Family business research

### 3.1 Introduction

This chapter examines the body of knowledge and extant research on family businesses in relation to the research objectives – towards investigating and seeking to better understand the determinants and internationalisation processes of the traditional SMFBs under study. Focus converges on family business characteristics and dynamics, and their effect on internationalisation and associated ACAP.

Beyond theoretical overviews of key differentiating characteristics of smaller family businesses, family business research is considered comparatively recent and sparse (e.g. Neubauer and Lank 1998; Moores 2009). Consequently literature addressing cuspidal overlaps in the three core literature areas underpinning this study are examined. While noting that ACAP literature is addressed in the next chapter, the following key aspects are emphasised, reflecting this chapter's structure:

- Family business perspectives on strategy, operations, performance and innovation (3.5).

Impacting on operations and performance, internationalisation has strategic implications for firms, also associated with innovation. Similarly, ACAP is strategically deployed resulting in competitive advantage and superior performance, outcomes also associated with innovation.

- Family business perspectives on the role of the founder / owner-manager, entrepreneurship and family dynamics (3.5.2).

The founder or owner-manager plays a key role in small firm internationalisation, opportunity identification and risk perception. Integrative perspectives on small firm internationalisation underscore the relevance of individual characteristics in international entrepreneurship.

- Resource and knowledge based perspectives on family businesses (3.6).

Size presents resource implications. Key distinguishing characteristics of small family businesses pertain to resources, and the manner in which they are combined and deployed. Tacitly held and idiosyncratically manifested such resources are generally intangible. Knowledge is one such critical resource explaining competitive advantage and successful internationalisation.

- Network and social capital perspectives on family businesses (3.7).

Perspectives on small firm internationalisation emphasised the centrality of contacts and relationships in identifying opportunities, accessing resources, and facilitating internationalisation. Formal and informal, business and social contacts play a critical role in ongoing internationalisation – especially important for smaller firms.

- Family business perspectives on internationalisation (3.8).

Core to this thesis, emerging research on family business internationalisation and international entrepreneurship is critically reviewed in line with conceptual insight already established on small firm internationalisation in the previous chapter.

Finally, an overview of family businesses in Malta is presented. Based on limited empirical research available, Maltese SMFB characteristics and their owner-managers' perceptions are integrated with those in the broader literature (3.9).

## **3.2 SMFB research: Value and extent**

This research studies small and medium-sized family businesses. Since definitionally '*small*' and '*family business*' are not necessarily mutually inclusive – with insufficient overlap in their respective literature domains, it is necessary to outline relevance in investigating these smaller organisational forms.

The socio-economic importance of SMEs in world economies has long been acknowledged at both firm and national levels (Stanworth and Gray 1991). As the 'motor' of national economies, SMEs constitute the absolute majority of businesses in most countries, 99% across EU countries as well as the United States of America (US) (EC 2009; SBA & US census). In the EU, SMEs generate more than half aggregate sales turnover, and provide more than three-quarters of all jobs (Gray 2006b; EC 2009). SMEs play a key role in international markets (Jones 1999; Lu and Beamish 2001; George, Wicklund and Zahra 2005). For example, OECD reported 25%-40% of global manufactured exports attributable to SMEs (OECD 2002:13), while in the US 97% of exporting firms were SMEs (George, Wicklund and Zahra 2005; OECD 2000). Among EU SMEs, the 25% that are outwardly internationalised, create more jobs and are more innovative (EC 2010). Generally more flexible and dynamic than their larger counterparts, SMEs foster significant

value-generating activity, a spawning ground and test-bed for innovative products and services, exploiting opportunities as they are conceived. This is highlighted by Ibielski (1997: 1):

*“SMEs are mighty minnows, reflecting the competitive spirit that a market economy needs for efficiency; they provide an outlet for entrepreneurial talents, a wider range of consumer goods and services, a check to monopoly inefficiency, a source of innovation, and a seedbed for new industries; they allow an economy to be more adaptable to structural change.”*

Within this context, family businesses are recognised in the literature as a distinct organisational form with unique characteristics (Donckels and Frohlich 1991; Sirmon and Hitt 2003; Zahra 2003: 497). Dominating world economies including SME populations, their prevalence increases among smaller organisations (Donckels and Frohlich 1991; Sharma *et al* 1996; Goffee 1996; FBR 1996; Gomez-Mejia *et al* 2001; Zahra 2003; IFERA 2003; EC 2009). Noting significant overlap between SME and family business populations, a recent survey showed EU family businesses generate 35%-65% of EU countries' gross national product (GNP) (PwC 2007). Seeking to address the dearth of available research, the International Family Enterprise Research Academy (IFERA) recently undertook an international initiative which besides reaffirming that *“family businesses dominate”* enterprise populations, empirically confirmed *“the leading role of family businesses in worldwide economic production and employment”* (IFERA 2003: 235). Additionally, family businesses also represent *“a very important share”* of countries' international business activity (Gallo and Garcia Pont 1996: 45; Gallo and Garcia Pont 1988), and in the EU 39% declared a top priority *“developing business overseas”* (PwC 2007: 21).

Growing awareness of family business' prevalence and significance, unique characteristics and requirements, is now increasingly reflected in agency and government policies at regional, national and extra-national levels. At a Lisbon meeting addressing *‘Europe's invisible giants: Family firms in an open, innovative economy’*, family firms' tendencies towards innovation, longer-term vision and commitment were highlighted. EU Commission President, Barroso, stressed that *“family firms are crucially important for Europe”* (EC 2007).

This notwithstanding, and although family businesses have operated *“for thousands of years, it wasn't until the 1990s that the field was viewed as a separate academic discipline”*

(Bird *et al* 2002: 337) – indeed, research remains comparatively less forthcoming. Not equitably reflected, an urgent need for more research on family businesses is widely felt (Sharma *et al* 1997; Casillas *et al* 2007; Schulze and Gedajlovic 2010).

### 3.3 Defining small and medium-sized family businesses

Given substantial overlap between SMEs in general and family businesses in particular, as well as the objectives of this research investigating SMFBs, it is important definitionally to establish the two discrete qualifying dimensions inherent in the firms this study investigates.

#### 3.3.1 Defining the SME

This study researches smaller family businesses that from a *size* criterion qualify as SMEs. No universal SME definition exists and widely varying definitions have been employed by different scholars. For example, regarding employment size, though across the EU an SME employs less than 250, in the US the requirement is generally capped at 500, double the EU SME size, while in Australia it is <200.<sup>17</sup> Used rigidly, SME qualification generally entails qualifying criteria beyond employment levels. EU SME definition and eligibility criteria across member countries is presented below (Table 3.1).

**Table 3.1 – EU SME qualification criteria**

Size category	Headcount Annual Work Unit (AWU)	Annual turnover	⇔ OR	Annual balance sheet total
<b>Medium</b>	< 250	≤ €50 million	⇔ OR	≤ €43 million
<b>Small</b>	< 50	≤ €10 million	⇔ OR	≤ €10 million
<b>Micro</b>	< 10	≤ €2 million	⇔ OR	≤ €2 million

Source: European Commission (2003/361/EC)

While distinguishing between ‘autonomous’, ‘partner’ and ‘linked’ enterprises, within the EU context an ‘enterprise’ is “*any entity engaged in an economic activity, irrespective of its legal form*” (EC 2005: 12). Beyond definitions, even when considering similarly sized

<sup>17</sup> US Small Business Administration, Australian Bureau of Statistics.



SMEs operating in the same markets and engaging in similar economic activities, researchers acknowledge that SMEs cannot be considered a homogenous group (e.g. Jones 1999).

### **3.3.2 Defining the family business**

Family business definitions exhibit more variety. Furthermore, technically incorrect assumptions are frequently encountered. Sometimes references to family businesses seem to by default infer smaller organisations (Litz 1995). Additionally, “*the term is often used as shorthand to distinguish the use of more traditional / paternalistic, face-to-face forms of authority – paternalism for example ...*” (Goffee 1996: 40).

Family businesses can be as diverse as any other type of business (Birley and Godfrey 1999). While a range of definitions exists, they generally converge on characteristics associated with family involvement, namely ownership and governance or control as well as in instances management and trans-generational succession (Chua, Chrisman and Sharma 1999; Naldi *et al* 2007). Neubauer and Lank (1998) reviewed several definitions, and highlighted key perspectives (Table 3.2).

**Table 3.2 – Definitions of the family business concept**

Barry (1975)	A family business is one which, in practice, is controlled by only one family.
Bork (1986)	A family business is one which has been founded by a member of the family and has been passed on, or is expected to be passed on, to family descendants. Descendants of the original founder or founders will own and control the business. Furthermore they will work and participate in the business and members of the family will profit.
Carsrud (1992)	The family business is one in which ownership and decision-making processes are dominated by members of a group which in affinity is based on affection.
Gallo and Sveen (1991)	A business in which only one family owns the majority of the capital and has overall control. Members of the family form part of management, taking most important decisions.
Handler (1989)	An organisation in which main operative decisions and plans for succession within management are influenced by members of the family who form part of current management or board of directors.
Lansberg, Perrow and Rogolsky (1988)	A business in which family members have legal control of the entity.
Ward (1989)	A business that will be passed on to the next generation of the family so that they can manage and control it.

Source: Neubauer and Lank 1998

Recognizing “*considerable definitional confusion concerning the term family business*”, Litz (1995: 71) adopted two complementary approaches (i) the ‘traditional’ *structure-based approach* concerning family involvement in ownership and management, (ii) an *intention-based approach* focussing on value preferences of family members involved in managing the organisation to maintain control.

Attempting a holistic approach, Chua *et al* (1999: 25) later defined a family business as one:

*“governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.”*

Since diverse definitions may hinder research development (Bird *et al* 2002), the quest for a precise family business definition has been ongoing (Casillas *et al* 2007).

Astrachan *et al* (2002) categorised extant definitions as they relate to *content*, *objectives*, and *structure*. Trying to solve “*the family business definition problem*”, Astrachan *et al* (2002: 45) developed the F-PEC scale to assess the degree to which family involvement influenced business. They deemed *power*, *experience* and *culture* as key *familiness* dimension influencers. Developed and conceptually validated (Klein *et al* 2005), their scale posited that in the *power* dimension the family’s influence arises from ownership, governance and management; while in the *experience* dimension influence results from the generation at the helm, with most value deriving from succession processes – especially that from 1<sup>st</sup> to 2<sup>nd</sup> generations. The *culture* dimension reflects family and business values.

Though not definitive, as a standardised instrument, the F-PEC sub-scales facilitate comparative evaluation between studies, providing some understanding of research boundaries under investigation (Chrisman *et al* 2005). Nonetheless, empirical results continue to reflect diversity – ‘*familiness*’ compared to a “*business theory jungle*” (Rutherford *et al* 2008: 1089).

Although consensus exists that family involvement is socially and economically significant, “*the family component shapes the business in a way that family members of executives in nonfamily firms do not and cannot*” (Chua *et al* 1999: 22; Sirmon *et al* 2008). Apart from a basic ‘family-owned’ definition, there exist several other internal and external factors and nuances influencing family business behaviour, strategy and performance (Gallo and Sveen 1991; Gallo and Garcia Pont 1996; Goffee 1996).

The ‘familiness’ construct is defined as “*the idiosyncratic firm level bundle of resources and capabilities resulting from the systems interactions*” (Habbershon *et al* 2003: 451) – similarly described by Chrisman, Chua and Litz (2003: 468) as the “*resources and capabilities related to family involvement and interactions*”.

Chrisman *et al* (2005: 556-557) distinguish between the ‘traditional’ “*component-of-involvement approach*”, and the “*essence approach*” which requires that:

*“family involvement ... be directed towards behaviours that produce certain distinctiveness before it can be considered a family firm. Thus two firms with the same extent of family involvement may not both be family businesses if either lacks the intention, vision, familiness and / or behaviour that constitute the essence of a family business.”*

From RBV and agency theory perspectives, and underlying individual and social dynamics, “*distinctive familiness describes the positive influence of family involvement in the firm ... a source of competitive advantage, generating firm wealth and value creation*” (Pearson *et al* 2008: 950).

Consolidating, family business definitions tend to be categorised in terms of content, structure and aims. The following nodes extrapolated by Gallo and Sveen (1991), for which Neubauer and Lank (1998) suggested measurable variables, seem to provide an acceptable *modus vivendi*:

1. Ownership and/or control of the firm,
2. The power to manage which the family exerts through work carried out by family members,
3. The aim to hand down business assets and direction to the next generation gradually incorporated into firm’s management.

However, these criteria have not acquired universal recognition. Carsrud (1992) stresses family affinity. Handler (1989), Swinth and Vinton (1993) and Menendez-Requero (2005) add the continuity criterion to ownership and management criteria (Kontinen and Ojala 2010b).

One practical definition of a family firm embraces a clutch of ownership and management criteria, as in Gallo and Sveen (1991: 182), who define a family business as “*a firm where the family owns the majority of stock and exercises full managerial control*”.

The European Commission recently established a practical EU definition for family businesses to facilitate policy development and a research thrust in the area (Box 3.1).

### Box 3.1 – EU family business definition

The Expert Group adopted a common European definition, according to which a firm, of any size, is a **family business**, if:

1. The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
2. The majority of decision-making rights are indirect or direct.
3. At least one representative of the family or kin is formally involved in the governance of the firm.
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.

Family businesses can be very diverse: they can be small, medium sized or large, listed or unlisted.

Source: European Commission Expert Group Report (November 2009)

The EU definition is mostly concerned with objective 'ownership involvement'. Nonetheless, essentially it is the family component and involvement that shapes family businesses' distinct characteristics (Chua *et al* 1999).

## 3.4 Emergence of research on family businesses

Scholars trace family business research as a discipline from the late 1970s (Handler 1989) to distinct emergence in the mid-1980s (Wortman 1994; Bird *et al* 2002). Indeed the term 'family business' hardly featured in literature prior to the 1980s (Astrachan 2003). Focussed studies by Dyer (1986) and Ward (1987) established the family firm as a specific category consisting of three inextricably interrelated systems: family, ownership and management.

*Organizational Dynamics* (1983) special issue on family businesses, plus the first dedicated journal *Family Business Review* (1988) fuelled interest, so that by the 1990s the field was viewed as a distinct academic discipline (Bird *et al* 2002). Professional associations and academic institutions have since been established<sup>18</sup> (Casillas *et al* 2007).

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<sup>18</sup> Among which 'The Family Firm Institute' (FFI); the 'Family Business Network' (FBN); the 'International Family Enterprise Research Academy' (IFERA) and the 'European Group of Family Enterprises' (GEEF). The European Commission recently established an 'Expert Group on Family Businesses'.

Still considered “*at an early stage*” (Casillas *et al* 2007: 7; Bird *et al* 2002; Chrisman *et al* 2003; Sharma 2004; Zahra and Sharma 2004) the field of family business consequently seeks to establish itself theoretically. Although literature remains limited and fragmented (Neubauer and Lank 1998) with paradigms not clearly differentiated (Casillas and Acedo 2007; Casillas *et al* 2007), robust research is now being published (Bird *et al* 2002). Several reputable journals increasingly feature special editions on the field, and in 2010 the second dedicated journal, *Journal of Family Business Strategy*, was published.

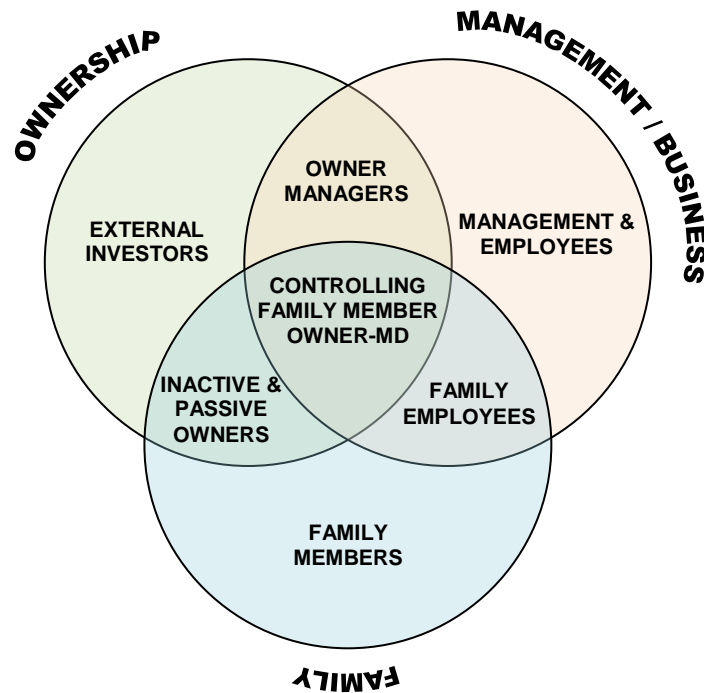
## **3.5 Entrepreneurship and strategy: Performance and innovation in SMFBs**

### **3.5.1 Structure, dynamics and distinguishing characteristics**

Complexity arises from family businesses’ uniqueness introducing additional human and social perspectives. Contrasting economic objectives of non-family businesses, family businesses’ motivations link to a family dimension inextricably shaping organisational behaviour and strategy.

Beyond initial, simple business/family perspectives, Tagiuri and Davis’ (1982) ‘Three Circle Model’ below (Figure 3.1) illustrates the triad of complex interrelated dynamics – *family, ownership, and management* – as the core elements to family businesses.

Figure 3.1 – Family business 'Three Circle Model'



Source: Tagiuri and Davis 1982

Research interest in family businesses' internationalisation is also concerned with establishing distinctions in strategic planning and direction, and with outcomes related to innovation and competitive advantage. Though some emphasise strategic planning (Barry 1975; Jones 1982; Ward 1988), Sharma *et al* (1997: 8) suggest “*the benefits of planning are by no means proven*”. Researchers suggest that in these small businesses, performance and internationalisation may be more linked to capabilities, attitudes and entrepreneurial skills of key individuals rather than management skills and strategic factors (Gallo and Garcia Pont 1996; Penn *et al* 1998). Calling for further research, Sharma *et al* (1997: 8) emphasised:

*“We know little about how family firms scan their environments, assess their capabilities, or search for and evaluate alternative strategies; how the strategy formulation process is influenced by family considerations and interests; whether the alternatives considered are many or few, or better or worse than those generated by non-family firms; how the dynamics and politics of decision making are different in the family business; and which types of family influences are advantageous and which deleterious to the process.”*

Empirical research assessing family and non-family businesses' strategies remains inconsistent, significant distinctions sometimes elusive (Sharma *et al* 1997). This reinforces that apart from a basic 'family-owned' definition influencing behaviour and strategy (Gallo and Garcia Pont 1996), there must exist other internal and external factors.

Besides fundamental questions like "*What factors make family firms distinct?*" and "*Why do family firms exist?*" (Chua *et al* 2003), researchers probe how family business status may "*affect decisions about how to operate the business?*" (Lumpkin *et al* 2008: 127).

Although theorists argue family businesses' planning processes and strategies "*significantly differ conceptually*" from non-family firms' (Gudmundson *et al* 1999: 27; Ward 1988; Harris Martinez and Ward 1994), other studies indicated divergences among family businesses themselves (Carney 2005; Dyer 2006).

Unique "*in terms of patterns of ownership, governance and succession*" (Naldi *et al* 2007: 35; Chua, Chrisman and Sharma 1999; Steir 2003), family businesses possess self-contradictory elements deriving from complex business/family domains (Lansberg 1983; Goffee and Scase 1985; Goffee 1996; Habbershon and Williams 1999; Cabrera-Suarez *et al* 2001; Sirmon and Hitt 2003).

Unique resources resulting from this 'coming together' have been referred to as a bundle constituting the firm's "*familiness*" (Habbershon and Williams 1999; Cabrera-Suarez *et al* 2001). Sirmon and Hitt (2003: 341) identified differentiating unique resources pertaining to family businesses:

1. Human capital,
2. Social capital,
3. Survivability capital,
4. Patient financial capital<sup>19</sup>, and
5. Governance structure.

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<sup>19</sup> Sirmon and Hitt (2003): "*Patient capital is financial capital invested without threat of liquidation for long periods (Dobrzynski, 1993). Patient capital differs from the typical financial capital due to the intended time of investment (Teece, 1992; Dobrzynski, 1993).*" Firms possessing patient capital are capable of pursuing more creative and innovative strategies (Teece, 1992; Kang, 2000).



Organisational culture is a strategic resource that family businesses use to gain competitive advantage (Denison *et al* 2004; Zahra *et al* 2004). Unique “*intangible assets*” such as dedication and commitment (Peteraf 1993; Perez de Lama and Durendez 2007) reinforce the family businesses’ traditions, values and culture (Dyer 1988; Denison *et al* 2004; Perez de Lama and Durendez 2007). Whether these characteristics and resources result in a comparative strategic advantage depends on several variables incorporated in 3 factors: *external*, *internal organisation* factors, and *top management attitudes* – influencing business processes as well as internationalisation activity (Gallo and Garcia Pont 1996: 46; Gallo and Sveen 1991; Goffee 1996). Investigating whether ‘family businesses really [are] different’, Donckels and Frohlich (1991: 150) stressed “*the absolutely central position of the founder-owner-manager*”.

One might conjure, to reject, popular romantic images of family businesses’ endurance, efficiency and resilience – sporting finest pedigrees, spanning centuries and generations. Does not economic theory dictate that competitive forces will snuff out inefficient enterprises? Complementarily, organisational theory states that prevalence of an organisational form reflects its *fit to its environment*. In this regard, Schulze and Gedajlovic (2010: 191), observe that “*by these standards, the family enterprise must be a remarkably efficient and robust organizational form*”.

Still, family businesses differ widely and empirical studies studying aspects of commonality in relation to operations and performance yield conflicting results. For example, contrasting the earlier vision of family businesses’ superlative global domination, Donckels and Frohlich (1991: 158) consolidated that family businesses are:

- Inward directed, rather closed. Emphasising family traditions, control and direct management involvement. Non-family employees’ participation in decision making / management not important. Employees looked after and trust generally enjoyed.
- Managers less likely to be ‘Pioneers’ having strong ‘*dynamic-creative*’ and weak ‘*administrative-executive*’ attributes. Risk-averse, see innovation as too much risk. Do not generally encourage creativity / innovation.
- Strategically conservative, less conducive to exporting / internationalisation. More stable with owner-managers generally less profit- and growth-oriented.

Characteristics such as *conservative* (Kets de Vries 1993; Aronoff and Ward 1997; Sharma, Chrisman and Chua 1997), *resistant to change* and *introverted* (Hall, Melin and Nordqvist

2001) are not generally ascribed to entrepreneurial behaviour (Gersick *et al* 1997; Craig and Lindsay 2002; Naldi *et al* 2007). This can be partially explained by longer-term objectives, and preserving family wealth for successive generations (Donckels and Frohlich 1991; Zahra 2003). Contrasted to non-family businesses where economic considerations shape decision-making, such imperatives encourage *risk-evasion* limiting engagement in entrepreneurial activity (Sharma *et al* 1997; Naldi *et al* 2007).

One threat to family businesses' survival relates to succession – associated with family dynamics and motivations, rather than economic considerations. Ward (1988) attributes lack of strategy to the high rates of failure as family firms seek success over generations. Deficiencies in formal planned strategy formulation are also observed by Perez de Lama and Durendez (2007).

The fact that family businesses are inwardly oriented (Davis 1983; Donckels and Frohlich 1991; Hall, Melin and Nordqvist 2001) – might be accentuated by the dominant founder / owner-manager, influencing perceptions and opportunities (Gudmundson *et al* 1999; Yeoh 2004), at times rejecting or ignoring information incompatible with family culture.

Investigating strategy in family businesses, Harris, Martinez and Ward (1994: 171) conclude that whereas SME strategic management *processes* might be similar, the characteristics of family businesses affect strategy *formulation* and *implementation*. They consolidate from the literature a list of family business characteristics influencing strategy:

- Inward orientation (Cohen and Lindberg 1974)
- Slower growth and less participation in global markets (Gallo 1993)
- Long-term commitment (Danco 1975)
- Less capital intensive (Friedman and Friedman 1994)
- Importance of family harmony (Trostel and Nichols 1982)
- Employee care and loyalty (Ward 1988)
- Lower costs (e.g. absence of agency costs, McGonaghy *et al* 1993)
- Generations of leadership (Ward 1988)
- Board influence on implementation (Ward and Handy 1988)

These observations partially reinforce potentially limiting characteristics presented by Donckels and Frohlich (1991) and others. Yet, as is evinced, most distinguishing

characteristics are neither positive nor negative. Their contribution to competitive advantage or otherwise depends on several other factors. It is argued “*they can have a significant impact on the strategic decision-making processes and outcomes of these organizations*” (Gudmundson *et al* 1999: 27; Harris *et al* 1994).

Thus, characteristics viewed as weaknesses limiting entrepreneurial and innovative activity, Harris *et al* (1994: 164) suggest could be seen as strengths: The long-term view leads to perseverance, more perceived trust in business relationships and pride in reputation leads to enduring ‘handshake deals’. Employee care and loyalty (Ward 1988) lead to greater levels of craftsmanship and honesty in service / labour intensive industries. Lack of capital potentially leads family firms to innovatively stretch resources (Hamel and Prahalad 1993), where ‘necessity becomes the mother of invention’. However, weaknesses cited by Harris *et al* (1994) echo inward orientation which might lead to lesser awareness of potential opportunities and inaccuracies in analysing competitive environments.

On the other hand, given globalisation and dynamic markets, family firms realize “*without risk-taking ... the prospects for business growth wane*” (Ward 1997: 323; Naldi *et al* 2007) – prospects for survival compromised, jeopardising wealth and preservation for future generations (Perez de Lama and Durendez 2007). Attitudes to risk, therefore, constitute a double-edged sword. There is risk in staying put. Judicious ‘calculated’ risks undertaken in line with a strategic view are necessary.

Empirical research also confirms family businesses to be entrepreneurial organisations sustaining risk-taking, value adding behaviour, embracing innovation and growth (Hall *et al* 2001; Aldrich and Cliff 2003; Rogoff and Heck 2003; Steir 2003; Zahra *et al* 2004; Zahra 2005a; Naldi *et al* 2007). Recognised as “*the oxygen that feeds the fire of entrepreneurship*” (Heck and Rogoff 2003), ‘familiness’ helps firms “*achieve performance advantages ... whether ... measured in terms of financially oriented growth rates or perceived measures of performance*” (Daily and Dollinger 1992: 132).

Contradictory findings “*regarding performance of family-owned firms*”, may be due to lack of definitional consensus and the diversity of methodologies employed (Dyer 2006: 253, 258-259). The ‘family effect’ as a performance determinant is insufficiently researched. Factors which families bring that might affect firm performance (Table 3.3),

broadly defined refer to efficiencies in resource utilisation and accomplishment of organisational goals (Steers 1982).

**Table 3.3 – 'Family factors' affecting firm performance**

Family Factors Contributing to High Performance	Family Factors Contributing to Low Performance
<p><i>Agency Benefits</i>  Lower agency costs due to the alignment of principal-agent goals  Lower agency costs due to high trust and shared values among family members</p>	<p><i>Agency Costs</i>  Higher agency costs due to conflicting goals in the family  Higher agency costs from opportunism, shirking, and adverse selection because of altruism (i.e., family members fail to monitor each other)</p>
<p><i>Family Assets</i>  Human capital: the family has unique training, skills, flexibility, and motivation  Social capital: the family develops relationships outside the family with employees, customers, suppliers, and other stakeholders that generate goodwill  Family "branding" of the firm or of the firm's goods and services may generate goodwill and a positive image with stakeholders</p>	<p><i>Family Liabilities</i>  Family lacks necessary skills and abilities due to small labor pool, lack of talent, or inadequate training  Family fails to develop social capital with key stakeholders due to distrust of outsiders (i.e., "amoral familism")  Family relationships lead to complex conflicts among family that may undermine image and goodwill with stakeholders</p>
<p>Physical/financial capital: the family may have physical or financial assets that can be used to support the firm</p>	<p>Family uses firm assets for personal use, thus draining the firm of financial and other resources</p>

Source: Dyer 2006: 259

Basing his conceptualisation on RBV and agency theory<sup>20</sup>, Dyer acknowledges family firms differ due to dynamics residing in the families managing them, arguing further that they incur high *agency costs* and significant *family liabilities* such as poor human, social and financial capital. Alternatively they might have lower *agency costs* and abundant *resources*. Upon this premise, Dyer (2006: 268) links 'family effect' to performance:

*"Nonfamily firms, ceteris paribus, would be expected to perform more poorly than clan family firms since they lack family resources and have higher monitoring costs (given that nonfamily firms typically use professional controls). Nonfamily firms would also be at a disadvantage compared to professional family firms since they have no familial resources and incur similar agency costs. However, nonfamily firms may fare much better compared to self-interested family firms, which have significant agency costs and family liabilities".*

<sup>20</sup> *Agency costs* are internal costs paid to an agent acting on behalf of a principal. Agency costs arise because of core problems such as conflict of interest between shareholders and management. Agency costs are inevitable whenever the principals are not completely in charge; the costs can usually be best spent on providing proper material incentives (performance bonuses and stock options) and moral incentives for agents to properly execute their duties, thereby aligning the interests of principals (owners) and agents.

The corporate consultancy domain complementarily suggests that despite challenges, family businesses:

*“deliver better returns than companies with a wider shareholder base ... every successful family business starts with someone who has the passion, confidence and courage ... can see opportunities where others might not, and is utterly single-minded about pursuing them ... work incredibly hard, make things happen, ... possess the resourcefulness to overcome all sorts of hurdles. ... socially adept, capable of communicating effectively and good at inspiring others ... Yet an entrepreneur’s life is often a lonely one ... In the early years, they have to turn their hands to anything ... cannot call on the support staff that executives in big corporations can summon. In later years, some of the decisions they must make – such as whether certain family members should be allowed to work in the business and which roles different relatives should play – may be personally as well as commercially difficult.”*

(PricewaterhouseCoopers 2007: 3)

Scholars disagree as to whether family contexts support or constrain entrepreneurial behaviour (Naldi *et al* 2007; Habbershon and Pistrui 2002; Zahra 2005). Whereas *external* factors are given, common to different organisational forms in similar circumstances, crucially it is the *internal* factors associated with familiness that likely skew strategic impact.

### **3.5.2 Internal factors impacting entrepreneurial and strategic behaviour**

Central to strategic direction, founder-owner-managers’ personalities (Donckels and Frohlich 1991) determine values guiding the business (Schein 1983, 1995; Dyer 1986; Sorenson 2000).

Dyer (1986) identified four types of management cultures relating to different assumptions about human nature, relationships and the environment (see also Sharma *et al* 1997; Penn *et al* 1998): *Paternalistic* (decisions by senior individual), *Professional* (decisions by senior staff), *Participative* (decisions made collectively), and *Laissez-faire* (formalised plans / extent of non-interference) management culture.

Building on Dyer’s (1986) family business culture typology, Sorenson (2000) derived five leadership approaches:

1. *Participative* leadership
2. *Autocratic* leadership
3. *Laissez-faire / mission* leadership
4. *Expert* leadership
5. *Referent* leadership

Sorenson (2000: 183) empirically observed: “*participative leadership is positively related to both family and business outcomes as well as to employee satisfaction and commitment; referent leadership is positively related to family outcomes and employee satisfaction; and, unexpectedly, laissez-faire/mission leadership is positively related to employee commitment*”. ‘*Laissez faire*’ leadership relates to the leader’s defining mission and goals, expecting employees to proactively pursue them. ‘*Participative*’ leadership contributes to financial success because it tends to promote change. Beyond engendering employee commitment, participation contributes flexibility and openness to opportunity through the integration of different perspectives into decisions.

Similarly Scase and Goffee (1982) had earlier mapped distinctive strategies of owner-managerial control by linking the *internal* development of ‘organisational control systems’ with the *external* degree of ‘market orientation’ producing a typology for owner-managers:

**Figure 3.2 – Typology of owner-manager’s ‘managerial’ and ‘control’ systems**

		Development of control systems	
		<i>Highly developed</i>	<i>Underdeveloped</i>
Market orientation	<i>High</i>	<b>Managerial Owner-manager</b>	<b>Entrepreneurial Owner-manager</b>
	<i>Low</i>	<b>Paternal Owner-manager</b>	<b>Family custodial Owner-manager</b>

Source: Scase and Goffee (1982); Goffee (1996: 38)

Scase and Goffee (1982: 174-182; see also Goffee 1996) offer the following characteristics for owner-manager types:

***Managerial*** owners: geared to market opportunities, prioritize profit maximization ... pride in ownership of efficient complex organizational structures. Develop meritocratic rather than paternal employee relations. Having typically acquired their businesses through inheritance they do not seek legitimacy in these terms ... a successful company is regarded as proof enough of their personal competence ...

***Entrepreneurial*** owners: highly market oriented with underdeveloped control systems. Often founder-owners having expanded their businesses rapidly ... contracting out work to avoid problems with development of complex management structures. ... employment relationships are defined primarily in terms of wage nexus, business decisions are legitimated by reference to the market ...

***Paternal*** owners: tend to have inherited long-established businesses which have typically experienced steady growth. Market orientation low but control systems have been developed which, despite existence of formal rules, emphasize social and moral obligations of employment. Delivers welfare in return for employee loyalty. Do not simply run profit-making enterprises; also see themselves having social responsibilities for employees, customers and wider society.

***Family custodial*** owners inherited well-established businesses which have experienced little growth, and sometimes stagnation, over recent years. Either through choice or incompetence their firms have a low market orientation and poorly developed organizational structures. These owners have little ambition for growth or change ... traditional practices to persist regardless of operating efficiency. ... In absence of committed heirs / managers, the long-term fate of these companies is typically decline or takeover”.

Although dated, Scase and Goffee (1982) and Goffee’s (1996) ‘classic’ typology implying a dynamic ‘life-cycle’ evolutionary shift in owner-manager characteristics remains relevant. It is natural to assume that over time goals shift according to family exigencies, business and interrelated dynamics. Ward (1987) (see also Sharma *et al* 1997), offer the following stage model:

**Table 3.4 – Family business development stage model**

<b>Stage I</b>	Needs of business and family consistent; owner-manager takes all decisions. Motivations and characteristics of founder guide business goals.
<b>Stage II</b>	Owner-manager retains control, but growth and development of family's children acquire primary importance. Consequently, goals change, reflecting need of securing a future for children.
<b>Stage III</b>	Family needs may come into conflict with business which may be in need of regeneration; owner-manager may become bored or retire; maintaining family harmony can become primary family goal. Again, business goals change as a result of family needs or to achieve a turnaround in the firm's economic performance.

Source: Ward (1987); Sharma *et al* (1997)

Gallo and Sveen (1991) highlight family firms' developmental life-cycle with respect to conduciveness to internationalisation. Motivations, goals, strategies, decision-making behaviours shift as external and internal dynamics evolve along generations. Drawing on Suarez-Villa (1988), Penn *et al* (1998) relate learning and the drivers of innovation to organisations' life cycle.

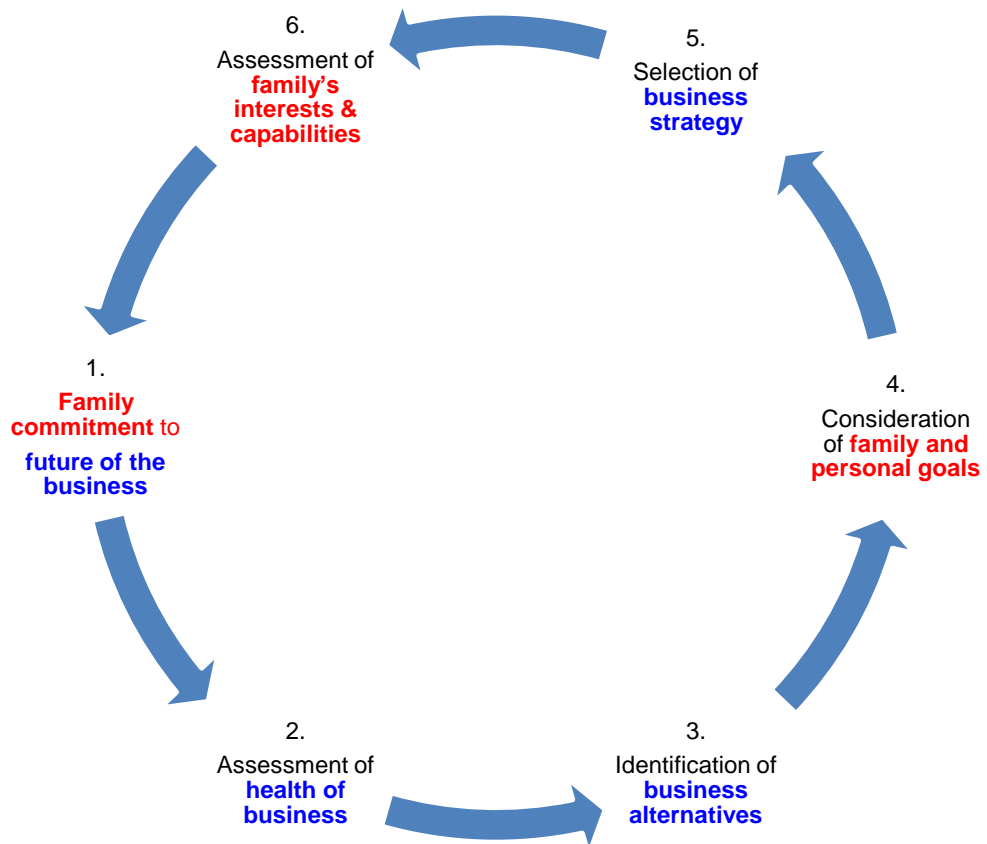
Harris, Martinez and Ward (1994:165) explore strategy development of family businesses in "*three stages characterised by ownership structure and generation*":

1. Founder-managed,
2. Sibling-partnership owned and managed,
3. Cousin-run firm with many family owners not active in management,
4. ... possibly, publicly traded but family-controlled firm.

Challenging long-held traditions to "*encourage ongoing strategic creativity*", Harris *et al* (1994: 166) examine firm performance through the perspective of *fit* between family characteristics and strategic choice. Families' interspersing of motivations, goals and plans with those of the business is depicted below:



**Figure 3.3 – Interdependence of family and business planning**



Source: Harris, Martinez and Ward (1994: 166)

Using Miles and Snow's (1978) innovation-based typology, Perez de Lama and Durendez (2007) observed similar strategic orientations among family and non-family firms (Dyer and Handler 1994; Hoy and Verser 1994). However, while family businesses employed fewer graduates in management, and generally dedicated fewer resources to training and education (Donckels and Aerts 1988; Kotey 2005), family members assumed managerial roles as a quasi-automatic rite/right of passage. Formal management tools and planning processes were lacking, with families increasingly aware of such liabilities when seeking expansionary growth, taking the business to the next level in competitive and dynamic environments.

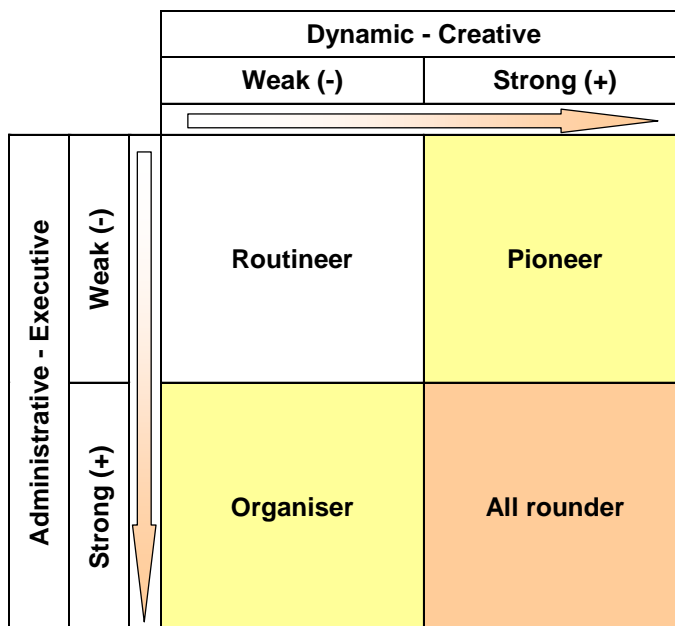
### 3.5.2.1 Risk, entrepreneurial stance and internationalisation

Naldi *et al* (2007: 33) concluded that for SME family businesses “*risk taking is a distinct dimension of entrepreneurial orientation ... positively associated with proactiveness and innovation*” (see Knight 2001). Researching whether family businesses are ‘really different’, Donckels and Frohlich (1991) had suggested entrepreneur typologies based on:

1. *type of business,*
2. *strategic action (e.g. risk-taker, risk-avoider ...),*
3. *values or attitudes.*

Since few typologies existed in the latter category, they recommended one based on *values and attitudes* (Figure 3.4):

**Figure 3.4 – Family business entrepreneur typologies**



Source: Adapted by Author from Donckels and Frohlich (1991: 155)

Donckels and Frohlich (1991) noted *Pioneer*-type entrepreneurs characterised by strong ‘dynamic-creative’ and weak ‘administrative-executive’ attributes were markedly less prevalent in family businesses.

Inextricably related to organisational culture, the centrality of the owner-manager often results in diverse entrepreneurial orientations and strategic direction (Covin and Slevin

1986, 1989; Lumpkin and Dess 1996; Lyon, Lumpkin and Dess 2000; Naldi *et al* 2007). Stressing the attitudes of owner-managers are “a key issue” in outbound internationalisation, Gallo and Pont (1996: 55, 56, 58) observed family businesses’ conduciveness “*towards internationalization is tied more to the capabilities and attitudes of people,*” rather “*than to more strategic factors*”. Penn *et al* (1998) and Kellermanns *et al* (2008) similarly stress the importance of the owner manager’s entrepreneurial skills rather than general management ability – highlighting qualities related to energy levels, risk taking, social adroitness, autonomy, and change – qualities obviously not incompatible with basic management skills, however, they do not prioritize strategic planning and information gathering.

Observing that internationalisation stage theory regards experience as the determining factor for internationalisation (Johanson and Vahlne 1977), Yeoh (2004: 512) argues that though research on TMTs contends with larger businesses, the link between management experience and organisational outcomes would be even more pronounced in internationalizing SMEs, “*since such businesses reflect the dominant role of the founder*” (Chandler and Hanks 1994; Feeser and Willard 1990; Brush 1992; Oviatt and McDougall 1994; Eriksson *et al* 1997; Reuber and Fischer 1997).

This aligns with prior arguments that the founder’s human resourcefulness may mitigate liabilities of newness and smallness, thus affecting performance. These were also observed as proactive, attitudinally more conducive to international opportunities (Brush 1992), also perceiving international activity as less costly or risky (Eriksson *et al* 1997) – resulting in more interaction and exposure to a myriad of knowledge pertaining to international markets, facilitating internationalisation.

Examining challenges in the context of strategic entrepreneurship, Webb *et al* (2010: 67) address knowledge gaps relating to identity, justice, nepotism and conflict to “*develop a set of propositions describing potential positive and negative implications for strategic entrepreneurship in family-controlled firms*”. They posit that since profitable niches evolve, shift, and disappear rapidly, businesses seeking wealth creation “*cannot rely on either strategy or entrepreneurship alone ... a firm focused solely on strategy might become the most effective producer within a decaying and perhaps even a dying market*”. Family businesses must therefore “*successfully engage in strategic entrepreneurship*”.

Confirming the unique bundle of resources constituting ‘familiness’ results in either competency or rigidity, Webb *et al* (2010: 70) observe:

*“family control creates unique opportunities and challenges vis-à-vis strategic entrepreneurship. The value created or lost because of the family’s bundle of resources depends on the nature of interactions within the family and between the family and business.”*

Such dimensions’ implications on family business’ strategic entrepreneurship are seen in Table 3.5.

**Table 3.5 – Select dimensions of family business interaction and implications for strategic entrepreneurship**

Dimension	Nature within family-controlled firm	Potential positive implications for strategic entrepreneurship	Potential negative implications for strategic entrepreneurship
<b>Family/firm identity</b>	As family is dominant, if not only, voice of top management team, family’s values define and permeate the firm	Strong loyalty to firm motivates family members to ensure long-term prosperity via strategic entrepreneurship	Inertia undermining strategic entrepreneurship arises from tight alignment of family and firm identities
<b>Nepotism</b>	Nepotism with potential for negative consequences is more common in family firms.	Unity and consistency of purpose enhance exploitation efforts; relative security of family affiliation encourages experimentation that underlies exploration	Non-family members tend to withhold energy and creativity when rewards are based on family membership rather than work performance
<b>Justice</b>	Lack of formalized procedures, voice for non-family employees, and communication from family to non-family employees create justice concerns	Informal approaches can facilitate, among family members, the experimentation that underlies exploration	Perceived injustice among non-family employees, discourages innovative thinking and behaviour
<b>Conflict</b>	Avoid negative implications of affective conflict but risk missing out on benefits of cognitive conflict	Lack of affective conflict prevents distractions and enables strong focus on exploration and exploitation	Lack of cognitive conflict inhibits creativity needed for innovative thinking and behaviour

Source: Webb, Ketchen and Ireland (2010: 73)

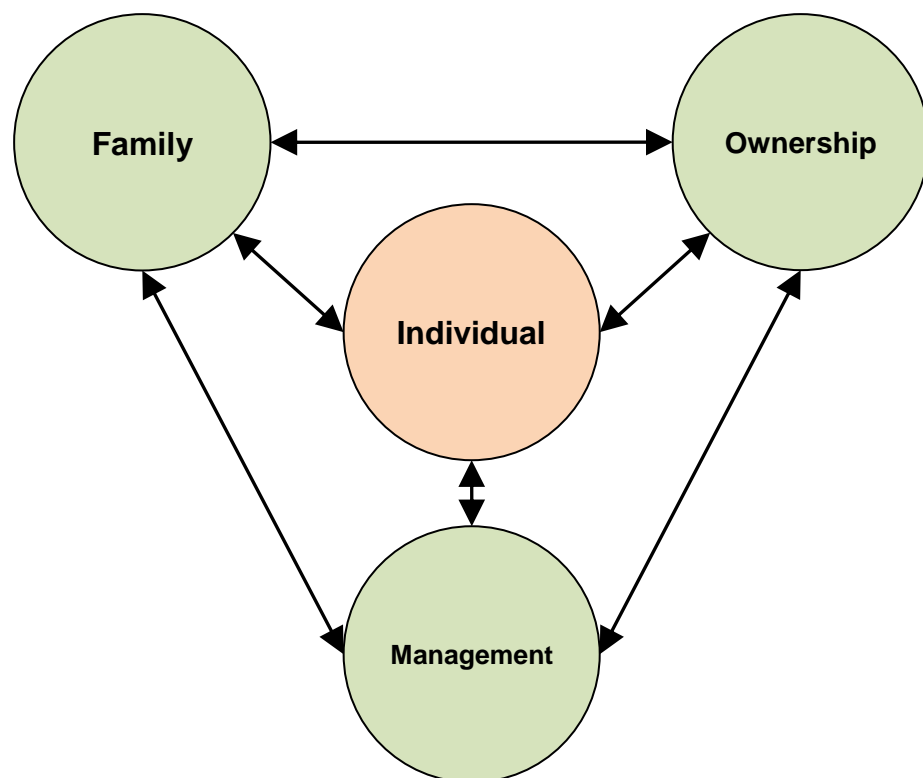
Corporate consultants PricewaterhouseCoopers (2007:3) laud resilience and steadfastness of family businesses but stress that strategy suffers because most owner-managers are *“too busy grappling with the day-to-day demands of their own businesses. And most economic*

*commentaries are directed at large quoted companies anyway, so getting the right information can be hard”.*

### 3.5.2.2 Role of founder / owner-MD on strategy and performance

Consensus exists about the “*the absolutely central position of the founder-owner-manager*” in relation to control, decision-making and strategic direction of SMFBs (Donckels and Frohlich 1991: 150; Dyke, Fischer and Reuber 1992; Casillas *et al* 2007). This centrality is emphasised when introducing a fourth central circle to the classic family business ‘Three Circle Model’ (Figure 3.5).

**Figure 3.5 – Family business 'Four Circle Model' incorporating central role of the individual**



Source: Casillas, Acedo and Moreno (2007: 27)

Owner-managers do indeed directly determine how firms’ resources are deployed and more intimately define the strategies of small family businesses (Gallo and Garcia Pont 1996). The founder’s values “*define the personality of the business*” (Sorenson 2000: 198; Dyke, Fischer and Reuber 1992). Conversely, the family business’ culture, a unique, tacit resource for competitive advantage (Zahra *et al* 2004) emanates directly from the founder / owner-

manager's personality (Schein 1983; Dyer 1986; Sorenson 2000). This impacts entrepreneurship (Gallo and Garcia Pont 1996; Penn 1998; Acedo and Florin 2006, 2007), opportunity perception, and exploitation (Covin and Slevin 1989; Lydon, Lumpkin and Dess 2000; Yeoh 2004; Acedo and Jones 2007; Naldi *et al* 2007), and performance (Oswald and Jahera 1991; Barth *et al* 2005; Achmad *et al* 2009).

Though this centrality eases over generations through employment of non-family managers (Lussier and Sonfield 2004), owner-managers continue to determine international orientation. Lumpkin and Dess (1996) and Knight (2001) established international orientation as a determinant for parameters key to international performance (e.g. preparedness, strategic competence and acquisition of required technologies). Underlining factors fostering international entrepreneurial orientation among SMEs that target foreign markets, Knight (2001) observes that these factors often reside at the cultural level of the firm – in turn reinforced by an innovation-focused managerial mind-set.

Zahra *et al* (2004: 373) concluded that in family businesses, organisational culture constitutes a “*strategic resource that can be used to create a competitive advantage*” through strategic planning shoring survivability through dedicated distinctive promotion of firms' offerings and control of operation costs. Timely task execution fast becoming an imperative, strategic orientation has received renewed attention (Hamel and Prahalad 1994; Etemad and Wright 2003; Etemad 2004).

Continuing research seeks reasons why family firms' sustainable development is often slow and disappointing. One reason is that their approaches are ‘reductionist’ – “*problem shifting and problem displacement*” rather than problem solving. Building on Hamel and Prahalad (1994) and Etemad (2004), Baumgartner and Korhonen (2010: 78) recommend three basic strands in leadership strategic thinking: *strategy content*, *strategy process* and *strategy context* to mitigate such ‘reductionism’.

Reporting slower than expected growth in family businesses (Birley *et al* 1999; Poutziouris *et al* 2000; Kotey 2005), scholars suggested their owner-managers consciously restrict growth to maintain full ownership and control (Davidsson 1989; Donckels and Frohlich 1991; Daily and Dollinger 1993; Storey 1994; Upton and Petty 2000). Others cite aversion to external long-term debt (Upton and Petty 2000), or for personal motivations other than financial performance (Birley 2001; Harris *et al* 2004).

However, with many variables at play and different performance criteria ranging from *short-term* to *long-term* views, other findings indicate “*family SMEs perform at least as well as non-family SMEs*” (Kotey 2006: 394), reporting higher net profits and higher sales growth (Oswald and Jahera 1991; Daily and Dollinger 1992; Anderson and Reeb 2003; Kotey 2005). While such profitability may result from family managers’ long-term value maximisation and lower costs from altruistic input from family members, it is argued that such excess returns are quickly absorbed by inefficiencies in family systems (Schulze *et al* 2003).

Profit and growth differences among family and non-family firms becoming apparent for particular stages of development (Kotey 2006), *ad hoc* planning and control progressively stretched (Roberts *et al* 1992), a growth ‘threshold’ is reached when recruitment of professional management is considered (Jennings and Beaver 1997; Flamholtz and Randi 2000; Kotey 2006). Barth *et al* (2005: 126) found that “*owner-management assures right incentives, nevertheless it seems that professional managers are more efficient*” – a professionally trained owner-manager would be ideal. Hall and Nordqvist (2008: 51) argue that beyond ‘formal’ aspects, professional family business management also rests on the ‘cultural’ aspect – in the case of non-family managers it is “*extremely important to understand the culture of the family firm ... without it a CEO of a family business is likely to work less effectively, no matter how good the formal qualifications, and irrespective of family membership*”.

While recognising that crucial experience may be acquired through professional consultants, researchers observe owner-manager reluctance to seek advice for planned strategy formulation (e.g. Pérez de Lema *et al* 2007). Ramsden and Bennet (2005), however, discover no strong evidence of reluctance by SME owner-managers to seek professional advice.

Some results indicate management rather than ownership structure of family businesses influenced firm-specific performance indicators and objectives (Westhead and Howorth 2006). Habar and Reichel (2007) argue the founder’s human capital is a crucial component for business success, that managerial skills indeed are the vital contributing factor for competitive edge in the market – innovation and performance closely allied to the capabilities, attitude and entrepreneurial skills of the founder / owner-manager (Gallo and

Garcia Pont 1996; Penn *et al* 1998; Knight 2001). Chrisman, Chua and Sharma (2003: 24) suggest that “*the values and aspirations of family owners and managers may influence the development and disposition of resources directly, and also indirectly through their perceptions of ethical obligations and recognition of environmental opportunities and threats*”.

Owner-managers’ overall control over family business strategy is one reason (Penn *et al* 1998; Chaston *et al* 1999; Casillas *et al* 2007), among others like skills shortages, why overall ACAP and learning ability in family businesses differs from that of non-family and larger organisations (Chaston *et al* 1999).

Thus, centralised management may also be secretive – “*the founder’s autonomy reduces the need for formal reporting and control systems ... the family system and paternalistic culture replace formal internal control systems as proprietors oversee all operations*” (Kotey 2005:7; Daily and Dollinger 1993). When face-to-face forms of authority prevail, written policies and procedures are uncommon, and operations are aligned to the evolving ideas of their owners (Pascarella and Frohman 1990; Goffee 1996).

In contrast, some organizations may adopt ‘flat flexible structures’ where employees and management resolve differences through dialogue (Akella 2007). Ideally, this should result in trust, loyalty and commitment all round, but such approaches may be interpreted as subtle hegemonic owner-manager control.

Drawing on Bateson and Bowen’s intergenerational family systems theory, Lumpkin, Martin and Vaughn (2008) identified five dimensions of “family orientation” – loyalty, trust, tradition, stability, and interdependency – enhancing processes for sustainable development which may, or may not, include financial gain.

Examining ‘family’ and ‘business’ dimensions of founder / owner-managers, empirical research has shown that while financial criteria would normally be the appropriate measure for success, in many small businesses “*personal satisfaction and achievement, pride in the job and a flexible lifestyle are generally valued higher than wealth creation*” (Walker and Brown 2004: 577).



Steering clear from “*lumping such firms together*”, Sharma *et al* (1997: 6) argue that many SMFBs have also been observed to be enterprising, creative, innovative high-performers. The key determinant remains the founder / owner-manager whose characteristics directly shape their orientation, opportunities sought and business direction. As Henry Mintzberg (1988: 534) wrote: “*all revolves around the entrepreneur. Its goals are his goals, its strategy his vision of its place in the world*”.

### **3.6 RBV perspectives and knowledge in SMFBs**

The RBV perceives firm growth underlining the importance of knowledge creation and other intangible critical resources (Penrose 1959) – heterogeneous and often intangible resources and capabilities sustaining competitive advantage (Wernerfelt 1984; Barney 1991). Sometimes defined by “*unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions*” (Chrisman *et al* 2005: 56), as yet there exists “*no specific theoretical framework for the analysis of the internationalization of the family firm*” (Casillas *et al* 2007: 73).

Seeking to define family businesses, researchers apply RBV theoretical approaches to understand firm dynamics from a strategic management perspective (Chua *et al* 1999: 22; Chrisman *et al* 2005). These resources include both knowledge stocks and resourcefulness of the owner-manager, as well as culture, *modus operandi*, and social capital of family businesses. Essentially, “*the RBV isolates idiosyncratic resources that are complex, intangible, and dynamic within a particular firm. The bundle of resources that are distinctive to a firm as a result of family involvement are identified as the ‘familiness’ of the firm*” (Habbershon and Williams 1999: 1) and are a “*source of advantage or constraint to the performance outcomes for family-influenced firms*” (Habbershon *et al* 2003: 451). From an external perspective, access to resources such as market knowledge, contacts and networks, as well as financing determine success or failure of small family businesses – ‘small’ denoting stature and scale of operations as well as resource availability and capabilities.

The relevance of RBV in this context is evident in other respects. The transfer of tacit knowledge over generations is crucial to maintain competitive advantage (Cabrera-Suarez *et al* 2001) since “*the success of a family business often rests upon the unique experience of the predecessor*” (Chrisman *et al* 2003: 23).

Chirico (2008: 451) defines knowledge accumulation as the “*enabler of longevity in family businesses, in which learning emerges through an evolutionary process that begins in the family and continues within and outside the business*”. His model discerns between ‘explicit’ easily transferable knowledge, and ‘tacit’ difficult to transfer ‘fragile’ knowledge. Knowledge accumulation hinges on two factors: *openness* comprising *inter alia* external training courses, work experience outside family business, employment of non-family employees, and *emotional factors* comprising family relationships, face-to-face interaction and practical transfer of know-how across generations, psychological ownership of the family business. Emphasising organisational adaptation as a dynamic capability, Chirico and Salvato (2008: 172) underscore that “*processes of knowledge accumulation and integration take vivid forms in family firms, in particular when tacit knowledge is involved*”. Citing Zahra, Neubaum and Larraneta (2007), they recognise that:

*“living within the family and working within the business from an early age allows family members to develop deep levels of firm-specific tacit knowledge. It is certainly, also of vital importance to absorb knowledge from outside, since family members cannot be expected to develop all relevant knowledge within a family business. Knowledge must hence be also updated to avoid obsolescence”.*

Chirico and Salvato (2008) argue that *internal social capital, relationship conflicts* and *affective commitment to change* are factors driving knowledge integration in family businesses.

With respect knowledge resources for sustained performance, Basly (2007: 175) concludes:

*“The process of knowledge transfer through generations would be crucial to the family SME 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) ... small and medium family firms have to implement a deliberate strategy of knowledge preservation through ... 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”.*

The importance of unique resources, particularly knowledge, runs parallel to the central tenets of internationalisation and ACAP, where key knowledge stocks in experiential and direct knowledge enable recognition and acquisition of new external knowledge towards its

exploitation in new developments and opportunities – generating innovation and competitive advantage (Cohen and Levinthal 1990).

### **3.7 Contacts and relationships: SMFB networks and social capital**

Following through theoretical underpinnings of the RBV in SMFB research, Sirmon and Hitt (2003) stressed social capital as one of five key types of unique resources differentiating family businesses.

International activity is viewed as a social transaction or process (Hymer 1976; Johanson and Vahlne 1990). Recent research confirms that informal and social contacts, relationships and networks enable access to resources fostering growth and resilience (Fernhaber *et al* 2009; Prasantham 2005; Prasantham and Dhanaraj 2010).

Salvato and Melin (2008) highlight social capital for immediate and continuing intergenerational participation and development of the business. Perceived a core determinant for performance, social capital is defined by Adler and Kwon (2002: 17) as *“goodwill ... engendered by the fabric of social relations and that can be mobilized to facilitate action”*.

Quoting Sirmon and Hitt (2003) and Steier (2001), Dyer (2006: 263) argues social capital facilitates access to intellectual, human, financial capital required for survival:

*“Commitments made by a family, which are often based on altruism, are likely to be more enduring (and trusted). The enduring nature of family connections and commitments may give families certain advantages in developing and maintaining social capital”*.

Investigating the nexus between ethics, social capital and performance, Sorenson *et al* (2010) discovered a positive relation between ethical norms and social capital on SMFBs' performance. 'Relational' dimensions' variables studied were collaborative dialogue, goodwill, family security, independence, and loyalty to customers. 'Structural' dimension variables considered related to strong networks of family support (Table 3.6).

**Table 3.6 – Relational and structural social capital dimensions in family business empirical studies**

<b>Authors on dimensions of social capital</b>	<b>Relational dimension</b>	<b>Structural dimension</b>
Salvato and Melin (2008) <i>(empirical)</i>	Trust, social interaction between family and non-family members, family and family business reputation, norms, obligations and expectations among family members.	Network structures with internal and external actors
Danes <i>et al</i> (2009) <i>(empirical)</i>	Relocation of strategic tasks to family members,	Number of family employees
Sorenson <i>et al</i> (2010) <i>(empirical)</i>	Goodwill, security for family, family independence, loyalty to customers.	Strong networks of support among family members.

Source: Consolidated from respective authors

These studies show SMFBs’ social capital is associated with resource access, ethics, and performance. Except for Salvato and Melin’s (2008), however, few contributions specifically address *how* family firms build social capital.

Basly (2007: 154) stressed that “*social networking positively influences the amount of internationalization knowledge*”. Social capital, which resides within the individual (Arenius 2002) is thus crucial for internationalisation beyond the organisational collective – the role of owner-managers is core to the contacts, relationships, and networks developed.

Firms often employ non-family individuals specifically for their networks and contacts. The potential value of this tacit social capital, however, can only be realised when integrated and made accessible to the firm, to be leveraged and exploited. Similar to the process inferred by the ACAP notion.

## 3.8 SMFB internationalisation research

### 3.8.1 *An embryonic field of research interest*

The phenomenon of family businesses operating across borders is far from new. Family business multinationals are prominent – examples from Aldi to Zara include Barilla, Bosch, Carrefour, Lacoste, Marriot, Michelin, Samsung and others. That said, this study investigates small family businesses.

Small firms are known to have internationalised rapidly (McDougall and Oviatt 2000; Acs, Dana, and Jones 2003) in cases establishing themselves as ‘micro-multinationals’ (Dimitratos *et al* 2003). Notwithstanding that much research on globalisation and SME internationalisation exists, and although the last decade has seen “*prominent scholars from fields of economics, management, and sociology*” discovering the practical and theoretical significance of family firms (Schulze and Gedajlovic 2010: 191), it is “*surprising ... [that] little empirical work ... has been carried out, and ... there is no specific theoretical framework for the analysis of the internationalization of the family firm*” (Casillas *et al* 2007: 73).

Casillas *et al* (2007) observed that since Gallo and Sveen’s (1991) first journal article on family firm internationalisation, only eleven more studies had been published by 2006. Kontinen and Oija’s (2010a) broader review of articles on family business international activity indicated that only nine such articles had been published in the 12 years from 1991. Scholars continue to urge a need for more investigation in this area (Casillas *et al* 2007; Kontinen and Ojala 2010a).

### 3.8.2 *SMFB internationalisation and international entrepreneurship*

Firm growth and internationalisation is associated with entrepreneurial innovative risk-taking behaviour in new contexts. By default internationalisation increases complexity and introduces new variables to firms’ operations. Drawing on Covin and Slevin (1986, 1989), McDougall and Oviatt (2000), Knight and Cavusgil (2004) and Jones and Coviello (2005), Pauwels *et al* (2009) highlighted innovative risk-seeking behaviour in cross-border market ventures, pointing out that *human volition* is crucial for analysis in

managerial decision-making. In this case human volition may be a “*coincidental correlation which may be determined post hoc from interpretation of international behaviour patterns and profile*” (Jones and Coviello 2005: 299). Indeed referring to Brazeal and Herbert’s (1999: 32) simple model of the entrepreneurial process, Jones and Coviello (2005: 289) highlight human volition and creativity as a “*cyclical process culminating in innovations marked by the evidence of recognisable entrepreneurial events*”.

In this respect, Cooper and Gascon (1992) observed that individual variables such as personality traits were poor predictors of general outcomes such as success, and even worse for specific behaviours such as innovativeness. Although organisational outcomes and performance are “*profoundly influenced*” by owner-managers (Hannan *et al* 1996), it appears that their *intentions* and objectives have more impact on how their businesses behaved, rather than personal characteristics and experiences (Quince and Whittaker 2003).

Given that characteristics such as an inward orientation, slower growth, aversion to risk, and less formal planning make family firms less conducive to international business activity, scholars observed that comparatively “*internationalisation is negatively related to family ownership and positively related to corporate ownership*” (Fernandez and Nieto 2006: 340; Donckels and Frohlich 1991: 159; Gallo and Sveen 1991: 183).

Hymer (1976) had noted that in contrast to inward orientation, internationalisation requires openness to new contacts, experiences and risks. Recalling the pivotal role of owner-managers, and steering away from assumptions that internationalisation necessarily derives from planned strategy, Agndal and Axelsson (2002: 438) observe that internationalisation is often reactive, at times based less upon rational judgements and strategic planning – chance, serendipity or ‘gut reaction’ featuring substantially in decision taking (Meyer and Skak 2002).

The SMFB context lends itself well to this attribute – strategic planning tends to not be its forte. As observed, Gallo and Pont (1996: 55-58) empirically observed that family businesses’ internationalization leans towards the “*capabilities and attitudes of the ‘entrepreneur system’ rather than strategic factors*”. The owner-manager’s learning “*prototypes and exemplars*” (Baron and Shane 2008: 91) become enabling tools for opportunity recognition, “*a key issue*” in outbound internationalisation. In this respect,

researchers observed family businesses characteristics drawing on contacts, trust and relationships – shaping operations and strategic direction (Arregle *et al* 2007; Fernhaber *et al* 2009).

These aspects are significant in international ventures – family businesses often preferring another foreign family business with whom to forge international alliances – based on common family culture and virtues.

Gudmundson *et al* (1999: 36) empirically observed that to innovate successfully:

*“... a firm must acquire knowledge. One possibility suggested by these results is that family businesses have stronger corporate networks and therefore more access to information from their peer organizations. They may be more interested in face-to-face long-term relationships ... than in anonymous, short-term relationships.”*

In the case of established SMFBs in Malta the corporate network extends beyond the island's borders thereby plotting a socially constructed path to internationalisation (Caruana *et al* 1998; Baldacchino *et al* 2008).

Providing information, technological knowledge, access to markets and complementary resources, social capital dimensions embody the following components (Nahapiet and Ghoshal 1998):

- *Structural*: based on *network ties and configuration*.
- *Cognitive*: based on a *shared language and narratives*,
- *Relational*: based on *trust, norms, and obligations*.

As mentioned earlier (Salvato and Melin 2008; Danes *et al* 2009; Sorenson *et al* 2010) such components are embedded within the family unit, and in links with external stakeholders. Firms then build authentic relationships with suppliers, customers, and support organizations, while maintaining legitimacy with other important constituencies and networks (Lounsbury and Glynn 2001), more effectively communicating the value of their goods and services to potential international customers (Cromie *et al* 1995; Philp 1998; Walker and Brown 2004; Pittaway and Rose 2006; Shaw 2006; Bowey and Easton 2007; Casson and Della Giusta 2007; Cope *et al* 2007; Chirico 2008).

Gallo and Sveen (1991) underpinned internationalisation as a change process involving new markets, new customers with different needs, new competitors, new challenges and risks, necessitating new knowledge, learning new processes having direct implications on the ACAP and capability of family businesses.

Building on Hax and Majluf's (1984) management model for a corporate strategic planning process, Gallo and Sveen (1991) outline the family's restricting characteristics as well as potential facilitators along five levels of strategic change:

1. *strategy and objectives,*
2. *structure and systems,*
3. *company culture,*
4. *company developmental stage*
5. *international characteristics.*

Declaring upfront that *“family businesses are generally more rigid in their internationalisation process than nonfamily businesses”*, Gallo and Sveen (1991: 181) observe, however, that ‘familiness’ has double-edged implications – generically perceived weaknesses may well turn out to be strengths.

Thus while lack of managerial expertise coupled with motivations to consolidate central control generally leads to an autocratic rigidity that stymies initiatives, should the owner-manager be convinced of the value of opportunities presented, then the same autocratic style leads to championing a swift commitment to international growth. This link between top managements' experience, internationalisation outlook and organisational performance tends to be even more marked in recognizing opportunities and risk perception (Brush 1992; Eriksson *et al* 1997; Yeoh 2004: 512; Acedo and Jones 2007). Such attitudinal aspects cushion liabilities of newness and positively affect performance (Swinth and Vinton 1993; Thakur 1998; Zahra 2003). Citing Ward (1987), Zahra, Hayton and Salvato (2004: 363) suggest:

*“the long-term nature of family firms' ownership allows them to dedicate the resources required for innovation and risk taking, thereby fostering entrepreneurship ... owner managers understand ... survival depends on their ability to enter new markets and revitalize existing operations to create new businesses”*.



This is an alternative, not necessarily contradictory, perspective from generally observed tendencies that family businesses are risk-averse, their longer-term objectives aiming for stability and wealth growth for family and subsequent generations. Resilience for the ‘long haul’ is a key concern – away from speculative ‘short-term’ views, albeit via “*cautious*” and prudent risk taking so that “*even if family firms do take risks while they are engaged in entrepreneurial activities, they take risk to a lesser extent than do nonfamily firms.*” (Naldi *et al* 2007: 43; Donckels and Frohlich 1991: 158).

One understands family firms’ forgoing short term gains to enhance long-term performance and survival prospects through internationalisation (Zahra 2003: 507). Contextual issues relevant to family business harmony also influence perceptions – forgoing short-term gains or indeed even decisions to internationalise could lead to discord among dissenting family members (Zahra and Garvis 2000; Zahra 2003).

In consolidation, with respect to strategic efficacy and family businesses’ performance in international contexts, the literature remains inconsistent (Sharma *et al* 1997: 8). Thus, concurrently citing Gallo and Sveen (1991), Sharma *et al* (1997) underline family businesses’ lack of ‘global orientation’ as a result of domestic focus and slowness in effecting structural change – whereas Swinth and Vinton (1993) suggest family firms possess elements of universality that bridge cultural barriers more effectively than non-family businesses.

Commonality in values and sound principles running through family businesses seems to be universally embraced by companies world-wide. PricewaterhouseCoopers (2007: 53) first global ‘family business survey’ stated that besides desire for sustainable growth, international expansion and market leadership, family businesses’ recurring priority was “*behaving in an upright fashion*” to “*stand the test of time*” – lasting achievements through sound ethical values.

Influenced by Levinson’s *Seasons of Man’s Life* (1978), references to an inherited vision of altruism are frequent: “*what drives all successions is a vision of the future, hammered out over time, that embraces the aspirations of both the senior and junior generations as well as those of their forebears. This vision – which I call a Shared Dream – generates the excitement and energy that every family must have to do the hard work of succession*”

*planning*” (Lansberg 1999: 5; Schulze *et al* 2001; Sharma, Chrisman and Chua 2003a, 2003b; Zahra 2003; Lubatkin 2005; Karra *et al* 2006).

Evidence from the literature shows gaps which, properly addressed, might better explain why family businesses’ processes and strategies are significantly different to other businesses (e.g. Gudmundson *et al* 1999: 27) .

Despite inconclusivity, acknowledged key distinguishing factors have a direct bearing on firms’ governance, decision-making and strategic direction. Consequently such factors influence risk perception, opportunity recognition and exploitation – and essentially, competitiveness and performance which determine success or failure and ultimately survival (Acedo and Jones 2007). Once potentially restraining or facilitating factors are effectively addressed, *“there is no reason why a family business cannot be as successful abroad as a non-family business”* – this does not automatically imply shedding unique characteristics that make it a family business.

Researching Spanish SMEs’ export performance, Gallo and Pont (1996: 45) observed family businesses generally comparing favourably with their non-family counterparts. Performance outcomes resulted from interaction of circumstance and context and several complex variables that moderate processes involved (Goffee 1996; Gudmundson *et al* 1999). In relation to organisational development and succession Gallo and Sveen (1991) suggested that internationalisation processes tend to be slower in first and second generations of the business when compared to non-family businesses – suggesting a tendency for centralisation to ease over the years as family businesses change to harness international opportunities. This empirical observation is in line with the family business development / life-cycle observations made by other scholars (Ward 1987; Harris, Martinez and Ward 1994; Sharma *et al* 1997). However, in recent research specifically investigating generational differences, Okoroafo and Koh (2010: 26) observed:

*“family businesses ... were remarkably consistent in their views on internationalization. Collectively, their perceptions of the benefits of internationalization are unappreciated. So it appears that if a family business does not get involved in foreign markets in the first and second generations it is unlikely to do so in later generations. The third generation’s views were strongly more negative on internationalization than the first or second. Interestingly, it is nonfamily managers that are more likely to engage in internationalization activities (Claver, et. al. 2009).*

*The findings lend credence to the limited involvement of US FOBs in foreign markets.”*

This is in line with Segaro’s (2010) observations that the dynamics manifested in either facilitating or hindering internationalisation, could benefit from a stewardship orientation.<sup>21</sup>

Reiterating points underlined by various scholars (e.g. Aldrich and Cliff 2003; Kellermanns and Eddleston 2006), that the role of the family as an important driver of international entrepreneurship has been overlooked, Sciascia *et al* (2010: 1) attempt to explain how family ownership affects the scale of internationalisation. Exploring benefits and drawbacks of family-ownership on international entrepreneurship among 1,000 US family businesses, they address inconsistencies in empirical findings by researching non-linear relationships between opposing perspectives of stewardship and stagnation. Their findings indicated a U-shaped relationship that *“international entrepreneurship is maximised when family ownership stands at moderate levels”*.

Thus observations presented earlier noting SMEs cannot be considered a homogenous category, logically apply equally to SMFBs – acknowledging their complexity and comparative differences. Debating the influence of family ownership on international business activity, Zahra (2003: 509) concludes:

*“Family businesses also vary considerably in risk taking, which can influence international expansion. These differences manifest variations in national cultures (Perkins, 2000), historical experiences (Lin, 1998; Masurel and Smit, 2000), geographic locations (Lin, 1998) and the interpersonal dynamics that exist within family firms (Gundry and Ben-Yoseph, 1998; Sirmon, 1996). These variables can significantly determine the motivation for internationalization ...”*

While acknowledging that family businesses play a crucial role in the global economy, empirical research shows smaller family businesses tending to be less conducive to internationalisation, scholars observe that research on factors that *“spur”* firms’ internationalisation remains *“limited”* (Zahra 2003: 499). Beyond expansive literature reviews, more in-depth research may discover the discreet ways in which internationally-active small family businesses impact, and are in turn impacted by, the twin concepts of

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<sup>21</sup> Relevant in the case of employed non-family managers, stewardship theory examines situations where executives (stewards) are motivated to act in the best interests of their owners (principals). Qualities relevant in stewardship behaviour are trust, involvement, collectivism and long-term commitment.

internationalisation and ACAP to better understand the theory and practice shoring their determinants and processes.

### 3.9 Family businesses in Malta

In Malta, a small island state in the Mediterranean at the periphery of Europe, small businesses predominate. In an open market economy, with around 35,345 enterprises<sup>22</sup> (NSO 2005), 99% are SMEs. ‘Micro’ enterprises employing less than 10 persons constitute 96%. By EU definition standards, few Maltese organisations can be classified as ‘large’ (Massa 2006). Since average enterprise size is even smaller than elsewhere, SMEs play a pronounced role in small island territories (Granovetter 1984; Baldachino 2005). While a considerable and increasing proportion of business activity comprises higher-value added and knowledge-based products and services, the majority of indigenous Maltese enterprises’ activities are traditionally oriented and non-high tech in nature – especially in the case of family businesses.

In 2006, the National Statistics Register – Malta (NSO 2007) recorded that 56% of entities had one or more owners actively working in management of the organisation<sup>23</sup>. This figure is rather conservative, since unlike the NSO’s Structural Business Statistics database, the Business Register from where the statistic was calculated also includes non-commercial entities.

With respect to ‘family business (self-)perception’, the ‘*Family Business Research Report*’ (2003) observed 67% of owner-managers considered their business to be a family business. Surprisingly, founders tended to perceive themselves as more independent of their business than subsequent generations manning the business – i.e. second and third generation owner-managers perceived their enterprise as a ‘family business’ more strongly (MIM / Caruana 2003). Maltese family business concerns evolved around issues related to *risk* and *survival*, *familial harmony* and *control*. Top 5 “nightmares” reported were:

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<sup>22</sup> This figure, 35,345 is taken from the latest available data from the Structural Business Statistics database (Mizzi, 2005, 27 April, email), which unlike the Business Register, excludes non-commercial entities.

<sup>23</sup> This statistic was provided by NSO following a personal request for the number of enterprises with owner-managers involved in their family business.

1. *All my wealth is in the business. What happens if it gets into trouble?*
2. *What happens if my business partner and I have a serious disagreement?*
3. *If I introduce outside shareholders, how greedy will they be?*
4. *What happens if my spouse and I separate / divorce?*
5. *Would outside shareholders change the way I run the business?*

The top two concerns voiced by family business owner-managers are identical to responses of a worldwide report adopting similar methodology. The only difference among Maltese family businesses observed here was the introduction at position '3' of "If I introduce outside shareholders, how greedy will they be?" in the top 5 "nightmares" – which reinforces Maltese family businesses' concern for control and aversion to outside intervention – partly central to this thesis. Edged out from the top 5 "nightmares" for Maltese family businesses was: "What can I do if my children do not perform well in the business?" – yet this is a high ranking concern among other countries' SMFBs (MIM / Caruana 2003: 15).

PricewaterhouseCoopers, Malta (2006) conducted a family business survey across different size categories in a broad range of sectors. Key challenges and priorities identified by Maltese owner-managers were:

1. *Controlling costs – 76%*
2. *Developing business strategy – 61%*
3. *Improving quality of financial information – 57%*
4. *Improving cash flow – 56%*
5. *Restructuring the business – 52%*

The PwC (2006) survey found that although 72% of entities hold management team meetings on a weekly or monthly basis, strategic planning is deficient in close to half Maltese family businesses. Growth constraints identified were:

1. *Management and HR limitations – 41%*
2. *Cash flow, financial resources – 41%*
3. *Market size limitations – 37%*
4. *Ability to control costs and maintain sales margins – 33%*
5. *Bureaucracy and regulation – 24%*
6. *The economic environment – 19%*
7. *Family related limitations – 13%*

Although ranked lower in the short-term, “*Family related limitations*” were in the long-term seen as the more serious business growth inhibitor (2006: 3). The main causes of internal conflict were identified as:

1. *Decisions around who can or cannot work in the business* – 48%
2. *Performance of family members actively involved in the business* – 39%
3. *Discussions about future strategy of the business* – 33%

Addressing sources of internal conflict, the clear majority of businesses surveyed had neither formal conflict resolution procedures nor formal guidance on who can join the family business. Although respondents’ views on ownership and management succession stressed continuity through future family generations, 74% “*would consider a non-family manager as a management succession candidate*”.

### **3.10 Conclusion**

This chapter reviewed extant research on family business studies – with emphasis on SMFBs in relation to the thrust of this study. The cross-disciplinary domains which family business research draws from were investigated, distinguishing factors associated with this unique organisational form discussed. Key characteristics reside in idiosyncratic and tacit resources and capabilities mainly deriving from the ‘familiness’ of the firm. The implications of these characteristics and dynamics on performance were applied and, in view of inconclusive research findings, empirical studies reviewed and debated.

In line with this study’s objectives, this chapter focussed on emerging literature aligned to the central subject of this thesis: *SMFB internationalisation*. Here empirical research borrows from existing frameworks and related conceptual perspectives. The centrality of the owner-manager’s role is acknowledged. Here the elements are generally innate within the founder, and the dynamics entrepreneurial.

With international growth and increasing complexity, structured and consciously deliberated strategic approaches are adopted. The significance of contacts, relationships and networks in gaining access to resources and to offset liabilities of smallness is observed throughout the family business’ developmental stages.

Ultimately researchers emphasise that internationalisation results from complex dynamics and the interaction of internal and external factors. Family firm characteristics are a double-edged sword facilitating or hindering performance, innovation, and competitive advantage. Key resources include tacit knowledge and expertise, know-how and experience – generally convergent on the founder / owner-manager.

In concluding, family business dynamics are complex. Behavioural and strategic performance outcomes at individual and firm level are influenced by interrelated internal and external factors. However, in the right hands, the double-edged sword called *familiness*, keened with altruistic motivation and commitment, tempered with experience and goodwill, through innovation, cuts through challenges – leveraging unique tacit resources towards sustainable competitive advantage.

Elements relevant to risk aversion are partly associated with the desire and responsibility to preserve the family's wealth, trust, reputation and recognition – obligations owed to future generations. This long-term view transcends the short term, speculative strategic decisions adopted by non-family businesses – where 'principal-agent' situations may exist, and the business failing would often not impact the employed managers' wealth – a rather temporary inconvenience.

For the SMFB, exit costs are high – and survival a permanent concern. Previously 'safe' stable domestic markets are threatened as globalisation and attendant competitive dynamics reach all corners of distant markets. With survival a pressing issue, once the founder / owner-manager buys into what needs to be done, there is total commitment to the reorganised vision and strategic direction. U-turns are deftly executed – and it'll be 'all systems go', 100% – using every trick in the book innovatively to seek and exploit opportunities to thrive and survive.

Researching internationalising SMFBs on an island surrounded by sea brings to mind the plight of vulnerable seals ... if this thesis may be allowed a metaphor: *A small family business is like the placid seal that, much smaller than predators higher up the food-chain, may summon its resources and, galvanised into action engage in an alert dance for survival – dipping and soaring, skilfully swerving and dodging the great white, hot on its tail inches away, as it breaks the surface and through the foam and surf pirouettes*

*skywards with the shark still on its tail, persevering with detrimental intent.* Drawing parallels with nature's ecosystem where survival of the fittest reigns, for the SMFB in savagely competitive markets, generations will attest survival is a real pressing concern that teases out the best ... natural selection in open markets.

When it comes to resources, size does in many respects matter. But size may also favour the smaller flexible organisation – alert and quick to adapt, seizing opportunities as they emerge, identifying market needs where none are evident. In business as well as in nature, the maxim commonly mis-attributed to Charles Darwin<sup>24</sup> applies: *“it is not the strongest of the species that survives, nor the most intelligent, but the one most adaptable to change”*.

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<sup>24</sup> This popular quote does not actually derive from Darwin's (1859) 'Origin of the Species'. The earliest known appearance of this statement originated from a paraphrase of Darwin in the writings of Leon C. Megginson, a management sociologist at Louisiana State University: (1963) 'European lessons for American business'. His paraphrase was slightly modified and popularly misattributed to Charles Darwin.



# Chapter 4

## Absorptive Capacity



## 4 Absorptive capacity

### 4.1 Introduction

This research examines the internationalisation of traditional SMFBs. In adopting an ACAP approach, it seeks to investigate, better understand and determine how they acquire, assimilate and leverage relevant external knowledge in their internationalisation processes. ACAP is the ability to recognise the value of new external knowledge, assimilate it and apply it to commercial ends – critical to competitive advantage and innovative capabilities (Cohen and Levinthal 1990). In the context of this research, given the already established universally acknowledged centrality of knowledge in internationalisation, the ACAP concept emerges as a relevant paradigmatic lens through which to examine these SMFBs' internationalisation.

The purpose of this chapter is to review extant literature, research and frameworks in this nascent field towards establishing a sound understanding of the underlying concepts pertaining to the notion of ACAP. Additionally, of special interest are areas of conceptual overlap between the main literature domains forming the foundation of this study – particularly where ACAP concepts intersect those of small firm internationalisation and family business research, critically reviewed earlier.

As observed, extant ACAP operationalisations emphasising formal R&D infrastructure and knowledge-based sectors are incompatible with this study's context (Cohen and Levinthal 1989, 1990; Lane *et al* 2006). Various frameworks and models of ACAP are advanced in the literature, and through critical evaluation it is clear that while some offer potential as analytical frameworks, they have been insufficiently applied in empirical research to date, requiring richer, deeper insight (Zahra and George 2002; Easterby-Smith *et al* 2005, 2008b) – this study's specific context remaining unexplored.

The research objectives at this point in this study are: i) to examine how external knowledge is acquired by SMFBs and leveraged towards internationalisation and competitiveness, drawing specifically on extant frameworks of ACAP to guide analysis, and ii) to determine the nature of the ACAP process in this research context in relation to extant ACAP models. This will provide deeper understanding of how related knowledge is used by SMFBs in internationalisation and contribute to knowledge in those areas, and iii)

lead to a refinement or further development of ACAP as a theoretical approach and or analytical framework.

This chapter starts by investigating the ontological roots and conceptual evolution of ACAP (4.2), including ACAP at the individual level (4.3). Next, limited empirical studies are reviewed (4.4). Following a consolidation of fundamental ACAP components (4.5), knowledge (4.6) and innovation types (4.7) associated with ACAP in relation to the context of this study are explored.

## 4.2 Ontological roots and conceptual evolution

Though partly rooted in earlier theories and perspectives, what follows is a critical, mostly chronological overview of the evolution of ‘absorptive capacity’, its frameworks and models from a young but growing body of conceptual and empirical research. Aspects of ACAP linked to the central tenets of this research converging with the other literature fields (*small firm internationalisation* and *family business research*) critically reviewed in previous chapters, will be consolidated towards forming a conceptual basis for this study, and establishing research questions in line with stated objectives (Chapter 5).

In their seminal *Administrative Science Quarterly* 1990 article, ‘*Absorptive capacity: A new perspective on learning and innovation*’, Wesley Cohen and Daniel Levinthal presented and laid the foundation for the notion of ‘absorptive capacity’<sup>25</sup>. Building on their earlier research on innovation and learning (1989), in their 1990 article, Cohen and Levinthal argue that “*the ability of a firm to recognise the value of new, external information, assimilate it and apply it to commercial ends is critical to its innovative capabilities*” (1990: 128), and proceed to label this capability “*a firm’s absorptive capacity*” – this is often cited in the literature as a basic definition of absorptive capacity.

However, one immediately observes that Cohen and Levinthal (1990) did not present a ‘tight’ definition for their new construct. Researchers seeking a full definition needed to ‘collate’ several of Cohen and Levinthal’s fundamental observations and definitional elements from various parts of their 1990 influential article.

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<sup>25</sup> The term ‘absorptive capacity’ was used prior to this by e.g. Kedia and Bhagat (1988) in the context of intra-national technology transfer (see Van den Bosch 2003).

Cohen and Levinthal's first definitional observation lays emphasis on 'information' – yet further down they additionally define absorptive capacity as "... *the ability to evaluate and utilize outside knowledge ...*". While 'information' is essential for generating 'knowledge', the two are not the same. At a fundamental level, exchanging 'information' for 'knowledge', implies that a *process* has taken place beyond mere observance of generic information. An intrinsic part of this process could be "*recognising the value*", selectively weighting and attributing relevance to this information – whose value lies in the knowledge end-product. Van den Bosh *et al* (2003: 3), acknowledging the central importance of knowledge to this construct, re-worded as more appropriate the basic ACAP definition directly deriving from Cohen and Levinthal's (1990): "*the ability to recognize the value of new external knowledge, assimilate it, and apply it to commercial ends*" (Author's emphasis) – simply replacing the word 'information' with 'knowledge'.

Cohen and Levinthal (1989, 1990) argued that a firm's ACAP depended on its ability to acquire knowledge from its external environment through its research and development (R&D) initiatives. However, as they themselves and others later acknowledge (e.g. Lane, Koka and Pathak 2006), various earlier scholars had already maintained similar observations, directly linking R&D to the assimilation of external knowledge and *organisational learning* (see e.g. Mansfield 1968; Tilton 1971; Evenson and Kislev 1975; Abernathy 1978; Allen 1984; Rosenberg 1982; Mowery 1983).

Lane, Koka and Pathak (2006: 836) suggest that what Cohen and Levinthal (1989, 1990, 1994) had added to this emerging perspective were:

- a rich set of industrial-organisation (IO) economics-based explanations of *how* and *why* a firm's R&D played this secondary role,
- empirical tests supporting those explanations,
- an evocative name for that role: 'absorptive capacity'.

Thus "*Cohen and Levinthal provide[d] an evolving definition of absorptive capacity, its antecedents, and outcomes*". Evidently, the origins of 'absorptive capacity' emphasised R&D as core.

Lane, Koka and Pathak (2006: 839) succinctly consolidate and articulate what in their opinion are the key foundational elements put forward by Cohen and Levinthal in their

1989, 1990 and 1994 papers – tracing a nascent and evolving view of ACAP and its antecedents:

*“Through its R&D activities, a firm develops organizational knowledge about certain areas of science and technology and how those areas relate to the firm’s products and markets (ability to identify and value external knowledge [see Cohen and Levinthal 1989]).*

*Over time, the firm develops processes, policies and procedures that facilitate sharing that knowledge internally (ability to assimilate external knowledge [see Cohen and Levinthal 1990]).*

*The firm also becomes skilled at using that knowledge to forecast technological trends, create products and markets and manoeuvre strategically (ability to commercially utilize external knowledge [see Cohen and Levinthal 1990, 1994]).*

*Together these processes define the firm’s absorptive capacity: the ability to identify and value external knowledge, assimilate it, and commercially apply it.” (Author’s emphases).*

In this context, Lane, Koka and Pathak (2006: 833) acknowledge ACAP as “*one of a firm’s fundamental learning capabilities*”, which in the context outlined by Cohen and Levinthal (1989, 1990 and 1994) is based on the firm’s R&D investments and technological knowledge. They contend that while Cohen and Levinthal on the one hand “*present absorptive capacity explicitly as a learning process and implicitly as a capability – a ‘potential ability’*”, on the other hand somewhat equivocally, “*their models and empirical tests equate absorptive capacity with a firm’s R&D spending, which is, according to their theory, an antecedent of absorptive capacity*” (Lane, Koka and Pathak 2006: 838). From the outset Cohen and Levinthal’s (1990) focus is essentially on ‘outside’ or ‘external’ “*knowledge*” and how it is acknowledged, learnt and brought ‘inside’ (generally via R&D initiatives) and leveraged via the attributes of this absorptive capacity: a capability involving a capacity for ‘recognition’, ‘assimilation’ and ‘application / exploitation’.

Understandably, Cohen and Levinthal underlined innovation as an outcome from a firm’s (mainly R&D driven) ACAP. More generally, innovation is recognised as an outcome of organisational learning. Innovative capabilities result in potential performance attributes. Put to good effect in a conducive environment, such capabilities can build an organisation’s competitive advantage, and by extension, sustained innovative capabilities contribute further towards shoring sustained competitive advantage.

In a Schumpeterian (1934) sense, innovation could mean new markets, new products or new processes. Initially Schumpeter emphasised that a nation's innovation and technological change comes from its 'wild spirits' or entrepreneurs. He championed the idea that small companies would be advantaged due to flexibility, whereas large companies would be hindered by bureaucratic structures. Later, while working at Harvard, he extended his theory, arguing that big companies, having the resources and capital to invest in R&D, are better suited to drive innovation and the economy. However, there exists no strong evidence supporting a relationship between company size and the ability to innovate.

Cohen and Levinthal (1990) highlighted *prior related knowledge* as a key component critical in enabling ACAP – essentially implying that 'prior knowledge begets knowledge' by enhancing the capacity to recognise the value of new information and learning, and its assimilation – arguably providing for a self-reinforcing cycle: "*absorptive capacity* → *learning* → *absorptive capacity*" (Lane *et al* 2002: 2; MacDonald and Madhavaram 2007).

Although Cohen and Levinthal's (1990) overall conceptual thrust eventually emphasised *organisational* ACAP, from the outset, their observations derived directly from recognising the important contributory role of the *individual's* ACAP. Acknowledging the premise that a firm's knowledge is socially embedded, with learning a predominantly interactive process (Lundvall 1992), and the role of entrepreneurial orientation, one expects this 'individual' ACAP to become more pronounced in the small family business context this research addresses.

Cohen and Levinthal's 1990 influential article triggered scholarly interest, new research and initiatives. In their review of the literature, Lane *et al* (2002: 4) highlighted three studies attempting a redefinition of Cohen and Levinthal's (1990) concept of absorptive capacity:

**First.** Lane and Lubatkin's (1998) research on inter-organisational learning reconceptualised ACAP, introducing the concept of *relative* absorptive capacity – where a firm's ability to learn from another firm is dependent on both firms'

- knowledge bases,
- organisational structures, compensation policies, and
- dominant logics.

Lane and Lubatikin's (1998: 473) notion of *relative* ACAP argues that similarities in the firms' 'know-what' (knowledge), 'know-how' (knowledge-processing systems) and 'know-why' (dominant logic) are more important than the generally used 'standard' concept of *absolute* ACAP. They underlined that this was in line with research on cognition and problem solving at the individual level.

Consolidating from scholars' earlier works, Lane and Lubatikin (1998: 463) observed that "*an individual's learning is greatest when the new knowledge to be assimilated is related to the individual's existing knowledge structure*". This, in line with the importance attributed to "*prior related knowledge*" by Cohen and Levinthal (1990: 128).

**Second.** Van den Bosch *et al* (1999: 551) presented the second attempt at redefining Cohen and Levinthal's construct. Moving away from *sole* emphasis on 'prior related knowledge' (or knowledge stocks) as a key determinant for the recognition, valuing and assimilation of knowledge and information, they suggested "*organisation forms*" and "*combinative capabilities*" are additional key influencers of an organisation's ACAP. Their perspective was based on firm-level organisational adaptation and the effect of environmental dynamics such as turbulence in moderating and influencing a firm's ACAP. This draws from earlier research. As discussed earlier, in their theory-building research on the knowledge of the firm, Kogut and Zander (1992: 383) had proposed a dynamic view of how individuals' knowledge and social interaction contribute to organisational learning – suggesting that firms learn and create new knowledge by "*recombining their current capabilities*". Thus, operating in dynamic, competitive environments "*the higher the level of absorptive capacity, the more likely a firm will be proactive in exploiting opportunities present in the environment, independent of current performance*" (Cohen and Levinthal 1990: 137; Van den Bosch *et al* 2003: 9).

This in turn conceptually builds on perspectives from the resource- (and knowledge-) based-view of the firm (RBV), whose fundamental principle stresses that the basis for a firm's competitive advantage lies internally, primarily in the application of a bundle of valuable resources at the firm's disposal – a considerable component of which may be idiosyncratic, but which also includes tacit knowledge and routines (see for instance Wernerfelt 1984; Barney 1991). Thus, in parallel, performance potential and competitive advantage can be maximised as a result of a firm recognising, developing, effectively



deploying and operationalising its core competencies (Hamel and Prahalad 1990). At a basic level, the concept of *core competencies* complements the RBV perspective in its emphasis on distinct capabilities, in deploying resources, and its overall strategic emphasis on internal organisational elements playing the central role in determining competitive advantage (Teece *et al* 1997). This contrasts with traditional ‘outside-in’ approaches to the determinants of competitive advantage in the strategy literature (e.g. the emphasis on external factors in Porter’s (1979, 1980) Five Forces model in determining sustainable competitive advantage).

**Third.** Reviewing the literature twelve years after Cohen and Levinthal’s 1990 article, Zahra and George (2002b) also extended the construct. They built upon earlier perspectives on firms’ *dynamic capabilities* defined as “*the ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments*” (Teece *et al* 1997: 517; see also Eisenhardt and Martin 2000; Raff 2000). Here, convergence is noted in Van den Bosch *et al* (1999) and Zahra and George (2002b), enhancing the ACAP notion. At a basic level *dynamic capabilities* complement the importance of leveraging knowledge and capability, critically linked to ACAP by Van den Bosch *et al* (1999).

Generally, both *dynamic capabilities* and *combinative capabilities* seek organisational performance gains, growth and sustained competitive advantage through adaptation, organisation and the marshalling of (generally internal) resources towards addressing external and dynamic environmental realities – via organisational change and evolution (Sun and Anderson 2010). Again, in both these *capabilities* the critical relevance of organisational *core competencies* (Hamel and Prahalad 1990) is noted – similarly, *dynamic capabilities* conceptually directly derive from a strategically oriented resource-based view of the firm (RBV) (Barney 1986, 1991; Teece, Pisano and Shuen 1997; Eisenhardt and Martin 2000; Makadok 2001; Helfat and Peteraf 2003; Winter 2003).

In their review, Zahra and George (2002b: 186) observed an element of convergence in describing ACAP as a ‘multidimensional construct involving the ability to value, assimilate and apply knowledge’ (Cohen and Levinthal 1990) and ‘a combination of effort and knowledge bases’ (Mowery and Oxley 1995; Kim 1998). They comment, however, that notwithstanding this, due to unclear measures, definitions and dimensions, empirical studies included in their review failed to sufficiently address the holistic characteristics and

theoretical ramifications of the construct. Adopting a dynamic capability stance, Zahra and George (2002b: 185) defined ACAP as a set of organisational routines by which firms assimilate and exploit knowledge, building enhanced capabilities – towards improving performance, growth and continued competitive advantage. They reconceptualised absorptive capacity as a “*dynamic capability pertaining to knowledge creation and utilization that enhances a firm’s ability to gain and sustain a competitive advantage*”.

Zahra and George (2002b: 190-191) further distinguish between *potential* and *realised* ACAP in this dynamic capability-building process. Whereas *potential* capacity comprised knowledge ‘acquisition’ and ‘assimilation’ parts of the process, ‘transformation’ and ‘exploitation’ capabilities constituted the *realised* capacity.

Turn of the century, apart from the aforementioned, few explicit attempts have been made to revise and expand Cohen and Levinthal’s 1990 ACAP definition (Lane, Koka and Pathak 2002; Zahra and George 2002b). However, varying perspectives on what ACAP *is* abound.

Scholars express concerns in this regard. Zahra and George (2002b: 185) state that despite increasing use of the construct, difficulties continue to arise due to “*ambiguity and diversity of its definitions, components, antecedents and outcomes*”. Lane *et al* (2002: 4) voice similar concern on vague inferences based on inaccurately stated or misconstrued definitions, by practitioners who persist in treating ACAP “*as an ‘off the shelf component’ or catch-all-phrase to capture the internal dynamics of firm[s] that relate to the acquisition, assimilation or integration of knowledge*” – using it in ways which could potentially lead to the reification of the construct, which in turn could lead to stifling of research in this area. In a later review of existing ACAP research, Lane, Koka and Pathak (2006: 839) reiterate concern in the vagueness inherent in constructs, components and assumptions – referring to ACAP as “*an evolving definition of a complex construct*”.

Although in their leaning towards industrial innovation, Cohen and Levinthal (1989) had recognised the critical value of ACAP enhancing the firm’s ability to “*create new knowledge*” (i.e. beyond ‘learning by doing’ through which firms get better at what they already do) – however, Lane, Koka and Pathak (2006) critique Cohen and Levinthal’s (1990) conceptualisation, suggesting that their emphasis on *prior knowledge* and stress on *path dependency* infers a *single-loop* learning process, just modifying actions rather than a more developed *double-loop* learning process (see Argyris and Schon’s 1978), or the

development of a knowledge corridor (Ronstadt 1988), leading to the modification of assumptions – with greater innovation and value adding potential.

Cohen and Levinthal (1990: 135) do in fact view ACAP as *path-* or *history-*dependent, emphasising the role of past decisions and strategic direction, experience and established routines in learning incrementally as an extension of the current situation and *modus operandi* – rather than fresh insight through new alternatively derived perspectives. They acknowledge that in such cases ACAP is an ‘incidental’ “*by-product*” of the firm’s routine activities, occurring when the firm wishes to exploit a knowledge domain closely related to its current knowledge base. However, if the firm seeks knowledge unrelated to its ongoing activity, then it ought to dedicate effort exclusively to *creating* absorptive capacity. Thus, the former, passive process contributes towards single-loop learning. Double-loop learning would then be involved with shifts into unrelated areas of operation / knowledge involving a proactive stance and an explicit commitment to developing ACAP.

In their critical review of the somewhat deviating ACAP literature and research, Lane, Koka and Pathak (2006) consolidate published output into seven themes:

**Table 4.1 – Main themes in ACAP literature and research**

<ol style="list-style-type: none"><li>1. Defining and measuring the absorptive capacity construct</li></ol> <p>Themes involving static characteristics of antecedents or outcomes of absorptive capacity:</p> <ol style="list-style-type: none"><li>2. Knowledge</li><li>3. Organisational structure</li><li>4. Organisational scope</li></ol> <p>Themes involving dynamic characteristics having a recursive relationship with absorptive capacity:</p> <ol style="list-style-type: none"><li>5. Organisational learning</li><li>6. Interorganisational learning</li><li>7. Innovation</li></ol>
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Source: Consolidated from Lane, Koka and Pathak (2006)

Building on their earlier 2002 audit of contributions and extensions to Cohen and Levinthal’s (1990) original conceptualisation, Lane, Koka and Pathak (2006) reconsolidated extant literature and pointed out that the studies which they identified as

contributing to Cohen and Levinthal's (1989, 1990) ACAP definition, had all shifted away from an exclusive emphasis on research and development (R&D) processes to move towards perspectives based on dynamic capabilities. Table 4.2 below summarises these key contributions identified by Lane, Koka and Pathak (2006).

**Table 4.2 – Lane *et al*'s consolidation of ACAP research building on Cohen and Levinthal**

Szulanski (1996)	Explores knowledge 'stickiness'/impediments and intra-organisational knowledge sharing and assimilation. Emphasised and introduced the key relevance of <i>knowledge characteristics, motivation</i> and the ( <i>mostly internal</i> ) <i>organisational context</i> as key elements influencing organisational learning and absorptive capacity.
Dyer and Singh (1998)	Build on Szulanski (1996) and add the relational importance of <i>sociological interactions</i> .
Lane and Lubatkin (1998)	Build on Dyer and Singh and look at <i>partner specificity</i> in absorptive capacity in the context of a learning dyad involving the <i>student</i> firm and the <i>teacher</i> firm.
Van den Bosch <i>et al</i> (1999)	Argue that firms must <i>organise and structure</i> themselves differently (e.g. <i>functional</i> vs <i>matrix</i> ) depending on the ( <i>external</i> ) <i>environment / context</i> (e.g. <i>stable</i> vs <i>turbulent</i> ).
Zahra and George (2002)	Adopt a process perspective on absorptive capacity. Emphasise effective <i>internal knowledge sharing and integration</i> . A ' <i>dynamic capability</i> ' based on <i>organisational routines and processes</i> that firms use to acquire, assimilate, transform and exploit knowledge. They also present two dimensions in this process: <i>potential</i> and <i>realised</i> absorptive capacity.

Source: Compiled by Author from Lane, Koka and Pathak (2006)

The initial shift away from a strong emphasis on R&D as a key ACAP determinant renders the construct more amenable to other organisational contexts where the fundamental elements of knowledge recognition, assimilation and exploitation are nonetheless evident – as in the context presented in this thesis.

Seeking conceptual clarification, theoretical soundness and convergence, Lane, Koka and Pathak (2006: 856) proposed rejuvenating the construct to consolidate a more detailed definition:

*“Absorptive capacity is a firm’s ability to utilize externally held knowledge through three sequential processes ... **recognising** and understanding potentially valuable new knowledge outside the firm through exploratory learning; **assimilating** valuable new knowledge through transformative*

*learning, and using the assimilated knowledge to create new knowledge and commercial outputs through exploitative learning.*” (Author’s emphases)

In identifying research and construct gaps, as well as auditing for reification which might lead to partial stifling of research in this area, Lane, Koka and Pathak (2006) emphasised ACAP as a *capability building process* with learning at its core. This fits in with Teece, Pisano and Shuen (1997), and complements Zahra and George’s (2002b) perspective viewing ACAP as a dynamic capability.

More recently, Todorova and Durusin (2007) while acknowledging value in Zahra and George’s (2002b) critique and conceptualisation, argued that their “*reconceptualisation*” failed to build sufficiently on some relevant and fundamental elements of Cohen and Levinthal’s (1990) notion of ACAP. Extending Zahra and George’s (2002b) model, Todorova and Durusin (2007) reintroduced components from Cohen and Levinthal’s (1990) original conceptualisation that were either simplified or excluded by Zahra and George (2002), who as mentioned earlier, had then identified four key components of the ACAP capability-building process, namely: *acquisition* and *assimilation* (forming ‘potential’ ACAP), and *transformation and exploitation* (forming ‘realised’ ACAP). Therefore, Todorova and Durusin re-established Cohen and Levinthal’s (1990) “*recognising the value of new external knowledge*” component as crucial towards “*acquisition*” of new external information or knowledge, as well as firms’ survival in dynamic environments (Todorova and Durusin 2007: 776).

Thus while Cohen and Levinthal (1990) had highlighted ‘prior knowledge’ in recognising the value of potentially useful information and new knowledge, motivating acquisition and enabling assimilation, Todorova and Durusin (2007: 777) drawing from the literature on learning, observed that firms might not effectively identify and absorb new external knowledge due to their “*embedded knowledge base* [prior knowledge], *rigid capabilities and path-dependent managerial cognition*”, deriving from cognitive and structural embedding which just reinforce incremental learning and strong ties (see Granovetter 1973, 1983).

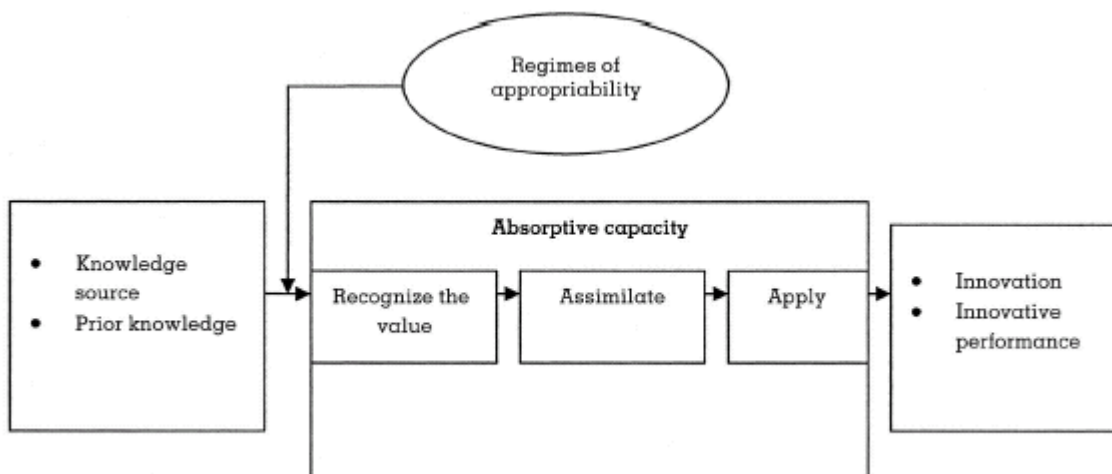
This complements views of Lane, Koka and Pathak (2006), linking prior knowledge with path dependency and potentially limiting implications on innovation-generating double-loop learning. The cognitive characteristics and capabilities related to *individual* judgement are immediately apparent in this external knowledge ‘value recognition’ and

‘acquisition’ process. As indicated earlier, within the SMFB context of this study, the individual’s role assumes greater significance. Additionally, family businesses’ characteristics underline stronger tendencies towards ‘paternalistic’ leadership and management styles, converging centrally upon the founder / owner-MD. These are assumed to have direct bearing on organisational processes and decision-making, impacting strategic stance and direction.

Furthermore, Todorova and Durusin (2007: 775) also query Zahra and George’s (2002b) “*neat*” transitional flow from ‘potential’ to ‘realised’ ACAP, arguing that knowledge *transformation* need not necessarily follow from knowledge *assimilation*. They maintain knowledge *transformation* could be an alternative *assimilation* process. Consequently, given alternative, parallel paths in *assimilation* and *transformation*, they question the appropriateness of Zahra and George’s (2002b) linear sequencing and grouping of their four components of *acquisition* and *assimilation*, and *transformation* and *exploitation* into ‘potential’ and ‘realised’ ACAP respectively. Indeed Todorova and Durusin (2007) effectively unbundle the four components defined by Zahra and George (2002b). This, in line with Jansen *et al*’s (2005) findings on ‘potential’ and ‘realised’ ACAP, empirically supporting the independent or individual recognition of the four components for greater construct validity in their hypothesis testing.

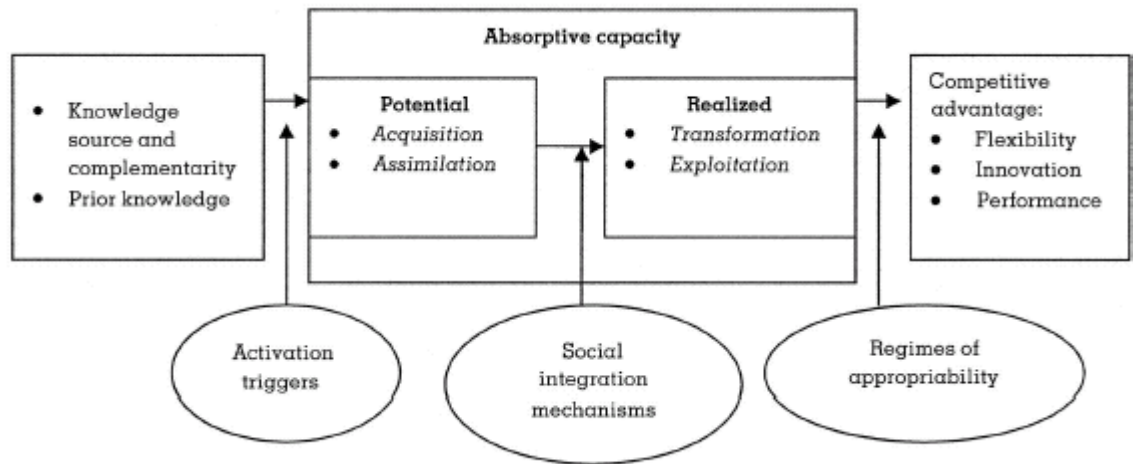
The 3 figures below depict the evolution of Todorova and Durusin’s (2007) ACAP model, starting with Cohen and Levinthal’s (1990) original conceptualisation, and following through from Zahra and George’s (2002b) reconceptualization.

**Figure 4.1 – ACAP model based on Cohen and Levinthal (1990)**



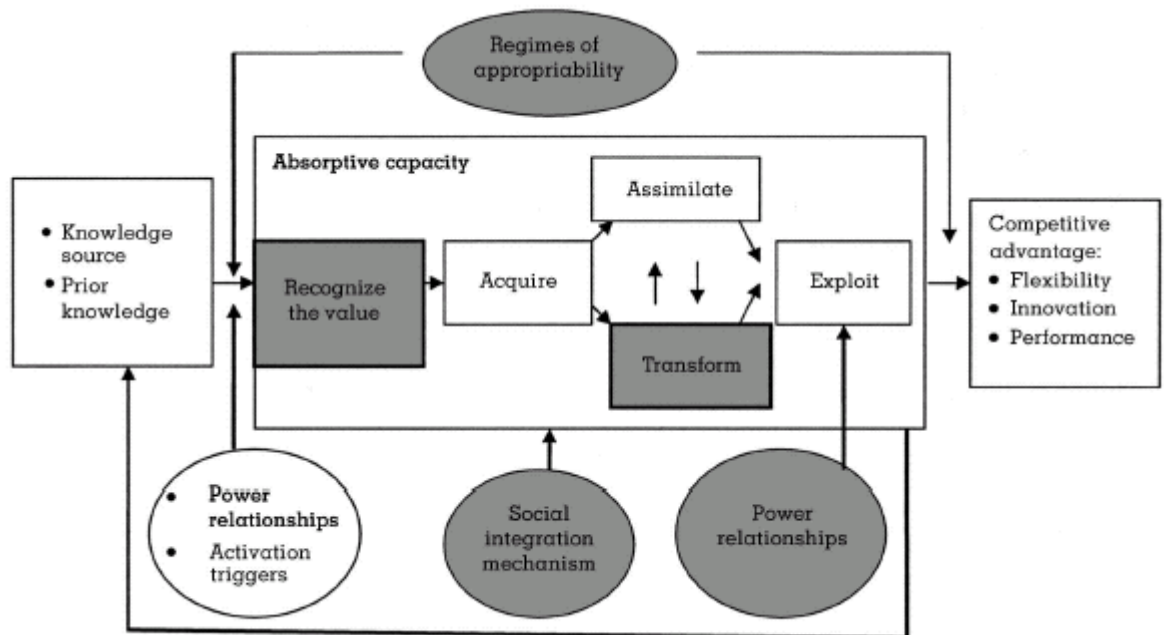
Source: Todorova and Durusin (2007: 775)

Figure 4.2 – ACAP model based on Zahra and George’s (2002b) reconceptualization



Source: Todorova and Durusin (2007: 775)

Figure 4.3 – Todorova and Durusin’s (2007) ‘extended and revisited’ ACAP model



Source: Todorova and Durusin (2007: 776)

In summary, Todorova and Durusin (2007) extend the relevance of social mechanisms and networks to the entire ACAP framework and acknowledged the importance of Granovetterian (1973, 1983) ‘weak ties’, even beyond Zahra and George’s (2002) emphasis on strong relationships – particularly in acquiring and sharing new and novel information. In this regard, Gao *et al* (2008:1) observe that boundary-spanning managerial ties and relationships with for example suppliers, customers and others “*are apt to interact with absorptive capacity to facilitate knowledge sharing and innovation*” – however, their research focussing on large technology-based corporations emphasised university ties.

On the moderating effect of (knowledge) ‘appropriability’<sup>26</sup>, also complementary to ‘tacitness’ and the concept of ‘imperfect inimitability’ necessary for sustained competitive advantage in the RBV (Barney 1991), Todorova and Durusin (2007) balance the independently observed references in Cohen and Levinthal’s (1990) (*positively* influencing) appropriability regimes with those of Zahra and George’s (2002) (*negatively* influencing) – respectively at both ends of the absorptive capacity process.

Finally, Todorova and Durusin (2007) augment Zahra and George’s (2002b) model by stressing the importance of relevant, critical relationships with key individuals within and outside the organisation in enabling recognition and exploitation of new external knowledge.

More recently, Easterby-Smith *et al* (2008: 483-484) consolidated the theoretical underpinnings of ACAP, conceptually convergent and “*positioned between the fields of dynamic capability (Teece et al, 1997; Zollo and Winter, 2002), organizational learning (Easterby-Smith, 1997; Akgun et al, 2003; Sun and Anderson 2010) and knowledge management (Chiva and Allegre, 2005; Oshri et al, 2006)*”. This consolidates more tightly Van den Bosch *et al*’s (2003) earlier conceptual positioning – which had also included the managerial cognition literature.

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<sup>26</sup> Appropriability refers to the quality of being imitable or reproducible. Some skills (sometimes referred to as slippery or sticky knowledge) are so ingrained in a particular organisational culture that they cannot be easily (if at all) extracted and replanted elsewhere in a meaningful way - they have ‘weak appropriability’.



### 4.3 Individual ACAP

Since its inception, individual ACAP within the firm was acknowledged as central. Cohen and Levinthal (1990: 131-132) established:

*“an organization’s absorptive capacity will depend on the absorptive capacities of its individual members. To this extent, the development of an organization’s absorptive capacity will build on ... individual absorptive capacities ... The firm’s absorptive capacity depends on the individuals who stand at the interface of either the firm and the external environment or at the interface between subunits of the firm”.*

Given this fundamental importance at the individual level, scholars position this cross-disciplinary field at a juncture conceptually drawing on managerial cognition research among other contributing literature streams (Van den Bosch *et al* 2003; Todorova and Durusin 2007). From the outset Cohen and Levinthal (1990: 129-131) underline the importance of “*cognitive structures*”, and drawing from the fields of cognitive and behavioural sciences, dedicate an entire section of their paper outlining several individual characteristics and attributes fundamental to various aspects of ACAP – such as the development and retention of prior knowledge and memory, and the acquisition and assimilation of knowledge as well as learning processes and capabilities.

Considered fundamental in any large corporation’s ACAP, as inferred, this individual perspective is assumed to be even more accentuated in the SMFB context of this research. Here smallness in size results in organisations as lesser collectives of individuals. Furthermore, as discussed, ownership, governance and management practice tend to gravitate centrally towards the founder / owner-MD.

At this individual level, entrepreneurial decision-making contributes to the exploitation of opportunities as they emerge, potentially manifested in competitive advantage and innovation. In this regard, the importance of the opportunity recognition concept to entrepreneurship research has long been acknowledged (Eckhardt and Shane 2003; Gartner, Carter and Hills 2003). Scholars conclude that “*opportunity identification represents the most distinctive and fundamental entrepreneurial behaviour*” (Gaglio and Katz 2001: 95; Gaglio 1997; Kirzner 1979; Stevenson and Jarillo 1990; Venkataraman 1997).

The recognition of opportunity is essentially also a cognitive phenomenon. Since interest picked up in the mid-70s, a significant number of studies shed light on this area. Kirzner (1973, 1979) observed that entrepreneurs employ “*their knowledge and skills in assembling and realigning resources already available to them*” in discovering, recognising and exploiting opportunities. This capacity fits in comfortably with the *dynamic capability* concept (Teece *et al* 1997). Maintaining focus on the individual, as in the case of ACAP, prior knowledge and experience are underlined as key antecedents to opportunity identification. The understanding is that individuals generally perceive information in relation to their existing knowledge base. Complementing new information with prior knowledge directly relates to the individual’s subjective evaluation of the worth of that information enabling its utilisation (Von Hippel 1994; Fiet 1996; Shane and Ventkataraman 2000). Indeed, Ventkataraman (1997) and Shane (2000b) argue that entrepreneurs only identify opportunities relating to prior knowledge (Liouka 2007). Consequently, the entrepreneur’s generally tacit and idiosyncratic prior knowledge results in a ‘knowledge corridor’ rendering different individuals prone to subjectively identifying or recognising specific opportunities only (Hayek 1945; Ronstadt 1988).

It is evident that contending with the opportunities’ recognition and exploitation, and depending on prior knowledge as an enabling antecedent, this opportunity recognition dynamic capability is integral to ACAP at the level of the individual. In instances, it is essentially the outcome from ACAP, its exploitation resulting in an outward international business venture in the case of this research.

Kirzner (1997: 71) observes that, comprising a range of phenomena, opportunities initially start unformed having an inherent potential to develop over time. In its most elemental form, what may later be called an ‘*opportunity*’ may appear as an imprecisely-defined market need, or under-employed resources or capabilities:

*“flawed plans (i.e., those made on the basis of an erroneously imagined decision framework) can be expected to tend to be corrected through the responsiveness of alert, imaginative entrepreneurs to the opportunities revealed as a result of the initially flawed plans. In other words, this approach postulates a tendency for profit opportunities to be discovered and grasped by routine-resisting entrepreneurial market participants”.*

Thus, having initiated the perspective of entrepreneurial alertness (Kirzner 1979, 1985), later Kirzner (1997) argues that the discovery of opportunities is neither a result of a

deliberate search for information, nor a serendipitous discovery. In this context, *“alertness is about attentiveness to new opportunities and at some level, it seeks to infer some unique thinking and reasoning”* (Mitchell *et al* 2007: 7). In line with Kirzner’s view that opportunity detection is hardly ever just the result of luck, Friedel (2001: 36) claimed that *“serendipity is no accident”*.

From his research on opportunity and prior knowledge with farm-based entrepreneurs, building on Kirzner (1997), Alsos and Kaikkonen (2004: 301) reconfirmed opportunities may be *“the result of serendipity or deliberate search, and may be (objectively) discovered or (subjectively) created ... in opportunity occurrence serendipity played a visible role; entrepreneurs have realized that the [prior] knowledge and experience which they have acquired ... can be utilized to seize an occurred business opportunity, which they have not earlier known to exist”*. They concluded that opportunities occurred from a broad knowledge of particular industries, or markets, or customers and competitors as well as from practical, sales or organizing skills. The knowledge serendipitously discovered would then be transformed to generate innovative business opportunities. Indeed whether objectively discovered or subjectively created (e.g. Gartner *et al* 2003), opportunities have to be nurtured and proactively developed.

Entrepreneurial alertness is defined as an individual’s ability to notice opportunities that are not recognised by others (Kirzner 1979). This is a major factor influencing the way opportunities are recognised and exploited by entrepreneurs. Indeed, *“it is this feature of being alert to opportunities that could qualify an actor to be an entrepreneur”* (Tang 2008: 130). As a core component of opportunity recognition, the nature of alertness and its constructs remain ambiguous (Tang 2008), and consequently, with few exceptions, empirical research on alertness vis-a-vis opportunity recognition is sparse.

Taking a behavioural perspective, Kaish and Gilad (1991: 49) concluded that entrepreneurs rate differently in the time they invest in information search, the sources of information used and attention to risk cues. They observe that information seeking behaviour leading to entrepreneurial alertness would exhibit itself in *“a continuous search for information, through broad and undirected scanning that will take place at unconventional times and places”*. This assertion is in general agreement with Kirzner (1973, 1979) in that they consider alertness a mind-set continuously primed to spot new opportunities in a scenario of environmental uncertainties.

Arthurs and Busenitz (2006) claim that such cognitive frameworks allow for ‘leaps in logic’ assisting opportunity recognition. Conceptually, this runs parallel to the notion of ‘double-loop’ learning mentioned earlier (Argyris and Schon 1978).

In this regard, Singh *et al* (1999) emphasise the importance of social contacts and weak ties. *“A large social network with many weak ties beyond close friends and family, relates positively to idea identification and opportunity recognition”* (Alsos and Kaikkonen 2004: 305). This is reinforced by Ozgen and Baron (2007: 174) who stressed from their findings that *“social sources of information”* have *“direct positive effects on opportunity recognition by entrepreneurs”*. Specifically researching social ties in international entrepreneurship, Ellis (2011: 99) found that entrepreneurs’ idiosyncratic connections with others played an important role in internationalisation – he observed: *“in contrast with past research I find virtually no role for blind luck. Although the majority of exchange opportunities were discovered rather than sought, these discoveries were intentional rather than accidental”* – additionally, he noted that tie-based exchanges generally lead to better exchanges (when compared to non-network opportunities such as advertising or trade fairs). Furthermore Ellis (2001: 121) also observed *“entrepreneurs from open economies are more likely to rely on social ties”* for their internationalisation. While logical, this mirrors this thesis’ research context – Malta being a small open economy.

Eckhardt and Shane (2003: 336) defined entrepreneurial opportunities as *“situations in which new goods, services, raw materials, markets and organising methods can be introduced through the formation of new means, ends, or means-ends relationships”*.

Notwithstanding entrepreneurship researchers having directed much energy at opportunity recognition – *“little is known about how entrepreneurs actually evaluate opportunities”* (Keh *et al* 2002: 125). For example Shane and Venkataraman (2000) observed situations where even seasoned entrepreneurs failed to recognise opportunities easily evident to others. Essentially, there exists asymmetry not only in information, but also in circumstance and disposition that influence opportunity recognition.

While observing opportunity recognition, in its broad sense, as an integral element of ACAP at the individual level – in this regard, ultimately it remains a function of an individual’s personality, attitudes and attributes. Opportunity recognition and exploitation

are pivot to enterprise – without recognition and active exploitation there would be little entrepreneurship.

## 4.4 Empirical research

Research on ACAP has approached the phenomenon from various perspectives and at different levels. This research contends with ACAP at firm and individual levels.

From existing literature it is noted that developments in this young field have *“been largely at a conceptual level with major contributions building on secondary data and literature reviews. There are very few studies that seriously address the concept based on fresh primary data”* (Easterby-Smith *et al* 2005: 3). Scholars observe conceptual progress and development in ACAP *“since 1990 has been disappointing”* – and suggest that *“this limited development results from the dominance of quantitative studies which have failed to develop insights into the processes of absorptive capacity”* (Easterby-Smith *et al* 2008: 483).

In their recent review of extant ACAP research, Easterby-Smith *et al* (2008: 484) observe that the dominantly quantitative research has tended to but infer *“the attributes and dynamics of absorptive capacity across significant numbers of organisations”*. They highlight recent studies deriving from perspectives including innovation networks (Adams *et al* 2006; Hagedoorn *et al* 2006; and Phene *et al* 2006), and knowledge transfer within alliances (Kim and Inkpen 2005; Zhao *et al* 2005) – all emphasising technological and R&D viewpoints.

Indeed, a criticism landed by Lane *et al* (2006: 852) and others is that following through from Cohen and Levinthal’s (1990) empirical focus around R&D (notwithstanding their broader conceptual discussion of the phenomenon), current literature and studies have come to be dominated by an *“over-emphasis”* focussed on R&D, technological and scientific knowledge. This provides a technological emphasis *“at the expense of process-oriented knowledge ... managerial techniques, marketing knowledge and manufacturing know-how”* (Lane *et al* 2006; also Easterby-Smith *et al* 2008).

Furthermore, besides emphases on formalised R&D corporate activity, “*it is difficult to empirically measure absorptive capacity*” (Gao *et al* 2008: 8; Becker and Peters 2000). Various technology-related proxies were utilised in this regard – ranging from R&D presence and activity, patents, personnel training and PhDs in employment (Gao *et al* 2008; Lane *et al* 2006). Additionally, “*the study of ACAP remains difficult*” due to challenges stemming from ambiguity and diversity in defining aspects and components (Zahra and George 2002b: 185).

As already indicated, there exists a scarcity of ACAP research specifically overlapping with the other two core literature fields forming the basis of this study (*small firm internationalisation* and *family business research*). Internationalisation is generally encountered incidentally, while research typically dealing with larger corporate organisations happens to include large multinationals and MNEs as subjects for investigation (e.g. Gupta and Govindarajan 2000). Such perspectives are detached from the traditional SMFB context of this thesis. This void is also reflected in the case of specific ACAP research associated with family businesses. In limited instances where the two terms coincide, the ACAP concept is by no means central – generally a cursory mention in passing, if at all (e.g. Zahra, Hayton and Salvato 2004; Eddleston *et al* 2008; Higginson 2010), or conversely, the family business aspect remains incidental and unexplored, practically unmentioned and is in any case inextricable from the population under investigation (Gray 2006). In another early study, the case organisation under investigation ‘happened’ to be a family business – its attendant family characteristics *per se* not forming a part of the study (Jones 2001).

In consolidating perspectives on existing empirical studies, it appears that:

*“it is therefore possible that the lack of development of the concept of absorptive capacity results from the dominant use of research methods which are more appropriate for testing, rather than developing, theory. If so, then new ideas and perspectives are far more likely to be added if qualitative methods are used to examine absorptive capacity”* (Easterby-Smith *et al* 2008: 485).

Additionally, beyond identifying the need for ACAP studies to explore “*non-R&D contexts*” (Lane *et al* 2006: 853), the need is also felt for empirical research investigating different organisational contexts in diverse industrial sectors (Easterby-Smith *et al* 2008). Such is

the context presented by the internationally-active traditional family businesses in this study.

## **4.5 Consolidating: ACAP antecedents, components and outcomes**

In researching the internationalisation of traditional SMFBs adopting an ACAP approach, this research contends not only with the processes *per se* entailed in this dynamic capability – but also with antecedents and outcomes. Antecedents underlie the circumstances, characteristics and elements of the founder / owner-MDs and their family businesses under investigation – ‘setting the scene’ and context within which the ACAP process takes place. Shaping motivations and propensities – predispositions for the acquisition and assimilation of new knowledge.

At the other end, beyond ACAP exploitation and ensuing international activity, outcomes relate to the family business’ performance and survival – as well as, for instance, the accumulation of various types of new knowledge and learning, innovation, new contacts as well as enhanced capability and flexibility, forming a loop – in turn, the outcomes themselves becoming antecedents in an ongoing, regenerating cycle.

### **4.5.1 ACAP antecedents**

Specifically in relation to absorptive capacity, in their article Cohen and Levinthal (1990: 128) underline the importance of prior knowledge. These knowledge stocks are important in that they also enhance “*the ability ... to recognise the value of new, external information*”. Here, from the outset it is noted that “*an organization’s absorptive capacity will depend on the absorptive capacities of its individual members*” (Cohen and Levinthal 1990: 131). Cohen and Levinthal (1990) underlined the importance of “*related*” prior knowledge in that it facilitates the recognition and assimilation of new (associated) knowledge (e.g. see Nonaka and Takeuchi 1995).

Prior knowledge can be formally derived, in a structured way such as in education or training programmes – which includes human capital – or it could be accumulated experience (Zahra and George 2002b), direct or vicarious, deriving ‘second hand’ from

contacts. Besides including basic skills and problem solving methods (Cohen and Levinthal 1990; Van den Bosch *et al* 1999), other related elements such as shared language and cultural affinity have also been considered important aspects of prior knowledge (Cohen and Levinthal 1990; Gupta and Govindarajan 2000).

Additionally, scholars distinguish between internal and external factors as antecedents affecting ACAP (Van den Bosch *et al* 1999; 2003; Daghfous 2004).

– *Internal mechanisms*

Cohen and Levinthal (1990) also put forward the influence of ‘internal mechanisms’, resources and sources in shaping ACAP (Van den Bosch *et al* 1999; Van den Bosch *et al* 2003). Formal or informal, such internal processes could include both rudimentary experimentation as well as structured R&D set-ups (Cohen and Levinthal 1990; Tsai 2001)

Other relevant internal processes include the way by which knowledge flows and is transferred internally, as well as cross-functional interfaces (Van Wijk *et al* 2001; Van den Bosch *et al* 1999). Also including the type, allocation and distribution of expertise or human capital (Lane and Lubatkin 1998).

Straddling the organisation’s boundaries, the importance of contacts and relationships with external networks as sources of learning and knowledge or opportunity catalysts are also deemed important (Van den Bosch *et al* 1999, 2003; Zahra and George 2002b; Todorova and Durusin 2007).

– *Externalities and contextual*

From an external perspective, important antecedents include the extent of competition and competitiveness (Easterby-Smith *et al* 2005), as well as the state of the knowledge environment – ranging between stable and turbulent (Van den Bosch, Volberda and De Boer 1999).



### **4.5.2 ACAP components**

As noted, Cohen and Levinthal (1990: 128) established the key ACAP process components:<sup>27</sup> “*the ability to recognize the value of new external knowledge, assimilate it, and apply it to commercial ends*”. On this foundation Zahra and George (2002b) built their reconceptualisation twelve years later. Additionally to Cohen and Levinthal’s information and knowledge ‘acquisition’, ‘assimilation’ and ‘exploitation’, they introduced ‘transformation’, as the key ACAP elements, comprising ‘potential’ and ‘realised’ capabilities.

While as mentioned, researchers have subsequently fine-tuned or effected minor adjustments, there exists general consensus that these basic elements lie at the core of ACAP.

### **4.5.3 ACAP outcomes**

As a dynamic, ongoing process manifesting itself in an organisation’s dynamic capabilities, ensuing outcomes, whether latent or not, overtly or covertly, consciously or unconsciously, result in a change in state – learning. In turn, ACAP outcomes, or learning inform the present, engender potential, and subsequently become future antecedents themselves – e.g. supplementing prior knowledge stocks – whether at organisational or individual levels.

At firm level, the outcomes from absorptive capacity are in the first instance associated with the potential for enhanced performance, generally competitive advantage and innovation (Cohen and Levinthal 1990; Zahra and George 2002). However, beyond this, other more specific aspects of this resultant capability have been identified by researchers in the field. Van den Bosch *et al* (2003) reviewed the literature and broadly listed key potential outcomes arising directly or indirectly from the absorptive ACAP process (Table 4.3).

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<sup>27</sup> These ACAP ‘components’ are referred to as ‘dimensions/capabilities’ by Zahra and George (2002).

**Table 4.3 – ACAP potential organisational outcomes**

<b>Examples of organizational outcomes</b>	<b>Illustrative refereneces</b>
<ul style="list-style-type: none"> <li>Innovative performance; exploration / exploitation; new product development</li> </ul>	Cohen & Levinthal (1990); Tsai (2001); Van Wijk <i>et al</i> (2001); Stock <i>et al</i> (2001)
<ul style="list-style-type: none"> <li>Expectation formation; reactive / proactive strategy formation</li> </ul>	Cohen & Levinthal (1990); Volberda (1998); Van den Bosch <i>et al</i> (1999)
<ul style="list-style-type: none"> <li>Organizational adaptation; coevolution; strategic renewal</li> </ul>	Lewin & Volberda (1999); Lewin <i>et al</i> (1999); Volberda <i>et al</i> (2001)
<ul style="list-style-type: none"> <li>Transfer of best practice and knowledge flows within the firm</li> </ul>	Szulanski (1996); Gupta & Govindrajana (2000)
<ul style="list-style-type: none"> <li>New wealth creation; entrepreneurial wealth; competitive advantage; financial performance</li> </ul>	Lewin <i>et al</i> (1999); Deeds (2001); Zahra and George (2001); Tsai (2001)
<ul style="list-style-type: none"> <li>Knowledge transfers, organizational learning in alliances and IJV performance</li> </ul>	Ahuja (2000); Kim (1998); Koza & Lubatkin (1998); Lyles & Stalk (1996); Mowery <i>et al</i> (1996);
<ul style="list-style-type: none"> <li>Diversification</li> </ul>	Kumar & Seth (2001)

Source: Van den Bosch, F., Van Wijk, R., and Volberda, H. (2003: 47)

## **4.6 Knowledge types and ACAP in traditional SMFBs' internationalisation**

Knowledge is fundamentally integral to the very notion of ACAP – indeed ACAP *is* about knowledge. As discussed, knowledge is also central to firm internationalisation. In this regard it is relevant to also consider in parallel the various forms and contributing perspectives on knowledge directly associated with ACAP for the purposes of this research. Not intended as an extensive review, this sub-section provides such an overview.

As an exploratory study the research thoroughly examined as part of the literature review formed a direct part of investigation. It also aided the researcher in recognising different forms, functions and roles of various knowledge types – as appropriate for this thesis.

Knowledge has long been considered a potentially valuable resource for the firm (Penrose 1959). This importance has increased over time, as developments and value have shifted economic emphasis from industrial to knowledge economies, while new technologies have brought forth ways of manipulating and exploiting this knowledge. Central to competitive advantage, knowledge along with competence has been acknowledged as a crucially valuable and important strategic asset (Nelson and Winter 1982; Grant 1996; Conner and

Prahalad 1996). Essentially, knowledge is at the core of organisational capabilities (Dierickx and Cool 1989; Nonaka and Takeuchi 1995; Conner and Prahalad 1996).

Generally, a broad distinction is made between two types of knowledge: explicit and tacit (Polanyi 1966). Explicit knowledge is easily documented, expressed, packaged and communicated. It is structured and codified and hence easily transferrable. On the other hand, tacit knowledge is embedded within the individual. It is difficult to formalise, communicate and transfer (Nonaka 1994; Nonaka *et al* 2000). This experiential and generally hands-on knowledge plays a central role in presenting opportunities and driving internationalisation (Johanson and Vahlne 1977; Fletcher 2007). Tacit knowledge is thought to generally comprise two dimensions. The *technical* dimension comprises informal and unstructured knowledge experientially retained in acquired skills – generally referred to as *'know-how'*. Subjective and personal, such knowledge is hard to convey through words. The other *cognitive* dimension of tacit knowledge relates to individual perceptions and beliefs, values, mental models and personal characteristics ingrained in the individual. This knowledge shapes the individual's perception, and generally held beyond one's conscience, cannot be articulated easily.

Emphasising human resourcefulness in entrepreneurial activity, tacit knowledge is considered a key resource in the RBV of the firm. Based on distinct, immobile and inimitable valuable resources for achieving sustainable competitive advantage (Wernerfelt 1984; Barney 1991), RBV researchers discern between 'tangible' and 'knowledge-based' (intangible) resources (Kogut and Zander 1992; Nonaka and Takeuchi 1995). Tacit knowledge, generally constituting a wealth of hard to convey accumulated experiential knowledge, skills and know-how is central to the RBV. In this regard, and drawing from RBV, Grant (1996: 109) proposed the 'knowledge-based view of the firm', considering knowledge as the most crucial of all resources in relation to firm performance in increasingly dynamic and competitive environments.

As already established, from the outset, early internationalisation scholars established learning and knowledge as key. Uppsala 'stage' theorists observed this process as 'a logical and sequential process of acquisition, integration and use of knowledge about foreign markets' (Johanson and Vahlne 1977; Loustarinen 1978; Cavusgil 1984; Welch and Luostarinen 1988). Alternative perspectives on internationalisation stressed equal emphasis

on learning and knowledge being core (e.g. McDougall and Oviatt 2000; Jones 2001; Petersen, Pedersen and Sharma 2001).

ACAP was observed directly emphasising the importance of tacit *prior knowledge* and *experience* – in relation to the ability to recognise the value of new information in facilitating learning and for the purposes of applying it to new, profitable ends (Cohen and Levinthal 1990). Prior knowledge's relevance is underlined in that it enables the individual to associate and recognise value in new information, enabling its assimilation, the generation of new knowledge, and its exploitation (Von Hippel 1994; Fiet 1996). Shane and Venkataraman (2000) posit that the tendency is for individuals to perceive information relating to their existing knowledge – and that it is in the context of prior knowledge that this new knowledge becomes valuable. Prior knowledge is also an important antecedent to opportunity recognition (Venkataraman 1997) – an aspect discussed later in this chapter.

Prior knowledge could derive from either work experience (Evans and Leighton 1989; Cooper *et al* 1994; Liouka 2007), or education (human capital), the latter enabling the accumulation and assimilation of new knowledge (Gimeno *et al* 1997).

ACAP manifests itself in realised value when resulting potential opportunities are identified and evaluated, and eventually pursued and exploited. In the case of this thesis, these family businesses' pursuit and exploitation of international business opportunities. Liouka (2007) observed three key dimensions of prior knowledge relating to the process of international (market) opportunity identification:

1. Prior knowledge of **markets**, including information about suppliers, sales techniques, etc. (Von Hippel 1988);
2. Prior knowledge of **ways to serve markets**, involving e.g., a new technology that can change a production process, allow for the creation of a new product, generate new sources of supply, or make possible new ways of organising (Schumpeter 1934);
3. Prior knowledge of **customer problems**, which relates to enabling customers to benefit from innovation (Shane 2000).

At the individual level, Sigrist (1999) identifies two key types of prior knowledge, that when combined, underpin such opportunity identification:

1. Prior knowledge in a domain of particular interest to the entrepreneur;
2. Prior knowledge that is accumulated over the years, in many cases through interaction with other actors.

Both relate to experience and inherent personal characteristics and attitudes shaping motivation, the latter emphasising international exposure, interaction, contacts and relationships.

Directly related to this research's context, investigating the learning processes of SMEs, Fletcher (2007) consolidates relevant international business research contending with knowledge and identifies three primary types of prior knowledge central to the internationalisation of small firms, namely (Table 4.4):

1. Prior knowledge on *international markets*
2. Prior knowledge on *internationalisation*
3. Prior knowledge related to *products and technological processes*

**Table 4.4 – Types of knowledge related to internationalisation**

<i>Theory</i>	<i>Knowledge type</i>	<i>Definition</i>	<i>Prediction</i>
IPT – Johanson and Vahlne, 1997; Eriksson <i>et al.</i> , 2000, 1997.	Market knowledge	Experiential. Market specific, cannot be transferred to other markets. Foreign business and institutional knowledge.	Experiential market knowledge drives internationalisation in current markets.  Incremental, path dependent internationalisation
Eriksson <i>et al.</i> , 2000, 1997; Madsen and Service, 1997; Forsgren, 2002.	Internationalisation knowledge	Experiential. Firm specific. Knowledge of capabilities, resources and entry modes. General knowledge that is transferable to other markets.	Firm's way of going international.  Driving force to take steps in new directions.
INV theory – Oviatt and McDougall, 1994. Kogut and Zander, 1995. FDI theory - Hymer, 1976. Bilkey, 1978; Cavusgil and Nevin, 1981.	Product/ technological knowledge	Firm specific. Product/ Technological knowledge part of a firm's unique differential advantage.	Technology-intensity increases a firm's product mobility across borders.  INVs internationalise early and rapidly in increasing efficient international markets.

Source: Compiled by Fletcher (2007: 49) from various sources

Furthermore, in the context of small firm internationalisation, Zahra *et al* (2009) make reference to “social knowledge” and aspects of ‘know-who’ as an important intangible resource in relation to innovative gains from internationalisation (see also Thorpe *et al* 2005; Clarke *et al* 2006). This running parallel to an earlier point: Hymer’s (1976) emphasising internationalisation as a social process.

## **4.7 Innovation types and ACAP in traditional SMFBs’ internationalisation**

Since inception, innovation and flexibility have been considered an outcome from ACAP, associated with differentiation and competitive advantage (Cohen and Levinthal 1990; Zahra and George 2002b; Lane *et al* 2006; Todorova and Durusin 2007). In parallel, small firm internationalisation has also been considered as innovative, risk-taking behaviour

associated with new knowledge, processes, products and markets (Cavusgil 1980; Reid 1981; Ruzzier *et al* 2006b; Branstetter 2006; Zahra *et al* 2009; Jones *et al* 2011).

As in the previous sub-section on knowledge, this is not intended as a thorough review on research in innovation – it serves to give an overview of the key aspects on innovation directly associated with ACAP and relevant to the context of this research involving internationally-active SMFBs engaged in traditional business activity (i.e. not high-technology or knowledge-intensive sectors). The purpose being to identify and categorise innovation types potentially associated with these iSMFBs' internationalisation ACAP.

In an organisational context, innovation is associated with competitive advantage, performance and growth as a result of improvements, adjustments or change related to a variety of organisationally-related aspects. As such, no single definition of innovation exists. For the purposes of this study, 'innovation' is here taken to refer to the output from the innovation process – the manifestation of 'innovative capabilities' ensuing from the ACAP process (Cohen and Levinthal 1990).

Adopting this 'output' perspective, Lueke and Katz (2003: 2) suggest that organisational *“innovation ... is generally understood as the successful introduction of a new thing or method ... Innovation is the embodiment, combination or synthesis of knowledge in original, relevant, valued new products, processes or services”*.

Involving a creative element, beyond invention, innovation emphasises some tangible difference from implementation in the context within which it occurs. Amabile *et al* (1996: 1154) posit:

*“All innovation begins with creative ideas. Successful implementation of new programs, new product introductions, or new services depends on a person or a team having a good idea and developing that idea beyond its initial state. ... we assume that the social environment can influence both the level and the frequency of creative behavior. ... We define innovation as the successful implementation of creative ideas within an organization. In this view, creativity by individuals ... is a starting point for innovation; the first is a necessary but not sufficient condition for the second. Successful innovation depends on other factors as well, and it can stem ... also from ideas that originate elsewhere (as in technology transfer)”*

The very essence of innovation in Cohen and Levinthal's (1990: 128) notion of absorptive capacity lies in the critical "*ability to exploit external knowledge*" in order to realise "*innovative capabilities*". An intangible resource, innovation is crucial in sustaining competitive advantage and survival in competitive markets. Innovation, core to the firm's dynamic capabilities is defined as "... *an organization's ability to achieve new and innovative forms of competitive advantage ...*" (Teece et al 1997: 516).

While innovation is inextricably linked to learning and knowledge, most ACAP studies sought to measure innovation by way of various proxies and indicators mentioned earlier – generally associated with structured, formal R&D corporate initiatives. Not concerned with such approaches, this research context must necessarily consider innovation from a broader perspective – since many of the innovation measures associated with extant ACAP operationalisations are incompatible with the SMFBs this research examines.

Yet nonetheless, looking at their historical growth, strategies and current performance, one acknowledges that these successful SMFBs are indeed innovative and competitive, reactive to their environment, flexibly exploiting opportunities as they arise. Indeed, these small firms especially need to be innovative and creative in order to survive and grow – through satisfying current and potential customers' needs, entertaining new ideas and experimenting while seeking new creative ways to adapt and change in response to dynamic environments. This potentially leads to *new products* (Li, Liu and Zhao 2006), *new services* or *technological processes* (Lumpkin and Dess 1996), *changes in existing technologies* or *processes* as well as *new ventures* (Kimberly 1981).

Noting that innovation could range in extent from 'radical' to 'incremental', at a basic level, this broad perspective on innovation derives from Schumpeter's economic innovation (1934: 66) mentioned earlier:

- introduction of a new good or service. Could be a new unfamiliar product or a differentiated product which could also include a change in quality.
- introduction of a new method of production or process. Need not derive from new scientific discovery – could also include a novel way in commercially handling a commodity.
- entry into a new market. Whether that market already existed or not.



- innovation involving inward logistics and supply chain. Involving raw materials, half-finished goods and related aspects.

Beyond this categorisation, at firm-level the potential for strategic innovation and renewal, as well as innovation pertaining to the social dimension of contacts and networks, are also recognised. In the competitive international context under study, it is assumed small firms will creatively mitigate potential resource ‘liabilities of smallness’ (including knowledge limitations) by innovating via technology, or leveraging contacts and forging alliances – overcoming barriers and challenges and increasing international competitiveness “*in innovative and entrepreneurial ways*” (Jones and Coviello 2002: 5; McDougall 1989; McDougall and Oviatt 2000).

Aspects of innovation will be applied and discussed further as required in analysis.

## 4.8 Conclusion

In consolidating, amidst growing research interest one observes various perspectives on ACAP in the literature. Typical of young areas of research, scholars acknowledge that the cross-disciplinary ACAP field is yet in a state of evolution and consolidation.

Cohen and Levinthal’s (1989, 1990) ACAP conceptualisation based on R&D and innovation, had itself evolved from earlier research on the role of R&D on organisational learning and performance (Hedberg 1981; Fiol and Lyles 1985; Levitt and March 1988 cited in Van den Bosch *et al* 2003: 4).

Increasingly the idea of ACAP is viewed as an emerging “*concept that bridges across the literature on dynamic capabilities and organizational learning*” (Easterby-Smith 2005: 3; see also Sun and Anderson 2010). This conceptual convergence viewing ACAP as a dynamic capability derives from an ongoing process involving the effective utilisation of various resources, (particularly) prior knowledge stocks, in enabling the recognition of value in external knowledge and information, its acquisition, assimilation and eventual exploitation towards competitive advantage – manifested in improved performance, innovation, strategic flexibility and responsiveness. This emergent view involving learning at multiple levels is recognised “*as a dynamic capability which cannot be*

*disentangled from the systems, processes and structures of the organization*” (Sun and Anderson 2010: 134).

From the outset Cohen and Levinthal (1990) and others, underlined the importance of the ACAP of *individuals*, as well as social interaction, ties and relationships in this process (e.g. Van den Bosch, Van Wijk and Volberda 2003; Daghfous 2004: 21; Lane, Koka and Pathak 2006: 854). In the context of the SMFBs in this study, this individual perspective is expected to become more pronounced.

Studies acknowledge limitations in a narrow focus and “*over-emphasis*” on R&D-related approaches to empirically investigating ACAP. It is noted that approached more broadly, this construct, could be more representative and indicative of the fundamental ACAP phenomena in different organisational settings.

The next chapter synthesises the 3 literature areas critically reviewed (small firm internationalisation, family business research and ACAP), and articulates this study’s emergent research questions focussing the research’s investigative thrust. Following that, Chapter 6 presents and discusses this thesis’ methodology and analytic approaches.

# Chapter 5

Consolidation and  
Articulation of the  
Research Questions



## **5 Consolidation and articulation of the research questions**

### **5.1 Introduction**

As introduced in Chapter 1, this research is positioned at an interface overlapping the three core literature domains forming the basis of this study, and critically reviewed in the preceding chapters. It explores and examines the outward internationalisation of traditional SMFBs. In doing so, it adopts an absorptive capacity approach.

In line with this thesis' research objectives, examining an under-researched area of significant importance at firm, national and regional levels, the purpose of this chapter is to consolidate and interrelate knowledge gained from the three distinct literature domains towards focussing the investigative intent of this study. Converging insights from the cross-disciplinary fields, together with preliminary insight from early, casual interaction with the founders / owner-MDs of the first SMFBs engaged in the study, contributed to the establishment of specific research questions and an associated, general research framework guiding the research thrust. The methodology adopted in this study is discussed in the next chapter.

This chapter is structured as follows: It starts with an overview of the research gaps identified and rationale motivating this research (5.2), and follows with a consolidation of the literature reviewed, converging on this study's objectives (5.3). Next, emergent research questions focussing the investigative intent of this study are presented and discussed (5.4).

### **5.2 Research gaps and overview of research rationale**

Directly contributing to the underlying rationale for investigating this research problem, smaller organisations engaged in traditional economic activity have not featured sufficiently in extant internationalisation research, while the internationalisation of SMFBs remains severely under-researched – “*almost never been analysed*” (Casillas and Acedo 2005: 135; Gallo and Garcia Pont 1996; Neubauer and Lank 1998; Davis and Harveston 2000; Zahra 2003; Fernandez and Nieto 2005; Casillas *et al* 2007; Kontinen and Ojala 2010; Schulze and Gedajlovic 2010). This, notwithstanding family business' unique

characteristics directly impinging on strategic considerations (Donckels and Frohlich 1991; Sirmon and Hitt 2003; Zahra 2003), their high prevalence, constituting the majority among enterprise and SME populations (Donckels and Frohlich 1991; Sharma *et al* 1996; Gomez-Mejia *et al* 2001; IFERA 2003; Zahra 2003; Sharma 2004), as well as the fact that internationalisation, “*the most complex strategy any firm can undertake*” (Fernandez and Nieto 2005: 77), is ever more critically important for growth and survival in increasingly competitive and dynamic globalised markets (Oviatt and McDougall 1994; Etemad and Wright 1999; Dimitratos *et al* 2010; Andersson 2011).

In this respect, “*knowledge constitutes the most critical resource for surviving and developing*” (Mejri and Umemoto 2010: 161; Nonaka and Takeuchi 1995; Grant 1996, 2000), and among vying perspectives on firm internationalisation consensus emphasises the fundamental importance of knowledge as core to internationalisation (Johanson and Vahlne 1977, Cavusgil 1984; Welch and Luostarinen 1988; Oviatt and McDougal 1994; Bloodgood, Sapienza and Almeida 1996; Reuber and Fischer 1997; Eriksson *et al* 1997; Knight and Liesch 2002; Peterson *et al* 2002; Brenan and Garvey 2009; Fernhaber *et al* 2009).

The notion of absorptive capacity (ACAP) contends with the firm’s acquisition of external information and knowledge enabling it to do new things and innovate, enhancing competitive advantage. A process and dynamic capability reflected in the ability to recognise the value of new external information and knowledge, acquire it, assimilate it, and eventually utilise and exploit it by applying it to commercial ends (Cohen and Levinthal 1990; Zahra and George 2002b). Notwithstanding, currently no ACAP research explicitly investigating the internationalisation process is evident. In rare instances, the internationalisation context is encountered incidentally, in research studying large MNEs or their subsidiaries – the internationalisation process not the focus (e.g. Gupta and Govindarajan 2000). Additionally, such perspectives are detached from the traditional SMFB context of this thesis. Although fledgling interest in the ACAP construct in SMEs is noted, (Liao, Welsch and Stoica 2003; Gray 2006) that research still emphasises high-technology, scientifically-related, innovative processes in larger and more structured SMEs<sup>28</sup>.

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<sup>28</sup> For example Liao *et al* (2003) include firms employing up to 500 employees as SMEs. This is double the criterion for the EU SME definition adopted in this study, which emphasises smaller organisational forms.

In the case of family business research a void exists. In rare instances where the terms coincide, ACAP is not central to the study – either just mentioned in passing (e.g. Zahra, Hayton and Salvato 2004; Eddleston *et al* 2008; Higginson 2010), or conversely, the incidental family aspect remains unexplored (e.g. Jones 2001b; Gray 2006).

Although the underlying fundamentals of ACAP apply universally, as noted, extant literature remains narrowly focussed on mainly larger corporate forms transacting business in technologically-oriented or knowledge-intensive sectors. Operationalisations of ACAP empirically contend with formalised knowledge management infrastructure and procedures, with an “*over-emphasis*” on R&D, patents and other explicit scientifically-related activity and measures (Lane *et al* 2006: 852; Cohen and Levinthal 1989, 1990; Lane and Lubatkin 1998; Van den Bosch, Volberda and deBoer 1999; Easterby-Smith *et al* 2008). Such research frameworks and operationalisations are incompatible and far detached from the traditional SMFB context of this study. Scholars underlined this R&D emphasis as a shortcoming in ACAP literature, consequently calling for broader approaches (Lane *et al* 2006; Easterby-Smith *et al* 2008).

The next section consolidates the literature from the three fields of small firm internationalisation, family business studies and ACAP, already independently reviewed – in line with the research’s objective.

### **5.3 Literature consolidation**

The literature reviewed formed a basis for this study examining the:

Internationalisation of Traditional,  
Small and Medium-sized Family Businesses:  
An Absorptive Capacity Approach

Family businesses’ unique characteristics derive from distinct resource endowments and the way in which they are combined. Beyond ownership, governance and succession characteristics (Chua, Chrisman and Sharma 1999; Steir 2003; Naldi *et al* 2007), reference is made to tacit and idiosyncratic aspects of these resources and capabilities – the ‘familiness’ of the firm (Habbershon and Williams 1999; Habbershon *et al* 2003).

'Familianness' derives from complex interrelated dimensions arising from 'ownership', the 'family' and 'management' dimensions (Tagiuri and Davis 1982), and is brought together in the culture of the family firm – an important potential source of competitive advantage (Denison *et al* 2004; Zahra *et al* 2004, Pearson *et al* 2008). In the context of this study, the owner-manager tends to “*define the personality of the business*” (Sorenson 2000: 198; Dyke, Fischer and Reuber 1992) – organisational culture a direct extension and reflection of the founder / owner-manager.

Ultimately, whether unique SMFB characteristics and tacit resources result in competitive advantage depends on three key types of enabling or limiting factors: (i) *external* factors, (ii) *internal* factors, and (iii) *top management attitudes* (Gallo and Sveen 1991; Gallo and Garcia Pont 1996: 46; Goffee 1996). These 3 tiered levels mirror factors impacting upon both small firm internationalisation and ACAP. 'Top management' primarily refers to founder / owner-managers' attitudes, vision and assumptions pertaining to decision-making, determining resource deployment (Gallo and Garcia Pont 1996). Indeed, compared with non-family businesses, consensus exists on “*the absolutely central position of the founder-owner-manager*” with respect to control and strategic direction of SMFBs (Donckels and Frohlich 1991: 150; Dyke, Fischer and Reuber 1992; Casillas *et al* 2007).

The founder-owner's managerial skills have been identified as important contributing factors for competitive edge in the market (Habar and Reichel 2007). However, beyond any structured or formal managerial and strategic skills, in SMFBs, researchers have rather tied innovation and performance (international or otherwise) more closely to the capabilities, attitude and entrepreneurial skills of the founder / owner-manager (Gallo and Garcia Pont 1996; Penn *et al* 1998; Knight 2001). Indeed, small firm internationalisation does not always derive from formal planned strategy (Agndal and Axelsson's 2002), but also from serendipity or 'gut reactions' (Meyer and Skak 2002), where social interaction, contacts and chance encounters play an important role.

In SMFBs, management is typically unstructured, centralised (Dyer and Handler 1994; Hoy and Verser 1994) and dominated by the founder / owner-manager (Kotey 2005; Daily and Dollinger 1993). Having less formally-trained or professional management (Donckels and Aerts 1988; Davis 2001; Kotey 2005), business or strategic planning is thus less formal (Kotey 2005) and rather than documented policies or procedures, face-to-face forms of authority prevail. Operations are aligned to the evolving visions and ideas of the



owner-manager (Pascarella and Frohman 1990; Goffee 1996). These informal systems constitute unique tacit resources potentially providing sustainable advantage for SMFBs (Sirmon and Hitt 2003) – ranging from perseverance and commitment in motivation, creativity and innovation, to flexibility and swiftness of response. Thus, *“the values and aspirations of family owners and managers may influence the development and disposition of resources directly, and also indirectly through ... recognition of environmental opportunities and threats”* (Chrisman, Chua and Sharma 2003: 24; Schein 1983; Dyer 1986; Sorenson 2000; Zahra 2003; Zahra *et al* 2004).

In parallel, small firm internationalisation emphasises the central importance of the *“characteristics of decision-makers, such as who they are, what they know and whom they know”* (Sarasvathy 2001: 249), *“influence[ing] how the firm will respond ... the manager plays an important role in identifying the stimuli for internationalisation”* (Chetty and Blankenburg Holm 2000: 91). Unique characteristics derive from the owner-manager’s *“identity, including value systems, beliefs, intentions, and aspirations, knowledge base, and social network”* (Schweizer, Johanson and Vahlne 2010: 348; Dew and Sarasvathy 2002).

From an ACAP perspective, from the outset Cohen and Levinthal (1990: 131-133) stressed the importance of *“critical knowledge”* residing within individuals, recognising that *“it is at this level that the link between absorptive capacity and learning is most evident”* (see also Van den Bosch *et al* 2003: 6) – the owner-manager both a gatekeeper and facilitator of ACAP (Cohen and Levinthal 1990; Taylor 2000; Lennox and King 2004). This complements both *‘small firm internationalisation’* and *‘family business’* views emphasising the owner-manager’s centrality.

Researchers seem to agree that besides performance motivations, generally for small firms, the internationalisation process is linked to growth – and in instances survival (Calof and Beamish 1995; Jones 1998). More closely associated to the capabilities, attitude and entrepreneurial skills of key individuals rather than to management skills and strategic factors (Gallo and Garcia Pont 1996; Penn *et al* 1998).

Welch and Luostarinen (1988: 36) provided an early definition of internationalisation: *“the process of increasing involvement in international operations”*. Beyond exchanged / transacted products or services, ‘involvement’ embraces various forms of interaction across international boundaries – including communication and transfer of learning and

knowledge (Johanson and Vahlne 1977, 1990; Young *et al* 1989; Burpitt and Rondinelli 2000; Hutchinson *et al* 2006; Pangarkar 2008). Johanson and Vahlne (1977) emphasised experiential knowledge – mostly from direct interaction, specifically individuals working at the boundary between the organisation and the foreign market, generally the founder / owner-manager in the context of this study. They do, however, acknowledge possibility of experience gained vicariously from hiring people, seeking advice from knowledgeable persons and interaction with foreigners. Both tacit experiential knowledge types, ‘market’ (specific to a foreign market), and more general ‘internationalisation’ knowledge (can be applied to different markets), arising from ‘learning by doing’ are important for the perception and exploitation of internationalisation opportunities. This runs parallel to ACAP’s emphasis on the importance of the individual’s prior knowledge.

ACAP is both a process and capability (Cohen and Levinthal 1990; Zahra and George 2002b), defined as “*the ability to identify and value external information, assimilate it, and commercially apply it*” (Cohen and Levinthal 1990: 128) – a “*fundamental learning capability*” (Lane *et al* 2006: 839). Essentially, following opportunity recognition, ACAP’s process entails 3 main components in external information and knowledge ‘acquisition’ and ‘assimilation’, its use and eventual ‘exploitation’ (Cohen and Levinthal 1990; Lane, Salk and Lyles 2001; Van den Bosch *et al* 2003; Todorova and Durusin 2007) – an ensuing dynamic capability and “*most critical factor influencing knowledge acquisition from external sources*” (Upadhyayula and Kumar 2004: 3), enhancing the “*firm’s ability to gain and sustain a competitive advantage*” (Zahra and George 2002b: 185). While ‘potential’ ACAP resides in acquired knowledge stocks, it is ‘realised’ upon exploitation (Zahra and George 2002b). As an antecedent, prior knowledge begets knowledge, so that ACAP becomes a self-reinforcing learning cycle leading to learning and new knowledge, in turn enabling, facilitating and leading to further ACAP (Lane *et al* 2002; MacDonald and Madhavaram 2007).

The step-wise, cautious internationalising process based on gradual learning, mitigating risk and progressively increasing commitments with successive international ventures is described as: “*a logical and sequential process of acquisition, integration and use of knowledge about foreign markets*” (Monye 1997: 7; see Johanson and Vahlne 1977; Cavusgil 1984) – perfectly echoing ACAP definitions (Cohen and Levinthal 1990).

While such a process might be compatible with general internationalisation patterns of traditional SMFBs this study investigates, it need not necessarily be the case. In this regard, stage and process theories on internationalisation have been critiqued for their linear progressive explanation and their failure to explain changing internationalisation patterns among small firms, such as rapid internationalisation (e.g. Jones 1999; 2001; Oviatt and McDougall 1994). Revisiting their thesis, Johanson and Vahlne (1990, 2003, 2009) maintained knowledge's central importance in internationalisation, and complementing Hymer (1976), emphasised further the importance of contacts and networks – ultimately viewing social transactions and interaction as the basis of international business activity (Johanson and Vahlne 2009).

Zahra *et al*'s (2009: 81) recent work on SMEs' innovative gains from internationalisation underlines the central importance of social knowledge, defining it a crucial asset that “allows SMEs to comprehend, assimilate and exploit the types of knowledge that exist in these markets” – again, directly echoing ACAP definitions. This view is accommodated by the network approach to internationalisation which sees contacts, relationships and networks with “customers, suppliers, competitors, support agencies, family friends and so on” (Coviello and McAuley 1999: 227; Gomes-Casseres 1994; Chetty and Blankenburg Holm 2000) as a conduit for knowledge, offsetting resource limitations and facilitating identification and exploitation of international opportunities (Johanson and Mattsson 1988; Bonaccorsi 1992; Chetty and Blankenburg Holm 2000; Chetty and Eriksson 2002; Hadley and Wilson 2003) – influencing the rate, pattern, market selection and entry mode of SMEs' internationalisation (Axelsson and Johanson 1992; Johanson and Vahlne 1992; Coviello and Munro 1997; Holmlund and Kock 1998). Given resource implications, smaller organisations rely more on such tacit, socially-based external resources (Burpitt and Rondinelli 2000; Chetty and Wilson 2003; Hutchinson *et al* 2006; Johanson and Vahlne 2009; Fernhaber *et al* 2009). Ultimately, “managing relations” is considered “the essence of international entrepreneurship” (Etemad 2003: 223).

Discerning family business characteristics, scholars similarly identify contacts and social capital as a unique essential resource (Sirmon and Hitt 2003). In parallel with network perspectives on internationalisation, mostly informal, social contacts and relationships, are highlighted as enabling SMFBs to access resources, including knowledge and new opportunities, often based on trust and reputation (Salvato and Melin 2008). Also critical for these firms' future intergenerational development, social interaction is positively

associated with family firms' performance, growth and opportunity identification (Long 1979; Aldrich and Zimmer 1986; Sorenson *et al* 2010). Additionally, SMFBs are characterised by stronger networks and longer-term face-to-face relationships (Gudmundson *et al* 1999; Kontinen and Ojala 2010a, 2011).

Critical for success in internationalisation are incorporated, hard to observe 'organic' social aspects including trust and personal ties (Ghauri *et al* 2003). Here, "*knowledge embedded in long-term relationships is often concentrated in one person in the firm, who will have a substantial impact on internationalization through close social relationships with other individuals*" (Ruzzier *et al* 2006b: 485).

Likewise in ACAP, "*socialisation capabilities*" primarily increase a firm's realised ACAP (Jansen *et al* 2005: 999). Indeed, beyond Zahra and George's (2002) reference to strong relationships in acquiring and sharing information, Todorova and Durusin (2007) stress the value of 'weak ties' (Granovetter 1973, 1983) as well as relationships. This agrees with Kogut and Zander (1992) that individuals' knowledge and social interaction contribute to firms creating new knowledge by "*recombining their current capabilities*". Mitigating 'path dependency', positing that prior *related* knowledge only begets new *related* knowledge (Hayek 1945; Ronstadt 1988), 'weak ties' are useful for recognising previously unperceived *unrelated* opportunities – enhancing ACAP and enabling absorption of knowledge from new domains, '*beyond what is currently known*' (Van den Bosch *et al* 2003: 14; Van Wijk *et al* 2001), thus constituting valuable 'double-loop' learning in highly competitive environments characterised by constant change (Argyris and Schon 1978). In this regard, scholars observe cases of accidental or "*unplanned*" internationalisation (Crick and Spence 2005; Bell 1995; McAuley 1999). Often attributed to luck or serendipity, in reality these often derive from social networks and ties driving the discovery of international opportunities (Meyer and Skak 2002; Chandra *et al* 2009; Ellis 2011). Thus while Cohen and Levinthal (1990, 1994: 227) commented that "*fortune favors the prepared*", more recently, Chandra *et al* (2009: 51) established that "*opportunity favours the prepared and connected*".

The highlighted importance of contacts and trust-based relationships constitute antecedents and key components in SMFBs' internationalisation and ACAP, shifting focus away from emphasis on formal and structured R&D-based processes for accessing external information and knowledge.

Overall, linkages between learning and opportunity recognition are evident (Lumpkin and Bergmann Lichtenstein 2005). Besides unanticipated or serendipitous encounters (Kirzner 1997), prior knowledge, an integral ACAP element, is understandably central to the discovery of entrepreneurial opportunities (Shane 2000). Relevant in both cases, researching fundamental aspects of international entrepreneurship, McDougall and Oviatt (2003: 5) posit that *“for international entrepreneurs, networks and cooperation are believed ... to be essential to successful new venture operations. ... Finally, organizational learning and knowledge management are fundamental to successful entrepreneurship in an international environment.”*

Views emphasising the founder / owner-manager’s central role are also congruent to international entrepreneurship perspectives, also associated with proactive and innovative behaviour – highlighting the individual’s role, including unique traits and cognitive processes. McDougall and Oviatt (2003:7) posited *“International Entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services”* – thus in line with this study’s research objectives, it seeks to *“examine ... how, by whom, and with what effects those opportunities are acted upon”*. In this regard, various scholars emphasise international entrepreneurial orientation particularly in the case of SMEs (Etemad *et al* 2001; Knight 2001), also ascertaining that *“opportunity identification represents the most distinctive and fundamental entrepreneurial behaviour”* (Gaglio and Katz 2001: 95; Gaglio 1997; Kirzner 1979; Stevenson and Jarillo 1990; Venkataraman 1997).

Researching first time international opportunities, Chandra *et al* (2009) distinguish two perspectives on how opportunities are found: ‘search’ versus ‘discovery’. In the former, opportunities emerge from a *“purposeful, rational and systematic search process”* (Chandra *et al* 2009: 37; Andersson 2011; see e.g. Drucker 1998; Heron and Sapienza 1992) related to formal strategic planning – in response to problems such as *“declining sales, market share, profit or tough competition”*. In ACAP literature, the extent of competition is considered as a key driver or antecedent (Easterby-Smith *et al* 2005). Here, searchers are aware of what they don’t know, and know what missing information they are seeking (Kirzner 1997) – in ACAP terms, they *“recognize the value”* of required external information (Cohen and Levinthal 1990: 128).

On the other hand, the ‘discovery’ school “*believes that opportunities are unknown until discovered, and that one cannot deliberately search for something that one does not know exists*” (Chandra *et al* 2009: 37; Andersson 2011; see e.g. Kirzner 1997; Kaish and Gilad 1991). In emphasising conditions conducive to such discovery, this perspective highlights the possession of relevant skills, prior knowledge and alertness and, particularly relevant to this research, contacts and networks facilitating the discovery process (Kirzner 1973, 1979, 1997) – antecedents in both SME internationalisation and ACAP processes.

Knowledge is a central tenet in small firm internationalisation and ACAP. Across the three literature domains, as discussed extensively in earlier chapters, emphasis was mostly placed on tacit, experiential knowledge, or ‘know-how’. Though various types were put forward, these were mainly consolidated in *market* (Johanson and Vahlne 1977; Eriksson *et al* 2000), and more generic *internationalisation* (Bloodgood *et al* 1996; Eriksson *et al* 1997; Reuber and Fischer 1997) knowledge types. Also important for competitive differentiation in international contexts, *product and technology* associated knowledge (Bilkey 1978; Cavusgil and Nevin 1981; Oviatt and McDougall 1994, 1999) were also highlighted. While at this point, the different categories and characteristics of knowledge involved in internationalisation are taken as a given guide, however, this received insight is not being imposed on the research. Rather, emerging findings on relevant information and knowledge characteristics, its provenance, patterns and outcomes associated with the internationalisation of the SMFBs under study, will in analysis be discussed in relation to the theory.

In concluding, contrary to popular perception, beyond definitional attributes, small family business qualification presents a far from ‘one-size-fits-all’ classification (Zahra 2003). In the manifestation of a family business’ unique characteristics and capabilities, tacit resources and idiosyncratic circumstances into superior competitive advantage depends on various factors associated with the external environment, internal family firm dynamics and the individual characteristics and competencies of the owner-manager. Indeed, SMEs’ internationalisation behaviour is likened to “*fingerprints*”, unique to each firm (Jones 2005: 287). Apart from circumstance and environmental externalities, a core determining factor in the internationalisation of SMFBs is the founder / owner-manager (Gallo and Garcia Pont 1996), and the crucial importance of knowledge – often flowing through important contacts, relationships and networks. These potentially mitigate various resource

limitations, and provide for access to markets, business facilitation, new opportunities and further contacts.

## 5.4 Research questions

The objective of this research is to investigate the internationalisation of SMFBs engaged in traditional business activity. Introduced in the first chapter, the established aims and objectives of this study are presented below:

**The overall aim of this research is to investigate and examine the outward internationalisation of small and medium-sized family businesses (SMFBs) engaged in traditional business activity.**

In adopting an ACAP approach, the study seeks to further:

**investigate and better understand how SMFBs employ prior knowledge, as well as acquire new external information and knowledge relevant to internationalisation activity, assimilate it and eventually leverage it towards exploiting internationalisation opportunities – as they seek growth, viability and survival in increasingly competitive dynamic markets.**

In line with the aims and objectives of this research, upon synthesis and consolidation of the literature, and as research progressed from early insight, the following emergent research questions further focussed the investigative thrust of this study.

The primary, overarching exploratory research question driving the central thrust of this study is:

► ***What*** is the nature and extent of internationalisation among SMFBs in this context?

In examining the nature and extent of these SMFBs' internationalisation, the following sub-questions are presented:

**What** are the main drivers, motivations and processes involved in these SMFBs' internationalisation?

**How** do they go about it and **what** role do family dynamics play in this?

Secondly, given the fundamental centrality of knowledge in internationalisation, towards examining and better understanding how these SMFBs internationalise and identify and exploit international business opportunities, this research also adopts an ACAP approach to focus further. It investigates how these SMFBs acquire and utilise information and knowledge associated with internationalisation towards identifying and exploiting international business opportunities. This objective presents the next research questions:

► **How** do such SMFBs approach knowledge requirements associated with internationalisation, as proposed by the absorptive capacity approach?

In this regard, in line with established and adopted fundamental ACAP elements, and the conceptualised analytic framework that was developed to guide further analysis, the following sub-questions are presented:

In **what** way and **how** is information and knowledge associated with internationalisation acquired and assimilated, utilised and leveraged in internationalisation and exploiting international opportunities, and **what** is the influence of these SMFBs' dynamics?

Drawing from the literature synthesis and incorporating preliminary insight, the study established the following two core corollary research questions ensuing from the latter question, investigating the role of (i) the founder / owner-MD, and (ii) contacts and relationships, in this SMFB internationalisation context:



- ▶▶ **What** is the role of the founder / owner-MD in these SMFBs' internationalisation and associated absorptive capacity processes, and **how** does this impact on overall internationalisation?
  
- ▶▶ **What** role do contacts and relationships play in these SMFBs' internationalisation and absorptive capacity processes? **How** and **why** are these often social and informal contacts and relationships employed, operationalized and leveraged?

Thus, in line with the research aims and focus, in a context-rich way this study explores and examines these phenomena with overall attention in analysis emphasising:

- The SMFBs' general internationalisation processes, dynamics and key factors, manifested in specific internationalisation ventures and critical events;
  
- The nature of ACAP associated with internationalisation within these SMFBs, and its role in specific international business activity;
  
- The role and impact of the founder / owner-MD on these SMFBs' internationalisation and ACAP dynamics;
  
- The role and impact of social contacts and relationships involved in internationalisation and ACAP.

Aspects pertaining to analysis in line with the established research questions are presented and discussed in the next chapter, Chapter 6, *Methodology and Research Design* (subsection 6.6, *Case and data analysis*, p. 209). This includes the emergent, conceptualised framework developed, integrating ACAP fundamentals and internationalisation, towards guiding further analysis into how SMFBs and their owner-managers use and acquire knowledge associated with internationalisation, and assimilate and exploit it in specific internationalisation events.

## 5.5 Conclusion

This chapter consolidated the key literature domains critically reviewed forming the basis of this research (*small firm internationalisation*, *family business research* and *ACAP*), bringing out convergent theoretical strands fundamental to the study's objectives – forming a foundation from which this research can proceed further. Through this, in line with the aims and objectives of this study, emergent research questions focussing the investigation were established and presented.

This thesis aims to contribute to filling gaps identified in the research rationale presented, driving the intent of this research – focussed on examining the internationalisation of traditional SMFBs, adopting an ACAP approach in analysis. It aims to better understand the internationalisation motivations and processes involved in these under-researched firms' internationalisation, including roles of the owner-manager and contacts and relationships, as well as associated ACAP dynamics.

The rationale behind the methodological approach adopted, and research design including research framework are presented and discussed next in Chapter 6.

# Chapter 6

## Methodology and Research Design



## 6 Methodology and research design

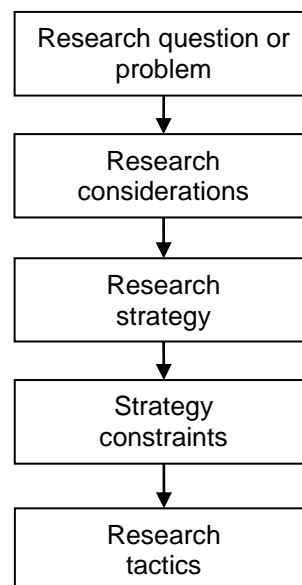
### 6.1 Introduction

Following through from the consolidation presented in the last chapter, where research questions guiding the investigative intent of this study were presented, this chapter discusses the methodology adopted in this study. In view of the stated objectives, it consolidates the philosophy (6.2), rationale and underlying methods used (6.3 and 6.4). The research design and framework are established (6.5 and 6.6), and processes involved in analysis explained. A profile overview of the SMFBs involved is presented. Considerations relevant to the validity and reliability of methods employed and implications on findings (6.7) are discussed.

### 6.2 Research philosophy and methodological considerations

Research methodology is the “*operational framework within which the facts are placed so that their meaning may be seen more clearly*” (Leedy 1993: 121). On identifying unsolved problems or unanswered questions, reasoned answers are sought to add “*value to the body of accumulated knowledge*” (Remenyi *et al* 1998: 23). Ideally research strategies possess an inner logic, threading sequacious paths as in Figure 6.1:

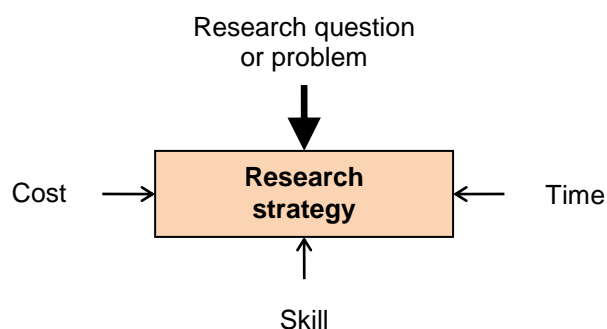
**Figure 6.1 – The process from research problem or question to research tactics**



Source: Remenyi *et al* 1998

In practice this process is never as ‘surgically clean’ or sequacious as presented – since qualitative exploratory research often demands an iterative approach and ongoing revisiting of key research themes. Indeed in such cases a flexible approach is required. Revisited decisions on key research themes are developed and emerge as the research proceeds. In the light of this, the researcher then strives to select the most appropriate research methods for the task at hand within the confines of the resources available. While the research question is generally the more important determinant, research tactics adopted are thus also considered in the light of time and resource availability as well as attendant constraints (Remenyi *et al* 1998; Silverman 2005; Richards and Morse 2007) (Figure 6.2).

**Figure 6.2 – Four issues affecting research strategy**



Source: Adapted from Remenyi *et al* 1998; Silverman 2005; Richards and Morse 2007

In this research, cost and time considerations on potential options were determined by the PhD programme’s submission requirements – research resulting from the candidate’s individual effort precluding reliance on research teams and similar resources. Furthermore, the iterative nature of qualitative research and methods of inquiry, including handling and analysis of data, is comparatively considerably more time consuming. In setting off on this quest for knowledge and understanding, Hughes (1990: 11) explains the fundamental importance of discerning various philosophical approaches with regard to methodological options available:

*“Every research tool or procedure is inextricably embedded in commitments to particular visions of the world and to knowing that world. .... No technique or method of investigation is self-validating ... they operate only within a given set of assumptions about the nature of*

*society, the nature of human beings, the relationship between the two and how they may be known.”*

Logically, the very nature and context of this research guided the key philosophical and methodological choices taken. Although in reality hard to discern within such an assumed bi-polar yet complex framework, generally, two key broad philosophical orientation options are presented in adopting a research stance: *positivistic* (essentially deriving from research in the natural sciences) or *phenomenologically-related* (essentially deriving from research in the social sciences).

Assuming the researcher is investigating objective social reality, positivism is conducive to statistical analysis of quantifiable observations. At a fundamental level, positivism presents the researcher as an objective analyst, independent and distinct from the investigative proceedings. Assuming that independent causes lead to the observed effects, resulting evidence is in turn reduced to mathematical generalisations of observed phenomena (Remenyi *et al* 1998: 33).

Sir Peter Medawar (1986) recalled asking Sir Karl Popper, one of the most influential science philosophers of the 20<sup>th</sup> century, to “*express in a sentence the quintessence of the teaching of positivism*”. Popper immediately replied: “*The world is all surface*”. Mirroring this sentiment, deriving from its very nature, especially in the social sciences, positivism is often *not* considered as an approach that will lead to “*interesting or profound insights into complex problems especially in the field of business and management studies*” (Remenyi *et al* 1998: 33).

Phenomenological strategies see behaviour determined by phenomena of experience rather than external objective reality – each situation “*unique and its meaning ... a function of the circumstances and the individuals involved*” (Remenyi *et al* 1998: 34). Researchers here are intrinsically part of research processes: “*our acts of observations are part of the process that brings forth the manifestation of what we are observing*” (Wheatley 1992: 36; Miles and Huberman 1994)

Tradeoffs among positivistic and phenomenological methodologies revolve around perspectives on the objectivity or subjectivity of reality, depth of understanding, and ensuing generalisability. While positivistic perspectives generally lead to an over

simplification of reality, holistic phenomenological perspectives help gain access to underlying “*complex realities*” (Gummesson 2000: 88, 120).

The aim here is not to debate merits or demerits of methodological strategies, rather to justify the suitability of the methodology adopted. Although qualitative and quantitative approaches are not rigidly dichotomous, Cook and Reichardt (1979) present the following distinctions (Table 6.1):

**Table 6.1 – Classic distinctions among quantitative / qualitative research methods**

Quantitative Research	Qualitative Research
<ul style="list-style-type: none"> <li>• positivistic</li> <li>• hypothetico / deductive</li> <li>• particularistic</li> <li>• objective/outsider centred</li> <li>• outcome oriented</li> <li>• natural science worldview</li> <li>• attempt to control variables</li> <li>• goal: find facts &amp; causes</li> <li>• static reality assumed; relative constancy in life</li> <li>• verification oriented</li> <li>• confirmatory</li> </ul>	<ul style="list-style-type: none"> <li>• phenomenological</li> <li>• inductive</li> <li>• holistic</li> <li>• subjective/insider centred</li> <li>• process oriented</li> <li>• anthropological worldview</li> <li>• relative lack of control of variables</li> <li>• goal: understand actor's view</li> <li>• dynamic reality assumed; "slice of life"</li> <li>• discovery oriented</li> <li>• explanatory</li> </ul>

Source: Adapted from Cook and Reichardt (1979)

Table 6.2 below indicates distinctions in data types, data collection and research sequence in typical quantitative and qualitative research methodologies.



**Table 6.2 – Typical characteristics in quantitative / qualitative research methods**

	Quantitative	Qualitative
<b>Data types and typical data collection methods</b>	<p>Quantitative methods use numbers and statistics.</p> <p><i>Examples:</i> experiments, correlational studies using surveys &amp; standardized observational protocols, simulations, supportive materials for case study (e.g. test scores).</p>	<p>Qualitative methods use descriptions and categories (words).</p> <p><i>Examples:</i> open-ended interviews, naturalistic observation (common in anthropology), document analysis, case studies/life histories, descriptive and self-reflective supplements to experiments and correlational studies.</p>
<b>General research sequence</b>	<ol style="list-style-type: none"> <li>1. Observe events/present questionnaires /ask questions with fixed answers</li> <li>2. Tabulate</li> <li>3. Summarize data</li> <li>4. Analyse</li> <li>5. Draw conclusions</li> </ol>	<ol style="list-style-type: none"> <li>1. Observe events/ask questions with open-ended answers,</li> <li>2. Record/log what is said and/or done</li> <li>3. Interpret (personal reactions, write emergent speculations or hypotheses, monitor methods)</li> <li>4. Return to observe, or ask more questions of people</li> <li>5. [recurring cycles of 2-4--iteration]</li> <li>6. Formal theorizing [emerges out of speculations and hypotheses]</li> <li>7. Draw conclusions</li> </ol>

Source: Compiled from various sources including Cook and Reichardt (1979)

Rigid reverence to such opposing distinctions (see Table 6.1) may easily encourage a false dichotomy. Indeed, the two methods are not irreconcilable, and the relevance of mixed method approaches is acknowledged.

Researchers operating qualitative perspectives, each trailing a long tradition (Miles and Huberman 1994), are often referred to as adopting ‘non-positivist’ models of reality. Compared to the defined repertoires of quantitative methodologies, “*there is no single agreed model within qualitative research*” (Silverman 2005: 9). A perceived drawback sometimes landed is that the findings of the phenomenologist cannot be modelled. Remenyi *et al* (1998: 34) argue that “*the phenomenologist believes that the world can be modelled, but not necessarily in a mathematical sense. A verbal, diagrammatic, or descriptive model could be acceptable*”.

Ultimately, scientific discovery or knowledge is based on a process of argument and disagreement towards a rationale converging consensus among peers in the community. Whether positivist or phenomenological in approach, knowledge is in the end based on argumentation and acknowledgement (Wittgenstein 1969, Collins 1994). As pointed earlier, it is beyond the remit of this study to settle any argument or debate on opposing views and merits of various methodological viewpoints. The aim is to provide sound rationale and justification of the methodology adopted and its suitability for the purpose of this research.

### 6.3 Research paradigm: Approach adopted

The nature of this research is exploratory, as it seeks rich insight and deeper understanding of under-researched phenomena, their underlying processes and contextual dynamics. It examines the ‘*where?*’, ‘*why?*’ and ‘*how?*’, beyond the descriptive ‘*what?*’ of more reductionist and quantitatively-led research approaches – **the objectives of this research favour an inductive, non-positivistic stance inclined towards qualitative rather than quantitative methodological approaches.** “*This intimacy with the phenomenon of interest means that the reader can see the world through the researcher’s eyes, which often captures the informants’ experiences*” (Bansal and Corley 2011: 235).

Noting “*qualitative research in international business has been rare*” (Doz 2011: 582), researchers observe that many “*hot*” or evolving topics generating interest specifically in international business “*require a qualitative research approach*” (Pauwels and Matthyssens 2004; see also Buckley and Chapman 1996; Buckley 2002; Doz 2011). Indeed, the need for richer, deeper insight-generating qualitative research specifically in the nascent ACAP field is also explicitly articulated (Easterby-Smith *et al* 2008; Zahra and George 2002b). For example, on the need for better understanding into the deeper mechanics of ACAP, Easterby-Smith *et al* (2008: 483) posit:

*“... this limited development results from the dominance of quantitative studies which have failed to develop insights into the processes of absorptive capacity ... [on the other hand] ... recent qualitative studies have successfully opened up new perspectives.”*

This criticism on existing research being overly dependent on quantitative positivist techniques, and a call for more holistic and qualitative methods has also been directed at the

literature on international entrepreneurship among SMEs (see e.g. Coviello and Jones 2004; Fillis 2004).

Echoing previous arguments on the importance of philosophical underpinnings (Remenyi *et al* 1998; Hughes 1990), Silverman (2005: 6) comments that research problems are not neutral, and:

*“How we frame a research problem will inevitably reflect commitment (explicit or implicit) to a particular model of how the world works. And in qualitative research, there are multiple, competing models.*

In this regard, scholars highlight two broad main paradigms in social science research: positivist and interpretivist traditions – the latter of which, phenomenology forms a part. A research paradigm offers a broad philosophical basis underpinning a study. It contends with the view taken on the nature of reality (ontology), the kind of knowledge that can be attained about that reality (epistemology), and how that reality can be investigated (methodology).

Thus, in seeking a holistic understanding of the phenomena under research, business activities being complex, concerned with human behaviour embedded in social contexts and unique circumstances (Saunders *et al* 2003), this research leans towards interpretivist philosophy which underlies qualitative methodological approaches, here aiming to examine rich complexities in SMFBs’ internationalisation. Through this paradigm the social world is seen as complex, not easily lending itself to theorising by determinate laws. Drawing from the ontological view that ‘reality’ is socially constructed, in contrast to positivist perspectives, the social world is seen to consist of multiple, subjective realities rather than a single objective one. Standing back from the research context, the interpretivist researcher is seen as independent – yet what he observes is seen to be subjective rather than objective (Easterby-Smith *et al* 1991). Seeking deep meanings, the context and circumstances within which behaviours occur is important and is interpreted by the researcher (Saunders *et al* 2003). Still in control of the nature of what comes out of the research, the interpretivist researcher seeks to understand the subjective reality of participants in a way that is meaningful for the participants themselves.

Beyond commitment to qualitative methods, two further questions need to be addressed. These pertain to the methods we have in mind (interviews, focus groups, observation, text,

audio or video recordings), and justification on the relevance of methods chosen in relation to the research problem and our view of the world (Silverman 2005). Distinguishing between models, concepts, theories and hypotheses, Silverman (2005: 99) observes:

*“In many qualitative research studies, there is no specific hypothesis at the outset. Instead hypotheses are produced (or induced) during the early stages of research ... A ‘methodology’ refers to the choices we make about cases to study, methods of data gathering, forms of data analysis etc... our methodology defines how one will go about studying any phenomenon ... Like theories, methodologies cannot be true or false, only more or less useful.”*

### **6.3.1 Case study approach**

Business situations are complex and unique, functions of circumstance and individuals (Saunders *et al* 2003), with organisational processes embedded in context (Pettigrew 1979; 1992). **This study adopts a qualitative case study approach to investigate the internationalisation of traditional SMFBs through the theoretical lens of ACAP.** Case studies are considered particularly useful in research where deeper ‘*how*’ and ‘*why*’ questions are to be answered (Yin 2003; Ghauri 2004).

The decision to adopt a case-study approach is justified dependent on stated objectives, the nature of the research questions, setting and context – exploring relevant processes, dynamics and attendant developments over time, where organisational characteristics, economic activity, international dimensions and family contexts are considered important. The holistic nature of case studies is resolutely more conducive to generating valuable insight into such research – gaining access to underlying “*complex realities*” (Gummesson 2000: 88, 120). Ghauri (2004: 111; see also Miles and Huberman 1994; Yin 2003) summarily presents key advantages directly relevant:

1. Deepen understanding. Allows longitudinal approach and follow-up. Similar to historical approach but better since direct interrogation via interviews possible,
2. Contextuality – particularly useful when phenomena under investigation are difficult to study outside their setting,
3. Level of depth allows for theory-building not just theory testing,
4. Holistic allowing various views and perspectives on investigation, covering viewpoints, time, and factors. Concepts and variables concerned are often too numerous – making experiment or survey methods inappropriate.

Specifically, Chetty (1996) stresses that beyond often conflicting findings of quantitative research on SMEs' export and internationalisation, in-depth case-based approaches enable a better understanding of causality, processes and outcomes in international activity. ACAP being path- or history-dependent (Cohen and Levinthal 1990), lends itself well to the holistic and historic insight inherent in case study research. Goffee (1996: 46) underlines that complex exploratory family business research "*favour[s] an emphasis on qualitative research methods rather than more quantitative survey techniques. Detailed case studies ... are more likely to yield insight*".

Additionally, the cross-disciplinary domain within which this research is positioned lacks sound theoretical foundations. Scholars reinforce that case studies are particularly well suited to research into areas "*where existing theory seems inadequate*", and can contribute to "*incremental theory building*" especially in new areas – an expected contribution from this research (Eisenhardt 1989: 548-549, see also Yin 2003; Ghauri 2004).

**This study adopts an inductive approach seeking deep meanings and understanding of phenomena** (Miles and Huberman 1994). Contrary to deduction where extant theory is the starting point, in induction theory building takes place after the data has been collected, and is concerned with the context in which events take place (Saunders *et al* 2003). Following observation, ensuing patterns lead to tentative hypotheses. Concepts and ideas are generated through induction from the data and are subsequently related to the literature.

Although early identification of research questions and possible constructs is helpful, they are tentative in theory building research (Eisenhardt 1989). Prior exposure to field research inevitably embodies some pre-understanding (Gummesson 2000: 58). Indeed, Miles and Huberman (1994: 17) observe "*any researcher, no matter how unstructured or inductive, comes to fieldwork with some orienting ideas*". They underline that researchers have an idea of the parts of a phenomenon that are not well understood, and know where to look for these things – which settings, and among what actors. Researchers possess ideas about data-gathering: "*At the outset, then, we usually have at least a rudimentary conceptual framework, a set of general research questions, some notions about sampling, and some initial data-gathering devices*". Citing Wolcott (1982), Miles and Huberman (1994) recognise merit in open-mindedness, a willingness to look for both questions as well as

answers: “*it is impossible to embark upon research without some idea of what one is looking for and foolish not to make that quest explicit*”.

Teasing out guiding conceptualisations is therefore necessary. Insights are gained, and initial indications are gradually reined in to tighten the research scope. An emergent, pre-reasoned sceptical approach, open to critique and re-conceptualisation throughout is ideal (Miles and Huberman 1994; Yin 2003; Ghauri 2004; Silverman 2005). In this light, the research questions and conceptualised analytic research framework were determined following insight and observations, guiding the focus of this study.

That said, it is relevant to note that adopting case-studies as a technique does not necessarily denote a methodological choice *per se*. Although the nature of this study requires a qualitative approach, and case studies are often thus associated – case studies may also be primarily quantitative.

**Case studies can be exploratory, descriptive and explanatory. This research embraces the three approaches** (Yin 2003: 14; Ghauri 2004: 110):

1. The *exploratory* stance allows the researcher to answer “*what?*” questions; what were and are the issues facing these family businesses and what key components make up the absorptive capacity processes important to their internationalisation,
2. A *descriptive* approach is adopted to portray an accurate profile of events and situations,
3. An *explanatory* approach seeks to establish causal relationships between variables and answer “*how?*” and “*why?*” questions (Yin 2003).

Case studies do not denote data collection or research design features alone, they are an overall comprehensive research strategy, “*an all-encompassing method – covering the logic of design, data collection techniques, and specific approaches to data analysis*” (Yin 2003: 14). Relevant to this study (Yin 2003: 13):

*“A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”.*

Yin (2003) argues that since in real-life discerning between phenomenon and context is difficult, the case study approach, as an overall research strategy also shapes the technical methods of inquiry including data collection and data analysis strategies. Characteristically “*there will be many more variables of interest than data points ... relies on multiple sources of evidence ... and ... benefits from the prior development of theoretical propositions to guide data collection and analysis*”. Yin (2003) explains the case study method is used when “*you deliberately wanted to cover contextual conditions – believing that they might be highly pertinent to your phenomenon of study*”. This directly reflects the family business context within which this study is positioned.

### **6.3.2 Generalising from case studies**

A presumed limitation of qualitative approaches often claimed by ‘quantitatively inclined’ researchers relates to ‘generalisability’ – inability to statistically extend findings to an established population. As noted, case studies’ quest for richer, deeper, holistic understanding, often precludes the broad (shallower) scope required for quantitative statistical significance. This trade-off is also underlined by purposive sampling – as opposed to random sampling techniques.

Given the justified relevance of such an approach for the purposes of this research, apart from theoretical insight “*empirical issues arise just as well*” (Silverman 2005:127; Gummesson 2000; Yin 2003) and case study research can nonetheless make scientific contributions, inferences and broader generalisations beyond the purposively selected samples they investigate (Yin 2003). Indeed, even “*a single case can be a very powerful example*” providing for scientific insight (Siggelkow 2007: 20; Flyvbjerg 2006). Here the importance of careful case selection or purposive sampling (discussed in 6.4), is underlined in auguring an extent of generalisability and findings beyond a descriptive stance (Yin 2003; Ghauri 2004). Though relevant and extended, the primary objective of this study is not generalizability *per se* – rather a clearer understanding of the underlying processes of internationally-active SMFBs (iSMFBs) engaged in traditional economic activity.

### 6.3.3 Case study methods: Single and multiple

Beyond quantitative / qualitative considerations there exist various methods for conducting case studies (Ghauri 2004; Silverman 2005). Scholars distinguish among different types or categories of case study. For example Silverman (2005) adopts Stake's (2000) identification:

1. Intrinsic. Interest in itself, no attempt at generalising.
2. Instrumental. Revising a generalisation or providing insight into an issue.
3. Collective. Number of cases to investigate some general phenomenon.

Yin (2003) identifies four types :

1. Holistic single case
2. Embedded single case with multiple units of analysis
3. Multiple case with multiple units of analysis
4. Multiple case with one unit of analysis

**This research adopts a collective case study approach – where multiple cases are considered more appropriate in investigating general phenomena** (Ghauri 2004). Additionally, due to potential for replication and extension among cases, “*multiple cases are a powerful means to create theory*” (Eisenhardt 1991: 620). More specifically, in the “*niche*” of qualitative research in international business, multiple case studies are the most important research method (Pauwels and Matthyssens 2004) – allowing for comparative insight across a range of situations or contexts (Ghauri 2004). Apart from adding confidence to findings, such an approach contributes towards broader generalisations and inferences (Gummesson 2000; Miles and Huberman 1994). It enables the researcher to explore patterns and themes across cases to provide for accurate and reliable theory and capture novel findings that may exist in the data (Eisenhardt 1989; Miles and Huberman 1994).

Furthermore, flexibility inherent in case study design allows aspects such as the number of cases, their scope, purpose and research questions to be modified over time as new insight is gained (Eisenhardt 1989; Miles and Huberman 1994). Setting off inductively and taking



place over an extended period of time, this allowed ensuing observations and emergent issues to be engaged and explored further – informing and guiding continuing exploration and investigation (Yin 2003).

The number of cases *per se* is not a determinant for quality (Eisenhardt 1991). Rather theory-driven variance, convergence and divergence in the data are important – the “*only argument to switch from ‘single’ to ‘multiple’ case study research*” (Pauwels and Mattysens 2004: 129). Eisenhardt (1989: 545) recommends four to ten cases. With more than ten “*it quickly becomes difficult to cope with the complexity and volume of the data*” – diluting richness and depth. **In line with analysis requirements and time constraints, this study engages a total of eight case organisations** – approaching the recommended higher limit.

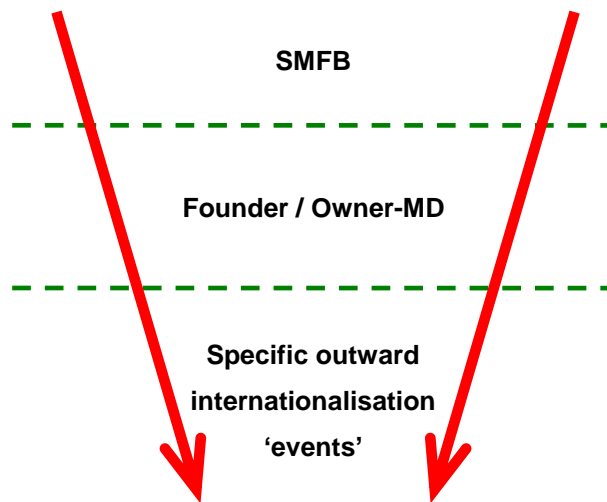
#### **6.3.4 A converging unit of analysis**

The flexible nature of case research and inductive insight led to progressive focus emerging in line with the established research questions.

**The unit of analysis in this study initially started with a broad SMFB-based approach. As enquiry and analysis progressed, investigation narrowed to a finer focus on the founder / owner-MDs’ dynamics in relation to internationalisation, and then focussed further on specific outward internationalisation events.**

Data, hypotheses and theory building being necessarily closely knit (Silverman 2005), once conceptual clarity emerged, the research thrust began shaping the research focus – the unit-of-analysis evolved and progressively tightened in its scope (Figure 6.3).

**Figure 6.3 – Progressive focus and tightening unit-of-analysis**



Source: Author

In this regard, Eisenhardt (1989: 534) observes different levels of analysis possible in case study research, while similarly Miles and Huberman (1994) and Yin (2003) talk about sub-cases within cases. Specifically, Yin (2003: 42-43) underline that *“the same case study may involve more than one unit of analysis”*. The main unit could initially be the *“organization as a whole”*, followed by an *“individual member”*, and ultimately the smallest unit could be an individual event or episode – resulting in different levels of analysis (Yin 2003: 43).

Miles and Huberman (1994: 25) define a *“case as a phenomenon of some sort occurring in a bounded context. The case is in effect your unit of analysis ... [there exists] a focus or “heart” of the study, and a somewhat indeterminate boundary defines the edge of the case”*. In this regard, citing Hammersley and Atkinson (1983), Silverman (2005: 178) also underscores progressive focus: *“the research problem is developed or transformed, and eventually its scope is clarified and delimited and its internal structure explored ... it is only over the course of the research that one discovers what the research is really ‘about’”*.

Thus, in-line with the research objectives of this study, the unit-of-analysis progressively converged onto specific international activity: outward internationalisation events. **For the purposes of this study, an ‘event’ is one where outward international business activity is initiated, involving the export or sale abroad of the SMFBs’ products or services, to**

**a new foreign client** – arising from opportunities that the respective founders / owner-MDs would have taken and exploited (Figure 6.3).

This conforms with emphases on case studies' flexibility enabling modifications and analysis at different levels (Ghauri 2004; Eisenhardt 1989) where emerging patterns inform an iterative deepening line of investigation (Eisenhardt 1989; Miles and Huberman 1994).

In keeping with Miles and Huberman's (1994: 25) focus, the "*phenomenon*" here is SMFB internationalisation, eventually emphasising investigation into the role of the founder / owner-MD, as well as social and informal contacts and relationships – the "*heart*" represents dynamics resulting from internationalisation activity and associated ACAP.

This approach's strength is underlined in its analytic focus converging on actual, contextually-bound, internationalisation events and on real decisions taken at specific points in time. Time is also key element in discerning internationalisation patterns such as gradual or rapid internationalisation, or INVs. This perspective would be impossible to derive from investigation based on hypothetical scenarios. In this regard, Jones and Coviello (2005: 290) note:

*"internationalisation is a process, and therefore, by definition, internationalisation behaviour takes place over time, manifest in a time sequence in which events occur ... internationalisation activities occur over discernible time periods within a dynamic environment, with various activities differing in their duration ... internationalisation activities may be more or less concentrated at a specific reference time or over a time period ... Likewise, learning from past internationalisation experiences may feed forward into present and future internationalisation decisions and actions"* (see also Jones 1999, 2001; Reuber and Fischer 1999; Westhead *et al* 2001).

Introducing elements of longitudinality, holistic approaches allowed the exploration inter-linkages and interrelationships between events – developmental processes, establishing of contacts, and evolution of routines. This provided insight into identification and exploitation of opportunities directly or indirectly related to internationalisation. The chronology provided an objective 'audit trail', tracing developmental point-in-time events and episodes. Focussing on specific internationalisation events allowed for comparative evaluation of experiential and capability development, learning and relational processes across the case organisations at different stages of internationalisation.

Thus, apart from investigations unique to each respective SMFB, specific internationalisation events were also investigated across all SMFBs, relative to each firm's development, in respect of ACAP. Specific 'events' examined and other aspects of analysis are discussed later in this chapter (Subsection 6.6.1, see Box 6.3).

## 6.4 Case selection and sampling considerations

Eight established, iSMFBs, engaged in traditional economic activity were purposively selected. Initially, Chamber of Commerce and Malta Enterprise databases<sup>29</sup> were consulted, as well as a research paper of the Author on sampling frames for internationally-active Maltese SMEs (Massa 2006). The organisations recruited for this study were carefully selected in line with established criteria from among eligible iSMFBs. Here, complementing various aforementioned 'lists', the researcher's insight into their suitability, as well as access, and commitment to availability and collaboration on this extended research project played an important part. Following desk research, initial contact with respective owner-managers, and detailed introductions, at an early stage, the author replaced one of the originally selected iSMFBs with another operating in the same sector (furniture manufacture). In the former case, notwithstanding repeated attempts over a protracted period of time, it was proving very difficult to access the busy itinerant owner-manager further – early on it became evident that access to this iSMFB would be an ongoing concern.

Following the discussion presented earlier, rather than on sampling *per se*, the logic of multiple case study approaches is based on replication, strengthening results (Feagin *et al* 1991; Stake 1995; Yin 2003), and – generalisations more usually made to theory rather than direct populations – increasing confidence in the robustness of the theory (Eisenhardt 1989). In this respect case selection offers the opportunity to maximize what can be learned (Stake 1995).

With respect to case selection, the thesis title itself, up front defines *prima facie* the organisational characteristics and eligibility criteria for this study. These pertained to

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<sup>29</sup> No directory or database exists that details all variables and eligibility criteria necessary for the purposes of this study.

*family business* qualification and organisational *size*, active engagement in *outward international activity*, and *type of economic activity*.

#### **6.4.1 Family business qualification**

This research adopted the EU family business definition (EC 2009) emphasising family ownership, governance and decision-making rights involvement (see Chapter 3). This also facilitating future comparative studies across EU countries.

Within this definition, participation required prospective organisations to be family owned and run. Furthermore, the intention to bequeath the business to future family generations was generally also evinced. Owner-MD generations at the helm ranged from first generation, founder-managed, to third generation descendants in the case of longer established SMFBs. In instances, siblings or children were also involved in employment. In retrospect, none of the active owner-MDs had effectively handed over any top, executive management or strategic direction discretion to third parties or professionals outside the family – or within. Direction and power dynamics remained centred upon the founder / owner-MD. Gallo and Sveen's (1991: 182) commonly adopted, objective definition, similarly emphasises ownership and governance, considering a family business as one “*where the family owns the majority of stock and exercises full managerial control*”.

#### **6.4.2 Size qualification**

**Size qualification criteria are those established for EU SMEs** (EC 2005), documented in the EU Commission report (2003/361/EC). This for a number of reasons. Firstly, the Maltese context within which this research is positioned is EU based. Secondly, apart from facilitating access to data and statistics, the EU definition allows for equivalence in EU cross-country comparative evaluation of ensuing data, facilitating research replication at extra-national and regional levels. Thirdly, alternative definitions, such as those in the US, consider organisations employing up to double the maximum EU threshold. This study contends with smaller organisational forms.

EU criteria rely on three components for SME status eligibility: employment level, turnover, and balance sheet status. Contending with enterprises engaged in traditional forms of

economic activity and manufacturing, rather than service oriented or high-technology sectors, this study emphasised employment size criteria Table 6.3.

**Table 6.3 – EU SME definition employment criteria**

Enterprise category	Headcount Annual Work Unit (AWU)
<b>Medium</b>	< 250
<b>Small</b>	< 50
<b>Micro</b>	< 10

Note: EU definition also includes turnover and balance sheet criteria not included here. While this study emphasis employment levels, the SMFBs under study fully conformed to the EU SME definition (i.e. including turnover / balance sheet criteria).

Source: European Commission (2003/361/EC)

Size criteria required that the SMFBs included employ not more than the equivalent of 249 full-time employees. The size of SMFBs engaged ranged from 22 employees at the *small* end of SME classification, to 140 in the *medium* category. In keeping with this study's emphasis on smaller organisational forms, none of the purposively selected SMFBs approached the upper SME limit of 249 employees.

### **6.4.3 (Outward) international activity**

**This research investigates *outward* internationalisation of small family businesses, engaged in economic transactions where products are exported to foreign markets and/or international physical presence established.**

Eligibility required that SMFBs be actively involved in or intent on outward internationalisation. Whereas the majority of the SMFBs under study regularly exported to international clients, others also entered into more committing international activity. Some SMFBs had been engaged in international activity for many years while others internationalised more recently. One third-generation SMFB, an internationalisation *novice*, was selected as an *ab ovo* case – providing insight into early internationalisation processes.

The SMFBs' percentage proportion of foreign to total sales varied from few sales to predominantly export oriented. The extent of commitment to foreign markets and mode of entry also varied among this purposive sample.

#### **6.4.4 Type of economic activity**

**This research focuses on iSMFBs engaged in more traditionally-oriented, generally manufacturing based sectors** – ranging from food processing and viticulture, to furniture production and artistic manufacture requiring artisan skills. Thus, they are expected to contrast with those in extant literature tending to focus on high-technology and knowledge intensive firms.

This is in line with a core aspect of this research's objectives, addressing gaps in the literature and the evident incompatibility of extant ACAP operationalisations. Evidently, learning, knowledge and intelligence in different forms are nonetheless of critical importance for these traditional SMFBs' competitiveness and internationalisation – growth and survival.

Additionally, the Mediterranean island context, in instances also resulted in direct or indirect linkages between tourism and these SMFBs' respective sectors, vis-à-vis their characteristic offerings and cultural or traditional aspects. Such implications and potential effects were addressed in analysis.

#### **6.4.5 Established status and claims to success**

One eligibility requirement was that SMFBs be established and generally successful. **The fact that businesses had been long established allowed for exploration of organisational development, learning and experience. Additionally this provided insight into family dynamics at different generational stages, and the evolution of processes and routines.**

Including subjective considerations, that participant businesses be 'successful' also allowed for exploration of patterns of best practice in SMFBs' response to market dynamics and evolving environments. Seeking positive linkages to performance points towards growth and survival through adaptation, evolution and innovation.

The SMFBs' date of establishment ranged from 1894 at the older end to 1982 more recently. While resilient family businesses have spanned centuries and generations,

statistics indicate only “30% of family businesses make it to the second generation, 10-15% make it to the third and 3-5% make it to the fourth generation” (Aronoff 1999: 1; Hess 2005). Beyond quantitative measures related to financial performance, the fact that participant businesses have aged well – adapting across generations – may be cited as one measure of success.

Additionally, the selected SMFBs are generally recognized performers on the domestic market.

#### **6.4.6 Consolidating and justifying purposive case selection**

Revisiting earlier discussion towards consolidating methods chosen, purposive case selection *per se* was based on the premise that such research is not sampling research – sampling techniques adopted in more quantitative studies would have been irrelevant for this research (Miles and Huberman 1994; Stake 1995; Yin 2003). Gummesson (2000: 95) underlined that to help ensure “*theories and models are inductively grounded in real-world observations rather than governed by established theory ... in establishing the number and type of cases needed, [it is relevant to] choose cases that represent different aspects of reality*”.

Importance here lies in cases or contexts presenting aspects of similarity and dissimilarity or contrasts (Ghauri 2004: 113). This is sometimes referred to as theoretical sampling – reiterating that in comparison, differences are as important as similarities. Although therefore in situations requiring an inductive approach and specific explanations a single-case approach might be used, if general explanations are sought, then a multiple-case design is appropriate (Ghauri 2004).

One switches from single- to multiple-case research to create a more theory driven variance, exploring “*different dimensions ... different levels of research variables*” in the data, not to create more of the same (Ghauri 2004: 114; Pauwels and Matthyssens 2004). Such sampling in multiple case study approaches enhances rigour and confidence in findings, strengthening precision and validity (Miles and Huberman 1994; Ghauri 2004).

On this basis, along with confirmed participant willingness and access to data, the case organisations were selected. While eligibility criteria retained elements of commonality across cases, selected SMFBs operated different sectors and varied in organisational size,



age, generation and extent of internationalisation (Table 6.4). This generates comparative insight through replication, contributing towards examination of phenomena from different perspectives (Ghauri 2004: 114; Yin 2003).

**Table 6.4 – Overview of key case SMFB characteristics in line with selection criteria**

	SMFB 1 <b>Glo Glass</b>	SMFB 2 <b>Fresh Catch</b>	SMFB 3 <b>Wine Divine</b>	SMFB 4 <b>Fired Pride</b>	SMFB 5 <b>Sun Deli</b>	SMFB 6 <b>Pro Joiners</b>	SMFB 7 <b>Vega Font</b>	SMFB 8 <b>Star Snack</b>
<b>Primary econ. activity</b>	Mouth-blown artistic glass	Fisheries & seafood processing	Boutique vintners & wine production	Handcraft. artisan ceramics & items	Tomato processing & food preserves	Furniture joiners & retailers	General & book printing	Biscuits & bagged snacks
<b>FT employ</b>	44	88	80	22	140	90	100	90
<b>Year ops est.</b>	1968	c.1968	1907	1964	1916	c.1894	c.1982	1965
<b>Age since est.</b>	42	c.42	103	46	94	c.116	c.28	45
<b>Gen. at helm</b>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	1 <sup>st</sup>	1 <sup>st</sup> →2 <sup>nd</sup>
<b>% exports</b>	40%	c.90%	c.5%	15%	66%	30%	70%	50%

Source: Author. Age as at 2010.

### **6.4.7 Descriptive overview of the eight case SMFBs**

A succinct descriptive overview of the eight case SMFBs under study and concise insight into their background follows. This derives from extensive, rich case descriptions drawn from primary and secondary data as part of this research's analysis, investigating each SMFBs' context and circumstances surrounding internationalisation events. Throughout analysis, detailed reference is made to relevant contextual aspects as necessary.

The SMFBs are presented in the order they were approached and engaged in this research. Respective owner-MDs are referred to by the initials of their SMFB's pseudonym and a superscript numeral denoting their generation.

#### **6.4.7.1 GloGlass**

In operation for 42 years and in its 1<sup>st</sup> generation, GloGlass is in the business of handcrafted, mouth-blown glass. Over the years the family business innovated and extended its range of

traditionally crafted wares from initial emphasis on touristic items to upmarket pieces and *objets d'art*, as well as custom creations for commercial design projects.

Today, its creative wares are popular with locals and visiting tourists alike. Associated with Maltese craftsmanship, visitors converge upon the purposely setup factory specifically to watch artisans skilfully craft blobs of molten glass into desirable artistic creations. Notwithstanding, GloGlass remained comparatively small employing 44. Nonetheless, GG<sup>1</sup> has long been internationally active, exporting regularly.

#### **6.4.7.2 FreshCatch**

FreshCatch's origins draw back to the current owner-MD's father, who like his own father before him, initially pushed a cart hawking his catch in nearby seaside villages. Later setting up a small fish shop, the family business has been in operation for c.42 years.

The current 2<sup>nd</sup> generation owner-MD was tripping in nets and learning the trade as soon as he could walk. Uninterested in school, young FC<sup>2</sup> enterprisingly took the unassuming setup to the next level. Beyond a retail network across the Island, business thrived, now including sea food processing, vessel operations, fish penning and tuna farming. Employing 88, this medium-sized family business is today Malta's largest fishery and seafood operation. Enjoying strong international presence, FC<sup>2</sup> regularly exports large volumes.

#### **6.4.7.3 WineDivine**

In operation for 103 years and in its 3<sup>rd</sup> generation, this family business started off when the current owner-MD's grandfather started buying and pressing table grapes, selling wine from a drawn cart to village bars and housewives at a time when British culture for beer predominated. Business gradually thrived and after World War II, the following generation invested and in due course industrialised operations.

With WD<sup>3</sup> at the helm, the family business invested further in quality and technology. Today WineDivine is a dominant player in the domestic market, its range of wines well recognised. With his premium wines winning awards at international competitions, WD<sup>3</sup> recently embarked on an internationalisation initiative. This medium-sized business employs 80.

#### **6.4.7.4 FiredPride**

In operation for 46 years and in its 2<sup>nd</sup> generation, FiredPride is in the business of handmade, fire-baked potteryware and artistic ceramics. Initially focussed on touristic items and affordable household wares, in its 2<sup>nd</sup> generation the family business invested in its operations and extended its offerings – now also including creative quality ceramics and other items such as premium, hand-decorated, lava volcano top tables.

Today this award winning family business is seen as a proponent of traditional craftsmanship in Malta – popular with locals and visitors to the Islands alike. Employing 22, FP<sup>2</sup> and his brothers have over the past few years been increasingly looking beyond Malta's shores for export opportunities – and increasingly survival.

#### **6.4.7.5 SunDeli**

SunDeli's business is food processing. Based on the tranquil, detached smaller island of Gozo, its origins date to 1916 and earlier. Then, its founder crossed the channel to Malta daily, bartering farmers' crops and fodder for utensils and tools in short supply on Gozo.

In operation for 94 years, 3<sup>rd</sup> generation SunDeli is a dominant player in the domestic tomato processing scene. Current owner-MD, SD<sup>3</sup> redirected the business to sustainability and growth, investing and expanding operations into sauces and other preserves. SD<sup>3</sup> more recently branched into other condiments and premium delicatessen, as well as novel, traditional Maltese dairy products. Employing 180, this medium-sized, Gozitan family business, had long been active internationally, mainly exporting award-winning sauces to discerning blue-chip clients.

#### **6.4.7.6 ProJoiners**

As a family business, ProJoiners operated from carpentry workshops on the island of Gozo since 1893. Over successive generations the firm has been renowned across the Islands for quality bespoke solid wood furniture.

In operation for c.116 years and in its 3<sup>rd</sup> generation, ProJoiners is a dominant player in local furniture manufacturing. Its current owner-MD, PJ<sup>3</sup>, invested, expanding retail presence and operations to Malta. Today, he complements his family business' traditional range with mostly imported contemporary lines.

Capable of fine craftsmanship, ProJoiners serves both retail and business clients with custom or modular furniture. Employing 90, this Gozitan medium-sized family business has been internationally active for several years.

#### **6.4.7.7 VegaFont**

In operation about 28 years and run by its founder, VegaFont has grown from unlikely circumstances into one of the leading printers on the Islands.

Resilient and forward-looking, VF<sup>1</sup> gradually grew his business, progressively investing in technology, capability and capacity. Relocating to new facilities and equipped with the latest technology, VegaFont today offers a full range of print services to publishers and other clients.

Employing 100, this medium-sized family business has over the recent years been increasingly active internationally – serving several foreign corporate clients.

#### **6.4.7.8 StarSnack**

With a history spanning almost half a century, StarSnack's inception evolved incidentally out of its opportunistic founder's decision to start importing mops and floor cloths.

In operation for 45 years and in its 2<sup>nd</sup> generation, StarSnack moved from initial snack import and trade activity in the early days, to biscuit and snack food manufacturing as a result of government policy restrictions at the time.

Progressively investing in equipment and facilities, StarSnack today offers traditional biscuit and snack ranges as well as creative, original varieties. This medium-sized family business employs 90 and internationalised in recent years.

## **6.5 Data collection and research instruments**

### **6.5.1 Overview of data sources**

To understand context-embedded phenomena, case study research uses multiple sources. Multiple forms and sources of data were engaged and analysed – including interviews, extended meetings, observation, communications, documents and archival records from internal and external sources.

In line with small firm internationalisation and family business literature discussed earlier, the founders / owner-MDs were principally central to this research. Besides ongoing interaction with the founder / owner-MD, core primary data included a series of *two* extensive in-depth interviews. Interviews included unstructured narrative and semi-structured components with each owner-MD, supplemented by periodic enquiries and updates. In instances, where relevant, other key individuals within the SMFBs were also included (Table 6.5).

**Table 6.5 – Key research participants and informants**

SMFB	Participants and informants	
<b>GloGlass</b>	GG <sup>1</sup> MC CD	Owner-MD non-family émigré (USA), online retailing in USA non-family émigré (USA), franchisee, USA  <i>Casual conversations and chance encounters with:</i> - Eldest daughter (local sales & export manager) - Daughter (retail manager) - Wife
<b>FreshCatch</b>	FC <sup>2</sup>	Owner-MD  <i>Casual conversations and chance encounters with:</i> - Wife
<b>WineDivine</b>	WD <sup>3</sup> WD <sup>4</sup>	Owner-MD Youngest son (export manager)  <i>Casual conversations and chance encounters with:</i> - Independent professional in wine & spirits trade
<b>FiredPride</b>	FP <sup>2</sup>	Owner-manager / Director
<b>SunDeli</b>	SD <sup>3</sup> FC	Owner-MD non-family, export manager  <i>Casual conversations and chance encounters with:</i> - Independent professional in wine & spirits trade
<b>ProJoiner</b>	PJ <sup>3</sup>	Owner-MD  <i>Casual conversations and chance encounters with:</i> - PJ <sup>2</sup> , PJ <sup>3</sup> 's father and previous owner-MD
<b>VegaFont</b>	VF <sup>1</sup> DC GC	Owner-MD non-family, export manager non-family, commercial manager
<b>StarSnack</b>	SS <sup>2</sup>	Owner-MD  <i>Casual conversations and chance encounters with:</i> - SS <sup>1</sup> , SS <sup>2</sup> 's father. Succession not always clear
NOTE: Family members are denoted by their SMFB pseudonym initials followed by <sup>superscript</sup> numeral denoting their generation. Non-family members retain real name initials.		

Important first-hand primary data in personal observation, casual encounters and communications were kept in a journal for each SMFB. A research diary also recorded evolving reflections on the research project.

Along with the core primary data, secondary data in documentary material was from the outset “*tremendously useful*” at various stages of the research, pre- and post- primary data collection (Ghuri 2004: 116). The exploratory nature of the research involved ongoing scouring of several secondary data sources including: company records, internal publications, sectorial commissioned reports, company-specific research, internet-based resources, the business press as well as other material in the public domain. A folder as well as an electronic journal was kept in respect of each SMFB for this secondary data. This

data also assisted in corroborating evidence from other sources and clarifying inferences about specific events.

Table 6.6 presents an overview of SMFB-specific prime and key data sources utilised.

**Table 6.6 – SMFB-specific prime data and sources used in the research**

	<b>SMFB #1 GloGlass</b>	<b>SMFB #2 FreshCatch</b>	<b>SMFB #3 WineDivine</b>	<b>SMFB #4 FiredPride</b>	<b>SMFB #5 SunDeli</b>	<b>SMFB #6 ProJoiners</b>	<b>SMFB #7 VegaFont</b>	<b>SMFB #8 StarSnack</b>
<b>Primary data</b>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 1 (2006)</li> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 2 (2006)</li> <li>● Email enquiry – questions &amp; answers with <i>US-based entrepreneur</i> &amp; <i>website owner</i> selling GloGlass in USA (2010)</li> <li>● Email enquiry – questions &amp; answers with <i>US-based entrepreneur</i> [CD] owner of web-based <i>GloGlass North America</i> operation &amp; <i>exclusive distributor</i> to USA (2011)</li> <li>● On-site observations &amp; chance conversations (<i>includes photos</i> &amp;</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 1 (2006)</li> <li>● Update / follow-up emailed (EO) questionnaire. (<i>Owner-MD</i>) (2008)</li> <li>● On-site observations &amp; chance conversations &amp; phone calls (<i>includes photos</i> &amp; <i>ad material</i>)</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 1 (2006)</li> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 2 (2006)</li> <li>● Update &amp; follow-up phone interview. (<i>Owner-MD</i>): No 3 (2009)</li> <li>● Update &amp; follow-up phone interview. Intended for <i>Owner-MD</i> yet unavailable. Unexpectedly conversed with son (<i>Export Mgr</i>): No 4 (2010)</li> <li>● In-depth update &amp; follow-up phone interview with son (<i>Export Mgr</i>): No 5 (2010)</li> <li>● Focussed phone interview inquiry with son (<i>Export Mgr</i>): No</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Owner / Director</i>): No 1 (2007)</li> <li>● In-depth narrative + semi-structured interview (<i>Owner / Director</i>): No 2 (2007)</li> <li>● Update / follow-up emailed (EO) questionnaire. (<i>Owner / Director</i>) (2008)</li> <li>● On-site observations &amp; chance conversations (<i>includes photos</i>)</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 1 (2007)</li> <li>● Focussed qualitative interview and update (via phone) (<i>Owner-MD</i>) (2010)</li> <li>● In-depth update &amp; follow-up phone interview (<i>Export Mgr</i>): No 3 (2011)</li> <li>● On-site observations &amp; chance conversations (<i>includes photos</i> &amp; <i>ad material</i>)</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 1 (2007)</li> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 2 (2008)</li> <li>● In-depth update &amp; follow-up phone interview (<i>Owner-MD</i>): No 3 (2011)</li> <li>● On-site observations &amp; chance conversations (<i>includes photos</i>)</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Founder / MD</i>): No 1 (2007)</li> <li>● Detailed email enquiry #1 – <i>Regional Mgr</i> involved in internationalisation thrust (2010)</li> <li>● Detailed email enquiry #2 – <i>Regional Mgr</i> involved in internationalisation thrust (2010)</li> <li>● Focussed detailed extensive qualitative interview (email) (DC - <i>Regional Mgr</i> involved in internationalisation): No 1 (2010)</li> <li>● Focussed detailed extensive qualitative interview (email) (GC - <i>Consultant</i> involved in early internationalisation</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 1 (2007)</li> <li>● In-depth narrative + semi-structured interview (<i>Owner-MD</i>): No 2 (2007)</li> <li>● On-site observations &amp; chance conversations</li> </ul>



	SMFB #1 <b>GloGlass</b>	SMFB #2 <b>FreshCatch</b>	SMFB #3 <b>WineDivine</b>	SMFB #4 <b>FiredPride</b>	SMFB #5 <b>SunDeli</b>	SMFB #6 <b>ProJoiners</b>	SMFB #7 <b>VegaFont</b>	SMFB #8 <b>StarSnack</b>
	<i>ad material)</i>		6 (2010)  ● On-site observations & chance conversations <i>(includes photos)</i>				thrust): No 1 (2010)  ● On-site observations & chance conversations <i>(includes photos &amp; ad material)</i>	
<b>Other primary &amp; related data</b>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>	<ul style="list-style-type: none"> <li>● SMFB journal / reflections and correspondence</li> <li>● Rich, thick SMFB case narratives consolidated from <i>primary &amp; secondary</i> data. Includes timelines &amp; historic development</li> </ul>
<b>Secondary data</b>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● MFSA – Abridged financial documents</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● Academic research article: Baldacchino 2005.</li> </ul>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● NSO, Malta, material.</li> </ul>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● MFSA – Abridged financial documents</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● B.Com. (Hons.) dissertation: (UOM). Pace 2011.</li> </ul>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● MFSA – Abridged financial documents</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● Ministry for Tourism &amp; Culture material</li> </ul>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● MFSA – Abridged financial documents</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● Book: Adebajo (2002) '<i>Customer satisfaction</i>'.</li> </ul>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● MFSA – Abridged financial documents</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● MBA Exec dissertation: (UOM). Bugeja 2009.</li> </ul>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● MFSA – Abridged financial documents</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● NSO, Malta. 6 February 2009. News release No:</li> </ul>	<ul style="list-style-type: none"> <li>● Co. material, documents &amp; web.</li> <li>● MFSA – Abridged financial documents</li> <li>● Ext. business press reports, media articles &amp; public domain (paper &amp; online)</li> <li>● Industry Journal: Supply Network, Topolski (2005).</li> </ul>

	SMFB #1 <b>GloGlass</b>	SMFB #2 <b>FreshCatch</b>	SMFB #3 <b>WineDivine</b>	SMFB #4 <b>FiredPride</b>	SMFB #5 <b>SunDeli</b>	SMFB #6 <b>ProJoiners</b>	SMFB #7 <b>VegaFont</b>	SMFB #8 <b>StarSnack</b>
	JSBE.		<ul style="list-style-type: none"> <li>● Academic research article: Billiard, E. 2006. Anthropological Notebooks 12(1). SAS.</li> <li>● Video clip: Harvest to Wine. 2010 (mp4)</li> </ul>	<ul style="list-style-type: none"> <li>● Malta Enterprise material</li> </ul>	<p>Leatherhead Int. Ltd:</p> <ul style="list-style-type: none"> <li>● SBS Australia: Radio prog. JM int. 2006 (mp3)</li> <li>● UoM project: Video presentation 2008-2009 (avi)</li> <li>● Malta Enterprise material.</li> <li>● CCFRA food research group (UK)</li> <li>● Ministry of Rural Affairs &amp; Environ. (Malta)</li> <li>● University of Malta research pub (2007)</li> <li>● MGT1011 BA(Hons) assigned presentation (2008) '[SunDeli]'.</li> </ul>	<ul style="list-style-type: none"> <li>● Malta Government – DOI (1998, 2006)</li> <li>● Malta Furniture Manufacturing Organisation (MFMO) (2007)</li> <li>● Govt / Agency industry &amp; sector reports</li> </ul> <p>Howorth, C., &amp; Ali, Z. (2001). <i>Family Business Review</i>. 14, 231-244.</p>	<p>022/2009. 'International trade 2008'</p> <ul style="list-style-type: none"> <li>● B.Com. dissertation: (UOM). Baldacchino 2007.</li> <li>● MBA (FT) dissertation. (UOM). Camilleri, D. 2008.</li> <li>● MBA Exec dissertation: (UOM). Bugeja, M. C. 2009.</li> <li>● Govt / Agency industry &amp; sector reports</li> </ul>	<p>"<i>Seeing the Opportunity – Profile: Rimus Riley</i>".</p> <ul style="list-style-type: none"> <li>● Industry journal: FoodChain (2006). 'A Rigorous Plan'.</li> <li>● Malta Government – DOI (1998, 2002)</li> <li>● Industry electronic publication (2004). 'Regal Multireview'.</li> <li>● MBA dissertation (UOM). Micallef (2007).</li> </ul>

### **6.5.2 Core primary data collection and research instruments**

Initially four SMFBs were engaged in this study, from 2006. These provided rich early insights. From there more in-depth investigation into the first four SMFBs was undertaken and an additional four founders / owner-MDs and their SMFBs were recruited.

Two core, in-depth interviews were held with the founders / owner-MDs, furthermore ongoing investigation, update interviews and additional data collection were undertaken. These main in-depth interviews, each generally lasting around 1:30hrs to 2hrs, each comprised: (i) exploratory *open-ended narrative* components; (ii) related *semi-structured* components – in line with research objectives.

Topics started with ‘free-flow’ narrative on key themes, presented to interviewees on A5-sized flash cards, for a guided inductively-driven investigation. Owner-managers told their story *as it is, as they feel it and see it* – this helped gain insight into dynamics informing decisions, shaping perceptions. Flashcards included a topical heading followed by guiding sub-points. Reverse sides were respectively printed in Maltese or English, Malta’s official language<sup>30</sup>. Respondents communicated in whichever language spontaneity could be best achieved, interviewees effortlessly flitting between languages – sometimes using the alternate language to stress a point. Advantages from this approach were considerable – a more inductive approach, ‘colour’ and depth of meaning, intimate rapport and candid response. The flashcards have been reproduced in Appendix 3. Box 6.1 shows the non-technical, conversational theme for each card.

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<sup>30</sup> Both official languages of Malta. Mandatory at law, schooling ensures both are thought in parallel from the very first years.

### Box 6.1 – Narrative flash cards' topical heading

#### **In-depth interview 1:**

- Card 1: Setting up and early days
- Card 2: Managing the family enterprise
- Card 3: Managers in the organisation
- Card 4: What you do – who you serve
- Card 5: Important events in the company's history (\*)
- Card 6: Innovation – new ideas
- Card 7: Life and existence: Ongoing learning processes

#### **In-depth interview 2:**

- Card 8: International business
- Card 9: Key international events (\*)
- Card 10: Knowledge, internationalisation and learning
- Card 11: First international venture / experience
- Card 12: Second international venture / experience
- Card 13: Contacts and the people we get to know

(\*) detailed chronological timelines

Following each open-ended 'flashcard' narrative component, semi-structured questions probed deeper into interesting points raised in the narrative components and / or areas insufficiently covered, also enabling *in-situ* member checking, validating elements and points discussed earlier. The semi-structured element also allowed for extraction of more standardised information for comparative evaluation across cases. Detailed chronological timelines were also drawn up together with the founder / owner-MDs, recording important developments, events and strategic inflections throughout family business' history, as well as specific milestones associated with international business activity and internationalisation.

Further data collection and interviews were also undertaken. In instances, where possible and relevant, in 4 SMFBs (especially in the larger ones), other key family or non-family employees or managers were also involved.

### **6.5.3 Interview deployment and methods employed**

Interaction with SMFBs and their owner-MDs started in 2006 – by 2007 the first four firms were involved in research. The second batch of SMFBs were approached from 2007. Across the eight SMFBs the series of two in-depth, composite, open-ended narrative / semi-structured interviews conducted for each SMFB<sup>31</sup>, spanned over two years from the latter half of 2006. Update enquiries and additional focussed interviews were undertaken between 2007 and 2011. Spanned over time and ongoing, primary data collection fostered longitudinality, as well as observation of SMFBs’ evolving strategies and internationalisation processes in relation to ACAP *in vivo*.

Along with note taking, main interviews were recorded in owner-MDs’ office. Interviewees were relaxed and forthcoming, willing even to discuss intimate aspects of their experience. In one case where the owner-MD preferred not to be recorded, extensive notes were taken. To minimise detail atrophy, detailed audio-notes were recorded following the meeting, and utilised to record field notes, and rich accounts of these interviews.

Additionally the researcher personally undertook transcription and where relevant translation. While laborious and time consuming this increased intimacy with the data enabling deeper reflection and appreciation of nuances (Richards and Morse 2007). This enhanced ongoing analysis running parallel with data collection – recommended by scholars (e.g. Miles and Huberman 1994; Ghauri 2004). Translations were additionally reviewed for accuracy and meaning by a bi-lingual expert at the University of Malta. Distinctions were maintained between verbatim and faithfully translated quotes.

### **6.5.4 Data organisation and preparation**

Qualitative inquiries involve “*verbal, visual, tactile, olfactory, and gustatory data in the form of descriptive narratives ... field notes, recordings, transcriptions from audio- and videotape ... written records and pictures or films*” (Preissle 2006: 686).

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<sup>31</sup> In three instances, due to owner-MDs’ commitments, the *second* part of the in-depth interviews was held as late as April 2011. These however had been already compensated for with ongoing inquiries and direct investigations with the owner-MDs themselves and others involved within the company. See Table 6.6.

Primary data was experienced through verbal, written, visual and tactile forms – preserved textually in documents, transcripts, audio cassettes and photos. Besides photos and other forms of evidence, documentary primary data included more than 1,099 A4 pages of interview transcripts, and 208 pages of journal entries, observations and reflections. SMFB-specific secondary data comprised more than 565 pages also included in analysis. Mostly converted into electronic format, this aided organisation and search and retrieval for analysis.

Analysis manually undertaken in parallel with data collection and transcription enhanced collation and data categorising in matrices, tables and timelines (Miles and Huberman 1994; Yin 2003; Ghauri 2004; Silverman 2005). Data in digital format facilitated importation into computer aided qualitative data analysis software (CAQDAS) – NVivo. However, the researcher remained judiciously responsible for data interpretation and analysis. NVivo was engaged to facilitate the locating and retrieving of specific themes, including internationalisation and ACAP elements, and data evidence, sifting through large volumes of rich qualitative data across cases.

Table 6.7 shows the volume of SMFB-specific data imported into NVivo. These totalled 138 individual, computer file data sources, of which 90 were textual, representing lengthy research-specific documents. One document for each respective SMFB was a compilation of archival, press, popular domain materials and SMFB-specific secondary data<sup>32</sup> – incorporating a further 378 SMFB-specific documentary items of secondary data.

Furthermore, an additional 12 detailed data sources (primary and secondary) relevant to the overall research project were imported.

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<sup>32</sup> Full provenance and source for each item in compiled documents containing SMFB-specific secondary data is maintained.

**Table 6.7 – Key SMFB-specific data (electronic files) imported into NVivo**

	SMFB 1 Glo Glass	SMFB 2 Fresh Catch	SMFB 3 Wine Divine	SMFB 4 Fired Pride	SMFB 5 Sun Deli	SMFB 6 Pro Joiners	SMFB 7 Vega Font	SMFB 8 Star Snack
<b>Primary:</b> Main interviews & transcripts	4	2	6	3	3	3	5	2
<b>Primary Other:</b> Case journals, cases, timelines etc...	5	5	5	5	5	5	6	5
<b>Photos &amp; audio-visual data</b>	13	7	6	3	15	2	2	0
<b>Secondary:</b> Docs inc. extensive compilation* of archival docs, press art & pub domain material	1(*34) + 6	1(*74)	1(*88) + 3	1(*27)	1(*83) + 2	1(*29) + 1	1(*23) + 1	1(*20)

## 6.6 Case and data analysis

As recommended for qualitative case study research, analysis was undertaken concurrently with data collection (Miles and Huberman 1994; Cresswell 1998; Yin 2003; Ghauri 2004; Silverman 2005). In line with the emergent focus of this study, such an approach encouraged fine-tuning to improve subsequent cases, allowing problems to be formulated and reformulated, teasing out questions and providing new data (Miles and Huberman 1994; Ghauri 2004).

Cresswell (1998: 153) emphasised that in chronologically sequenced events “*analysis consists of making a detailed description of the case and its setting*” – analysing “*the multiple sources of data to determine evidence for each step or phase in the evolution of the case*”. In this study, and indeed in case study research, contextuality is fundamental (Yin 2003). Thus, towards a holistic understanding of dynamics in their international activity, SMFBs have been framed within their specific contexts. Beyond ‘story-telling’, this research included in-depth, rich case descriptions and narratives consolidated from multiple primary and secondary data sources, analysed along broad themes in line with this study’s objectives (Box 6.2). These investigated the SMFBs’ and their owner-MDs’ circumstances, organisational evolution and internationalisation development over time – accurately recording provenance with direct references to specific data sources.

This approach helped in “*bringing the entire study together*” serving as a foundation for further focussed analysis towards richer understanding within each SMFB’s unique setting (Cresswell 1998: 167; Yin 2003).

**Box 6.2 – SMFB's consolidated rich case narratives' broad themes**

1. SMFB overview
2. Evolution, growth and development
3. Internationalisation: motivations, processes, modes and knowledge
4. Industry situation and levels of competition
5. Internal supports: capabilities, resources and family
6. External support and resources
7. Evolving dynamics and the way forward
8. Timeline of strategic inflections, growth and internationalisation.

While forming an important basis for further focussed investigation and ongoing analysis, beyond direct references and citations presented in cross-case analysis and discussion (Chapter 7), these detailed narratives may be viewed in their entirety on request<sup>33</sup>.

Analysis included chronologies and detailed timelines highlighting SMFB-specific and external environmental events and dynamics – clustering and coding according to concepts and themes, detailed matrices as well as finding comparisons with patterns across cases and in relation to theoretical strands and frameworks in the literature were undertaken (Miles and Huberman 1994; Yin 2003; Ghauri 2004; Silverman 2005). References to specific data sources, including distinction between primary and secondary data were maintained.

Further focussed analysis, adopting an ACAP approach, was conducted in line with the emergent, conceptualised analytic framework and attendant research questions (Chapter 5, *Consolidation and Articulation of Research Questions*). Iterative sifting of data and

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<sup>33</sup> Available on request, apart from being voluminous (101 pages), these rich, thick case narratives consolidated from several data sources, are currently being worked upon toward eventual publication. While drawn from and referred to in analysis, they are not reproduced in their entirety in this submission.



investigative analysis was then undertaken according to established conceptual categories (Ghauri 2004) (see next Sub-section 6.6.1 below).

Overall analysis adopted both ‘within-case’ and ‘cross-case’ approaches (Miles and Huberman 1994; and Yin 2003). Data was first summarised and packaged within the scope of the research aim. Secondly, data was repackaged and consolidated following derived insight, focussing further on themes identified – towards constructing an explanatory framework. The research moved “*through a series of analytical episodes that condense more and more data into a more and more coherent understanding of what, how, and why*” (Miles and Huberman 1994: 91).

Due to the volumes of data and analytic observations generated, given submission requirements, it was not possible include within-case analysis in the main body of this study. While rich SMFB case narratives are available on request and select within-case analyses are presented in Appendices (3, 4 and 5), the key value of this research resides in the consolidating cross-case analysis and discussion presented next (Chapter 7).

### **6.6.1 Emergent analytic framework**

Following synthesis and consolidation of the literature fields converging on this study, in line with identified gaps and derived insight, the research questions focussing the intent of this study were presented and discussed in Chapter 5. These are succinctly reiterated below:

- ▶ **What** is the nature and extent of internationalisation among SMFBs in this context?
- ▶ **How** do such SMFBs approach knowledge requirements associated with internationalisation, as proposed by the absorptive capacity approach?
  - ▶▶ **What** is the role of the founder / owner-MD in these SMFBs’ internationalisation and associated absorptive capacity processes, and **how** does this impact on overall internationalisation?
  - ▶▶ **What** role do contacts and relationships play in these SMFBs’ internationalisation and absorptive capacity processes? **How** and **why** are these often social and informal contacts and relationships employed, operationalized and leveraged?

Since this study explores outward internationalisation of traditionally oriented SMFBs, first steps in the process are crucial. Antecedents and outcomes, as well as subsequent international activity are also important, particularly for this study, exploring as it does development related to learning and knowledge derived from and associated with internationalisation activity.

Examining real events in specific time-scales within owner-managers' contexts, this study traces ACAP influence on international business activity. It investigates specific outward international events in the SMFBs' internationalisation, also facilitating comparative analysis and evaluation across cases. As established earlier, outward internationalisation 'events' refer to the initiation of specific, new international business activity involving the export or sale abroad of the SMFBs' goods or services to a new foreign client. The key outward internationalisation events and activity examined and analysed across participant SMFBs in this study are indicated in Box 6.3.

**Box 6.3 – Key outward internationalisation events and activity investigated**

- Current internationalisation situation, general international activity, events and stance (including prospecting activity),
- Any initial, tentative or *ad hoc* export activity (first steps),
- The 1<sup>st</sup> regular, ongoing international business event / venture (onset of sustained internationalisation thrust),
- The 2<sup>nd</sup> regular, ongoing international business event / venture,
- Subsequent international business activity (events) and foreign market development.
- Key points & strategic inflections in organisation's development and history (investigated historic chronology and timeline),
- Key internationalisation events and international ventures (investigated historic chronology and timeline).

Additionally, at this level of analysis, important associations between specific internationalisation events and other relevant activity were also explored. This sought to explore developmental processes over time and included:

- any associations between any initial, *ad hoc* or tentative sporadic exports, and 1<sup>st</sup>, 2<sup>nd</sup>, and subsequent regular internationalisation events and activity,
- any associations between inward internationalisation and outward internationalisation events and activity.

Furthermore, any linkages and associations between domestic activity and internationalisation, as well as international activity or ventures terminated and opportunities not pursued were also investigated.

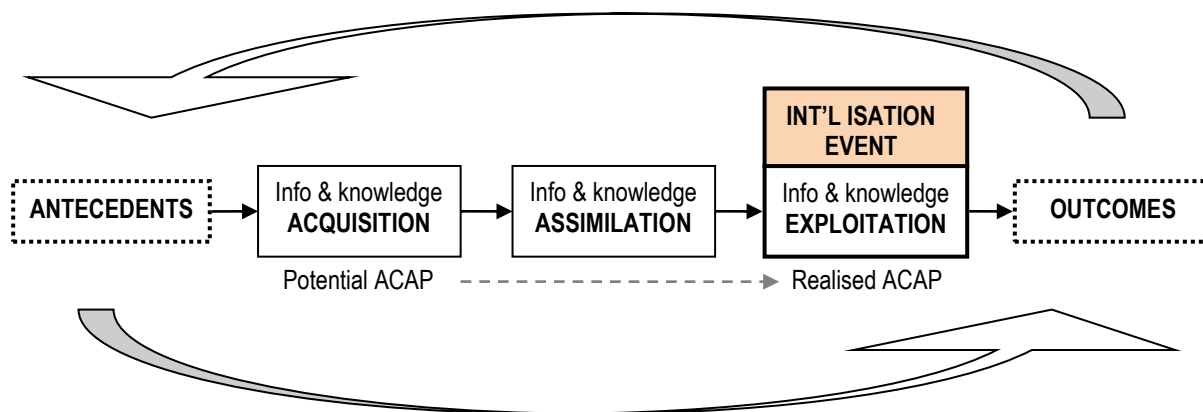
Following construction of theme-based SMFB-specific case narratives and rich, thick descriptions, this next phase of analysis focussed on ACAP dynamics involved in internationalisation processes. The analytic framework drew from supporting literature strands as well as idiosyncratic circumstances of these internationally-active SMFBs.

As already established, although fundamental elements of ACAP may be seen to apply universally, its conceptualisations and operationalisations in existing literature emphasise formal, structured and explicit, R&D associated knowledge processes. Supported by theoretical insight from across disciplines (*small firm internationalisation* and *family business research*), as well as early insight emerging from this study, it became evident that the recognised basic elements of ACAP resided in more ‘organic’ and tacit informal processes within these SMFBs. Here, mainly experiential knowledge generally derived from know-how, exposure and social interaction. The SMFBs lacked the formal infrastructures developed by larger or technology-based corporations – such as R&D budgets, laboratories and facilities, patents, scientists and knowledge-generating mechanisms.

Thus, while the basic ACAP elements *per se* were still considered relevant at a fundamental level, current frameworks and operationalisations in extant literature were either challenged or outright incompatible within the context of the traditional SMFBs which this study

addresses. The conceptualised framework developed to guide further analysis for this study emphasises the fundamental basic elements of ACAP (Cohen and Levinthal 1990). It adopts an ACAP approach towards analysing specific outward internationalisation events as part of an evolutionary process, also integrating antecedents and outcomes (Figure 6.4).

**Figure 6.4 – Conceptualised analytic framework: Internationalisation ACAP**



Source: Author. Contributing basis from Cohen and Levinthal (1990); Zahra and George (2002b)

This is in line with this study’s convergent unit of analysis ultimately focussing on the specific internationalisation events established for analysis (Figure 6.3; Box 6.3).

Drawing from the literature critically reviewed earlier (Chapters 2, 3 and 4), and consolidated in the previous chapter, here, ACAP is both a dynamic capability as well as a process (Zahra and George 2002b) that flows through the internationalisation process, influencing and being influenced by each event. Knowledge being core to internationalisation, ACAP consists of three processes: information and knowledge ‘acquisition’, ‘assimilation’ and ‘exploitation’ (Cohen and Levinthal 1990), and two states of capability: ‘potential’ and ‘realised’ (Zahra and George 2002b). Assuming that prior to commencing internationalisation an SMFB’s focus will be largely domestic, elements and outcomes of the ACAP process from initial internationalisation will result in increasing internationalisation capability and performance. Thus, outcomes from one internationalisation event constitute antecedents for subsequent events leading to successive international business activity.

Although Zahra and George's (2002b) notion of 'potential' and 'realised' ACAP were retained, especially given the organic and informal tacit processes typical in SMFBs – with knowledge 'assimilation' and 'transformation' processes overlapping (Todorova and Durusin 2007), this study's framework adopted Cohen and Levinthal's (1990) originally established three main ACAP components ('acquisition', 'assimilation' and 'exploitation') (Cohen and Levinthal 1990; Lane, Salk and Lyles 2001; Van den Bosch *et al* 2003; Todorova and Durusin 2007). Zahra and George's (2002b) 'transformation', here considered integral to 'assimilation' (Todorova and Durusin 2007) was omitted.

The analytic templates that follow are a broad research-specific, analytic tool, consolidated from extant research, merely serving as a guide for exploring ACAP basic elements and dynamics involved in SMFB internationalisation.

#### **6.6.1.1 ACAP antecedents in relation to SMFB internationalisation**

Individuals utilize new information more effectively when complemented with prior knowledge (Von Hippel 1994; Fiet 1996). Venkataraman (1997) and Shane (2000) argued that entrepreneurs only identified opportunities relative to their prior knowledge. Tacit and idiosyncratic prior knowledge, essential for exploiting new information to generate innovative ideas (Gobbo and Chi 1986; Cohen and Levinthal 1990 ; Fiet 2002; Liouka 2007), open 'knowledge corridors' (Shane and Venkataraman 2000). Prior related knowledge is a key component critical in enabling ACAP – 'prior knowledge begets knowledge' by enhancing the capacity to learn, recognise the value of new information and assimilate it (Cohen and Levinthal 1990).

This is in line with this study's context – *inter alia* exploring internationally-active SMFBs, and the role of founders or owner-managers who over time accumulate substantial stocks of experiential and prior knowledge, as well as the role of established contacts and relationships. Indeed, even 'accidental', serendipitous or 'unplanned' internationalisation (Crick and Spence 2005; McAuley 1999; Bell 1995), are often traced to social networks (Fletcher 1997; Meyer and Skak 2002; Chandra *et al* 2009; Ellis 2011).

Antecedents in prior knowledge may be juxtaposed with key knowledge types deriving from 'market', 'internationalisation' and 'product and technology' knowledge identified earlier in firm internationalisation literature (Chapter 2, Table 2.4). Essentially, 'network

knowledge’ refers to a socially embedded conduit for various types of knowledge, while ‘cultural’ and ‘entrepreneurial’ knowledge are integrated in the aforementioned key types of knowledge adopted. Given multiple definitional overlaps for several knowledge types identified in the literature, while the research questions established for this study do not endeavour to explicitly examine and categorise in each instance the various specific knowledge types involved, direct references are made and drawn in analysis and discussion, as and where relevant throughout.

Recapitulating the synthesising discussion presented in Chapter 5, forming the rationale and basis for this analytic framework, in parallel to ACAP antecedents, similar antecedents for SME internationalisation were identified (Antoncic and Hisrich 2000; Ruzzier *et al* 2006b):

**Table 6.8 – Antecedents of SME internationalisation**

<p><b>ENTREPRENEUR</b></p> <p>→ <b>Human Capital</b></p> <ul style="list-style-type: none"> <li>• International Business Skills</li> <li>• International orientation</li> <li>• Environmental alertness</li> <li>• Management know-how</li> </ul> <p>→ <b>Social capital</b></p>
<p>→ <b>Firm characteristics</b></p> <ul style="list-style-type: none"> <li>• Number of employees</li> <li>• Sales</li> </ul>
<p>→ <b>Environmental characteristics</b></p> <ul style="list-style-type: none"> <li>• Domestic environment</li> <li>• International environment</li> </ul>

Source: Compiled from Antoncic and Hisrich 2000.  
See Ruzzier *et al* 2006b

Discerning between *human* and *social* capital, Chandra *et al* (2009) established that initial international opportunities are achieved through entrepreneurs’ searching associated with strategic intent, or discovery associated with alertness, contacts and networks (Chapter 5).

Building on Van den Bosch *et al*'s (2003) review of ACAP antecedents, the following components were identified as relevant to the internationalisation process of the SMFBs researched in this study (Table 6.9):

**Table 6.9 – Key ACAP antecedents associated with traditional SMFB internationalisation**

<b>ANTECEDENTS</b>
<b>■ Prior related knowledge</b>
<p>Prior knowledge deriving from <b>Education</b> (<i>including Human Capital</i>), and accumulated <b>Experience</b> (<i>including “second hand” experience i.e. experiential knowledge transfer via contacts and other third parties</i>).</p> <ul style="list-style-type: none"> <li>• Experiential knowledge (Zahra and George 2002b)</li> <li>• Basic skills &amp; problem solving methods, (Cohen and Levinthal 1990; Van den Bosch <i>et al</i> 1999)</li> <li>• Shared language, cultural affinity etc... (Cohen and Levinthal 1990; Gupta and Govindarajan 2000)</li> </ul> <p><b>Prior general knowledge</b> in internationalisation related domains: (e.g. Zahra and George 2002b, Gupta and Govindarajan 2000). Consider in relation to knowledge types identified in the internationalisation literature:</p> <ul style="list-style-type: none"> <li>• <i>Prior knowledge of: Markets / Internationalisation / Products and technology</i></li> </ul> <p><b>Where</b> and <b>with whom</b> does this prior knowledge mostly reside?            Consider role of <b>founder / owner-MD</b>, stance and characteristics: e.g. entrepreneurial stance (attitude to risk &amp; opportunities, mind-set and conduciveness to internationalisation).</p> <p>Distinguish among: <b>Founder</b> / owner-MD; / Other <b>Family</b> (mgt / non-mgt); / <b>Non-family</b> employees</p>
<b>■ Internal mechanisms influencing ACAP / resources and sources</b> (Cohen and Levinthal 1990)
<ul style="list-style-type: none"> <li>• Any form of experimentation or rudimentary R&amp;D set-ups? (Tsai 2001)</li> <li>• Internal operational processes and <i>modus operandi</i>, internal knowledge flows and transfers (<i>horizontal / vertical</i>). Cross-functional interfaces? (Van Wijk <i>et al</i> 2001; Van den Bosch <i>et al</i> 1999)</li> <li>• Type, allocation and distribution of expertise (Human Capital) and knowledge within family business (<i>including any established formal or informal processes or modus operandi</i>) (Lane and Lubatkin 1998)</li> <li>• External networks, contacts and relationships – sources of learning and knowledge or opportunity catalysts. (<i>including trust, extent of relationships, any alliances etc...</i>) (Zahra and George 2002b).</li> <li>• Family dynamics</li> </ul>
<b>■ External situation &amp; contextual conditions</b>
<ul style="list-style-type: none"> <li>• General macro context and business climate situation (domestic / international)</li> <li>• Extent of competition and competitiveness in existing (domestic?) market &amp; firm position</li> <li>• Knowledge environment (stable / turbulent) (Van den Bosch, Volberda and De Boer 1999)</li> </ul>

Source: Compiled by Author

### 6.6.1.2 Absorptive capacity components

#### *Knowledge acquisition and assimilation*

As noted, rather than Zahra and George's (2002b), in line with Todorova and Durusin's (2007) critique, this study adopted Cohen and Levinthal's (1990) original conceptualisation of ACAP as a better analytical framework for this study's context. The applicability of Todorova and Durusin's (2007) perspective is outlined:

- re-introduces Cohen and Levinthal's (1990) original emphasis on '*recognising the value of external information*' as integral part to the process,
- questions Zahra and George's (2002b) '*neat*' transitional linear flow - knowledge *transformation* need not necessarily follow from knowledge *assimilation* and could be integral to *assimilation*,
- extends relevance of social mechanisms and networks to the entire ACAP framework, acknowledging 'weak ties', beyond Zahra and George's (2002b) emphasis on strong relationships particularly in acquiring new and novel information (e.g. see Granovetter 1973).

Characteristics inherent in the participating iSMFBs are well suited to adoption of *acquisition, assimilation, and exploitation* ACAP components which in SMFBs generally occur organically and informally in tacit form.

Upon this basis, Table 6.10 shows the analytic template adopted for this study to guide qualitative inquiry and analysis engaged in investigating SMFB internationalisation from an ACAP perspective.



**Table 6.10 – ACAP elements: External information and knowledge acquisition and assimilation associated with traditional SMFB internationalisation**

Information and knowledge <b>ACQUISITION</b> (Potential ACAP)	Information and knowledge <b>ASSIMILATION</b>
How is information and knowledge associated with internationalisation <b>acquired</b> ?	How is information and knowledge associated with internationalisation <b>assimilated</b> ?
<p><b>Recognising value of external knowledge</b> (recognising a need, deficiency etc...) Proactive / reactive</p> <p>-----</p> <ul style="list-style-type: none"> <li>• How is value, need for this info &amp; knowledge recognised?</li> <li>• From whom or where does this info come from?</li> <li>• What is this info / knowledge? Market / Internationalisation / Product &amp; technology Opportunity identification Tacit / Explicit</li> <li>• How is it acquired, where? Formal training play a role? Experience, being out 'in the field'? exposure, hands-on?</li> <li>• Who is mainly involved in this acquisition of knowledge, what role is played? Social, formal / informal, trust, friendship?</li> </ul> <p>-----</p> <p>→ Role of <b>founder / MD</b> in acquisition of knowledge and internationalisation (Also in relation to other family &amp; employees)</p> <p>→ Role of <b>contacts, relationships</b> in acquiring knowledge and internationalisation (informality, trust, friendship, access, legitimacy etc...)</p>	<p><b>Understanding</b> – interpretation / comprehension / learning (Zahra &amp; George 2002b)</p> <p><b>Internalisation &amp; conversion</b> – synergy</p> <p>-----</p> <ul style="list-style-type: none"> <li>• What are these processes? Formal / informal; tacit / explicit</li> <li>• How is info. processed, understood, made sense of? Experience / gut instinct / schooling? Family / employee discussion &amp; interaction? Professional mgt.? External sources of assistance?</li> <li>• Who mainly assimilates and makes sense of this info?</li> <li>• How is adaptation and combination of new knowledge with existing knowledge undertaken? Who is mainly responsible for this?</li> </ul> <p>-----</p> <p>→ Role of <b>founder / MD</b> in acquisition of knowledge and internationalisation (Also in relation to other family &amp; employees)</p> <p>→ Role of <b>contacts, relationships</b> in acquiring knowledge and internationalisation (informality, trust, friendship, access, legitimacy etc...)</p>

Source: Author, drawing from literature synthesis and early insights from data – in line with conceptualised research framework

***Knowledge exploitation / outward internationalisation event***

With respect to exploitation of knowledge and ACAP, specific internationalisation events are emphasised (see Box 6.3; and Figure 6.4). Again, the roles of (i) the founder / owner-MDs, and (ii) contacts and relationships in the process are also examined. Characteristics like entrepreneurial stance, alertness, risk perception are central. Internalised contacts and

relationships, events and ventures of these internationally-active SMFBs were investigated. In the context of this research, ACAP ‘exploitation’ manifests itself in internationalisation.

Table 6.11 below illustrates the adopted analytic framework and qualitative line of inquiry investigating this ACAP ‘exploitation / event’ process.

**Table 6.11 – ACAP elements: External information and knowledge exploitation manifested in specific SMFB internationalisation events**

<p>Information and knowledge  <b>EXPLOITATION</b>  <i>(Realised ACAP)</i>  <b>OUTWARD INTERNATIONALISATION EVENT / VENTURE</b></p>
<p>How is information and knowledge associated with internationalisation exploited in specific international business activity?</p>
<p>Knowledge use &amp; Implementation – core competencies / harvesting resources (Zahra &amp; George 2002b)</p> <p style="text-align: center;">-----</p> <ul style="list-style-type: none"> <li>• Who drives this exploitation, controls decision-making &amp; strategic intent?</li> <li>• How is this info / knowledge (tacit / explicit) exploited?</li> <li>• Internationalisation (event): - <b>Product:</b> <i>what?</i>... (and client type)  - <b>Market:</b> <i>where?</i>  - <b>Mode:</b> <i>how?</i>  - <b>Time:</b> <i>when?</i></li> <li>• What are the outcomes from this exploitation and specific internationalisation event [see next sect.]  (business activity / further internationalisation / innovation (various) / new contacts &amp; leads / growth performance, survival)</li> <li>• How does exploitation contribute &amp; lead to further opportunities / contacts / new knowledge &amp; info (tacit / explicit)?</li> <li>• What does it contribute to experience / knowledge stocks / legitimacy / (tacit / explicit)?</li> </ul> <p style="text-align: center;">-----</p> <p>➔ Role of <b>founder / MD</b> in exploiting knowledge and internationalisation  (Also in relation to other family &amp; employees)</p> <p>➔ Role of <b>contacts, relationships</b> in acquiring knowledge and internationalisation  (informality, trust, friendship, access, legitimacy etc...)</p>

Source: Author, drawing from literature synthesis and early insights from data – in line with conceptualised research framework

### 6.6.1.3 Outcomes

Outcomes derived from *realised* ACAP result in new insight, experience and knowledge, as well as potentially enhanced capability and flexibility – directly feeding into *antecedents* of the next cycle of internationalisation events and ACAP processes (see research framework Figure 6.4). These outcomes factor into the accumulated knowledge-base of family businesses – resource-related bundles of antecedents relevant for subsequent opportunity recognition and exploitation. Outcomes from internationalisation, exposure to new markets, social contacts and relationships are emphasised here.

Table 6.12 below illustrates the qualitative line of inquiry adopted in investigating outcomes arising from ACAP process:

**Table 6.12 – Internationalisation and ACAP-related emerging outcomes in traditional iSMFBs**

OUTCOMES
<ul style="list-style-type: none"> <li>• Performance: International / general Goals and objectives Efficacy and competitive advantage Non-financial / financial</li> <li>• Related and ensuing innovation and investments:               <ul style="list-style-type: none"> <li>- Innovation (product / market / process) ...</li> <li>- Organisational adaptation / Strategic renewal / business innovation.</li> <li>- Human capital</li> </ul> </li> <li>• Experience, knowledge (types, tacit / explicit)</li> <li>• Internationalisation conduciveness</li> <li>• Newly established or reinforced contacts and relationships</li> <li>• Geographic scope and network spread associated with degree of internationalisation: (<i>inc. countries / regions</i>):               <ul style="list-style-type: none"> <li>- Europe</li> <li>- Africa</li> <li>- Mid East &amp; Asia</li> <li>- Americas</li> </ul> </li> </ul>

Source: Author, drawing from literature synthesis and early insights from data – in line with conceptualised research framework.

### 6.6.1.4 Comparative evaluation of key factors in new knowledge acquisition and internationalisation

Following thorough analysis of multiple primary data sources for each case, the Author also sought to comparatively evaluate the role and importance of select key research-specific factors in acquiring new information and knowledge associated with internationalisation.

Given the qualitative, rich nature of the data, and circumstantial elements unique to each SMFB at specific moments and key events, a qualitative comparative interpretation was required taking into consideration relevant subjective elements in evaluation. Such analysis is important in gauging indicative relative contrasts and comparisons within and across cases (Miles and Huberman 1994). For each one of the factors, relative and comparative evaluation is gauged by means of a five-level scale indicating varying levels of importance (Table 6.13).

**Table 6.13 – Gauge of relative importance for researched factors across SMFBs**

1	2	3	4	5
Minimally important ●○○○○	Somewhat important ●●○○○	Important ●●●○○	Very Important ●●●●○	Exceedingly important ●●●●●
Less important	←—————→			More important

This evidence is based on direct interrogation investigating and ranking the owner-MD’s perceived importance in each case, as well as supplemented with notes, salient quotes and additional qualitative evidence from multiple data sources and observation. Select additional supporting evidence is integrated adjacently in analysis to substantiate and triangulate the comparative level of importance attributed and provide qualitative illustrative evidence.

The select key factors, knowledge sources and resources examined in relation to their role and importance in acquiring important information and new knowledge associated with internationalisation examined follow:

### *Founder/owner-MD, internal sources and resources*

- Formal education and training
- Experience
- Contacts and relationships with others outside the organisation
- Any in-house experimentation and rudimentary R&D

### *External sources and resources*

- Government agencies, industry associations and chambers of commerce
- International fairs and foreign exhibitions
- Internet resources and web-based information
- Recruiting graduates, engaging professionals & consultants, external training programmes

## **6.7 Research quality**

Before even considering researcher competence, Kuzel and Like (1991) consolidated four techniques utilized during data collection to enhance reliability of the methodology and its findings (Table 6.14).

**Table 6.14 – Techniques enhancing validity of qualitative research findings**

<ul style="list-style-type: none"><li>• <b>Member checking:</b> During interviews, member checking involves the researcher restating, summarising, or paraphrasing information received from respondents to ensure that what is heard or written down is correct. Following data collection, member checking consists of reporting back preliminary findings to respondents, getting critical feedback.</li></ul>
<ul style="list-style-type: none"><li>• <b>Disconfirming evidence:</b> researchers interview respondents who may differ from consensus accounts. Inclusion of complementary and conflicting data strengthens validity of data collected. If researchers cannot uncover disconfirming evidence, findings are more convincing.</li></ul>
<ul style="list-style-type: none"><li>• <b>Triangulation:</b> researcher utilizes multiple data sources, multiple informants and multiple methods (e.g. interviews, observation etc.), to validate research findings. Multiple perspectives ensure a more comprehensive understanding of phenomena.</li></ul>
<ul style="list-style-type: none"><li>• <b>Thick description:</b> Detailed descriptions of a phenomenon that includes the researcher's interpretation, in addition to the observed context and processes.</li></ul>

Source: Summary derived from Kuzel and Like (1991)

In case study research, triangulation is a defining feature. Researchers are urged to “*check and validate the information ... from different angles ... in essence use triangulation to reduce the likelihood of misinterpretation*” (Ghauri 2004: 115).

In this thesis, triangulation involved primary and secondary data sources (see Table 6.6) for validation and interpretation of phenomena and dynamics under investigation. Then, interview schedules allowed for in-built member checking during sessions, between narrative and semi-structured components and in different instances. Thick description was attained through deep case narratives for each SMFB – incorporating data from multiple sources and integrating analytic interpretation. Though consolidated, researcher observations, reflections and interpretations were kept identifiably distinct from raw data. Where relevant, direct provenance to specific data sources was indicated. This contributed to reliability and auditability (Miles and Huberman 1994). Additionally, meticulous sifting, coding and organising of data, together with detailed tabulations, matrices and chronological timelines aided analysis, enhancing reliability of emergent findings (Miles and Huberman 1994; Yin 2003; Ghauri 2004; Silverman 2005).

## **6.8 Conclusion**

This chapter described and expounded the rationale for the methodology and research design adopted to explore the nature, characteristics and dynamics of traditional iSMFBs’ internationalisation adopting an absorptive capacity approach.

Given that the fields of small firm internationalisation, family business research and absorptive capacity are still evolving, and due to the fact that existing research constructs were generally incompatible with the context presented in this study, this research adopted an exploratory, qualitative methodology contributing towards theory-building.

Adopting a multiple case-study approach, eight iSMFBs engaged in traditional business activity were engaged through ongoing interaction. Data collection from multiple sources, provided for holistic insight and triangulation. As research findings and patterns were related to convergent strands from the respective fields, a conceptual research framework to guide investigation and analyses was developed in line with emergent research questions.

This helped focus the evolving research. Data analysis involved within-case and cross-case techniques. Table 6.15 below provides an overview of research methods adopted.

**Table 6.15 – Overview of research methods employed**

<b>Paradigm and approach</b>	<ul style="list-style-type: none"> <li>• Interpretive</li> <li>• Qualitative approach</li> <li>• Incorporating elements of theory-building</li> <li>• Inductive</li> </ul>
<b>Research design</b>	<ul style="list-style-type: none"> <li>• Multiple case-study approach</li> <li>• In-depth case studies of SMFBs over time – embracing elements of <i>exploratory</i>, <i>descriptive</i> and <i>explanatory</i> approaches.</li> <li>• Narrowing unit-of-analysis, case within case</li> <li>• Includes historical chronologies</li> </ul>
<b>Data collection</b>	<p>Multiple sources and types of primary / secondary data:</p> <ul style="list-style-type: none"> <li>• Multiple interviews primarily with founders /owner-MDs</li> <li>• Primary and interview data from other relevant individuals</li> <li>• On-site observations</li> <li>• Agency and authority archival materials</li> <li>• Various public sources of information</li> </ul>
<b>Data analysis</b>	<ul style="list-style-type: none"> <li>• Rich, thick, thematically-based, chronological case narratives, timelines, tables, matrices</li> <li>• Within-case and cross-case analysis</li> <li>• Ongoing extensive analysis and use of tabulations, matrices and timelines etc...</li> </ul>

This study gives particular attention to setting and context. Indeed, Miles and Huberman (1994: 10) confirm that the strength of qualitative approaches resides in “*naturally occurring, ordinary events in natural settings ... a focussed and bounded phenomenon embedded in its context. The influences of the local context are not stripped away, but are taken into account. The possibility for understanding latent, underlying, or non-obvious issues is strong*”. A ‘general strategy’ for case study analysis is crucial to “*cover contextual conditions ... develop a case description*” and to establish a valid framework for further analysis (Yin 2003; Lincoln and Guba 1985; also Cresswell 1989). Seeking holistic understanding of internationalisation and associated ACAP dynamics in the iSMFBs under study, it was necessary to frame each within its specific context.

As an integral part of the analysis, rich detailed chronological case narratives for each SMFB were consolidated from primary and secondary data sources, together with analytic reflection and interpretation. Thematically aligned with the research thrust, they trace the development of the SMFBs over time, evolving dynamics of their founders / owner-MDs, the role of experiential learning and ACAP leveraged by contacts and relationships – manifested in adaptation, alertness and seizing of opportunities for internationalisation towards growth and survival – or otherwise.

As indicated, select within-case analytic evidence can be seen in the appendices, while the rich, detailed case narratives may be viewed on request. Within-case analyses formed the basis for this study's cross-case analysis. The next chapter details and presents this study's cross-case analysis, findings and discussion integrated with the relevant literature.



# Chapter 7

Cross-case Analysis,  
Findings and Discussion



# 7 Cross-case analysis, findings and discussion

## 7.1 Introduction

In line with the stated aims and objectives, and established research questions (Chapter 5), this study combines within-case and cross-case approaches to analyse SMFBs' specific internationalisation activity and associated ACAP dynamics – impacting on learning, knowledge and the identification and exploitation of international opportunities. This chapter presents the important consolidating cross-case analyses and core findings emanating from this study.

Given the extensive data generated and processed, descriptive preliminary event-driven chronological SMFB case narratives are available on request. These rich, thick narratives extensively investigate each SMFBs' establishment, evolution and internationalisation, also offering comprehensive insight into family dynamics, their unique circumstances and resource development. Drawing from several data sources and rooted in each SMFBs' idiosyncratic context, they provide valuable analytic insight forming a base for this study. Other select examples of within-case analyses undertaken are presented in Appendices 3, 4 and 5. This analysis shored the important foundation for continued cross-case analysis presented here.

Analysis is driven by the established research questions focussing the intent of this study (Chapter 5, *Consolidation and articulation of the research questions*), in line with the emergent conceptualised analytic research framework discussed and presented earlier (Chapter 6, *Methodology and research design*). As indicated, the framework consolidates internationalisation and ACAP processes as an integrated ongoing, regenerating phenomenon where outcomes from specific internationalisation events, in turn, also constitute antecedents enhancing capability, potentially informing and influencing subsequent international activity.

Internationalisation analysis adopting an ACAP approach was based on this research framework. Together with 'antecedents' and 'outcomes', fundamental internationalisation ACAP elements and processes analysed are the 'acquisition' of external information and knowledge associated with internationalisation, its 'assimilation', and eventual 'exploitation', manifested in specific outward internationalisation events, and

interrelationships thereof. Key outward internationalisation events and strategic inflections in the SMFBs' overall internationalisation, development and history were also examined in context (investigated historic chronology and timelines).

This chapter is structured as follows in line with the established research questions:

It first embarks on an analytic overview of the case SMFBs' circumstances and characteristics in relation to internationalisation, export activity and international experience (7.2, 7.3).

▶ ***What is the nature and extent of internationalisation among SMFBs in this context?***

Then, SMFBs' internationalisation drivers, motivations and processes are analysed, incorporating timelines involving exogenous factors and internal resources and development (including experiential and knowledge resources) (7.4). Human resourcefulness, including owner-MDs' characteristics and entrepreneurial stance, as well as human capital dynamics associated with family / non-family management and employees are investigated and incorporated in analysis. Next, following detailed timelines SMFB internationalisation processes were engaged in deeper analysis, investigating scope and degree of internationalisation, psychic distance, foreign market entry modes and extent of commitment, in relation to experience and knowledge associated with internationalisation and respective SMFBs' unique circumstances and characteristics (7.5).

▶ ***How do such SMFBs approach knowledge requirements associated with internationalisation, as proposed by the absorptive capacity approach?***

Consequently, adopting an ACAP approach, specific outward internationalisation events for each SMFB are analysed across-cases, also in relation to the role of the founder / owner-MD as well as contacts and relationships (7.6), as are linkages between internationalisation events and other activity (0). Key sources of new and external information and knowledge important for internationalisation are comparatively analysed (7.8).

Throughout, findings and observations are critically discussed in relation to the literature.

## **7.2 Analytic overview of case SMFBs' characteristics**

Selected traditionally-oriented SMFBs under study varied in sector, size, age, generation and management structure. Such variables were investigated as a foundation for further cross-case comparative analysis.

### **7.2.1 SMFB size**

In line with adopted SME criteria based on employment levels, the largest SMFB employed 140 (vide Table 6.4 – Overview of key case SMFB characteristics in line with selection criteria, p. 195). Five SMFBs each had between 80 and 100 full-time employees – the lower end of the ‘medium’ size category of adopted EU SME definition. Employing less than 50, the two remaining SMFBs are classified as ‘small’.

### **7.2.2 SMFB age and family generations**

With respect to the SMFBs' age since commencement of operations (vide Table 6.4 – Overview of key case SMFB characteristics in line with selection criteria, p. 195), grouped in two clusters, 4 SMFBs were in their ‘forties’, and 3 in operation for around a century. From a development perspective, size depended on SMFBs' idiosyncratic circumstances – the oldest three SMFBs (*ProJoiners*, *WineDivine* and *SunDeli*), now in their third generation, were respectively ranked joint third, fifth and first largest in employment size. Youngest *VegaFont* is second largest, growing fast in response to rapid internationalisation.

All SMFBs were well established. None were start-ups. All had established social networks, accumulated experience and prior knowledge. As family businesses they spanned several generations at the helm, from founders to third generation owner-MDs – *SunDeli* and *WineDivine* are easing the fourth generation into ‘learning the ropes’ within the company.

Table 7.1 below indicates family generations at the helm in order of age / years in operation.

**Table 7.1 – SMFBs' generation at the helm**

SMFB	SMFB age	Generation at helm	Notes
SMFB 6 <b>ProJoiners</b>	116	3 <sup>rd</sup> gen.	
SMFB 3 <b>WineDivine</b>	103	3 <sup>rd</sup> gen.	
SMFB 5 <b>SunDeli</b>	94	3 <sup>rd</sup> gen.	Yet can be thought of as 'founder' of business in its current form. Company was bankrupt & moribund.
SMFB 4 <b>FiredPride</b>	46	2 <sup>nd</sup> gen.	*Founded by British couple. Bought out & indigenised by father of current family MD.
SMFB 8 <b>StarSnack</b>	45	1 <sup>st</sup> → 2 <sup>nd</sup>	Though 2nd gen. temporarily MD, transition was not clear-cut.
SMFB 1 <b>GloGlass</b>	42	1 <sup>st</sup> gen.	*Set up by British founders. Bought out & indigenised by enterprising employee, current MD.
SMFB 2 <b>FreshCatch</b>	42	2 <sup>nd</sup> gen.	Yet present owner-MD essentially transformed & founded current business.
SMFB 7 <b>VegaFont</b>	28	1 <sup>st</sup> gen. / founder	

Source: Compiled by Author from primary data and within-case analyses (age as at 2010).

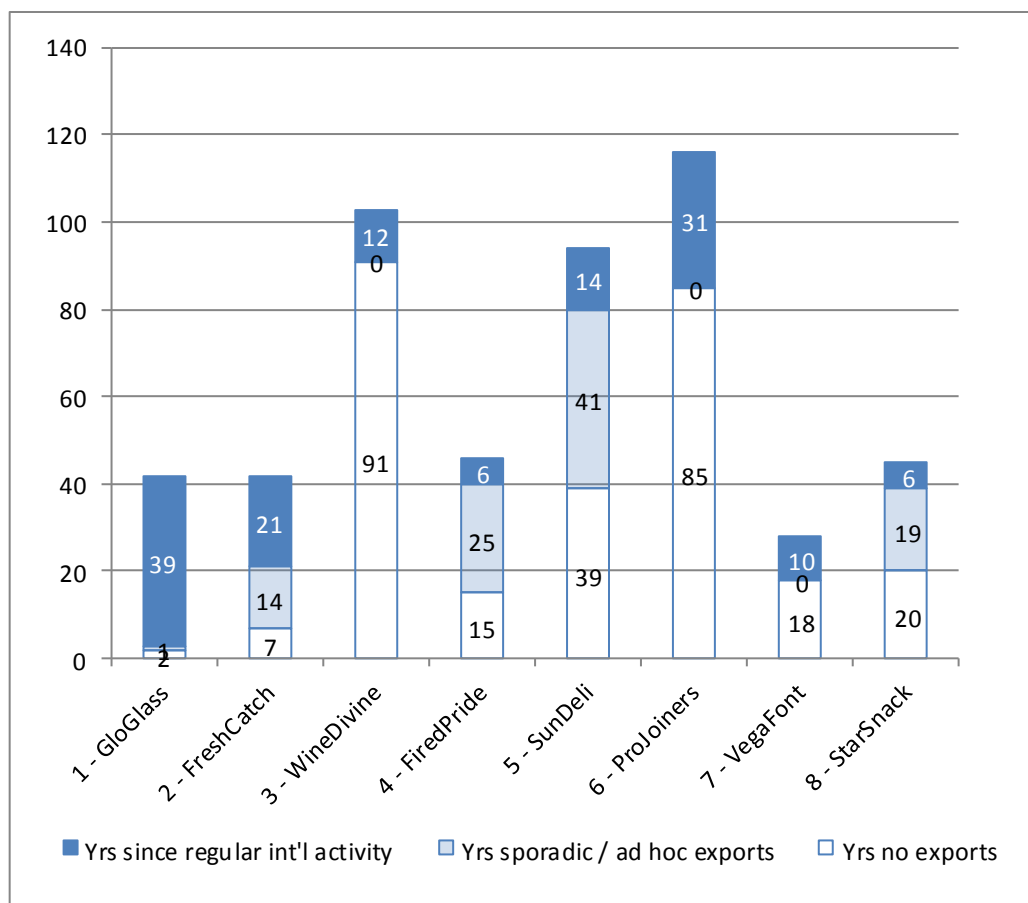
Founded by family expatriates as craft-based businesses when British military bases in Malta were being dismantled, *GloGlass* and *FiredPride* were subsequently bought out by the current Maltese family-owners and fully indigenised. While foreigners founded *FiredPride*, exports were initiated years after take-over by the current Maltese family. In contrast, though already internationalised by its expatriate owners, *GloGlass*' current owner-MD's buyout redirected a stagnating business, and revived international growth. Nonetheless, these aspects are considered in analysis as and where relevant.

## **7.3 Analytic overview of case SMFBs' internationalisation**

### **7.3.1 Internationalisation and export activity**

Extent of internationalisation ranged from SMFBs with long-standing, regular outward internationalisation activity to others recently internationalised and *ab ovo*. Figure 7.1 distinguishes between early *ad hoc* exporting and onset of regular sustained export activity in relation to organisational age.

**Figure 7.1 – SMFBs' age and years' extent outward internationalisation**



Source: Compiled by Author from primary data and within-case analyses (years as at 2010).

The number of years since engagement in regular outward international activity ranged from 39 years for *GloGlass* to 6 years for both *FiredPride* and *StarSnack*. *WineDivine* is shown as having regularly exported for 12 years, however its owner-MD considers sustained internationalisation initiatives as having really started more recently, soon after EU accession, effectively in 2005.

Five SMFBs had engaged in tentative *ad hoc* exports prior to regular sustained exports. However, for *SunDeli*, *FiredPride* and *StarSnack* preliminary export activity was an isolated one-off stint – separated by a gap of several years: 41, 25 and 19 years respectively, from the next outward international activity (exports). In *FiredPride's* case, although a proactive initiative was recently undertaken to seek and exploit international opportunities, exports, albeit regular, remain mostly *ad hoc*.

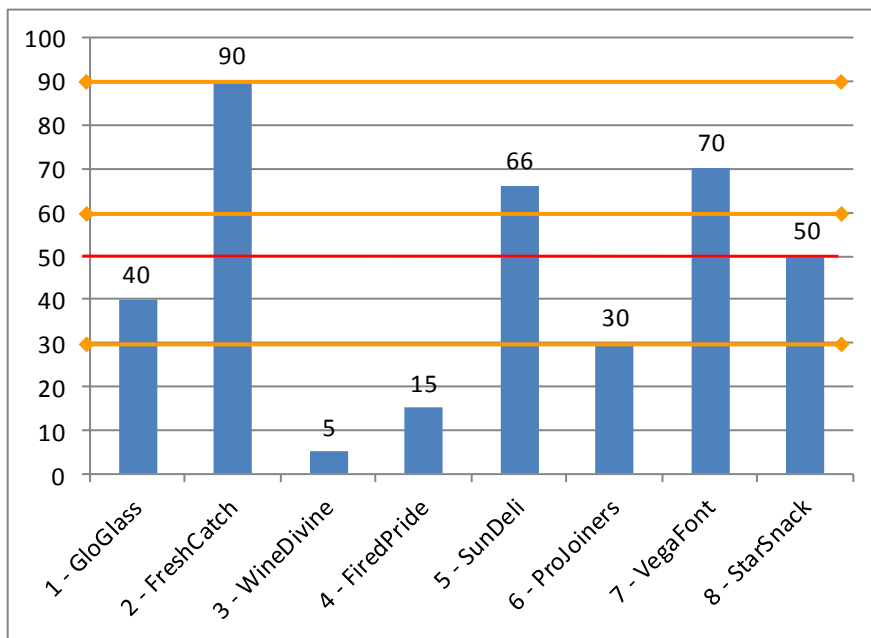
In contrast, *WineDivine*, *ProJoiners* and *VegaFont* transitioned directly from no exports to regular sustained exports. In the case of *GloGlass*, tentative irregular activity preceded

regular export activity by only one year – this rapid internationalisation might be partially explained by its British connection – however, the first countries targeted were Italy and the USA. Furthermore, exports began at a time when “internationalisation was not necessary for survival ...if a hundred tourists came to Malta, all hundred would have visited [us]” (GG<sup>1</sup>).

### 7.3.2 Extent of internationalisation

Figure 7.2 below indicates SMFBs current extent of internationalisation represented as % sales attributed to foreign markets, generally exports.

Figure 7.2 – SMFBs' current extent of internationalisation - % exports / int'l sales



Source: Compiled by Author from primary data

Table 7.2 below classifies the SMFBs into three clusters reflecting ‘high’ predominantly export based, ‘substantial’ and ‘low’ extent of exports. Three SMFBs (*FreshCatch*, *VegaFont* and *SunDeli*) broadly different in age, size and generational characteristics run predominantly export operations with foreign sales ranging from 66% to 90%. By this account they may be considered to have internationalised to a greater extent. *FreshCatch*’s foreign sales depend substantially on tenders awarded for exportation of Bluefin tuna to Japan. Another three (*StarSnack*, *GloGlass* and *ProJoiners*) also have exports at considerably high levels – between 30% and 50% of sales. At the lower end, *WineDivine* and *FiredPride* export around 5% and 15% respectively.



**Table 7.2 – Extent of exports & sales abroad**

Cluster category Proportion of exports	Rank	SMFB	Extent of exports / sales abroad
• High, predominantly export based	1	FreshCatch (SMFB 2)	90%
	2	VegaFont (SMFB 7)	70%
	3	SunDeli (SMFB 5)	66%
• Substantially high exports & sales abroad	4	StarSnack (SMFB 8)	50%
	5	GloGlass (SMFB 1)	40%
	6	ProJoiners (SMFB 6)	30%
• Low exports levels	7	FiredPride (SMFB 4)	15%
	8	WineDivine (SMFB 3)	5%

Source: Compiled by Author from primary data

### **7.3.3 Internationalisation experience**

Since experiential learning and prior knowledge are considered central for both internationalisation and ACAP, it is useful at this point in analysis to discern among the SMFBs' relative internationalisation experience. Complementing SMFB-specific analyses undertaken, Table 7.3 gives an overall indication of the SMFBs' internationalisation experience. It primarily considers the number of years the firms have been engaged in regular, ongoing exports, as well as other relevant qualitative measures, categorising the SMFBs as *'experienced'* or comparatively *'novice'* internationalisers.

**Table 7.3 – Extent of SMFBs' internationalisation experience: 'Experienced' and 'novice' internationalisers**

Rank	SMFB	Yrs regular ongoing exports	Any early irregular <i>ad hoc</i> , exports	Other – internationalisation experience related
<b>■ Experienced internationalisers</b>				
1	<b>GloGlass</b> (SMFB 1)	<b>39 yrs</b> (1971)	1 year earlier (1970) to 2 countries [ <i>proactive</i> ].	INV at only 3 yrs old in 1971, almost ' <i>born international</i> '. - Regular exports to: <b>4+1<sup>Δ</sup> countries</b> - Also recent <b>franchising alliance</b> , retail presence <sup>Δ</sup> - Proportion of exports: <b>c.40%</b>
2	<b>ProJoiners</b> (SMFB 6)	<b>31 yrs</b> (1979)	n/a	Started with regular exports to UK. Now into contract manufacture for foreign clients (hotels etc...). - General export activity to: <b>4 countries</b> . - Also <b>FDI</b> and <b>JV</b> activity - Proportion of exports: <b>30%</b>
3	<b>Fresh Catch</b> (SMFB 2)	<b>c.21 yrs</b> (c.1989)	c.14 yrs earlier (c.1975) ongoing <i>ad hoc</i> fish trade mostly to Italy [ <i>proactive</i> ].	Proactively started sporadic <i>ad hoc</i> exports early to neighbouring Med countries depending on catch. Main exports start on award of govt. Tuna contracts to Japan. - General export activity to: <b>2-4 countries</b> - Also international <b>JV</b> and <b>FDI</b> activity - Proportion of exports: <b>c.90%</b> (dependent on contracts)
4	<b>SunDeli</b> (SMFB 5)	<b>14 yrs</b> (1996)	41 yrs earlier (1955) isolated ongoing venture lasting 16 yrs [ <i>proactive</i> ].	Indirect exports since many years earlier – yet considered to have internationalised in 1996/1997 with export activity to various markets generated from contacts at fairs. c.1997 1 <sup>st</sup> big lucrative contract: <i>McDonald's</i> regional ketchup supplier. Soon followed by mostly private label manufacturing for big clients: <i>Asda</i> , <i>Sainsbury's</i> , <i>Morrisons</i> , <i>Red Lion</i> . - Regular exports to: <b>6+2<sup>Δ</sup> countries</b> - Also <b>franchising</b> own brand abroad <sup>Δ</sup> - Proportion of exports: <b>c.66%</b>
<b>■ Novice internationalisers</b>				
5	<b>VegaFont</b> (SMFB 8)	<b>10 yrs</b> (2000)	n/a	Started with regular exports to series of large publishers. Practically all business to big clients in UK. - Mainly exports to: <b>1 country</b> - Proportion of exports: <b>c.70%</b>
6	<b>StarSnack</b> (SMFB 8)	<b>6 yrs</b> (2004)	19 yrs earlier (1985) <i>ad hoc</i> one-off consignments to Europe, Mid East & China. Again in 1998 & 2003-2004, also to Canada.	Owner-MD considers internationalisation to have occurred in 2004. Now private label manufacturing for large int'l s'market clients. - Regular exports to: <b>4 countries</b> - Proportion of exports: <b>50%</b>
7	<b>Wine Divine</b> (SMFB 3)	c.12 yrs (1998) *yet considers thrust from 2005 ( <b>5yrs</b> )	n/a *early 2 yr isolated stint of regular exports to UK importer Bottle Green sees wine on shelves of Asda, Coop & Unwins (UK).	Owner-MD considers outward internationalisation (exports) as a concerted strategic thrust to have started from 2005: ongoing private label exports to Swedish premium brand. - General regular exports to: <b>5 countries</b> - Also collaborative international <b>alliance</b> - Proportion of exports: <b>c.5%</b>
8	<b>FiredPride</b> (SMFB 4)	<b>c.6 yrs</b> (c.2004)	c.25 yrs earlier (1979) <i>ad hoc</i> , isolated, consignment [ <i>reactive</i> ].	Currently <i>ad hoc</i> shipments abroad to mostly foreign retail clients while visiting Malta and others. Occasional commissioned contract abroad. - Mostly <i>ad hoc</i> exports to generally: <b>4 countries</b> - Proportion of exports: <b>c.15%</b>

Source: Author, consolidated from primary data and within-case analyses (years exporting as at 2010).

Patterns evinced do not allow for *prima facie* general associations between organisational age on pace or extent of internationalisation. Rather, reflecting scholars’ findings, SMFBs’ unique idiosyncratic characteristics influenced international activity – These are investigated in depth later.

### 7.3.4 Consolidation: Comparative overview of case SMFBs’ state of internationalisation

Table 7.4 below draws from within-case analyses and complementing Figure 7.2, Table 7.2 and Table 7.3, gives an overview of the SMFBs’ current extent of internationalisation. While organisational size and age characteristics are indicated, together with reference to their internationalisation experience – emphasis is given to the % of exports, and the level of commitment to international markets (mode of market entry is analysed in detail later).

**Table 7.4 – Extent of outward internationalisation, size and age spread of case SMFBs**

		← ← Experienced internationalisers				Novice internationalisers → →			
		Glo Glass	Pro Joiners	Fresh Catch	Sun Deli	Vega Font	Star Snack	Wine Divine	Fired Pride
SMFB	<b>Age</b>	42	c.116	c.42	94	c.28	45	103	46
	<b>Size (FT)</b>	44	90	88	140	100	90	80	22
	<b>Gen. control</b>	1 <sup>st</sup> gen.	3 <sup>rd</sup> gen.	2 <sup>nd</sup> gen.	3 <sup>rd</sup> gen.	1 <sup>st</sup> gen.	1 <sup>st</sup> → 2 <sup>nd</sup>	3 <sup>rd</sup> gen.	2 <sup>nd</sup> gen.
Internationalisation	<b>Exports</b>	40%	30%	c.90%	66%	70%	50%	c.5%	15%
	<b>Export extent</b>	S’stantial	S’stantial	High	High	High	S’stantial	Low	Low
	<b>Yrs reg. exp.</b>	39	31	c.21	14	10	6	c.12	c.6
	<b>Modes &amp; commitment</b>	Dir exp F’chise	Dir exp Contract J Vent. FDI	Dir exp Contract J Vent. FDI	Dir exp F’chise	Dir exp	Dir exp	Dir exp	<i>ad hoc</i> exports

Source: Author from primary data and within-case analyses. Age and years as at 2010.

As noted earlier, Table 7.4 initially indicates a logical link between accumulation of internationalisation experience (tacit knowledge) and SMFBs’ extent of internationalisation, as gauged via entry mode and the extent of commitment to foreign markets. However, the same cannot be said with respect to experience and the level of exports *per se*. Here, as discussed shortly, the client type and the nature of the industry played an important role.

With respect to more committing modes of entry among experienced internationalisers, besides investing (FDI) in fully-owned tuna ranches in Cyprus, *FreshCatch* engaged in

joint ventures with Asian partners. *ProJoiners* engaged in large hotel contracts, set up a company to process export sales in UK, and established a sales office in Libya. They also initiated a joint venture with domestic and Italian partners to innovatively diversify into specialised industry-related software solutions. *SunDeli* exported to large private label clients in UK, and franchised their retail premium brand of Mediterranean delicatessen in Germany. None among the ‘novices’ internationalised beyond direct exports.

However, on the other-hand, while size does seem to play a general role, possibly associated with resource availability, as noted earlier, internationalisation experience played a less significant role in internationalisation extent as gauged via proportion of sales in foreign markets. Internationalisation ‘novices’ *VegaFont* and *StarSnack* internationalised rapidly and have most of their sales in foreign markets. Yet in this regard, an historical analysis of ‘experienced’ *SunDeli*’s internationalisation reveals that it too ratcheted up proportionately large levels of exports very quickly at an early stage – mainly due to their foreign clients being large supermarket chains. In turn, it was size-related characteristics associated with resources and access to finance for additional investments in processes and capacity that made it possible for *SunDeli* to target foreign corporate clients for high-volume export contracts.

Similarly, it was foresight and resource-related investments in capability, technologies, processes and capacity that enabled and ‘legitimised’ *VegaFont*’s, *StarSack*’s and *ProJoiner*’s claims to serve large corporate export clients – respectively book publishers, supermarket chains and multinational hotel chains. This had a ‘lock-on’ or path-dependent effect, becoming a perpetrating cycle, where their investments, size and ensuing setup required, sustainment and growth in international sales to maintain their scale of operations and investments, as well as realise economies of scale – beyond the small, restrictive domestic market.

In other instances observations initially seemed to run counter to received theory associated with resources, internationalisation capability and survivability among SMEs. For example, consolidating both variables (size and experience), internationalisation scholars Sapienza, Autio, George and Zahra (2006: 924) observe researchers considering these potential “*liabilities of small size and newness*” to be directly associated with resource inadequacy in relation to environmental demands – leading to underperformance and possibly firm failure (see e.g. Schussler 1990; Helfat 1997; Hannan 1998; and Stinchcombe

1965, cited in Sapienza *et al* 2006). While such liabilities are acknowledged, in this study this does not necessarily seem to be the case, as owner-MDs creatively offset resource limitations and seized internationalisation opportunities.

Indeed, *GloGlass*, one of the smallest SMFBs' under study is yet an 'international new venture'<sup>34</sup> having internationalised almost from inception, that successfully maintained internationalisation and market growth over the years. Today, with 40 years of consistent international business activity, it is one of the more 'experienced' internationalisers – A successful business driving an ongoing enterprising quest for new and innovative international business opportunities. Here, the owner-MD's incessant alertness and proactive stance in seeking innovative and potential international opportunities, travelling and actively establishing contacts, combined with flexibility and swiftness in exploiting such opportunities as they emerge, played a key role.

From a family-generational perspective vis-à-vis extent of internationalisation, no clear initial observations can be drawn. The most internationalised SMFBs (export levels as well as entry modes and commitment) represented a mix spanning 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> generations. Similarly, the least internationalised SMFBs were in their 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> generations – it seems that here too, the respective SMFBs' unique circumstances, internal and external, had an important role to play.

The same observation applies to internationalisation experience – 'experienced' SMFBs as well as 'novice' internationalisers were represented at all generational levels. While noting the two variables are associated – e.g. with more committing modes of foreign market entry relating to internationalisation knowledge and experience – size and resources would have facilitated more committing modes of internationalisation and up-scaling of operations. Nonetheless as already mentioned, small *GloGlass* engaged in more committing modes of internationalisation, while larger, yet 'novice' SMFBs relied on direct exports.

Similarly, among the more internationalised and experienced, *SunDeli's* experiential knowledge, accumulated domestically and through foreign exposure, influenced its late yet rapid internationalisation. The same is true for *StarSnack* – experience gained from

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<sup>34</sup> The term international new venture (INV) is broadly attributed here. Though various definitions exist, Oviatt and McDougall (1994: 49) define an INV as "... a business organisation that, from inception, seeks to derive significant advantages from the use of resources and the sale of outputs in multiple countries".

negotiating with foreign suppliers helped in securing its “*big break*” contract with large supermarket chain *Leaderprice*.

Table 7.5 below gives a comprehensive overview of the SMFBs under study. This being a qualitative study, the objective is not to draw quantitative inferences, instant trends or *prima facie* conclusions. Beyond commonalities, internationalisation activity was driven by each SMFB’s unique circumstances.

**Table 7.5 – SMFBs’ profile, characteristics and internationalisation overview**

	SMFB # 1 <b>GloGlass</b>	SMFB # 2 <b>FreshCatch</b>	SMFB # 3 <b>WineDivine</b>	SMFB # 4 <b>FiredPride</b>	SMFB # 5 <b>SunDeli</b>	SMFB # 6 <b>ProJoiners</b>	SMFB # 7 <b>VegaFont</b>	SMFB # 8 <b>StarSnack</b>
Year org set up	1968	c.1968 [When siblings joined their father in selling their catch]	1907	1964	1916	c.1894 [Yet Ltd. Co. set up c.1970]	c.1982	1965
Current <b>age</b> of org (2010)	42	c.42	103	46	94	c.116	c.28	45
Current generation at helm (* Co originally bought by family)	1 <sup>st</sup> Gen*	2 <sup>nd</sup> Gen	3 <sup>rd</sup> Gen	2 <sup>nd</sup> Gen*	3 <sup>rd</sup> Gen	3 <sup>rd</sup> Gen	1 <sup>st</sup> Gen	1 <sup>st</sup> → 2 <sup>nd</sup> Gen
Current <b>size</b> of org (FTE employ)	44	88	80	22	140 (est 2009*) *Prior to global fin crises was c.180.	90	100 (2010) * Global fin crises – was previously c. 120 in 2008	90
<b>Inward</b> int'l activity. Key direct foreign suppliers and country of origin	Mainly from: - <b>Italy</b> (Raw + Equip) - <b>Spain</b> (Raw) - <b>USA</b> (Raw) - <b>Hungary</b> - <b>UK</b> (Equip)	Various <i>ad hoc</i> depending on supply and demand in trade. Mainly bordering Mediterranean.	Mainly from: - <b>Italy</b> (around 50) (Raw + Equip)  A few also in - <b>France</b> and - <b>Germany</b> .	Mainly from: - <b>Italy</b> (several) (Raw + Equip)	Various	Several suppliers (40-50 for raw materials and equip)  - Mainly <b>Italy</b>	Various – for raw materials, paper and inks as well as equipment and presses	Several. 25-35 raw materials, 10-15 for equipment and machinery.  Including <b>German, English, and Dutch</b>
If there was any <b>preliminary ad hoc, tentative and irregular international outward</b> activity (export sales):  Year (duration where relevant) /country [proactive/reactive]	<b>1970</b>  <b>Italy</b>  Proactively sent samples seeking export opportunities  <b>USA</b>  <i>Ad hoc</i> direct export (One-off order)  [Proactively seeking export opportunities. Contact est. at int'l fair approached Co]	<b>c.1975</b>  <b>Italy</b>  <i>Ad hoc</i> import & opportunistic export depending on market conditions  [Proactive]	n/a	<b>c.1979</b>  <b>UK</b>  One-off, <i>ad hoc</i> isolated venture. Exports ceramics to firm as private label (2 container-loads)  [Reactive / unsolicited. Approached by client]	<b>1955</b>  <b>UK</b>  (*While regular, these indirect 'exports' via locally-based British Merchant Navy were not considered part of the Co.'s proper internationalisation thrust)  Export of kunserva in alu tubes to British Merchant Navy  (Regular for c.16 yrs till early 1970s when Britain joining EEC (1973) renders such exports uncompetitive. Also at about that time Malta gains national independence)  [Proactively seized circumstantial opportunity]	n/a	n/a	<b>1985-</b>  <b>Saudi Arabia, Kuwait, China, Italy, Scotland</b>  Sporadic short-lived export consignments  <b>1998</b>  <b>Libya &amp; Mid East</b>  Sporadic short-lived export consignments  <b>2003 – 2004</b>  <b>Lebanon, Canada, Italy (EU)</b>  <i>ad hoc</i> one-off exports following int'l fairs

	SMFB # 1 <b>GloGlass</b>	SMFB # 2 <b>FreshCatch</b>	SMFB # 3 <b>WineDivine</b>	SMFB # 4 <b>FiredPride</b>	SMFB # 5 <b>SunDeli</b>	SMFB # 6 <b>ProJoiners</b>	SMFB # 7 <b>VegaFont</b>	SMFB # 8 <b>StarSnack</b>
Age of org when preliminary <i>ad hoc</i> , sporadic exports first took place.	2 yrs	c. 7 yrs	n/a	c. 15 yrs	39 yrs (1 <sup>st</sup> isolated case)	n/a	n/a	20 yrs
No. of years since 1 <sup>st</sup> ever / initial, tentative <i>ad hoc</i> exports (2010)	40 yrs ago	c. 35 yrs ago	n/a	c. 31 yrs ago	55 yrs ago (since 1 <sup>st</sup> isolated case)	n/a	n/a	25 yrs ago
Year of commencement of 1 <sup>st</sup> regular, substantial and sustained, outward int'l activity (involving sales).	<b>1971</b>	<b>c.1989</b>	<b>c.1998</b>	<b>c.2004</b>	<b>1996</b>	<b>1979</b>	<b>2000</b>	<b>2004</b>
Year/country/mode/duration [reactive / proactive]	<b>UK</b>  Export via distributor 14 Yr duration  [Proactive]	<b>Japan</b>  Tuna export B2B Ongoing  [Circumstance]	<b>UK</b> <small>(*in certain respects <i>not</i> considered as 1<sup>st</sup> proactive internationalisation thrust)</small>  Isolated sustained venture with UK importer <i>Bottle Green</i> . Sees wines on <i>Asda</i> & <i>Coop</i> s'market shelves as well as <i>Unwins</i> (c. v late 1997 to c. early 2000. c.2 yrs)  [Int'l presence & exposure – At right place in right time. Contact at fair. Approached by importer / agent o.b.o. clients]	<i>Various countries. Initially <b>America</b> &amp; others mostly <b>European (UK, German, France)</b></i>  Rapport w Maltese émigré results in feedback & regular trickle of <i>ad hoc</i> export orders to promising USA market.  Furthermore, <i>ad hoc</i> sales after participation at fairs, as well as <i>ad hoc</i> sales to foreign retail (cruise) clients visiting Malta  [While int'l drive initiated in earnest c.2005, most sales unsolicited. Approached by clients. 2006 best export year]	<b>Saudi Arabia</b>  Considered 1 <sup>st</sup> exports  Exporting ketchup thru contact from int'l fair. <hr/> <b>1997</b> <hr/> Continued proactive stance thru contacts from int'l fairs  Exports 3.5m bottles ketchup to:  <b>Kuwait, Saudi Arabia, Tunisia, Russia and Ukraine</b> <hr/> <b>c.1997</b> <hr/> <i>McDonald's</i> – exports to regional centre: <b>France</b> . Certified supplier for <b>S. Europe inc. Med.</b>  Lasted “a good 10 yrs” till c.2008	<b>UK</b>  Contracted by UK Co. To manufacture & export kitchen cabinet doors (c.2 years)  [Reactive – Approached by contracting client]	<b>UK</b>  Strikes contracts with <i>Grandreams Books</i> (bankrupt 2001), <i>Hodder</i> (ongoing), <i>Taylor Francis</i> (up to 2005), <i>Landmark</i> (up to 2009)  Exports “exploded” following poaching of experienced British print sales Manager & consultant with many contacts  [Proactive]	<b>Cyprus (EU)</b>  Starts regular exports following leads & contacts from int'l fair  [Proactive and circumstance]



	SMFB # 1 <b>GloGlass</b>	SMFB # 2 <b>FreshCatch</b>	SMFB # 3 <b>WineDivine</b>	SMFB # 4 <b>FiredPride</b>	SMFB # 5 <b>SunDeli</b>	SMFB # 6 <b>ProJoiners</b>	SMFB # 7 <b>VegaFont</b>	SMFB # 8 <b>StarSnack</b>
					[Circumstance & Proactive. Following setup of Export dept]			
<b>Age of org</b> when such 1 <sup>st</sup> regular international sales took place.	3 yrs old	c. 21 yrs old	c. 91 yrs old	40 yrs old	80 yrs old	c. 85 yrs old [c. 9 yrs since reg as a Co.]	c. 18 yrs old	39 yrs old
<b>Gap</b> in years between any preliminary, <i>ad hoc</i> and tentative irregular exports, and the commencement of this 1 <sup>st</sup> <b>regular and sustained</b> int'l business.	1 yr	c. 14 yrs	n/a	c. 25 yrs	41 yrs (since 1 <sup>st</sup> isolated case)	n/a	n/a	19 yrs
<b>No. of years since commencement of this 1<sup>st</sup> event of regular, ongoing international sales (2010)</b>	39 yrs ago	c. 21 yrs ago	c. 12 yrs ago	6 yrs ago	14 yrs ago	c. 31 yrs ago	c. 10 yrs ago	6 yrs ago
<b>Year of commencement of 2<sup>nd</sup> regular, substantial and sustained, outward int'l activity (involving sales).</b>  Year/country/mode/duration [reactive / proactive]	<b>1976</b>  <b>Germany</b>  Export via distributor / agent c.8 yr duration (up to c.1984)  [Circumstance & being visible in the right place (int'l exposure)]	<b>c.1990/1991</b>  <b>Libya</b>  Regular exports to Maltese international hotel chain's camp while developing their hotel property in Libya (lasted about 2 yrs)  <i>Various countries</i> (mostly European)  Ongoing - Depending on catch and mainly market conditions / demand in countries bordering Mediterranean Sea	<b>2005</b>  <b>Sweden (EU)*</b> <small>(*in certain respects this is considered as 1<sup>st</sup> active internationalisation thrust)</small>  Export B2B Private label – ongoing to date (2010)  [Approached by Co. yet proactively seeking internationalisation for survival post-EU]	n/a  <i>Various countries</i>  Ongoing <i>ad hoc</i> sales shipping to, Internet clients, 'passing' cruise liner foreigners; <i>ad hoc</i> export sales to clients following int'l fairs & extent of foreign internet sales  Inc. new export client in <b>USA</b> [2008]  [Actively seeking export opportunities – proactive / <i>ad hoc</i> ]	<b>c. 1999</b>  <b>UK</b>  Riding on the back of certified <i>McDonald's</i> int'l supplier status as well as contacts and recognition inc. attaining BRC status, secures lucrative export business supplying large UK s'market <i>Asda</i> .  Ongoing in 2011 >12 yrs  Opens door to other lucrative large export contracts:  <b>c. 2000</b>	<b>c. 1987</b>  <b>UK</b>  Following end of previous venture to same country, starts exporting fireplace surrounds  Several years  [Proactive, seeking continued presence and growth in now familiar UK market]	<b>2003</b>  <b>UK</b>  Wins over new UK-based children's educational book publisher: <i>Mantra</i>  >8 yrs. Ongoing in 2010	<b>2005</b>  <b>France (EU)</b>  Penetrated into French market, major " <i>first breakthrough</i> ". Large supermarket chain <i>Leader Price</i> .  <b>mid-2005</b>  Quickly followed by <b>Ireland (EU)</b>  [Proactive, Actively seeking int. growth for survival]

	SMFB # 1 <b>GloGlass</b>	SMFB # 2 <b>FreshCatch</b>	SMFB # 3 <b>WineDivine</b>	SMFB # 4 <b>FiredPride</b>	SMFB # 5 <b>SunDeli</b>	SMFB # 6 <b>ProJoiners</b>	SMFB # 7 <b>VegaFont</b>	SMFB # 8 <b>StarSnack</b>
		[Proactive]			<b>UK</b>  <i>Morrisons</i> supermarkets  Several yrs  <hr/> <b>c. 2001</b>  <hr/> <b>UK</b>  <i>J Sainsbury's</i> supermarkets  c.9 yrs. Stopped recently (2011) due to Malta shipping issues.  [Proactive, actively seeking int. growth]			
<b>Age of org</b> when such 2 <sup>nd</sup> regular international sales commenced.	8 yrs old	c. 22 yrs old	98 yrs old	n/a	c.83 yrs old	c. 93 yrs old	c. 21 yrs old	40 yrs old
<b>Gap</b> in years between onset of 1 <sup>st</sup> regular and sustained exports, and the commencement of this 2 <sup>nd</sup> <b>regular and sustained</b> int'l business event (sales)	5 yrs	c. 1 yr	c. 7 yrs	n/a	c.3 yrs	c. 8 yrs	c. 3 yrs	1 yr
No. of <b>years since commencement of this 2<sup>nd</sup> event of regular, o-going international sales</b> (2010))	34 yrs ago	c. 20 yrs ago	5 yrs ago	n/a	c.11 yrs ago	c. 23 yrs ago	7 yrs ago	5 yrs ago
<b>Current extent of exports / international sales (%)</b>	40%	c. 90%	c. 5% "very low"	15%	66%	30%	70%	50%

	SMFB # 1 <b>GloGlass</b>	SMFB # 2 <b>FreshCatch</b>	SMFB # 3 <b>WineDivine</b>	SMFB # 4 <b>FiredPride</b>	SMFB # 5 <b>SunDeli</b>	SMFB # 6 <b>ProJoiners</b>	SMFB # 7 <b>VegaFont</b>	SMFB # 8 <b>StarSnack</b>
Current <b>mode of outward international activity</b> and extent of commitment/ internationalisation	<p><b>Export</b> to distributor / agent</p> <p><b>Franchising alliance</b>, int'l retail presence USA</p> <p><u>NOTE</u>: Explored FDI retail presence in Cyprus</p>	<p><b>Export</b> direct to s'market / business</p> <p><b>Joint venture</b>: Previously also JV with Asian Co. Now AJD Tuna fully owned</p> <p><b>FDI</b>: Fish farms in Cyprus</p>	<p><b>Export</b> direct to business / agent &amp; <i>ad hoc</i> (inc private label)</p> <p><u>NOTE</u>: Attempt was made to invest in Italy (FDI) forming a Joint Venture with Italian Co. But [<i>WineDivine</i>] <i>Italia</i> didn't work out.</p>	<p><b>Export</b> direct to visiting clients / business &amp; <i>ad hoc</i>. Tends to be reactive – yet increasingly proactive prospecting is also taking place.</p> <p><u>NOTE</u>: Explored possibility of prod. FDI in Tunisia</p>	<p><b>Export</b> direct to s'market / business (private label)</p> <p><b>Franchising</b> of own Savina label in Germany</p>	<p><b>Export</b> via commissioned contract projects direct export &amp; installation to client (hotels)</p> <p><b>Coll. Alliance &amp; J Ventures</b>: Software, together with Maltese and Italian Co.</p> <p><b>FDI</b>: Payment &amp; transaction processing Co in UK; Sales office &amp; showroom in Libya</p>	<p><b>Export</b> direct to client / publishing house. Sales reps / agents based in UK, Holland, Germany, Switzerland, Italy <sup>[2010]</sup></p> <p><u>NOTE</u>: Explored: JV: prepress in Malta, prod. In Libya.</p>	<p><b>Export</b> direct to client / s'markets (private label) as well as distributors (in some cases family business' own label)</p>
<b>No of countries</b> that are currently regularly exported to	4+1	2-4	5	4 [ <i>ad hoc</i> ]	6+2*	4 [ <i>ad hoc</i> depending on contracts]	1 (+1)*	4
<b>Countries</b> currently regularly exported to (in order of sales)	<ul style="list-style-type: none"> <li>• Greece (EU)</li> <li>• UK (EU)</li> <li>• Holland (EU)</li> <li>• Cyprus (EU)</li> <li>• *USA</li> </ul> <p>(*web franchise)</p>	<ul style="list-style-type: none"> <li>• Japan</li> <li>• Italy (EU)</li> <li>• France (EU) [<i>ad hoc</i>]</li> <li>• Germany (EU) [<i>ad hoc</i>]</li> </ul>	<ul style="list-style-type: none"> <li>• Sweden (EU)</li> <li>• Poland (EU)</li> <li>• Belgium (EU)</li> <li>• UK (EU)</li> <li>• Holland (EU)</li> </ul>	<ul style="list-style-type: none"> <li>• USA [<i>ad hoc</i>]</li> <li>• UK (EU) [<i>ad hoc</i>]</li> <li>• Germany (EU) [<i>ad hoc</i>]</li> <li>• France (EU) [<i>ad hoc</i>]</li> </ul>	<ul style="list-style-type: none"> <li>• Ireland (EU)</li> <li>• UK (EU) <sup>[2010]</sup> e.g.: <ul style="list-style-type: none"> <li>- <i>Asda</i></li> <li>- <i>Red Lion</i></li> </ul> </li> <li>• Italy (EU)</li> <li>• Greece (EU)</li> <li>• Belgium (EU)</li> <li>• Cyprus (EU)</li> <li>• *Germany (EU)</li> <li>• *Australia (*own label)</li> </ul>	<p>Depending on project contracts. Currently mainly:</p> <ul style="list-style-type: none"> <li>• Libya</li> <li>• France (EU)</li> <li>• Germany (EU)</li> <li>• Saudi Arabia <sup>[software]</sup></li> </ul>	<ul style="list-style-type: none"> <li>• UK (EU) <sup>[predominant]</sup></li> </ul> <p>*Commenced very low irregular volumes to Holland (EU)</p>	<ul style="list-style-type: none"> <li>• France (EU) <sup>[2005]</sup> <ul style="list-style-type: none"> <li>- <i>Leader Price</i></li> <li>- <i>Auchan</i></li> </ul> </li> <li>• UK (EU) <sup>[IMP]</sup> <sup>[2007]</sup> <ul style="list-style-type: none"> <li>- <i>Brierleys Foods</i></li> <li>- <i>Burton's Foods</i></li> </ul> </li> <li>• Ireland (EU) <sup>[2005]</sup></li> <li>• Cyprus (EU) <sup>[2004]</sup></li> </ul>

	SMFB # 1 GloGlass	SMFB # 2 FreshCatch	SMFB # 3 WineDivine	SMFB # 4 FiredPride	SMFB # 5 SunDeli	SMFB # 6 ProJoiners	SMFB # 7 VegaFont	SMFB # 8 StarSnack
<b>Other countries that have been sporadically and irregularly exported to</b> <i>(chronological order)</i>	<ul style="list-style-type: none"> <li>USA [1969]</li> <li>*Germany [1976]</li> <li>Japan [1983]</li> <li>*France [1987]</li> <li>Spain (EU) [2000]</li> <li>Russia [2006]</li> <li>Poland (EU) [2006]</li> <li>Thailand [2006]</li> <li>Australia [2011]</li> </ul> <p>(*regular)</p>	<ul style="list-style-type: none"> <li>*Libya [c.1990]</li> <li><i>other</i> Europe</li> <li><i>other</i> Eastern</li> </ul> <p>(*regular)</p>	<ul style="list-style-type: none"> <li>Austria (EU) [c.2007]</li> <li>Czech Republic (EU) [c.2007]</li> <li>Slovakia [c.2007]</li> <li>Switzerland [c.2007]</li> <li>Korea [c.2007]</li> </ul>	<ul style="list-style-type: none"> <li>Algeria [c.2006]</li> <li>Russia [c.2006]</li> </ul>	<ul style="list-style-type: none"> <li>*S. Arabia [1996]</li> <li>Dubai [1997]</li> <li>Kuwait [1997]</li> <li>Russia [1997]</li> <li>Tunisia [1997]</li> <li>Ukraine [1997]</li> <li>*Holland [2000]</li> <li>Taiwan [2001]</li> <li>Libya [2007]</li> <li>Morocco [2009]</li> </ul> <p>(*regular)</p>		<p>Current yet irregular &amp; hardly significant:</p> <ul style="list-style-type: none"> <li>*Germany (EU)</li> <li>*Libya</li> <li>*UN Inst (Eur)</li> </ul> <p>(*from 2010)</p>	<ul style="list-style-type: none"> <li>China [1985]</li> <li>Italy (EU) [1985, 2003]</li> <li>Kuwait [1985]</li> <li>Libya [1985]</li> <li>S Arabia [1985, 2008]</li> <li>Canada [2003]</li> <li>Croatia [2005]</li> <li>Lebanon [2003]</li> <li>Germany (EU) [2005]</li> <li>Croatia [2005]</li> <li>Belgium (EU) [2008]</li> </ul>
Is org currently <b>proactively seeking further international growth?</b>  How?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
		Always actively seeking opportunities	Now always / actively seeking int'l opportunities for growth. Knows growth can only come from int'l.	Realising survival depends on int'l expansion. Seeking opportunities	Enthusiastic, alert, innovatively & proactively (v actively) seeking int'l growth opportunities	Proactively seeking int'l growth and new contracts to bid for. Recognises survival in int'l growth	"Aggressively" proactive – seeking int'l growth opportunities	Proactively seeking int'l opportunities – in knowledge that growth & survival lie there
<b>Which countries</b> are being prospected for further growth?	<ul style="list-style-type: none"> <li>USA</li> <li>Canada</li> <li>Russia</li> <li>Dubai</li> <li>Australia</li> </ul>	Nonspecific	<p>As at 2010:</p> <ul style="list-style-type: none"> <li>UK (EU) ("<i>always No 1</i>")</li> <li>Germany (EU) "<i>mainly EU</i>"</li> <li>"<i>also potential opportunities in Far East and Asia</i>".</li> </ul> <p><u>Previously targeting:</u></p> <ul style="list-style-type: none"> <li>Switzerland</li> <li>Scandinavia (EU)</li> </ul>	<p>Existing markets &amp;</p> <ul style="list-style-type: none"> <li>Russia</li> <li>Dubai</li> </ul>	<ul style="list-style-type: none"> <li>Sweden (EU)</li> <li>Denmark (EU)</li> </ul> <p>Also various others in existing and new markets – esp for franchising own <i>Savina</i> label.</p>	<ul style="list-style-type: none"> <li>North Africa / Libya</li> <li>France (EU)</li> <li>Germany (EU)</li> <li>Switzerland</li> <li>Austria (EU)</li> <li>UK (EU)</li> </ul>	<p>As at 2010:</p> <ul style="list-style-type: none"> <li>Netherlands (EU)</li> <li>Belgium (EU)</li> <li>Italy (EU)</li> <li>Germany (EU)</li> <li>Spain (EU)</li> <li>Libya</li> <li>UN Market</li> <li>EU Institutions</li> </ul>	<ul style="list-style-type: none"> <li>UK (EU)</li> <li>Greece (EU)</li> <li>Germany (EU)</li> <li>North Africa</li> <li>Australia</li> </ul>

Source: Author from primary data and within-case analyses. Age and years as at 2010.

## 7.4 Drivers, motivations and processes involved in SMFBs' internationalisation

The key research question driving the overarching thrust of this inquiry was:

► *What* is the nature and extent of internationalisation among SMFBs in this context?

Towards this end, also in relation to ongoing analyses on the extent of internationalisation, the following sub-questions are presented, seeking to investigate the nature, general circumstances and motivations, processes and patterns associated with these SMFBs' internationalisation:

*What* are the main drivers, motivations and processes involved in these SMFBs' internationalisation?

*How* do they go about it and *what* role do family dynamics play in this?

The first question presents two distinct issues: internationalisation events, and internationalisation processes. This research investigates each SMFB's distinct events from first steps in outward internationalisation onwards – including associations among and between the specific events. In answering this question, one draws from detailed within-case analysis undertaken in relation to relevant bodies of literature extensively reviewed previously.

### 7.4.1 *Internationalisation drivers and motivations*

As observed in the literature, various elements influence and motivate internationalisation. These are broadly attributed to external and internal factors. Scholars specifically researching family businesses established that whether family businesses' characteristics and resources result in a comparative strategic advantage depends on variables incorporated in factors enabling or limiting internationalisation processes (Gallo and Sveen 1991; Goffee 1996; Gallo and Garcia Pont 1996: 46):

- **External factors:** related to competitive characteristics of firms and their environment, domestic and foreign opportunities, technological adequacy in comparison with foreign competitors’.
- **Internal organisation factors:** how family members deployed their operations, willing to work towards internationalisation, competencies ...
- **Top management attitudes:** owner-managers’ vision, beliefs, assumptions defining strategic direction and determining resource deployment .

Table 7.6 builds on earlier observations and draws from SMFB-specific in-depth within-case analysis, providing a succinct cross-case overview of SMFBs’ triggers and motivations, internationalisation pattern and pace.

**Table 7.6 – Overview of SMFBs internationalisation triggers, motivations and patterns**

<b>SMFB</b>  <b>Int'l</b>	<b>GloGlass (# 1)</b> Size: Small Est. & gen.: 1968 (42 yrs) / 1 <sup>st</sup> gen* Int'l extent: Substantial int'l sales (40%) Int'l exp.: Experienced	<b>FreshCatch (# 2)</b> Size: Medium Est. & gen.: c.1968 (c.42 yrs) / 2 <sup>nd</sup> gen Int'l extent: Predominant int'l sales (c.90%) Int'l exp.: Experienced
<b>Trigger / motivation</b>	<ul style="list-style-type: none"> <li>○ Initially proactive (founder sought export from outset although domestic market yet untapped);</li> <li>○ Subsequently both proactive &amp; circumstance / reactive (later, economic downturn &amp; passive founder – followed by current owner buyout. Recent liberalisation (EU-related), limited scope for domestic growth. Owner-MD proactive int'l vision).</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially proactive. <i>Ad hoc</i>, solicited orders depending on catch &amp; domestic market conditions - opportunistic;</li> <li>○ Subsequently circumstantial (govt. contract to export Malta's tuna catch to Japanese market &amp; export to local hotel chain's Libya development), and proactive;</li> <li>○ Owner-MD proactively enterprising.</li> </ul>
<b>Int'l patterns</b>	<ul style="list-style-type: none"> <li>○ International New Venture - Incremental;</li> <li>○ Sought exports from inception – meantime, domestic sales to visiting tourists (indirect exports);</li> <li>○ Initially physically or psychologically close countries;</li> <li>○ Throughout, evidence of contacts &amp; networks via fairs, int'l suppliers &amp; social contacts. Initially, founders' national cultural affinity and national contacts. Owner-centric.</li> </ul>	<ul style="list-style-type: none"> <li>○ Incremental. Initially domestic market development sought while exporting opportunistically in parallel with imports;</li> <li>○ Sudden large volume of tuna exports to Japan dependent on contract awards;</li> <li>○ Psychic distance irrelevant;</li> <li>○ Int'l contacts: friends of friends, int'l suppliers, peers and more recently fairs. Contacts reside with owner-MD.</li> </ul>
<b>Pace of int'l</b>	<ul style="list-style-type: none"> <li>○ Commenced early (irregular), 2 yrs after est.</li> <li>○ Regular exports start 3 yrs after est.</li> <li>○ Gradual int'l growth, followed by stagnant period &amp; int'l revival following current family owner-MD buy-out (one of 1<sup>st</sup> employees);</li> <li>○ Currently c.40% of sales int'l – regularly to 4 countries</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced sporadic (<i>ad hoc</i>, irregular) c.7 yrs after est. (2<sup>nd</sup> gen);</li> <li>○ Regular tuna exports c.11 yrs after est;</li> <li>○ Initially slow int'l growth. Subsequent est. as key tuna exporter – large contracts &amp; int'l networks;</li> <li>○ Currently c.90% of sales (contract dependant) – mainly 2 countries (+2 <i>ad hoc</i>)</li> </ul>
<b>Entry modes</b>	<ul style="list-style-type: none"> <li>○ Initially through agents and distributors;</li> <li>○ Subsequently various: direct to retail business clients, contract work for domestic co.'s foreign developments, web-based alliance with émigré &amp; franchising internet retail.</li> <li>○ Partnering based on shared vision &amp; premium niche complementarity, trust and personal relationships (eventual friendships also with émigrés);</li> <li>○ Deals with various family businesses with long-term vision, businesses (inc. corp. contracts), as well as gaining artistic exposure in galleries &amp; museums abroad.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially personal initiative setting sail by night to neighbouring Italy without speaking a word of the language – <i>ad hoc</i> foreign fishermen, chance traders – brushes with Mafia;</li> <li>○ Subsequently, govt. tendered contract with Japanese tuna purchasing clients;</li> <li>○ Subsequently joint venture with Asian partners. Also FDI wholly-owned tuna ranch company in Cyprus;</li> <li>○ Deals with various contacts, often informally. Trust and personal relationships considered 'universal language' for business.</li> </ul>
<b>Int'l Strategies</b>	<ul style="list-style-type: none"> <li>○ Initially, yrs proactively opportunistic – seeking exports through contacts from fairs, sending samples to potential clients. Subsequently planned (informally), actively seeking raised profile and export growth, e.g. museums, agents, alliances with émigrés...</li> <li>○ Use &amp; adaptation of existing, &amp; development of new products for foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>○ <i>Ad-hoc</i> and proactively opportunistic, reactive to circumstances and creating opportunities – more structured in strategic intent and int'l vision later.</li> <li>○ Adaptation, investment and introduction of new products (e.g. Bluefin tuna, fish farming etc...) for domestic and foreign markets according to demand.</li> </ul>

<b>SMFB</b>  <b>Int'l</b>	<b>WineDivine (# 3)</b> Size: Medium Est. & gen.: 1907 (103 yrs) / 3 <sup>rd</sup> gen Int'l extent: Low int'l sales (c.5%) Int'l exp.: Novice	<b>FiredPride (# 4)</b> Size: Small Est. & gen.: 1964 (46 yrs) / 2 <sup>nd</sup> gen* Int'l extent: Low int'l sales (15%) Int'l exp.: Novice
<b>Trigger / motivation</b>	<ul style="list-style-type: none"> <li>○ Initially reactive and circumstantial. Approached by purchasing agent at int'l fair.</li> <li>○ Subsequently proactive internationalisation thrust &amp; setup of export dept. in face of intense competition in domestic market from foreign imports (foll. EU accession). Albeit, several export contracts see prospecting int'l clients approach WD<sup>3</sup>. For growth.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive, <i>ad hoc</i> isolated contract. Approached by foreign Co. while holidaying, seeking to outsource low cost production.</li> <li>○ Subsequently actively seeking export opportunities for survival. Small domestic market saturated &amp; competitive esp post-EU accession (2004).</li> </ul>
<b>Int'l Patterns</b>	<ul style="list-style-type: none"> <li>○ Incremental;</li> <li>○ Domestic market first – sales to visiting tourists (indirect exports), then international;</li> <li>○ Initially psychically close country, followed by entry into several EU countries – tentative, opportunistic prospecting in Asia. Much depends on corporate client <i>per se</i> rather than market characteristics;</li> <li>○ Throughout, strong evidence of importance of int'l contacts and networks via fairs, int'l suppliers, embassies etc... social contacts converge on owner-MD</li> </ul>	<ul style="list-style-type: none"> <li>○ Static</li> <li>○ Domestic market first – sales to visiting tourists (indirect exports), then international.</li> <li>○ Initially psychically close countries – and ongoing <i>ad hoc</i> exports of bulky products to visiting tourists' countries'.</li> <li>○ Though actively travelling to fairs, comparatively less evidence of established international contacts and networks.</li> </ul>
<b>Pace of int'l</b>	<ul style="list-style-type: none"> <li>○ Commenced late, 91 yrs after est. (3<sup>rd</sup> gen.);</li> <li>○ Gradual, yet minimal international growth (large player in domestic market);</li> <li>○ Currently c.5% of sales to 5 countries: Sweden, Poland, Belgium, UK and Holland.</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced c.15 years after est. (2<sup>nd</sup> gen.*).</li> <li>○ Maintained sporadic, <i>ad hoc</i>, irregular exports.</li> <li>○ Currently c.15% of sales to various countries <i>ad hoc</i> – namely USA, UK, Germany, France</li> </ul>
<b>Entry modes</b>	<ul style="list-style-type: none"> <li>○ Various, including initially importer/agent and direct premium designer retail client – followed by purchasing agent. Circumstantial, unsolicited approaches by foreign businessmen holidaying in Malta. (Private and own labels). Contacts important and central;</li> <li>○ Rapport established based on product image and shared vision. Trust-based &amp; personal relationships;</li> <li>○ Substantial int'l business with other foreign family and non-family businesses.</li> </ul>	<ul style="list-style-type: none"> <li>○ Direct to customers (including visiting tourists' countries). Also via Internet.</li> <li>○ Substantial exports to visiting (esp cruise liner), individual retail customers. <i>Ad hoc</i>, circumstantial.</li> <li>○ Generally one-off exports. In case of large or repeat business, familial relationship generally established.</li> </ul>
<b>Int'l Strategies</b>	<ul style="list-style-type: none"> <li>○ Initially <i>ad hoc</i> and opportunistic, given exposure from recent start active participation at int'l fairs; Subsequently realises exports are answer to growth, more planned &amp; proactive – sets up export dept. &amp; appoints son as export manager.</li> <li>○ Existing (boutique) products for foreign markets (sometimes rebranded for client).</li> </ul>	<ul style="list-style-type: none"> <li>○ Irregular, <i>ad hoc</i> and opportunistic. Little evolution of any int'l strategy – save for buying retail outlet at cruise liner terminal and actively seeking fair attendance.</li> <li>○ Mostly, existing customisable premium products for foreign clients.</li> </ul>



<b>SMFB</b>  <b>Int'l</b>	<b>SunDeli (# 5)</b> Size: Medium Est. & gen.: 1916 (94 yrs) / 3 <sup>rd</sup> gen Int'l extent: Predominantly int'l sales (66%) Int'l exp.: Experienced	<b>ProJoiners (# 6)</b> Size: Medium Est. & gen.: c.1894 (c.116 yrs) / 3 <sup>rd</sup> gen Int'l extent: Sunstantial int'l sales (30%) Int'l exp.: Experienced
<b>Trigger / motivation</b>	<ul style="list-style-type: none"> <li>○ Initially proactive &amp; circumstantial via British Merchant Navy. Sustained over several yrs.</li> <li>○ Subsequently, yrs later, proactive int'l thrust following move to new factory &amp; in face of impending competition (pre-EU accession). Growth &amp; sustaining operations.</li> <li>○ Gozo inherently smaller limiting market.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive <i>ad hoc</i>. Fol. Malta factory launch. UK firm subcontracts.</li> <li>○ Subsequently proactive market re-entry via agent &amp; inroads in hotel contract work. Follows local hotel client. Int'l thrust initiated.</li> <li>○ Initially opportunistic. Now big int'l contracts necessary for growth &amp; survival (post-EU).</li> <li>○ Gozo inherently smaller limiting market.</li> </ul>
<b>Int'l Patterns</b>	<ul style="list-style-type: none"> <li>○ Exponential ('Born-again' international);</li> <li>○ Domestic market first – for many yrs sole focus. More recently rapid internationalisation, several countries.</li> <li>○ Initially psychically close country – however, dependent on large int'l corporate clients <i>per se</i>.</li> <li>○ Throughout, strong evidence of int'l contacts &amp; networks via fairs, int'l clients, int'l suppliers etc. Trust, reputation, legitimacy. Social contacts converge on owner-MD.</li> </ul>	<ul style="list-style-type: none"> <li>○ Incremental</li> <li>○ Domestic market first (est. big player) for many yrs. Followed by gradual int'l.</li> <li>○ Initially psychically close country. Yet, later dependent on int'l corporate client <i>per se</i>.</li> <li>○ Throughout, strong evidence, importance of int'l contacts &amp; networks via fairs, int'l clients, int'l suppliers etc. Trust, reputation, legitimacy. Social contacts converge on owner-MD.</li> </ul>
<b>Pace of int'l</b>	<ul style="list-style-type: none"> <li>○ Current consistent int'l thrust commenced late, c.80 yrs after est. (3<sup>rd</sup> gen.);</li> <li>○ Rapid int'l growth via int'l private label corporate clients. Subsequently own premium brand.</li> <li>○ Currently c.66% of sales int'l, mainly to 6 + 2 countries (EU &amp; Australia).</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced late, c.85 yrs after est. (2<sup>nd</sup> gen).</li> <li>○ Gradual int'l growth for 18 yrs, followed by more rapid int'l growth via contract work for int'l clients.</li> <li>○ Currently 30% of sales int'l, to various clients depending on location. Mainly European &amp; N. Africa.</li> </ul>
<b>Entry modes</b>	<ul style="list-style-type: none"> <li>○ Various. Direct to client via contacts est. from fairs. Through corporate agents and 'buyers' for large supermarkets, recommendations by int'l clients, franchising retail of own premium, brand Med. gastronomy abroad.</li> <li>○ Trust-based rapport based on product &amp; service excellence – shared vision (in instances with émigrés). Develop into personal relationships, earns reputation &amp; 'legitimacy'.</li> <li>○ Most business with large int'l supermarket chains. Also some smaller family firms.</li> </ul>	<ul style="list-style-type: none"> <li>○ Various. Initially direct to client, followed by distributor. Recently direct to large int'l corporate clients: hotels, cruise liners etc. (contract work). Also via agents. Sales office (FDI) in Libya and JV with Italian partner to develop &amp; market proprietary software internationally.</li> <li>○ Trust-based rapport based on product &amp; service excellence – shared vision. Develop into personal relationships, friendships. Earns reputation &amp; 'legitimacy'.</li> <li>○ Substantial business with large int'l hotels.</li> </ul>
<b>Int'l Strategies</b>	<ul style="list-style-type: none"> <li>○ Since int'l thrust, proactive &amp; increasingly more (initially informally) planned. Setup of export department. Active travel &amp; fair participation</li> <li>○ Investment in technologies, processes &amp; int'l quality standards for eligibility to serve corporate int'l businesses.</li> <li>○ Customisation of products to int'l clients' needs &amp; new product development (private label). New trad. Med. premium (boutique) products for own brand franchising.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive, <i>ad hoc</i> instance. Gradually more proactive initiative – More recently actively seeking opportunities via fair travel, contacts and agents.</li> <li>○ Investment in tech. &amp; experienced craftsmen offer flexibility &amp; quality service for int'l clients needing medium volume custom jobs.</li> <li>○ Products custom-built to client requirements &amp; fitted on site. Seeking export consistency beyond reliance on circumstantial contracts.</li> </ul>

<b>SMFB</b>  <b>Int'l</b>	<b>VegaFont (# 7)</b> Size: Medium Est. & gen.: c.1982 (c.28 yrs) / 1 <sup>st</sup> gen, founder Int'l extent: Predominantly int'l sales (70%) Int'l exp.: Novice	<b>StarSnack (# 8)</b> Size: Medium Est. & gen.: 1965 (45 yrs) / 1 <sup>st</sup> → 2 <sup>nd</sup> gen Int'l extent: Substantial int'l sales (50%) Int'l exp.: Novice
<b>Trigger / motivation</b>	<ul style="list-style-type: none"> <li>○ Enterprising growth opportunity (domestic market saturated and very competitive).</li> <li>○ Proactive, internationalisation thrust, triggered when founder poached experienced British MD from rival press. Direct targeting of potential int'l clients.</li> <li>○ More recently, limited domestic market insufficient to sustain scale of operations.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially engaged in opportunistic and isolated, sporadic, short-lived exports. Monopolistic position in safe domestic market. Had just moved to new factory – driven by founder's enterprising nature.</li> <li>○ Subsequently proactively <i>ad hoc</i> in run-up to EU, followed by internationalisation thrust anticipating huge competition &amp; for survival (son &amp; founder).</li> </ul>
<b>Int'l patterns</b>	<ul style="list-style-type: none"> <li>○ Exponential ('Born-again' international).</li> <li>○ Sole focus on domestic market for many yrs (fast growing big player). Recently rapid internationalisation, several large clients in 1 foreign market.</li> <li>○ Psychically &amp; familiar country (UK) – direct targeting of clients.</li> <li>○ Throughout, strong evidence of int'l contacts &amp; networks via fairs, int'l clients, etc. Trust, reputation, legitimacy. Social contacts converge on owner-MD &amp; key foreign mgt employees recruited &amp; agents engaged.</li> </ul>	<ul style="list-style-type: none"> <li>○ Exponential ('Born-again' international)</li> <li>○ Sole focus on protected domestic market for yrs, with isolated opportunistic export of isolated consignments – followed by recent, rapid internationalisation. Several large clients in 3 EU countries.</li> <li>○ Element of psychic affinity initially. Albeit, depends on individual large clients <i>per se</i>.</li> <li>○ In instances, strong evidence of int'l contacts &amp; networks via fairs, int'l clients, etc. Exposure, reputation, legitimacy. Social contacts converge on founder &amp; son. Employed export manager – yet eventually fired.</li> </ul>
<b>Pace of int'l</b>	<ul style="list-style-type: none"> <li>○ Commenced after c.18 yrs after est. (founder).</li> <li>○ Rapid int'l growth via several publishers &amp; presses.</li> <li>○ Currently c.70% of sales int'l, mainly to UK (EU, yet non-Euro zone).</li> </ul>	<ul style="list-style-type: none"> <li>○ First isolated dabbling in exports 20 yrs after est. (founder).</li> <li>○ Recent active int'l thrust – rapid int'l growth via large private label corporate clients.</li> <li>○ Currently 50% of sales int'l – mainly 4 countries (EU): France, UK, Ireland, Cyprus.</li> </ul>
<b>Entry modes</b>	<ul style="list-style-type: none"> <li>○ Various. Mainly through proactive researching potential client and direct targeting. Important employed professionals and their contacts &amp; networks. Also engaging foreign agents.</li> <li>○ Trust-based rapport based on product &amp; service excellence &amp; flexibility – shared vision. Develop into personal relationships, earns reputation &amp; 'legitimacy'.</li> <li>○ Business with large publishers and printers for specialist medium-sized runs.</li> </ul>	<ul style="list-style-type: none"> <li>○ Various. Mainly through active participation at int'l fairs, establishing contacts. Also researching &amp; direct targeting of potential int'l client.</li> <li>○ Rapport based on product service quality, &amp; flexibility. Reputation gains 'legitimacy' and potential for export opportunities.</li> </ul>
<b>Int'l Strategies</b>	<ul style="list-style-type: none"> <li>○ Proactive internationalisation thrust – increasingly more planned. Employment of top, experienced British managers to spur int'l growth. Actively seeking growth via contacts &amp; fairs – importantly also beyond UK.</li> <li>○ Investment in tech., processes and capacity – quality for capability &amp; eligibility to serve lucrative int'l publisher printing contracts.</li> <li>○ Products and excellent service flexibly tailored to client specs &amp; requirements.</li> </ul>	<ul style="list-style-type: none"> <li>○ Proactive int'l thrust seeking growth opportunities in int'l markets – increasingly planned (yet generally informal).</li> <li>○ Investment in tech, processes, and capacity – quality for capability &amp; eligibility to serve lucrative int'l supermarkets with 'off mainstream' products for medium runs.</li> <li>○ Mostly private label. Products &amp; high service quality tailored and developed for corporate client's specs &amp; requirements.</li> </ul>

Patterns evinced indicate that internationalisation generally derived from managerial or firm-based perspectives where growth, development and survival are key objectives (Cavusgil and Naor 1987; Aaby and Slater 1989; Zhou and Stan 1998; Fletcher 2001; Zucchella *et al* 2007) – rather than functional activity (Jones 1998).

Indeed, one also observes a particular driver ‘pushing’ internationalisation with small island characteristics offered by Malta – a saturated domestic market, exacerbated by increasing competition following liberalisation and eventual EU accession. In other cases, internationalisation was required to sustain the substantial investments and capacity set-ups of the larger companies.

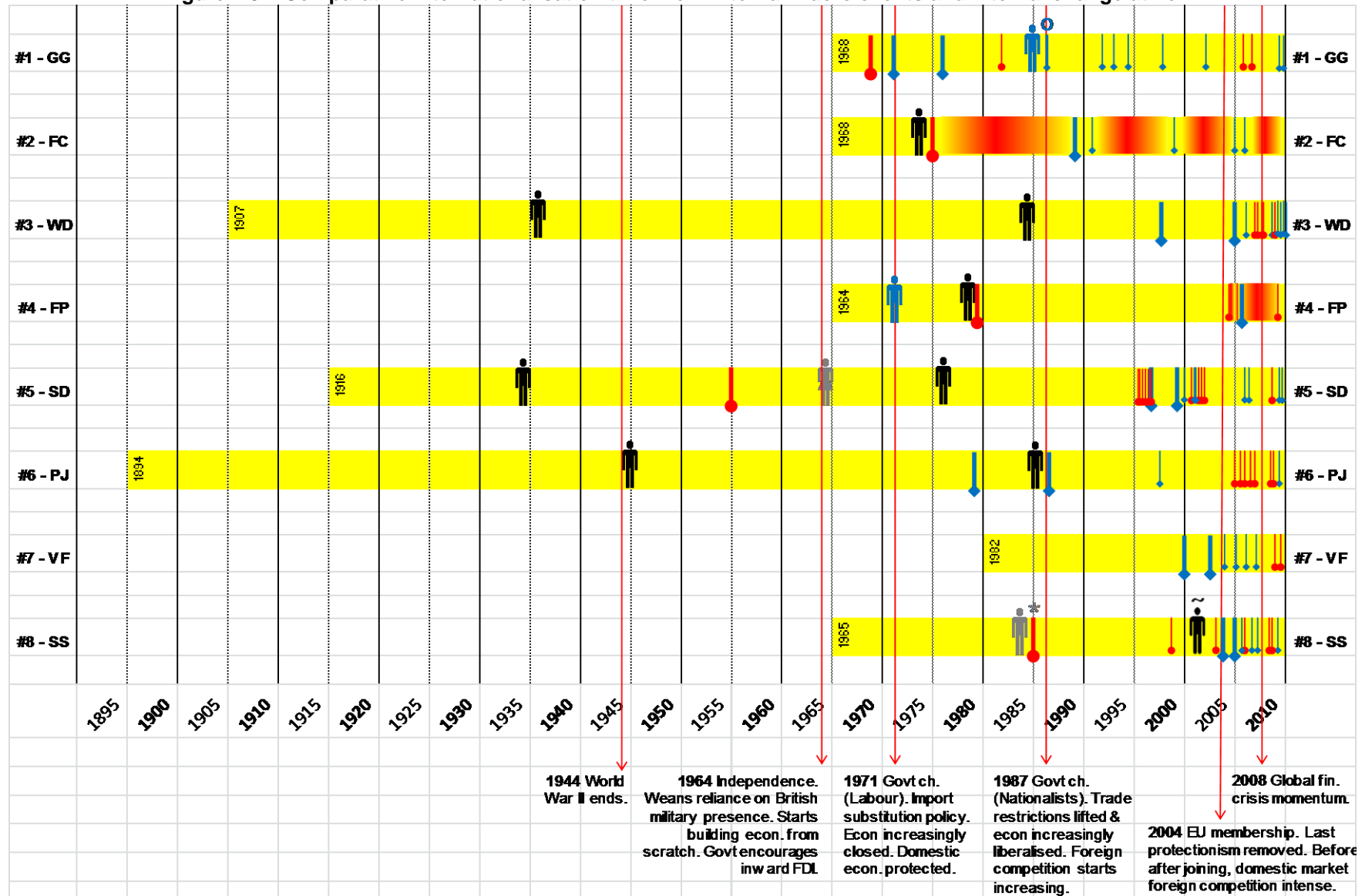
That said, in instances SMFBs under study concurrently refocused their efforts on the competitive domestic market. INV *GloGlass* re-aligned its market strategy, targeting the premium domestic market while maintaining its international thrust; “*born-again*” ‘*international*’ *VegaFont*, predominantly geared for exports following rapid internationalisation, recently also aligned strategy to the domestic market – while also seeking international growth beyond the UK market. The same is true with *SunDeli*, predominantly export-oriented, recently diversifying into the competitive domestic dairy products sector, with premium traditional products.

Notwithstanding domestic market limitations, these family businesses seek a steady foothold closer home, cushioning peaks and troughs experienced in international markets, as in the recent global financial crisis. This is particularly relevant in firms serving large foreign corporates, since loss of a client would negatively impact on their economic stability. This is true for *SunDeli*, *ProJoiners*, *VegaFont* and *StarSnack*. With *FreshCatch*, unsuccessful bids to export Malta’s bluefin-tuna catch would have similar repercussions.

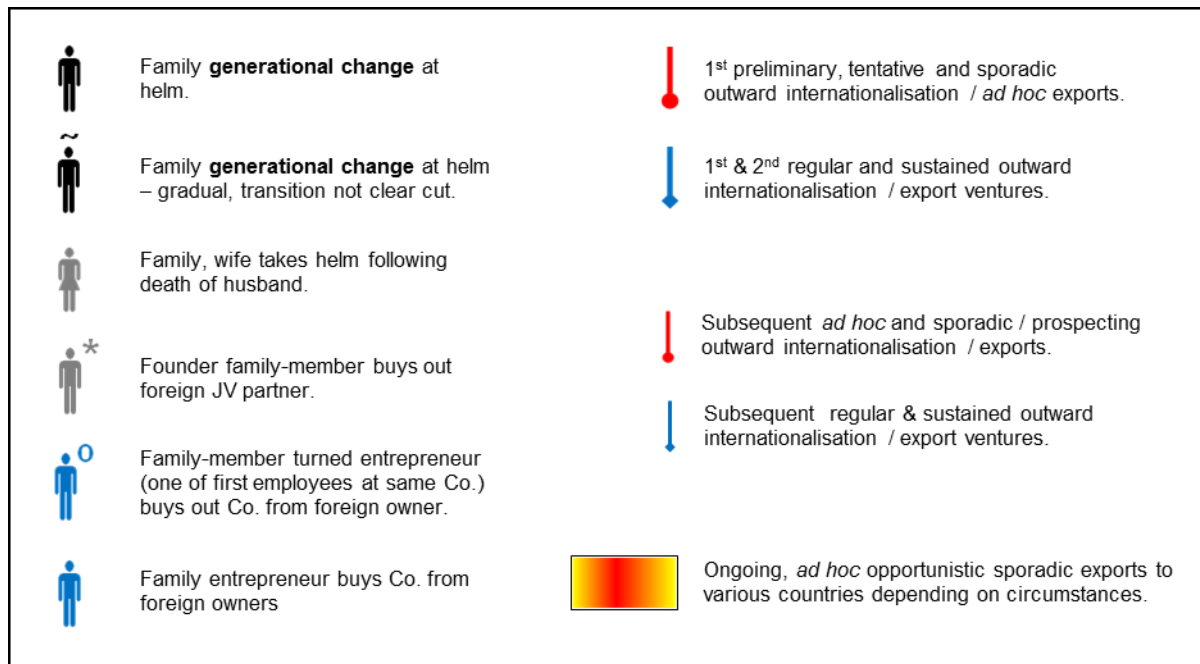
The overview above presented various triggers motivating the onset of these SMFBs’ internationalisation. At this stage it is relevant distinguish between any initial tentative *ad hoc* and sporadic opportunistic exports and the onset of regular sustained exports – examining triggers and motivations.

Figure 7.3 comparatively examines SMFBs' internationalisation concurrently across time, noting external and other broad, macro exogenous factors influencing internationalisation. While these elements are analysed in further detail later, changes in SMFB control are also indicated, providing insight into potential internal shifts in owner-MD attitudes, and internal dynamics conducive to internationalisation.

Figure 7.3 – Comparative internationalisation timeline - External macro events and internal change at helm



## Key:



Source: Author. Consolidated from within-case analyses

With respect to age at internationalisation, *GloGlass*, one of the smallest and younger SMFBs, internationalised almost at inception – is an ‘international new venture’ (Oviatt and McDougall 1994). *FreshCatch* also went international young. Other SMFBs, most notably the oldest two *ProJoiners* and *WineDivine* internationalised as mature organisations – in their 2<sup>nd</sup> and 3<sup>rd</sup> generations. Leapfrogging *ad hoc* experimentation, both started with isolated stints of regular export activity, seizing circumstantial opportunities after 85 and 91 years of domestic activity respectively. *VegaFont*, the youngest SMFB, initiated regular exports after 18 years – internationalising rapidly to 75% of sales within 7 years, a ‘‘born-again’’ international<sup>35</sup> (Bell *et al* 2001).

In contrast, *FiredPride*, *SunDeli* and *StarSnack* spent a considerable span of years, ranging from 19 to 42 years, between the start of irregular *ad hoc* exports, and their eventual active internationalisation thrust with the onset of regular exports. In the case of *FiredPride* and *SunDeli*, the earliest exports were isolated opportunistic ventures. *FiredPride*’s first exports were a short-lived substantial consignment following an unsolicited order – 25 years would pass before the onset of more regular, yet nonetheless *ad hoc* exports. On the other hand, based on the smaller island of Gozo, *SunDeli*’s early isolated activity was a sought initiative – indirect exports regularly sustained for 16 years through the British

<sup>35</sup> ‘Born-again international’ rather than ‘global’ especially since the internationalisation thrust was directed at only one foreign market, the UK.

Merchant Navy presence in Malta. A generation and some 26 years would pass before the firm re-initiated its internationalisation thrust.

#### **7.4.1.1 External factors**

Exogenous factors, including political and economic circumstances, influenced entrepreneurial activity and internationalisation motivations, at particular points in time.

- ***National independence and a nascent economy (1964-1971)***

Apart from 3<sup>rd</sup> generation *WineDivine*, *SunDeli* and *ProJoiners*, it is evident from Figure 7.3 that environmental dynamics included the newly-independent Maltese government's attempts to redirect the economy away from British military presence. This gave rise to business start-ups – *FiredPride*, *StarSnack* and *GloGlass* were established 1964-1968. Coincidentally, *FreshCatch's* generation-spanning tradition as fishermen/mongers acquired a more formalised and somewhat organisational form at that time.

Then, most domestic sectors presented a green-field opportunity.

#### **Internationalisation during this period**

INV *GloGlass* was the only SMFB actively pursuing outward internationalisation. Such enterprising activity was prompted by a quest for growth and experimentation rather than survival.

- ***Post-independence and the 'import substitution' years (1971-1987)***

Elected in 1971, the Labour government seeking to protect a fragile economy, introduced import substitution policies resulting in an increasingly closed economy. Banning all manner of imports, trade was restricted, presenting operational challenges for acquiring raw materials unavailable locally (e.g. *WineDivine*, *SunDeli*, *ProJoiners*).

*StarSnack*, then a small import-trader outfit, scrambled for survival. Leveraging foreign contacts and relationships was providential. An Irish supplier “friend” recommended him to another in the UK – a snack manufacturer. Establishing a warm rapport, “within five

*minutes*” a joint venture with the UK company was sealed. Shifting to manufacturing with majority ownership, *StarSnack* was now on the right side of ‘import substitution’ policy.

Lasting some 15 years, ‘import substitution’ policies saw manufacturers improvising, adopting ‘Jack-of-all-trades’ approaches to creatively face challenges and opportunities, limiting specialisation. Combined with extensive protectionism safeguarding from imports, this double-edged sword artificially swelled the manufacturing sector.

Government change in 1987 ended ‘import substitution’. Liberalised, the economy progressively opened. Foreign competition gradually increased as did investments and development heralding a boom. In 1990 Malta applied to join the EU.

#### *Internationalisation during this period*

Already internationalised, *GloGlass* actively maintained exports to the UK and Germany via distributors during this period.

Besides *SunDeli*’s earlier isolated indirect-exporting via the locally stationed British Merchant Navy, four SMFBs involved in this study initiated export activity during the comparatively ‘closed’ period between Labour (1964) and Nationalist (1987) governments – which eventually saw the removal of ‘import substitution’.

Of these, only *ProJoiners*’ exports were regular and sustained – exporting to a UK company approaching it to outsource kitchen cabinet door manufacturing. The other three SMFBs’ export activity was generally isolated, *ad hoc* and sporadic. *FreshCatch* exports were proactive *ad hoc* opportunistic exports often involving young FC<sup>2</sup> enterprisingly sailing along the Italian coast, seeking sale or barter for his and others fishermen’s haul – depending on seasonal market conditions, exports were nonetheless ongoing. *FiredPride*’s first exports were an isolated one-off *ad hoc* and unsolicited outsourced two container-loads of pottery to a UK company. Now established in manufacturing and ambitiously seeking growth, *StarSnack*’s founder diversified into biscuits to seize an opportunity when government policy also came to ban biscuit imports. Enterprisingly buying out his reluctant UK joint venture partners, he invested heavily. Moving to a larger factory with added capability and capacity to spare beyond domestic requirements, he proactively



explored export opportunities, tentatively exporting to the Middle East. Consignments were also sent to China and Italy.

- *Opening of the economy and run-up to EU accession (1987- )*

Political change in 1987 ended ‘import substitution’ policies and marked the start of trade liberalisation. Although levies still offered domestic firms some protection, trade restrictions were progressively lifted.

The period before the turn of the millennium promising EU accession by 2004 saw various exogenous elements including macroeconomic and industry competitiveness dynamics including policy changes influence internationalisation activity.

Although Malta’s 1990 application to join the EU had been on hold<sup>36</sup>, protectionism was being gradually dismantled. Saturated in several sectors, competition in the small domestic market soared, peaking in 2004. Government agencies advocated firm restructuring to cushion EU membership’s eventual impact, as well as rationalisation and efficiency drives in the run-up. Owner-MDs themselves, started feeling the effect of intensifying competition, and with different extents of foresight, sought to address these shifting realities. In such cases, this critical event motivated the owner-MDs to look beyond Malta’s shores for growth and survival – attributing strategic importance and urgency to internationalisation prospects.

#### *Internationalisation during this period*

With respect to sustained, rather than sporadic or *ad hoc* exports (where undertaken), five out of eight SMFBs initiated regular ongoing export activity, as part of a concerted internationalisation drive – more recently in the 8 year period between 1996 and 2004: *SunDeli* (1996), *WineDivine* (1998), *VegaFont* (2000), *StarSnack* (2004) and *FiredPride* (c.2004).

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<sup>36</sup> Malta had an Association Agreement with the EEC from 1970. It submitted its formal application to join the EU in 1990. A change in government saw Labour suspend the EU membership application in 1996. Snap general elections in 1998 saw the re-elected Nationalist Administration reactivate Malta’s application.

Although *WineDivine*'s first opportunistic and isolated, albeit regular, 2 year export stint commenced in 1998, its owner-MD stresses their internationalisation thrust and intent was initiated following an international venture in 2005, just after EU accession.

Of these SMFBs, 3 (*SunDeli*, *StarSnack* and *FiredPride*) had already engaged in tentative exports before this period.

EU accession in 2004 rapidly changed the competitive landscape and dynamics of the SMFBs' small domestic market.

EU membership ended *StarSnack*'s 15-year quasi-monopoly – ‘*a force majeure, you had no option but to change your modus operandi*’ (SS<sup>2</sup>). Though still very actively involved, founder (SS<sup>1</sup>) had just passed the Managing Director reins to his UK-graduate son (SS<sup>2</sup>).

*"It was time for change. We initiated a restructuring process and consolidated our product range" (SS<sup>2</sup>) ...*

*"We had two choices: To close down or to invest ... so that we could become more efficient and expand the market by exporting" (SS<sup>1</sup>). ... "The ending of non-competitive ranges and the investments in plant automation resulted in a reduction in the workforce from 210 to 70 people" (SS<sup>1</sup>).*

*"Right away we lost about 65% of our local sales ... [however] EU has given us the opportunity to introduce our products to more than 450 million Europeans ... Our major breakthrough came 12 months after joining the EU... export sales pre-2004 were 0%, post-2004 50%" (SS<sup>2</sup>).*

Contacts and acquired legitimacy through association with large supermarkets opened the door to further lucrative opportunities. SS<sup>2</sup> highlighted their rapid internationalisation – within 3 years.

Siblings directing *FiredPride* had assumed sufficient preparation for EU accession – a 7-year energy-consuming construction overhaul:

*"we were prepared ... everything that was EU standard – machines, kilns, everything but ... competition became ... much more intense ... we felt it in a big way ... not good and rosy at all for us ... this summer we'll be scratching our heads to see what we're going to do with our employees ... however, we're trying to brave this out". (FP<sup>2</sup>)*

Survival became a pressing concern. For *FiredPride*, the domestic market leaving ‘*no space ... for further growth*’, internationalisation was “*the only direction now – exports,*

*exports ... in our case it [EU accession] wasn't to our advantage – right? We voted for it, but it wasn't better for us – that's it"* (FP<sup>2</sup>). From 2004 export opportunities were actively sought. Various international fairs attended and a premium retail outlet at the Valletta Waterfront cruise liner terminal was acquired. However, international growth remained static – *ad hoc* and sporadic. Despite successful inroads, the business remained overly reliant on their “*bread and butter*” touristic wares and shipments to visitors’ foreign addresses.

Centenarian *WineDivine*'s ‘real’ internationalisation thrust started in 2005 – following its earlier *ad hoc* venture selling its vintage off *Asda* shelves via an import agent. Admitting prior “*protectionism was disgusting*”, WD<sup>3</sup> had anticipated alignment with open markets even before EU accession was mooted, and had been gradually investing. Yet when it happened, he compared the glut of imports to “*an explosion ... today we are combating head-to-head with the global wine industry ... the threat is continuous – a big threat, we have to be absolutely competitive*”. Maltese wines’ 90% share of the domestic market fell to c.55%. Notwithstanding the “*saturated*”, competitive nature of the small market that yet still constitutes the absolute majority of his business, WD<sup>3</sup> enterprisingly notes there exists creative scope for further domestic growth. An established, dominant player in the domestic market, he however underlines that for the future, “*the only scope for survival was to export*’. WD<sup>3</sup> believes EU membership generated “*a “push” to internationalise, more than a “pull”*”.

*‘if you don't have volume and growth, which can be obtained by looking abroad, there is little hope for the domestic wine industry ... it is not our choice [to internationalise] – we must do it’ ... [otherwise] “change from a professional winemaking organisation to a scaled down artisan craft.”*  
(WD<sup>3</sup>)

Nonetheless in direct control of all aspects in his business, he recently set his young graduate son the task of assisting him in exploring export prospects – through which future growth must come.

Coinciding within the same time-frame, *SunDeli*’ and *VegaFont*’s internationalisation initiatives were less directly motivated by EU accession.

Following lifting of trade and import restrictions from 1990 SD<sup>3</sup> had invested hugely, relocating to a large modern factory in 1995. With capacity to spare, seeking growth

beyond diminutive Gozitan and Maltese markets, he actively starting an export initiative. By 1997 3.5 million bottles of ketchup had been exported to various countries including Kuwait, Dubai, Saudi and Tunisia. Leveraging contacts, SD<sup>3</sup> negotiated, becoming McDonald's certified supplier for the Southern European and Mediterranean regions. Legitimacy through this lucrative account saw *SunDeli* supplying *Asda* and other UK supermarkets ... *"contacts were definitely very important ... our business with McDonald's opened the door to this opportunity... everybody is trying to compete with the whole world ... the pressures are phenomenal ... it's the survival of the fittest ... without exporting [SunDeli] will close its doors"* (SD<sup>3</sup>). His Export Manager underlines, *"The domestic market is too small for us, we cannot operate on only the local market. ... We need international business to sustain our operations"* (FC).

Ever enterprising, and having just moved from a cluster of garages to a new, modern factory, *VegaFont's* founder (VF<sup>1</sup>) had been seeking growth operating from a market already saturated prior to any EU considerations: a handful of large players plus scores of small price-cutting garage printers. Shrewdly, through his contacts, VF<sup>1</sup> poached the experienced British Managing Director (GC) of a competing large government-owned press. Setting up an export department, his strategic acquisition's contacts and knowledge of the UK book-printing and publishing market resulted in first-ever exports in 2000 – which *'from nothing, [saw] "exports go through the roof"'* (VF<sup>1</sup>).

Other SMFBs (*ProJoiners*, *FreshCatch* and *GloGlass*) had internationalised earlier, at a time when the domestic market catered sufficiently for growth needs and survival wasn't an issue – long before the run-up to EU. However, EU accession's impact on domestic competition influenced the strategic relevance of internationalisation, motivating further international growth.

For *ProJoiners*, a local heavyweight involved in regular export activity since 1979, EU-related liberalisation saw competition rise to unprecedented heights pre-2004, as furniture importers mushroomed across the islands:

*"I obviously still see that it was better for us to work in an open market... [yet] the level of competition is enormous. Imports have started coming in, understand? We're importing [furniture] too – but notwithstanding, we kept going on with our production. Competition is cut-throat. Profit levels are not those one would wish – to survive you have to go for the market, understand? That is why the "exporting niche" is very important" ... 'it*

*could bring you that little bit that would enable you to ... survive. The domestic market is restricted, there's no other way of describing it' (PJ<sup>3</sup>).*

Landing international contract work and building a portfolio of foreign clients, in this newly competitive environment PJ<sup>3</sup>'s stance is to, *"at least retain our share of the [domestic] market ... that's our bread and butter" ... 'So that then, ... growth will come through "exports"'*. Asked about the importance of international activity for growth and survival, PJ<sup>3</sup> replied:

*'It is the most important thing – in the sense that nowadays, we have more contacts abroad rather than in the local [market]. ... international contacts are more important than the local. ... and that's with respect to both import activity as well as obviously with respect to exports'.*

Other family firms felt the impact. Even though INV *GloGlass* is one of the smallest firms under study, GG<sup>1</sup> claims *"especially now, even more for the future, the focus must be on exports"* the domestic market being *'too small'*. He reflects his commitment to international markets in his mission statement: *"To create a limitless variety of artistic and practical glassworks by traditional handmade methods for a growing international clientele ..."*.

Having exported regularly since the late 1980s, *FreshCatch*'s FC<sup>2</sup> acknowledges earlier protectionism *"couldn't have been kept that way"* – emphasising, however, that with markets *'open for one and all'*, increased competition has drastically eroded profit margins. Underlining the importance of international business activity, he states:

*'the slightest mistake you make, you've lost everything ... we have to recognise the limitations we have in Malta. ... the businessman has a very small domestic market – you have to consider that the market in Malta is small.'*

Such implications are echoed throughout:

*'... you have to keep overheads down ... . That is the advantage you have ... over multinational companies, understand? That you don't accumulate 'fat' around you. I mean your production efficiencies will not be as good as someone who has larger volumes, economies of scale with regards to purchasing, plus the advantage of not operating out of Malta – here we have to import everything [raw materials] from abroad, so there's ... freight, that's additional cost – mmm, so the only way to counterbalance that is by having a very lean overhead structure' (SS<sup>2</sup> – *StarSnack*).*

Besides intensifying domestic competition, EU membership ushered additional regulatory overheads, as well as procedures entailing cost and investment. Labelling and ‘denomination of origin’ compounded indigenous grape supply scarcity for *WineDivine*, intra-EU sourcing of printing supplies for *VegaFont*, and sugar and wheat for *StarSnack*, increased costs for both.

That said, EU membership offered improved access to (EU) international markets – vital for an island segregated from mainland Europe – as well as increased unsolicited enquiries and other considerations such as a common currency<sup>37</sup>.

However, overall owner-MDs were somewhat muted on mentioning direct benefits as a result of EU accession. Several had been exporting to European countries long prior to accession. Besides the occasional mention of support for attendance at international fairs, what was emphasised throughout was intensifying competition in the domestic market – as WD<sup>3</sup> pointed out, EU membership provided ‘a “push” rather than a “pull”’.

#### **7.4.1.2 Internal organisational factors**

Internal organisational factors refer to respective SMFBs’ unique bundle of resources – especially tacit resources relating to competencies and capabilities, family characteristics and their overall conduciveness to internationalisation (Gallo and Garcia Pont 1996: 46).

- ***Employees***

From an operational perspective, owner-MDs consider their employees a critical resource underpinning their capability and success.

Founder VF<sup>1</sup> (*VegaFont*) considers his “energetic and highly motivated workforce”, skilled craftsmen and employees as a “goldmine ... our most important asset”. Similar observations were made by other owner-MDs:

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<sup>37</sup> Malta joined the Euro currency in 2008. However, not all EU member states form part of the Euro zone. E.g. With most of its exports to the UK (EU), *VegaFont* was hit hard as a result of Euro-Sterling exchange rate movements resulting from the Global Financial Crisis in 2008

*'... if you have a good vision and the capabilities ... to put together a good team around you – good people working with passion, from the heart – you'll keep moving forward ... the only thing to emphasise is good people management. From my own experience in managing my own people ... Koreans and Japanese, they taught me how important it is to invest in your employees.'* (FC<sup>2</sup> – FreshCatch)

Long-standing employees possess years of experiential learning, tacit knowledge and know-how associated with fine craftsmanship and artisan skills (*GloGlass*, *FiredPride*, *ProJoiners*). Attention is given to recruiting the right employees, hand-picked by owner-MDs themselves, often personal contacts and recommendations play an important role.

*"I oversee all of the recruitment process. I do not trust them – well, my management may do the short listing, but at the end of the day I will seek the best employee ... that my money can buy ... I cannot trust anyone with that"* (WD<sup>3</sup> – WineDivine)

Such employees are personally nurtured and trained in finer aspects by the owner-MD, or another long-standing craftsman. E.g:

*FiredPride: 'we look after them a lot ... for the first 10 years or so, there wasn't much [formal] education on this craft, it was "learning by doing" ... many of them we would teach ourselves, here. Nowadays, [some] do come with qualifications ... however, we have focussed a lot on hand painting ... it takes time and practice to get perfection", however, we are patient ... we start getting people in on Saturdays ... giving them a trial, we identify the promising ones, and we give them the basics. ... we start with our own artist, ... how to execute the brush stroke, the colour and how hues keep on a ceramic medium ...'* (FC<sup>2</sup>)

*GloGlass* (GG<sup>1</sup>) also talks about recruitment and training: *"that's in my hands, that's right. ... especially things that are related to the craftsmen, glassblowing, fused glass ... if we need something on "sales", then there's my children [who can also help]."*

Essentially this insistence on personally 'hand-rearing' employees to do things 'the right way', transfers tacit knowledge and also indoctrinates the workforce with the owner-MDs' characteristics and vision, infusing and manifesting a strong culture. This complements other small firm scholars' findings:

*"the firm tends to be controlled by the owner-manager in a highly personalized way ... the motivation of the owner is a key influence on firm*

*performance ... the philosophy and motivation of the manager will ultimately shape business behaviour” (Fillis and Wagner 2005: 605-606).*

The importance of “*moulding*” new recruits and challenges in trying to ‘teach an old dog new tricks’ was clearly evident with VF<sup>1</sup> (*VegaFont*):

*“some time after I started taking in people from [competing press] I realised ... their organisational culture was that of a parastatal organisation, rather closed ... [bureaucratic]’, obviously I wasn’t liking this at all. ... I took a decision ... I started teaching the younger ones myself ... I mean, they’re coming in fresh from school ... it’s better to “mould” them yourself ... as you want them, rather than bring them in ready ... if a tree grows crooked, you can’t straighten it – right?”*

Establishing contacts was vital – accessing learning from international sources, acquisition of various forms of knowledge, capability enhancement and expertise. Essentially acquisition and assimilation of external information and knowledge – integral to absorptive capacity (Cohen and Levinthal 1990).

SMFBs imported know-how and tacit skills as necessary. Thus, on occasion, *GloGlass*’ GG<sup>1</sup> and *FiredPride*’s managing siblings brought over foreign master craftsmen to train their artisans in new styles and innovative production techniques. At one stage, again through contacts and established relationships, *GloGlass* poached an Italian artistic glass master from the UK. GG<sup>1</sup> himself and his daughter travel as far afield as New York to keep abreast with emerging techniques. This approach extends to administrative and management functions. For example, SD<sup>3</sup> at *SunDeli* flew his managers to a German management institute for tailored sessions on a strategic vision for the company, while WD<sup>3</sup> (*WineDivine*) brought foreigners over to train employees. WD<sup>3</sup> engaged a foreign wine connoisseur. Since the early days, founder VF<sup>1</sup> (*VegaFont*) travelled abroad “*to see how things are done*”, and poached the experienced British MD off a local competing press. Recruiting ‘*thoroughbreds*’, he sent employees to Germany for training.

Personal attention to employee selection, training and rapport is evident in all SMFBs. In various instances it was apparent the owner-MDs’ enthusiasm and drive was contagious among even recruits in management positions:

*“... I love my job and get a bit evangelical about it at times, especially where VegaFont is concerned. It really is quite the most marvellous*



company. [His creed:] *“Never saying no, always looking for solutions to a problem”* (BB – Scot UK Sales Manager, VegaFont )

*“this year is turning out to be harder than 2009 on the export side – so I am dedicating a lot of my time to the business development area. ... I have little time outside of work at the moment! Thank God I love my job, so I find the energy ...”* (DC – young, qualified Regional Sales Manager, VegaFont)

Declaring *“love”* towards organisation and job reflects employees’ commitment and motivation. Scholars note that among SMFBs, the firms’ culture is a unique, tacit resource and source of competitive advantage (Dyer 1988; Denison *et al* 2004). This emanates directly from owner-MDs who *“define the personality of the business”* (Sorenson 2000: 198; Schein 1983; Dyer 1986; Zahra *et al* 2004). In turn, *“the culture of the family firm plays an important role in determining the success of the business beyond the first generation”* (Dyer 1988: 37).

Employees are hard-working and trustworthy, without whose commitment *“success would not have been possible ... loyal people you can trust 100%”* (PJ<sup>3</sup> – ProJoiners). Owner-MDs *‘nurturing’* a *“team”* ... *‘working both with their hearts as well as their brains’* (VF<sup>1</sup> – VegaFont). Employee turnover was therefore typically low in the SMFBs, and commitment mutual:

*‘Here an employee is not just a number but his name is Peter or Paul ... you’d know them by name. So there’s that relationship. You see a sense of responsibility in them ... Thank God we were never presented with the situation where we had to reduce employees [raised fingers crossed for luck]. ... people here ... have been with us for years and years – you feel they’re part of the company, so you do your utmost to keep them’* (GG<sup>1</sup> – GloGlass).

Paternalistic relationships were reinforced. WD<sup>3</sup> (WineDivine) comments on relationship with employees: *“it’s like marriage”* – important to take *“ownership and establish a sense of belonging”*; VF<sup>1</sup> (VegaFont) refers to younger employees as his *“children ... one team, so I mean one family”*; octogenarian PJ<sup>2</sup> (ProJoiners) who still regularly visits the factory says their employees are *“one big family”*. Underpinning vision as a source of competitive advantage, SD<sup>3</sup> (SunDeli) says: *“the deep-rooted family spirit is still very present in the highly motivated workforce, committed to the best consistent results”*. Such rapport *“modelled after a parent-child relationship”* is not atypical among family businesses (Donckels and Frohlich 1991: 159).

Interestingly, some larger corporations, normally offering less conducive environment within which to implement such approaches, have realised this important source of competitive advantage. Proctor & Gamble “*recruit for values*” and select “*those most likely to fit the P&G culture ... the giant’s real edge is in personnel management ...that’s what separates P&G from the pack*”<sup>38</sup> In this respect, as noted by owner-MDs themselves, this is a competitive edge often embedded in smaller organisations.

- **Management**

From a management perspective, only 3 owner-MDs possess formal qualifications beyond secondary schooling (SD<sup>3</sup>, PJ<sup>3</sup>, and SS<sup>2</sup>). However, all owner-MDs involved in this study actively encouraged their children to pursue university degrees. This younger generation of graduates is formally engaged, helping out with management at *GloGlass*, *WineDivine* and *SunDeli*, assisting more loosely in the case of *FreshCatch*, and *VegaFont*.

Other important family resources included wives and graduate children pursuing a career employed elsewhere, who pool their professional resources when required.

While there exists a majority of managers that are non-professional, experienced and internally-promoted, *SunDeli*, *VegaFont*, *StarSnack* and *WineDivine*, the larger organisations, have more recently invested in recruiting professionals, bolstering management ranks. The other SMFBs engage consultants and professionals as needed. However, it bears repeating that decision-making, direction and control remains firmly centralised in the hands of owner-MDs – each an undisputed ‘boss’: “*what I say goes*” (WD<sup>3</sup>), and “*they have to accept that I have the vision and determination*” (VF<sup>1</sup>).

Talking about the importance of employing professional managers, SS<sup>2</sup> pointed “*you have to train them over a period*”, to get a feel of the business’ culture – yet stressed it is crucial to give capable managers a ‘*chance to grow with you*’ and realise their potential within the family culture – “*unless you employ ‘yes men’*”, the talented ones will leave. Here, as shall be seen from associated findings presented later, it is noted that from among the owner-MDs, young UK economics graduate SS<sup>2</sup> was the one that was most ‘un-paternalistic’ and professionally oriented in his approach. He reflects on his own experience at *StarSnack*:

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<sup>38</sup> ‘*How P&G finds and keeps a prized workforce*’. In *Focus*, 9 April 2009. Roger O. Crockett (Business Week)

*“I was in sales, that’s where I started. Everything you’d say or suggest, you’re told, ‘don’t touch that ... that’s not ... done like that’. ‘No’ to this and ‘no’ to that ... I couldn’t do anything ... I mean what was I to do? I just decided ignore the factory, I picked up the importation [part of the business] and focussed all my efforts there ... That is always a trap for people... like my father, ‘he’ is always the decision maker, ‘he’ is in the middle of everything, it’s always ‘him’. Anything that needs to be done revolves around ‘him’”. (SS<sup>2</sup>)*

This underlines potential negative effects of an overly paternalistic founder, where the delicate equilibrium balancing his vision and entrepreneurial drive sits uncomfortably with the dynamics of management – restricting opportunities and possibly restraining development, organisational capability and absorptive capacity.

Given that SMFBs’ development and evolutionary growth varied substantially, Table 7.7 presents an overview of generational and family, management dynamics – impacting on strategic capability and internationalisation.

**Table 7.7 – SMFB age, generation, management & family succession dynamics (in age order)**

SMFB	SMFB age	Gen. at helm	Management dynamics and succession prospects
SMFB 6 <b>Pro Joiners</b> Size: Medium Emp: 90 FT	116	3 <sup>rd</sup> gen.	3 <sup>rd</sup> gen. owner-MD (Seminary trained, 50 yrs old) in driver's seat. 2 <sup>nd</sup> gen. father patriarch (84 yrs old) still visits regularly but Co. reins are in son's hands. Husbands of 3 <sup>rd</sup> gen. daughters (married into family) involved in managing business (no formal training). Management mostly organic and informal. Limited non-family top-management involvement, yet professionals engaged for e.g. finance. At lower levels managers are "just managers" although also consulted. Mix of informal and formal approaches to functional management. Input of professionals engaged as required.
SMFB 4 <b>Wine Divine</b> Size: Medium Emp: 80 FT	103	3 <sup>rd</sup> gen.	3 <sup>rd</sup> gen. owner-MD firmly at helm of family business, central in decision-making and setting strategic direction (pulled out early of B.Sc. degree, now 63 yrs old). Management structure a mix of non-formally trained employees internally promoted after years' experience, and increasingly employed technical persons and professionals - non-family. More recently both sons 4 <sup>th</sup> gen. (ages 34 and 32, mathematics and economics graduates) slowly eased into greater responsibilities (general management and export) for eventual succession in distant future. Of late, both established as Directors (not shareholders) in 2002 and 2010. Management mostly informal and organic – "not enough time is dedicated ... for planning and strategy".
SMFB 5 <b>Sun Deli</b> Size: Medium Emp: 140 FT	94	3 <sup>rd</sup> gen.	Two 3 <sup>rd</sup> gen. brothers own family business – yet SD <sup>3</sup> , (54 yrs old) completely in the strategic decision-making driver's seat (Diploma in finance) (other bro. non-exec Director). Some children, 4 <sup>th</sup> gen, also involved. SD <sup>3</sup> 's son (commerce graduate, still young) recently eased into greater responsibilities at management level as <i>General Manager</i> most recently with a view to gaining experience and eventual succession – albeit position mostly 'titular' rather than role-based. Increasingly seeking employment of professional management. Management and planning combination of informal & formal inc. professionals and technical persons inc. in relation to research & int'l standards such as ISO and BRC etc...
SMFB 4 <b>Fired Pride</b> Size: Small Emp: 22 FT	46	2 <sup>nd</sup> gen.*	Five brothers – eldest left business in 1987. Remaining 4 siblings (not formally trained: secondary schooling) directed and manage together (ages range 63-44 yrs) this smallest SMFB. Some 3 <sup>rd</sup> gen. children involved in business but not at mgt. level. Prospects for family succession not very positive. No non-family management, professional or otherwise. Management and planning informal – recourse to external professionals when necessary.
SMFB 8 <b>Star Snack</b> Size: Medium Emp: 90 FT	45	1 <sup>st</sup> →2 <sup>nd</sup> gen.	Recently transitioning. Controlling and paternal founder (no formal training: early secondary schooling). Now (75 yrs) 'stickily' ceding control to children & management team. Son (43 yrs) economics graduate (UK), experienced as MD. Sister siblings professionals (accountant, marketing) + husband married into family is a lawyer, non-exec directors. Son increasingly seeking employment of professional management. Introducing more formalised management and planning systems to economically quantify potential decisions.
SMFB 1 <b>Glo Glass</b> Size: Small Emp: 44 FT	42	1 <sup>st</sup> gen.*	Owner/MD (61 yrs old) firmly at helm. 3 young daughters being eased into different roles – given title of 'Manager', yet all strategic decision-making centralised with MD. One sibling economics graduate, others attended various short and NVQ courses. No non-family management, professional or otherwise. Approach to management, planning and decision-making remains organic and informal.
SMFB 2 <b>Fresh Catch</b> Size: Medium Emp: 88 FT	42	2 <sup>nd</sup> gen. (essentially transform & founded current business)	2 <sup>nd</sup> gen. brothers partners, yet FC <sup>2</sup> , elder sibling, in strategic driver's seat (56 yrs old). Essentially FC <sup>2</sup> 'founded' org & operations to present state from rudimentary existence. Both brothers' young children (3 <sup>rd</sup> gen), gradually involved in some way in business. Son commerce graduate, now pursuing Masters in UK, daughter reading law. Brother's daughter newly graduated in commerce. Organic management, yet non-family technical / expert individuals engaged – recourse to professional contacts and consultants as required.
SMFB 7 <b>Vega Font</b> Size: Medium Emp: 100 FT	28	1 <sup>st</sup> gen. / founder	Founder (53 yrs old) energetic and enterprising, firmly at helm yet surrounds himself with required expertise esp. British UK sales consultant – key in internationalisation (non-family). Son (27 yrs) involved in production. Daughter (24 yrs), a commerce graduate in admin. Neither have title of 'Manager' for time being. Aspirations exist for eventual succession yet point is to grow gradually into role and gather experience. Increasingly, professional non-family managers engaged. Some non-professionals remain. Introducing formal planning processes that restrain instinctive, <i>ad hoc</i> informal decision-making.
<p>*' SMFBs originally set up by British founders, bought over and indigenised by the current Maltese owner-MDs or their family in the case of generational succession. See commentary presented earlier. Age as at 2010.</p>			

Source: Author, consolidated from primary data and within-case analysis

Notwithstanding recruitment of some professionals, larger SMFBs' owner-MDs perceive shortcomings they'd like to shore in their management ranks (*SunDeli*, *VegaFont*, *StarSnack*, *WineDivine*). For example, ever-energetic WD<sup>3</sup> explains:

*“I critique them – I always tell them ‘they miss the wood for the trees’ ... not enough time is dedicated by my management for planning and strategy ... I’m always telling them they need to get out of the day-to-day rut and plan ahead ... maybe they can run a business but they cannot grow it ... I am always encouraging my management for improvements ... they must be more proactive” (WD<sup>3</sup> – WineDivine).*

Although some formalised aspects of management are gradually introduced, especially in the larger SMFBs, overall and to different extents, management remains largely an informal hands-on affair. Decisions are mostly taken *ad hoc*, on the ball – although meetings might sometimes be scheduled. This prevails among small and larger SMFBs:

*“we don’t have many formal meetings here – practically none ... more a matter of being in conversation, talking together. We come up with ideas and we just talk about them. And I’m amazed how sometimes you start with nothing, and it sometimes really develops ...” (GG<sup>1</sup> – GloGlass)*

*“Although meetings are held from time to time ... ‘open door’ management approach is adopted ... Much communication, even among management happens in an informal way through discussion and ad hoc, immediate action as necessary. (WD<sup>3</sup> – WineDivine)*

With employees perceived as part of an extended family, this trait in organic management and informal governance, centralised and manifested in the very essence of the founder / owner-MD was practically observed across all the family businesses.

Though not an ‘internal’ resource *per se*, *SunDeli*, *WineDivine* and *FreshCatch*, innovatively forged alliances with hundreds of farmers / fishermen, to ensure sufficient, quality supply – always a challenge on an island where agriculture and fishing operations are small-scale and fragmented.

In such relationships, much is invested – technology, irrigation equipment, specification grade seeds, subsidised diesel for fishing sorties, quality control, expert advice, training on quality and yields. In turn, owner-MDs are ‘guaranteed’ a future crop / catch at a

pre-established price – ensuring quality supplies, ironing out kinks in market-prices, typically volatile in agricultural and fishery sectors.

This external network and capacity resource is ‘internalised’ within the SMFBs. Contacts and relationships are nurtured – blurring the SMFBs boundaries – critical to maintain scale and operations. The alternative is imports, presenting costs. Local supplies also enhance quality and freshness for *SunDeli* and *FreshCatch*, reducing time from field to processing and doing away with overly industrialised foreign agricultural practice.

- ***Core competencies and human resourcefulness***

Beyond enduring commitment, these SMFBs’ key strengths primarily lie in the resourcefulness, driving energy and enterprising vision of owner-MDs: “*seeing things a good two to five years ahead*” (VF<sup>1</sup>). Competitive advantage lies in their flexibility and innovative creativity – via a mix of investments in facilities, a skilled enterprising vision, and a motivated workforce.

Though employing professional management and expertise would help, keeping costs low is a concern. Even owner-MDs of larger SMFBs acknowledge missing the ideal:

*‘Obviously we have [gaps] ... staff you’d ideally have, however, since you’re cutting down to lower costs ... “certain things you have to learn to do without” – it’s quite difficult to balance things out’* (PJ<sup>3</sup> – ProJoiners)

Flexibility, creativity and resilience are vital for growth. Recourse is sought digging deep into experience reserves and deftly leveraging valuable contacts to offset limitations when necessary. Flexibility, a ‘can-do’ attitude, or indeed “*nirrangaw*” – the “*Maltese way of doing things*”, conducive to trust-based relationships, enables these SMFBs to creatively customise offerings to foreign clients’ requirements, adding-value and targeting comparatively smaller business opportunities not served by larger organisations. This was commonly acknowledged:

*“[our] flexible sales and marketing approach provides local and foreign customers alike with confidence that they will get a quality product, on time at the right price.”* (FC<sup>2</sup>)

*‘[our] core strengths are, first of all, flexibility ... our capability and the attention we give to clients – we give attention to everyone ... sometimes*

*that is the reason you win over a client – because you pay attention to their needs’.* (PJ<sup>3</sup>)

*“[our strength] flexibility ... understand – we’re a small manufacturing concern willing to produce small runs that bigger producers are not wanting to produce.”* (SS<sup>2</sup>)

*“Let me tell you one thing [regarding establishing personal relationships based on trust] ‘I mean it’s a selling point from our point of view! Now whether the company appreciates it or not, is a different issue. But it is definitely a selling point – we’re a smaller business, we act faster – mmm, and it’s a plus for us.”* (SS<sup>2</sup>)

*“Commitment always ... and flexibility ... enormous flexibility” ... ‘we have this ... In our case that’s what we have, flexibility ...’* (GG<sup>1</sup>)

*“... nothing ever happens smoothly – we’re used to that. We’re flexible, adjusting to what is required ...”* (WD<sup>3</sup>)

*“... notwithstanding all this [global financial crisis], the future for us looks positive ... the secret of our success is that we always adapted ourselves to circumstances – this is what we must continue doing in the future. Apart from this, we always respect our consumer’s wishes.”* (SD<sup>3</sup>)

Ultimately, a bequeathed characteristic enhancing exportability of these SMFBs products is an element of uniqueness deriving from Maltese and Mediterranean culture and traditions, adding artisan value and craftsmanship – sometimes also warmth and nurturing trust-based relationships.

#### **7.4.1.3 Founder / owner-MDs’ characteristics and attitudes**

Analyses presented previously indicated that owner-MDs personified their SMFBs – shaping the culture and directly engendering their vision in the strategies of firms they direct.

- ***Owner-MD and generational change: Strategic direction and internationalisation***

As observed in the comparative timeline presented earlier (Figure 7.3), in 6 cases (*FreshCatch*, *WineDivine*, *FiredPride*, *SunDeli*, *VegaFont* and *StarSnack*) outward internationalisation started more recently under the current generation’s management control.

Recalling exogenous factors, most notably the recent ‘push’ through EU accession and heightening competition, from within-case analysis it is evident that one must not assume that change at the helm might have solely inspired the volition and initiative to internationalise. In some SMFBs, first exports started under previous generation control – albeit at a time when internationalisation was not a pressing concern, and export and transportation arrangements were more onerous and costly.

Table 7.8 below gives an overview of respective SMFBs’ generation at the helm when exports were initiated – differentiating between initial tentative exports, and the onset of a sustained internationalisation thrust.

**Table 7.8 – Generation at helm at initial exports & onset of outward internationalisation thrust**

SMFB	SMFB Est. (Age)	Current generation at helm	Any initial, tentative <i>ad hoc</i> exports Year (SMFB age), gen.	Onset of int’l thrust. Sustained, regular exports Year (SMFB age), gen.
SMFB 1 <b>GloGlass</b>	1968 (42)	1 <sup>st</sup> gen.*	1970 (2), 1 <sup>st</sup> / UK Founders 1970 (2), 1 <sup>st</sup> / UK Founders [Previous owner at helm]	1971 (3), 1 <sup>st</sup> / UK Founders [Previous owner at helm]
SMFB 2 <b>FreshCatch</b>	c.1968 (42)	2 <sup>nd</sup> gen.	c.1975 (c.7), 2 <sup>nd</sup> Gen. (ongoing opportunistic and ad hoc activity)	c.1989 (c.21), 2 <sup>nd</sup> Gen.
SMFB 3 <b>WineDivine</b>	1907 (103)	3 <sup>rd</sup> gen.	n/a	c.1998 (c.91), 3 <sup>rd</sup> Gen.
SMFB 4 <b>FiredPride</b>	1964 (46)	2 <sup>nd</sup> gen.*	c.1979 (c.15), 2 <sup>nd</sup> Gen.	2004 (40), 2 <sup>nd</sup> Gen. (actively seeking export opp., yet ad hoc activity)
SMFB 5 <b>SunDeli</b>	1916 (94)	3 <sup>rd</sup> gen.	1955 (39), 2 <sup>nd</sup> Gen. [Previous Gen. at helm]	1996 (80), 3 <sup>rd</sup> Gen.
SMFB 6 <b>ProJoiners</b>	c.1894 (116)	3 <sup>rd</sup> gen.	n/a	1979 (c.85), 2 <sup>nd</sup> Gen. [Previous Gen. at helm]
SMFB 7 <b>VegaFont</b>	c.1982 (28)	1 <sup>st</sup> gen. / founder	n/a	2000 (c.18), 1 <sup>st</sup> / Founder
SMFB 8 <b>StarSnack</b>	1965 (45)	1 <sup>st</sup> → 2 <sup>nd</sup> gen.	1985 (20), 1 <sup>st</sup> / Founder 1998 (33), 1 <sup>st</sup> / Founder [Previous owner at helm] 2003 (38), 2 <sup>nd</sup> Gen.	2004 (39), 2 <sup>nd</sup> Gen.
<p>■ Indicates internationalisation activity (exports) effected by previous generation at helm. SMFB age as at 2010. * Indicates SMFB originally set up by UK founders – eventually bought by current entrepreneur / family.</p>				

Source: Author from primary data



One notes that the previous generation in *SunDeli* and *StarSnack*, had ventured beyond Malta's shores years earlier, with isolated sporadic exports. On the other hand, *ProJoiners* initiated regular export activity in an earlier generation, while *GloGlass* exported regularly from inception under previous foreign owners.

One must not assume, therefore, that earlier generations were less enterprising. For most, by default, their operations required imports and years of involvement in mostly inward international activity – in instances this included travelling overseas, nurturing foreign contacts, acquiring knowledge on various aspects related to their business, and know-how. Indeed, within-case analysis indicated that earlier generations were also generally resilient and enterprising in creatively addressing challenges while the Maltese economy morphed and evolved.

For example notwithstanding occasional abrasive exchanges on best ways forward, SS<sup>2</sup> describes his father, *StarSnack*'s founder as having “*a phenomenal drive ... streetwise ... at the end of the day, in business, that's what it comes down to ... drive*”. This spirit, typical of entrepreneurs at the time, is reflected when at 60, SS<sup>1</sup> was presented with the Grant Thornton ‘Award for Enterprise’ lauding his:

*“lifetime achievement in business, an achievement based on sheer personal hard work as well as on the will and ability to transform challenges into opportunities”* (MFBT 2002).

The fact that these SMFBs survived difficult periods and generational change attests to their resilience, and generally conducive family dynamics.

That said, recalling the strait-jacketed domestic economy prior to 1987, with the exception of *GloGlass*, most export activity undertaken then by SMFBs under study was opportunistic, sporadic and often *ad hoc*. Sometimes, alertness to unsolicited international orders or tentative export opportunities, were prompted by investment in growth and operational scope – new capability and excess capacity. For example, *ProJoiners* transitioned from a small carpentry workshop to an industrialised set-up in Gozo 9 years before their first export activity, while building a new factory in Malta. Government restrictions on foreign furniture imports provided growth incentives too. Similarly, *StarSnack* protected by ‘import substitution’ policy, moved to a larger factory, expanding into biscuit production after buying out British joint-venture partners. In parallel, given

that EU accession was a future possibility, *SunDeli* moved to modern purpose-built facilities just before initiating an internationalisation drive.

Later, in an increasingly competitive local scenario, exporting to foreign markets became strategically important to sustain existing and future investments in growth, technology and capability. The domestic aggressively competitive situation was accentuated by EU accession in 2004 – in the case of all SMFBs under study coinciding with the current family generation management control.

Succession and generational change nonetheless did have an extent of impact on strategic direction – in instances influencing internationalisation.

For example, the current owner-MDs of *FreshCatch* (2<sup>nd</sup> gen.) and *SunDeli* (3<sup>rd</sup> gen.), may be considered as ‘founders’ of their SMFBs. FC<sup>2</sup> gave structure and organisational form to loosely conducted rudimentary business activities, growing the business into an internationally recognised player in tuna export. SD<sup>3</sup> transformed a moribund organisation into a leading food-processing company serving multinational supermarkets.

While based on within-case analyses, entrepreneurial typologies and owner-MDs’ management styles are discussed later, Table 7.9 gives an overview of latest changes at the helm and associated shifts in behaviour and direction.

**Table 7.9 – SMFBs’ developments and strategic shifts following latest generational change – includes management involvement and education**

	Previous generation	Current generation management control	Other, generational & management involvement
<b>GloGlass</b> Est.: 1968 (42) Size: Small Int exp.: Exper. Int'l sales.: 40%	- British founder; - Initially enterprising, sustains internationalisation from inception; - Political & economic unrest – desire to leave Island & return to UK led to stagnation at Co.	- One of 1 <sup>st</sup> employees. After several yrs in employ & leaving to start own Co., ex-Prod. Mgr. approached by UK founder & buys-out GloGlass; - Immediately renegotiates export contracts & initiates new investments & drive for new foreign markets.	- Secondary schooled GG <sup>1</sup> , enterprising & visionary 'boss' hands-on in full control of all aspects; - Four daughters (one graduate) involved helping in informal mgt. – yet father orchestrates.
<b>FreshCatch</b> Est.: c1968 (42) Size: Med. Int exp.: Exper. Int sales: c.90%	- 1 <sup>st</sup> gen. No formal education; - Fisherman like father before him; - Hawking catch, later sets-up small village fishmonger.	- 2 <sup>nd</sup> gen. FC <sup>2</sup> drops out from school to help cart & sell fish in village; - Early, starts importing, popularising fish & opportunistically exporting; - Fishermen alliances, grows & invests, diversifies into tuna farming; - Effectively founder. Big int'l player.	- FC <sup>2</sup> 's brother is partner, yet FC <sup>2</sup> undisputed 'boss', mastermind with vision & in full control of all aspects; - Young children, business & law graduates now involved PT non-mgt; - Some technical prof. employed. Consultants engaged as needed.
<b>WineDivine</b> Est.: 1907 (103) Size: Med. Int exp.: Novice Int sales: c.5%	- 2 <sup>nd</sup> gen.; - Determined in building up & commercialising Co. post-war; - Visionary & entrepreneurial in investing in current site allowing expansion. Visits int'l fairs.	- 3 <sup>rd</sup> gen. Dropped from BSc degree; - Drives post-'import substitution' expansion. Visionary in offsetting supply limitations: 'Vines for Wines'; - Attends int'l fairs & competes, starts mgt team & drives post-EU int'l thrust	- None of WD <sup>3</sup> 's siblings involved; - WD <sup>3</sup> at helm, in full control of all aspects and undisputed 'boss'; - Built prof. oenology team. 4 <sup>th</sup> gen. graduate sons both recently involved in mgt., gradually learning ropes.
<b>FiredPride</b> Est.: 1964 (46) Size: Small Int exp.: Novice Int sales: 15%	- Family's 1 <sup>st</sup> gen. FP <sup>1</sup> had bought out British couple's cottage industry; - Educated & working at insurance Co., intent on operating business to secure sons' future & livelihood; - Small scale, touristic market.	- 2 <sup>nd</sup> gen. all 5 brothers exit school at secondary level. Eldest leaves. All intent on mgt. role in v. small Co.; - Pushed to internationalise post-EU, fol. Intense competition. Attend fairs, <i>ad hoc</i> initiatives.	- Family dynamics make decision-making & consensual strategic direction & survival cumbersome; - Few 3 <sup>rd</sup> gen children involved in basic non-mgt. jobs. Questionable future, little succession interest.
<b>SunDeli</b> Est.: 1916 (94) Size: Med. Int exp.: Exper. Int sales: 66%	- 2 <sup>nd</sup> gen. SD <sup>2</sup> & 2 siblings set-up partnership pre-WW2; - Enterprising. Opportunistically exports via British Merchant Navy; - SD <sup>2</sup> dies, wife takes over. Losses mount, downward spiral, stagnant.	- 3 <sup>rd</sup> gen. SD <sup>3</sup> (trained in finance) & bro. take failed Co. from mother; - Overhauls Co. & imp. alliances w farmers. Visionary: expands, invests; - SD <sup>3</sup> at helm. Expects liberalisation sets Export dept & drives int'l growth.	- SD <sup>3</sup> entrepreneurial & 'boss' in total control. Innovative & creative; - Over years building professional team, also in research & production; - Two 4 <sup>th</sup> gen. young graduate sons now involved in mgt., learning ropes.
<b>ProJoiners</b> Est.: 1894 (116) Size: Med. Int exp.: Exper. Int sales: 30%	- Just after WW2, 2 <sup>nd</sup> gen. PJ <sup>2</sup> & bro. take over business from father; - PJ <sup>2</sup> travels to Italy, gains insight & design flair, imports parts, est. Co. & expands beyond Gozo to Malta; - Starts opportunistic reg. exporting.	- Son PJ <sup>3</sup> MD, formally trained & educated at seminary; - Industrialist & entrepreneur involved in social peer networks; - Extensive expansion & impetus for int'l well prior EU via multi-modes.	- 2 <sup>nd</sup> gen. father PJ <sup>2</sup> still visits; - PJ <sup>3</sup> assisted by in-laws (sisters' husbands) – yet in full control of all aspects of business – drives int'l.; - Hardly any employment of formally trained prof. Consultants engaged.
<b>VegaFont</b> Est.: c1982 (28) Size: Med. Int exp.: Novice Int sales: 70%	n/a	- Founder, drops school. Fails in running family's village bar; - Discovers printing passion. Starts own Co. after 7-8 yr employ at press. - Enterprising, visionary. Innovative value creation & growth inc. int'l.	- VF <sup>1</sup> passionate 'boss' in full control; - Poached UK MD is catalyst for int'l; - Building team of dedicated grads & professionals, domestic & UK-based; - Young son & grad. daughter now involved in non-mgt ranks, learning.
<b>StarSnack</b> Est.: 1965 (45) Size: Med. Int exp.: Novice Int sales: 50%	- Founder SS <sup>1</sup> drops schooling & after employment, starts own Co.; - Resilient, creative shifts from imports to UK JV local manufacturing - Travels, invests, expands, diversifies, buys-out JV & exports.	- Son SS <sup>2</sup> UK business graduate; - SS <sup>1</sup> still involved, no clear-cut succession. Complement yet friction; - SS <sup>2</sup> comes in at right juncture, pre-EU competition. Spurs int'l strategy & balances SS <sup>1</sup> instincts. Rapid int'l.	- Founder / son dynamics at times delicate & abrasive; - No other family directly involved in Co. SS <sup>2</sup> building prof. mgt. team; - Eventually SS <sup>2</sup> leaves Co., SS <sup>1</sup> resumes helm & cont. int'l drive.

Source: Author, consolidated from multiple primary data sources and within-case analysis. (SMFB age as at 2010)

With respect to internationalisation, change at the helm resulted in fresh impetus and internationalisation intent when GG<sup>1</sup> bought out *GloGlass*, which although internationalised from inception, had stagnated when its disenchanted British founder stalled investment in the face of political and economic uncertainty.

In *FreshCatch*'s case, when restless and enterprising FC<sup>2</sup> came on the scene, he imported new fish varieties to entice restaurateurs to promote fish on their menus – importation and opportunistic exporting of local catches went *'hand-in-hand'*.

As indicated earlier, in *SunDeli's* and *ProJoiners'* case, both current Gozitan owner-MDs anticipated a more competitive domestic market, and seeking growth for expansion, proactively internationalised well before EU accession. Similarly, *VegaFont's* founder sought international growth beyond the saturated domestic market before EU accession – by shrewdly poaching from the competition the well-connected British manager directing the parastatal press.

While *StarSnack* had already tentatively exported in earlier years, and its international thrust was triggered by EU accession, semi-retired founder SS<sup>1</sup> credited his son with the rapid internationalisation of their family business.

On the other hand, the current owner-MDs of 'novice' SMFBs *WineDivine* and *FiredPride* are long-standing incumbents. Their recent internationalisation drive was triggered by a reactive 'push' resulting from abrupt changes caused by EU accession.

At this point, with respect to current owner-MDs, no consistent observations can be made in relation to their educational background vis-à-vis internationalisation (see Table 7.9). For example half the current owner-MDs either dropped out of school or only completed mandatory secondary schooling. They respectively control the two most 'experienced' internationalisers, *GloGlass* and *FreshCatch*, and rapid internationaliser *VegaFont*. In *FiredPride's* case governance and delicate family dynamics together with lack of foresight most likely stunted this smallest SMFB's growth.

In parallel, in SMFBs that had internationalised in previous generations (*SunDeli*, *ProJoiners* and *StarSnack*), their owner-MDs then did not have formal qualifications beyond basic schooling.

That said, in rapidly internationalising *VegaFont* and *StarSnack*, qualifications or professional certification ‘brought in’ played a role in exploiting the generally more complex prospects presented by international opportunities. As noted, VF<sup>1</sup> lured an experienced and connected British printing expert who acted as catalyst for internationalisation. And SS<sup>1</sup>’s UK graduate son, balanced his father’s gut-instinct with quantified strategizing and an extent of formal planning in rapidly internationalising *StarSnack*.

On the other hand, a greater incidence of graduates is observed among current owner-MDs’ children. However, from within-case analysis, it is apparent that when these young family members are involved in management positions, from a strategic decisional perspective, the post seems to be mostly ‘titular’ – their father, owner-MD calling all the shots and being directly in control of all aspects of the business.

While more professional management personnel are employed in the larger SMFBs *WineDivine*, *SunDeli*, *VegaFont* and *StarSnack* (less so in *FreshCatch* and *ProJoiners*), it is evident that in practically all cases the owner-MD remains central to entrepreneurial drive, and solely responsible for the vision, decisional foresight and charting of the respective SMFBs’ strategic direction. The only exception is that of the smallest, *FiredPride* – where four siblings directly manage an organisation with just 22 employees.

- ***Owner-MD general characteristics:***

Most owner-MDs (*GloGlass*, *FreshCatch*, *WineDivine*, *FiredPride* and *VegaFont*) have no qualification beyond mandatory schooling. This was also the case for *StarSnack*’s founder, whose son took over as MD, in an ambiguous transition which generated friction. Though the founder had been involved in exports himself, he credited his son, a UK Business and Economics graduate, for success with the internationalisation drive. *SunDeli* and *ProJoiners*’ MDs respectively have a diploma in finance and a degree in philosophy. While these may have had a positive effect, one concludes, from within-case analysis, that key

contributors to these SMFBs' growth and success lay with their owners' resilience and alertness, and tacit experiential knowledge rather than formal qualifications.

The two most internationally experienced owner-MDs (*GloGlass* and *FreshCatch*) had just secondary schooling, the latter dropping out to start hawking fish – a low-key prelude to his bluefin tuna business. *VegaFont*'s founder also dropped out, excessively mismanaging his father's village bar before being coaxed into employment – where he discovered a passion for printing. Rapidly internationalised *VegaFont* today offers cutting edge service and exports 70% of its sales.

In smaller organisations, key decision-makers have a more central impact on organisational behaviour, direction and strategy. Table 7.10, an overview, consolidates owner-MD's characteristics commonly associated with internationalisation behaviour.

**Table 7.10 – Owner-MDs' characteristics: Education, experience and involvement**

	<b>GloGlass</b>	<b>FreshCatch</b>	<b>WineDivine</b>	<b>FiredPride</b>
<b>SMFB &amp; profile</b>	Size: Small Est. (age): 1968 (42) Exports: 40%	Size: Medium Est. (age): c.1968 (c.42) Exports: c.90%	Size: Medium Est. (age): 1907 (103) Exports: c.5%	Size: Small Est. (age): 1964 (46) Exports: 15%
<b>O-MD</b>	Int'l exp.: Experienced	Int'l exp.: Experienced	Int'l exp.: Novice	Int'l exp.: Novice
<b>Owner-MD<sup>Gen</sup></b>	GG <sup>1</sup>	FC <sup>2</sup>	WD <sup>3</sup>	FP <sup>2</sup>
<b>Age</b>	61	56	63	55
<b>Educ.</b>	Basic Secondary	Dropped out of Secondary	Secondary (About to start B.Sc., dropped out)	Basic Secondary
<b>Initial Experience</b>	Joined Co. at 15yrs just out of school. Quickly promoted to Production Manager.	From young age helping father around fishermen in sea-side village. Street-wise & contacts with fishermen.	Together with siblings helping father about the business. Joined Co. after school.	Helping father and elder brother about family business. Ended schooling to join Co.
<b>Current Experience</b>	Set-up own business. Redirected Co. strategy. Yrs dealing w int'l suppliers & clients	Yrs dealing w fishers + big corporations along Med & Asia. Foreign JVs & FDI. Big contracts	Yrs dealing w farmers. Setting up 'Vines for Wines'. Rationalisation Dealing w int'l suppliers	Redirecting ops towards higher value premium products.
<b>Other &amp; involvement</b>	Breathed life into stagnant org. and resurrected int'l drive. Undisputed boss, with vision & direction.	Practically founded org. in its current form. Local & foreign connections: lowly fishermen to politicians & businessmen. Bro partner, but FC <sup>2</sup> undisputed boss.	Well-travelled. Involvement in boards & industry-related organisations. No other siblings now involved in managing Co. Undisputed boss.	Management dynamics shared among 4 sibling Directors.

	<b>SunDeli</b>	<b>ProJoiners</b>	<b>VegaFont</b>	<b>StarSnack</b>
<b>SMFB &amp; profile</b>	Size: Medium Est. (age): 1916 (94) Exports: 66%	Size: Medium Est. (age): c1894 (c116) Exports: 30%	Size: Medium Est. (age): c.1987 (c.28) Exports: 70%	Size: Medium Est. (age): 1965 (45) Exports: 50%
<b>O-MD</b>	Int'l exp.: Experienced	Int'l exp.: Experienced	Int'l exp.: Novice	Int'l exp.: Novice
<b>Owner-MD<sup>Gen</sup></b>	SD <sup>3</sup>	PJ <sup>3</sup>	VF <sup>1</sup>	SS <sup>2</sup> (SS <sup>1</sup> )
<b>Age</b>	54	50	53	43 (75)
<b>Educ.</b>	Diploma (finance)	Seminarian, Tertiary	Dropped out of Secondary	Tertiary BSc in UK. (SS <sup>1</sup> : Secondary)
<b>Initial Experience</b>	As child helped around father & later mother around family business. With brother, bought moribund business.	Helping around father in family business from young age. Joined Co. after seminary.	Out of school, mismanaged family village bar. Then 7-8 yrs in employ at govt. press. Passion for printing.	As child helping father in family business. (SS <sup>1</sup> : Govt employee & later own PT initiative: salesman)
<b>Current Experience</b>	Building org, growth & diversification. Dealing w large int'l corporate clients + franchising.	Years dealing w foreign suppliers, also int'l JVs. Diversification into software.	Growth, value adding business models and daring strategies.	Years dealing w large int'l suppliers. Constant adaptation to survive and grow.
<b>Other &amp; involvement</b>	Practically breathed life into dead org. & reinvented. Bro. partner yet SD <sup>2</sup> undisputed boss Well connected, constant travelling. Several board appointments & memberships.	Well connected, constant travelling. Several board appointments & memberships. Boss with vision and direction.	Travelling & seeking team of "thoroughbred" professionals. Remains visionary, undisputed boss.	Strategizing & planning, intent on building professional team. (SS <sup>1</sup> : Self-made, own boss). Transition from father & founder (previously undisputed boss) to son, now MD.

Source: Author, consolidated from primary data and within-case analyses. Age as at 2010

An exception lay with *StarSnack*'s succession, where the introduction of quantified decision-making and structured strategizing, combined with urgency to employ professional management, assisted in the more complex business environment presented by their internationalisation thrust – possibly mitigating risk. Albeit, when it came to their big break, and complex negotiations with demanding French supermarket corporate purchasing boards, SS<sup>2</sup> (the business graduate) credited his secondary-schooled father's experience and business acumen in dealing with large foreign suppliers, cool under pressure:

*'It's your first [major] contract in the international scene ... our first breakthrough. So yes, there was a lot of anxiety ... It had nothing to do with [previous experiences], it was something completely new "I did not go to external people". The truth is, I have my people around me. And I have my father [the founder], and for him 'nothing is anything... [Int: He wouldn't feel intimidated that easily?]: Exactly.'*

With the exception of *StarSnack*, all owner-MDs are in their 50s and 60s – while the 'problem' of succession exists, that remains something for the somewhat distant future – as they all steadfastly retain full control, involved in all decision-making. Indeed one notes that these 'patriarchs' never really retire, and even when they do their shadow persists.

*StarSnack*'s 'semi-retired' founder understandably says of his baby, "I put my heart into it". His anointed son then observed:

*"to be frank – opportunities will rise once the old man starts sitting back ... that is one of the problems ... that these [founders in] family businesses never retire. Understand? they think they are indispensable [smiles] ... In reality nobody is indispensable. ... Let me tell you something, if you are indispensable to your business you've done something bloody wrong ..."* (SS<sup>2</sup>)

More recently the son left the family business. At 75, SS<sup>1</sup> resumed the helm, employed another manager and pushed on with his 'baby's' international drive.

In consolidating, one must however note that scholars have also stressed that characteristics and profiles are poor predictors on internationalisation. Jones and Coviello (2005: 299) argue rather that, "volition" and intent are more accurate predictors *post hoc* of internationalisation behaviour and performance. "Volition" in the owner-MDs presented here is evinced in abundance.



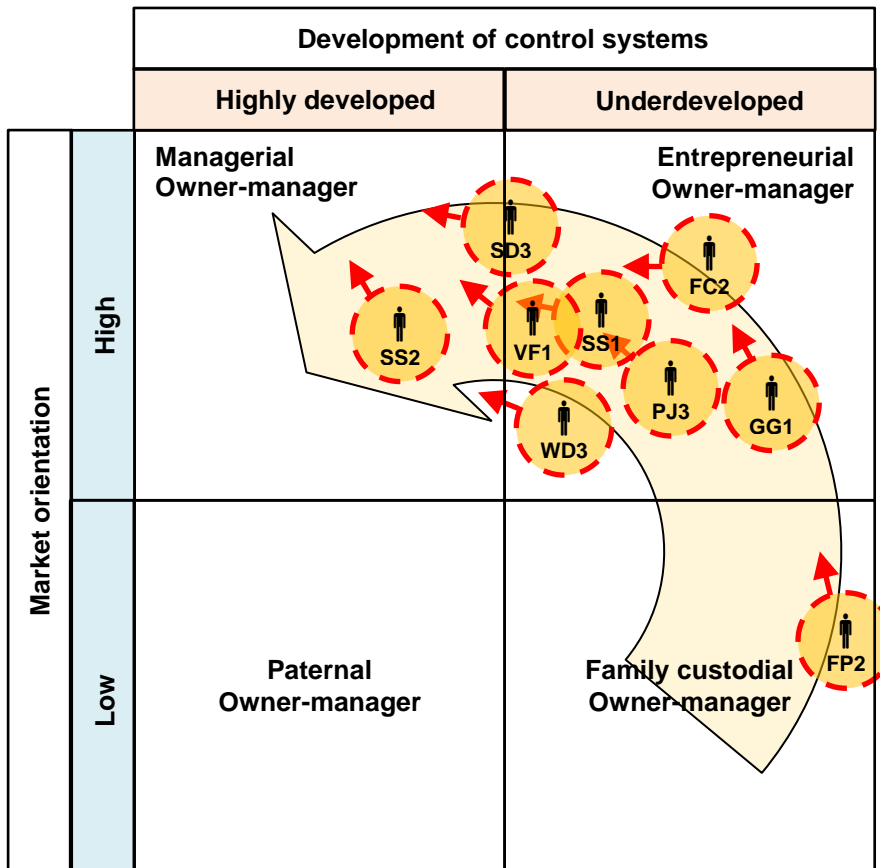
- ***Owner-manager managerial control type***

Beyond owner-MD typical demographic profiling tracing individual influences on internationalisation (Acedo and Florin 2006), complex attitudinal elements associated with risk perception and entrepreneurial stance were analysed from case-specific and context-based investigations.

In-depth SMFB-specific qualitative analysis sought insight on and examined relevant traits and characteristics of respective owner-MDs, such as attitudes and internal relationships with respect to direction, decision-making and management style (Dyer 1988; Sharma *et al* 1997; Penn *et al* 1998; Sorenson 2000).

The owner-manager typology of managerial control (Scase and Goffee 1982; Goffee 1996) was adopted in analysis, linking the internal development of ‘organisational control systems’ with the external degree of ‘market orientation’. Drawing from within-case analysis, Figure 7.4 consolidates and gives a comparative overview of the owner-MDs’ managerial control types.

Figure 7.4 – Owner-MDs’ managerial control type (Goffee 1996)



Source: Author based on Goffee (1996). Consolidated from qualitative primary data and within-case analysis

Here it is important to note that in Goffee’s (1996) typology, ‘*paternal*’ does not only emphasise decision-making approaches. Here it characterises an established and developed formal control system with low market-orientation, where owner-manager’s concerns emphasise employee welfare and social responsibilities – ‘familiness’ and feelings of belonging rather than market imperatives (Goffee 1996).

While ‘familiness’ and trust-based rapport with committed employees is amply evinced in most SMFBs, from an overall cross-case perspective, as seen in Figure 7.4, understandably, a highly competitive market sees the majority of owner-MDs as responsive to shifts in market dynamics – otherwise survival is further challenged. Essentially, internationalisation, in itself recognised as an act of entrepreneurial activity, is reflected in such response.

In this regard, evidence from qualitative within-case examination indicated that most owner-MDs of the SMFBs under study classify as ‘entrepreneurial’ – having a high market orientation, with businesses having relatively underdeveloped control systems (Goffee 1996). Beyond concerns with retaining control, and a combination of resource limitations and family dynamics holding back management professionalization, rapid growth also contributed in instances.

Similar to earlier observations, no general conclusions can be drawn here, with respect to SMFB age or owner-MD generation. Indeed the ‘entrepreneur’ cluster spans founder to 3<sup>rd</sup> generation MDs, in control of firms ranging from small to the largest.

Outliers here are *StarSnack*<sup>39</sup> and *FiredPride* both 2<sup>nd</sup> generation, novice internationalisers. Rapidly internationalised, *StarSnack* is characterised by a more ‘Managerial’ owner-manager (UK business graduate), having more developed control systems, typified as:

*“highly geared to market opportunities, give priority to profit maximisation and take pride in their ownership of efficient and frequently, quite complex organisational structures. They develop meritocratic rather than paternal relations with their employees ... Although these owners have typically acquired their business through inheritance they do not seek legitimacy in these terms”* (Goffee 1996: 38)

The smallest SMFB *FiredPride*, with underdeveloped control systems and low market orientation is characterised by a ‘family custodial’ owner-MD, typified by inheritance of:

*“established businesses which have experienced little growth, and stagnation, over recent years. Either through choice or incompetence their firms have a low market orientation and poorly developed organisational structures These owners have little ambition for growth or change; traditional practices seem to persist regardless of operating efficiency ... the long-term fate of these companies is either typically decline or takeover”* (Goffee 1996: 39).

FP<sup>2</sup> acknowledged their recent 7-year investment and overhaul of their facility resulted in “a lot of time taken away from focussing on the market”. The siblings’ management dynamics resulted in hesitant strategic direction, undermining *FiredPride*’s opportunities and survival.

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<sup>39</sup> *StarSnack* is represented at 2 points on the matrix – since although technically the owner-MD is 2<sup>nd</sup> generation, transition was unclear and the founder was still involved directly in management – eventually reassuming MD position.

While general associations between SMFB age and generation cannot be directly drawn to particular owner-manager typologies, from in-depth analysis, a developmental pattern can be observed based on other factors. This is depicted by the circular arrow in Figure 7.4, proceeding from ‘Family custodial’ through ‘Entrepreneurial’ and on towards ‘Managerial’ owner-manager types.

Key factors featuring more directly here, rather than age or generation, are SMFB size and resource availability – including human resources and investment in structured and somewhat more formalised approaches to management.

Goffee (1996: 39) suggested ‘Family custodial’ owner-managers’ “*own personal involvement is frequently low*”. In *FiredPride* four siblings, having dropped out of school, albeit experienced, are all intent in actively managing an organisation with just 22 employees. Accentuated by resource limitations, the decline faced by this family firm remains.

In contrast, other SMFBs grow and acquire greater resource availability – often employing some technical or management professionals, and gradually introducing structured and formalised approaches to production. Notwithstanding, strategic direction and decision-making remain firmly in the hands of the undisputed ‘boss’ – the owner-MD.

Seeking international growth *SunDeli*, *VegaFont*, *WineDivine*, *FreshCatch* invested in various processes and quality standards associated with certification and accreditation – vital for negotiating deals with exacting corporate clients (Table 7.11). *StarSnack* and *ProJoiners* also invested heavily in new equipment and process technologies. While periodically investing in quality-related equipment and materials, the other two smallest artisan-based SMFBs did not have, and arguably did not need, such systems in place.

**Table 7.11 – SMFBs' quality accreditation and management process certification (in order of SMFB size)**

SMFB	Size (FT) employ	Exports	Standard accreditation and process certification												
<b>Sun Deli</b>	140	66%	HACCP; McDonald's Certified Supplier; ISO 9001; BRC; EU Cert. Organic Agricultural Products; ISO 22000 [Investments in employing professional management]												
<b>Vega Font</b>	100	70%	ISO 9001; FSC Certification [Investments in employing professional management]												
<b>Star Snack</b>	90	50%	[Investments in employing professional management] <i>*Sustained heavy investments in process technology &amp; equipment for quality in product and packaging.</i>												
<b>Pro Joiners</b>	90	30%	<i>*Sustained investments in quality &amp; process related technology and equipment.</i>												
<b>Fresh Catch</b>	88	90%	HACCP												
<b>Wine Divine</b>	80	5%	EU QWPSR – DOK; ISO 9001 [Investments in employing professional management]												
<b>Glo Glass</b>	44	40%	<i>*periodic quality &amp; capability related investments in equipment &amp; training.</i>												
<b>Fired Pride</b>	22	15%	<i>*periodic quality &amp; capability related investments in equipment &amp; training. Commenced process for local Malta Enterprise Qualitheme certification.</i>												
<table border="1"> <tbody> <tr> <td>BRC</td> <td>British Retail Consortium Global Standards.</td> </tr> <tr> <td>FSC Cert.</td> <td>Forest Stewardship Council certification.</td> </tr> <tr> <td>HACCP</td> <td>International Food Service Management Institute – Hazard Analysis and Critical Control Point.</td> </tr> <tr> <td>ISO 9001</td> <td>International Organization for Standardization – Quality management system.</td> </tr> <tr> <td>ISO 22000</td> <td>Int. Standards Organisation – Food safety management system.</td> </tr> <tr> <td>QWPSR</td> <td>EU Quality Wine Produced in a Specific Region – Guarantee of controlled origin.</td> </tr> </tbody> </table>				BRC	British Retail Consortium Global Standards.	FSC Cert.	Forest Stewardship Council certification.	HACCP	International Food Service Management Institute – Hazard Analysis and Critical Control Point.	ISO 9001	International Organization for Standardization – Quality management system.	ISO 22000	Int. Standards Organisation – Food safety management system.	QWPSR	EU Quality Wine Produced in a Specific Region – Guarantee of controlled origin.
BRC	British Retail Consortium Global Standards.														
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QWPSR	EU Quality Wine Produced in a Specific Region – Guarantee of controlled origin.														

Source: Author from primary and secondary data

Since internationalisation is an entrepreneurial market-related activity, Goffee's (1996) owner-manager typology, while not specifically associated with family business' international activity *per se*, is also related to individual owner-manager characteristics.

In this regard, *StarSnack*, *SunDeli* and *VegaFont*, all having comparatively more developed control systems, export 50% or more of their sales. While this is a general pattern, other idiosyncratic and SMFB-specific characteristics are involved. For example, with low export levels, novice internationaliser *WineDivine* is a dominant player domestically – with an established set-up and capabilities, it has relatively developed control systems and with a portfolio of quality products has sophisticated market presence. On the other hand, notwithstanding an organic and informal management approach, *FreshCatch* exports large volumes of bluefin tuna. FC<sup>2</sup> also internationalised via joint ventures and FDI. Here, maintaining trust-based contacts and relationships and access to expertise was critical.

## **Entrepreneurial stance, risk-perception and internationalisation**

Internationalization scholars disagree “*to what extent family firms constitute an organizational context that supports or constrains an entrepreneurial orientation*” (Naldi *et al* 2007: 35; Habbershon and Pistrui 2002; Zahra 2005).

Often characterised as conservative (Aronoff and Ward 1997; Kets de Vries 1993; Sharma *et al* 1997), family firms are seen as resistant to change (Hall, Melin and Nordqvist 2001), by extension, less conducive to internationalisation – an entrepreneurial activity (Donckels and Frohlich 1991; Gallo and Sveen 1991). Reasons for this include safeguarding family wealth (Naldi *et al* 2007), lack of managerial capabilities (Gallo and Garcia Pont 1996; Kets de Vries 1993), reluctance to decentralise decision-making, and difficulties recruiting qualified professionals (Fernandez and Nieto 2005). While evidence of most of these conditions and concerns were generally observed to different extents among the SMFBs under study, they mostly nonetheless embraced change and opportunities in their quest for growth and survival.

On the other hand, however, scholars’ empirical research has concurrently also viewed family businesses as entrepreneurial, engaging even in risky projects and ventures (Litz 1995; Hall *et al* 2001; Steier 2003; Aldrich and Cliff 2003; Rogoff and Heck 2003; Zahra *et al* 2004; Zahra 2005). Indeed the Maltese SMFBs under study and their owner-MDs mostly show ample evidence of entrepreneurial activity (see case narratives).

Understandably, increasingly dynamic and uncertain markets require firms to take risks. Researching family businesses, Ward (1997: 323) stresses, “*without risk-taking ... the prospects for business growth wane*”. Cruz and Nordqvist (2010: n.p.) assert “*long-term survival requires ... entrepreneurial activities to revitalise their business and stay competitive. This need is even greater in family firms with a vision to succeed across generations*”. Risk-taking is part of the vision evinced among the Maltese owner-MDs of SMFBs under study. These aspects are discussed further in the next sections.

### **• *Entrepreneurship, attitudes to risk and opportunity***

Entrepreneurial orientation mirrors “*organizational processes, methods and styles that firms use to act entrepreneurially*” (Lumpkin and Dess 1996: 139). Naldi *et al* (2007: 33)

observe that *“risk taking is a distinct dimension of entrepreneurial orientation ... positively associated with proactiveness and innovation”* – especially in SMFB internationalisation (Knight 2001).

Underlining owner-manager attitudes as *“a key issue”* in family business’ outbound internationalisation, Gallo and Pont (1996: 55-58) see conduciveness to internationalization as linked *“more to the capabilities and attitudes of people, or the ‘entrepreneur system’, than to more strategic factors”*. Penn *et al* (1998) confirm the qualities of managers in smaller businesses have more to do with entrepreneurial skills (*energy levels, risk taking, social adroitness, and autonomy*) rather than with general management ability. While these qualities are not incompatible with basic management skills, they do not give (strategic) *planning* and *information gathering* a priority. This also supports earlier observations made in this study.

Supporting the *“central role of cognition and risk perception of CEOs in explaining the implementation of international expansion strategies for their firms”* (Acedo and Florin 2006: 49), the following provide insight into owner-MDs’ perception and attitude to risk. In instances, practical examples of how they faced situations and tackled opportunities, sometimes not immediately apparent, are given:

For example, GG<sup>1</sup> jumped ship and set-up his own business, when *GloGlass* grew lethargic, and he couldn’t push on with ideas:

*“After 1981 there were some movements and changes ... I’d say they were rather negative. In fact [GloGlass] had taken a big blow, in those days. ... in 1982 I left [GloGlass] and opened my own factory.”*

Meantime FC<sup>2</sup>’s impulsive teenage drive seeking opportunities for growth stayed with him in later years:

*“That’s the thing in business – when you’re doing something well, and it turns out well, that’s all well ... I didn’t look at risk too much, even to this day. If you just look at “risk” you won’t work [move on]. If you work for “high risk” the “return” is likely to be higher ... I get into these risks because it’s work that I am knowledgeable about and understand. I know for certain that however bad a card I’m dealt, ... in some way or another I’ll survive – in some way. So whenever we tried to put our hands to something else [outside our main line of business] we always got burnt ...”*

Here, to an extent FC<sup>2</sup>'s reliance on accumulated tacit experiential knowledge plays an important role in mitigating risk. On the other hand this might also be perceived as a 'knowledge corridor' restricting the perceptual scope of potential opportunities (Hayek 1945; Ronstadt 1988). Yet again, not necessarily so. In *FreshCatch*'s case, though fish remained central, FC<sup>2</sup> enterprisingly went from sailing in his own small vessel to barter fish in Sicilian markets to a large-scale Asian joint venture, followed by unrelated investments in seafood processing and later tuna ranching FDI in Cyprus.

A long-established player in the previously protected domestic market, *WineDivine* adjusted to an "explosion" of competition. Commenting that he is not an 'out-and-out' risk-taker, WD<sup>3</sup> takes:

*"calculated risks" [relying on] experience ... failure happens as well from time to time – things don't always go as expected ... However, I quickly sweep it under the carpet, learn what I have to learn from it, and look towards the next objective.'* His own management team confounds him when they "sit not doing anything". *I have no problem with the occasional failure ... however, motion is important – you have to be moving."*

Accustomed to a traditionally stable, protected sector, dominant *ProJoiners*' PJ<sup>3</sup> adjusted to competitive realities:

*'Look here ... you necessarily have to take risks ... circumstances today necessitate it. If you don't take the step, you'd have no chance of moving forward, understand? So you need to be astute enough to learn from your mistakes ... However, I also see it this way – unless you sometimes make mistakes ... you could then be unexpectedly faced with a 'big one' that you wouldn't be expecting. So then, you need to have the courage to move ahead, understand? ... I mean, things come upon you unexpectedly – things that you would have never thought of ... However, ... I think prospects are good. There are still the difficulties – the challenges are great, very great. However, it's not the case for one to give up hope – understand? So I mean, we're always seeing new "openings" thank God. Opportunities that you must take ... You will not always have the financial capability to take them on ... we don't have sack loads of "cash" waiting for us to invest [laughs] ... Notwithstanding you'd know that you'd have to take certain decisions... First of all, you'd need to see [what] the project/process [opportunity is like], understand? Secondly, you need to also have certain means [resources] firstly in people – that's the most important thing. [However,] you cannot get advice on every aspect of a decision, especially on particular sectors, understand? Obviously "you have to brainstorm" with people that are close to you'.*



SD<sup>3</sup> of *SunDeli* has a history of successful diversification into innovative sectors, exploiting opportunities not immediately apparent:

*“Me, I am a “risk taker... I am a risk taker – and that is my business ... A businessman” is one who takes risks. There is a difference between a “gambler” and a “businessman”. I am not a “gambler” ... I have no intention in doing that. However, I am a risk taker – definitely, definitely, every day, I risk – every day, perhaps sometimes too much ... [Int: a ‘calculated’ risk?], always, always, always”.*

For *VegaFont* risk went hand-in-hand with innovation as school drop-out VF<sup>1</sup> started in a tiny garage with a small second-hand ‘block’ press bought with borrowed money. This is what fuelled operational growth in a crowded market:

*“I always tried to do things differently. And when I went up [to the UK] to buy the first [offset press] ... I didn’t have enough money to buy it – so instead I had to buy one that was a bit smaller than that. However, when it came to buying the second one, I said, ‘I want to do something different here – I cannot just do what everyone else is doing’. I upgraded to double the size [with my new machine], and from one colour, I went for two. In those days ... – it’s kind of, [as if] you turned up wearing a “mini skirt”... tongues would be wagging ... I made a ‘noise’. They started saying, ‘this guy’s a mad man, he obviously doesn’t know what he’s doing’ – so much so that even I started [doubting] myself! ... no, no I didn’t have doubts on the decision I had taken, however, even I hadn’t imagined I’d overflow with work and new jobs so quickly ... [smiles]”.*

Playing a key role in rapidly internationalising *StarSnack*, SS<sup>2</sup> also feels comfortable with risk – yet his business degree and quantitative reasoning kick in:

*“Let me tell you, I feel comfortable as long as it is a calculated risk – very comfortable. I sit down on every decision I take ... I always think of the worst case scenario. I’d say, ‘I’m risking Lm50,000’, understand? Now can I afford Lm50,000? ... Now, if I had to lose this Lm50,000, what state would I be in? ... Will I have to pull out of different sectors? Understand? Then you start from there. If you’d say, ‘I can only afford Lm30,000 ... you take a risk of Lm30,000. Ultimately, at the end of the day, ... you’re not wanting to risk in order to lose, rather to make more money – “so Lm30,000 is always the worst case scenario ... understand? And if the blow of the hatchet comes down on me, whether I can withstand it ... That’s it. Then everything else just rolls ... if you’re taking a decision relating to Lm200,000 because you happened to wake up this morning after dreaming of something ... with all due respect, I wouldn’t think your business has much of a future – That’s the truth. I’m not the kind of person that would just [flicks his finger –*

suggesting he wouldn't hazard decisions] ... [Int: Play "Russian roulette"?]:  
*No.*"

Nonetheless, interestingly, SS<sup>2</sup>'s father and *StarSnack* founder SS<sup>1</sup>, was actually one who would on a gut-feel '*wake up one morning after dreaming of something*' to enterprisingly seize an opportunity. Rather than not "*having much of a future*", as his own son acknowledged, his business grew, going from success to success, also internationalising under his watch. While noting that with growth, complexity increases and the potential scope of such approaches lessens, these mind-set differences, including opportunity and risk perception, contributed to attrition between the still active founder and his Managing Director son.

In contrast, *FiredPride*, the smallest SMFB managed by 4 siblings, came across, in words and actions, as markedly risk-averse:

FP<sup>2</sup>: "*We are always cautious – we always kept a step back, as much as possible to ensure that if we can help it, we'd not lose even a 100 pounds. Rather retain them than lose them. However ... there were instances [where we risked and lost money], however, they weren't big affairs, let's say that – such occurrences were minimal.*"

These examples from within-case analysis illustrate accurate portrayals of owner-MDs' strategic behaviour, traced over their respective SMFB's growth and development over time. Next, similar examples showcase, instances of innovation.

- ***Entrepreneurial innovation and opportunity exploitation***

Innovation in organisations "*begins with creative ideas*" (Amabile *et al* 1996: 1154) implemented through the "*Successful introduction of a better thing or method ... the embodiment, combination or synthesis of knowledge in original, relevant, valued new products, processes or services*" (Luecke and Katz 2003: 11), These could be new or improved, enabling organisations to "*advance, compete and differentiate themselves successfully in their marketplace*" (Baregheh *et al* 2009: 1334). Other forms of innovation at firm-level involve business strategies, systems and structures (Schumpeter 1934: 66). Innovation can be incremental or radical. In this respect, to different extents, owner-MDs controlling SMFBs under study necessarily had to innovatively adapt, and sometimes almost reinvent themselves to thrive and survive.

For example, *StarSnack's* founder's (SS<sup>1</sup>) fledgling confectionery import business was stalled in 1974 when strict 'import substitution' policies killed off his enterprise. Through an established relationship, his Irish supplier, introduced him to a "friend", a UK snack manufacturer. A joint venture was established, and SS<sup>1</sup> shifted from importing to manufacturing snacks from a small Nissen hut with 5 employees. Then sales of his bagged snacks "slumped unexpectedly". Laying off all his employees but one, SS<sup>1</sup> got an idea. Through an Italian contact, he imported small plastic toy figures – placed in each bag as a surprise. Sales soared and he never looked back. Later when biscuit imports were banned, SS<sup>1</sup> bought out his hesitant British partners, and invested in biscuit production. He diversified into chocolate and wafer production for similar reasons. Early one-off shipments to foreign lands seeking growth via exports were also an entrepreneurial and innovative approach to the SMFB's *modus operandi*. As can be observed throughout, contacts played a critical role in these crucial events shaping the strategies, performance and survival of these SMFBs. SS<sup>2</sup> his son, stressed:

*"we have to be innovative for the simple reason that we cannot compete in the mainstream markets ... come up with products slightly off-mainstream, ok? In which volumes are ridiculously small, that are of no interest to multinationals, but [smiling] are of substantial volume and value to our customers. Our success [is based on this] – we can produce a product that the "big multinationals" or the "big producers" don't find economically viable to produce."*

SS<sup>2</sup> commented they constantly seek change to pre-empt market dynamics:

*"If it is successful, I would still change the modus operandi in 5 years' time – because change creates challenge. And I think challenge is what people should strive for. ... I'm always looking around to see how I can change things ... I mean how many more "bloody" biscuits are you going to manufacture? [Laughs] Understand? I mean change sometimes brings about a wave of enthusiasm ... Let me tell you one thing, the market changes. Now you're either [going to adapt] – firstly, to be competitive ... you have to make sure that you anticipate, or rather you try to anticipate those trends ... "I would probably say 50% / 50%. I would love to sit here and tell you, 'no, they're all a proactive approach', but I think that would be a bloody lie [laughs]. ... Unfortunately you don't always see things coming to you."*

SS<sup>2</sup> stressed the need for proactivity, persistence, and contacts buoyed by reputation:

*'supermarket buyers don't come knocking on your door... slowly slowly you start building up who's who within a supermarket chain. There are lots of*

*layers, and lots of decision takers. To get to the people who say 'Yes', might take years – ... slowly, slowly you ... build a reputation ... once you penetrate into a market you have 'spill-offs' ... If you have a relationship with the leading supermarket, like 'Auchan' ... it just makes your introduction easier."*

Always driven by SMFBs' owner-MDs, enterprising activity leads to various forms of innovation.

FC<sup>2</sup> (*FreshCatch*) did what was locally unheard of. As noted earlier, he sought to export his and others' catch using his own boat – when such barter was akin to contraband, and the Mafia controlled Sicilian markets. Later he was first to export tuna from the Mediterranean to Japan, striking joint-ventures in Asia. He also diversified into seafood processing, fish farming and bluefin tuna ranching, investing in Cyprus.

Ever proactive, *VegaFont*'s VF<sup>1</sup> seeks new ways and opportunities, taking risks:

*"I've just taken over another factory ... It's going to be "printing" as well, however, it's going to be different to what we're doing here... it'll be a different concept – rather it's not the concept that's different, however, it's the [export] market that we're going to target and attack that's different ... Ehh, and it's as I always told you – I think one of my strengths is that I always – mmm, looked ahead – you think "outside the box" right? ... always, ever since I was young, I took calculated risks. I never went in for something and said, 'then we'll see what'll come out of this' ... I'd say, 'in a worst case scenario "I will survive. I will struggle but I will survive"'. So I mean I always did things this way. And "obviously" kept moving ahead."*

Asked directly about innovation, VF<sup>1</sup> said:

*'innovation for me is, everything you're doing today, you'd do it better tomorrow ... I've invested a lot into it. That's why one visits [international] fairs – for every [new technology presented], you'd say, 'look, with this I'd have more "accountability", here I'd have "improvements". Again, with respect to innovation,, what gives me satisfaction is – that everything... whatever I'm doing this year, my goal is to do it better next year. And for me, everything that I improve upon is innovation – in itself.'*

Bidding for large contracts and projects, *ProJoiners*' PJ<sup>3</sup> leveraged contacts with local arch-rivals and international suppliers striking joint ventures to offset size and resource limitations. This enabled PJ<sup>3</sup> to take on lucrative export projects. When international retail sales picked up, PJ<sup>3</sup> didn't hesitate to register a company in UK to facilitate business, or

open a sales office in Libya. Together with a long-time Italian contact, PJ<sup>3</sup> more recently diversified into computer software and training – targeting Saudi markets with his SMFB’s experience, tacit knowledge and proprietary “know-how”:

*“In our product there’s always a certain kind of innovation. Now if we’re talking of technical innovation ... that’s something we always kept working on. Machinery understand? Ways by which we calculate employee’s jobbing time ... there’s “data” continuously being entered, to calculate expenses of every product. That’s innovation in a sense. Then there’s innovation in product development. Obviously we ... keep an eye on new and emerging “trends” – by going to fairs [Cologne and Milan, China, Singapore], we read industry and market literature ... Then internally we develop our products in line with what we think the demand is like or might be like. At the moment we’re developing our “design department” – because it is also requested / required ... we are developing the ‘contract’ business ... to serve our client and provide him with a “turnkey product” from the perspective of the design process too. This market is also establishing itself locally, certain well-off individuals might want to develop and design their homes in a particular way – and it’s quite a lucrative market ... we’re going to set up a new showroom in Hal-Qormi ... mostly modern furniture – which we produce as well as import – to “diversify” the “outlook” people have of [ProJoiners], their perception, that with [ProJoiners] you’re getting something that’s necessarily traditional. We don’t want to stay there ... Alas, sometimes it’s reactive ... ideally, you’d be “proactive” ... Well, I’d tell you it’s impossible ... [to be proactive all the time]... it’s a bit” too much to be innovative, completely, to that extent. Locally, in the market we were always innovative.”*

At SunDeli innovation resuscitated the failed SMFB. Forging alliances with hundreds of farmers, SD<sup>3</sup> extended operations throughout the year (from 3 months) and diversified into tinned products and fruit beyond tomatoes. Investing in technology, he sought McDonald’s regional supplier status for ketchup. As exports to large private label clients increased, contacts underlined by trust, reputation and referrals always played a central role. Process innovation, BRC and ISO accreditation were a must. SD<sup>3</sup> earned both Sainsbury’s recognition as “Centre of excellence” against which its suppliers benchmarked themselves, as well as Asda’s ‘Best new production facility’ award. More recently SD<sup>3</sup> invested in EU-certified organic production capability. From tomato sauce SD<sup>3</sup> diversified into other table sauces and fruit desserts. He franchised abroad his own range of premium, artisan Mediterranean delicacies, condiments and sensory accompaniments – taking him as far as Buckingham Palace and an appointment with the Duke of Edinburgh. German and Australian franchising agreements were borne through contacts with Maltese émigrés. Recently he branched into the crowded local dairy market with premium products based on forgotten traditional recipes. Over the years SD<sup>3</sup> set up a small in-house ‘laboratory’ to

assist in experimentation and developing new researched products. Through contacts he joined UK-based CCFRA research and development organisation offering expertise and R&D services to its members. SD<sup>3</sup> “*continues to seek self-improvement and higher quality standards, innovation and aggressive growth – particularly in international markets*” ... “*leveraging the family business’ core competencies and resources*”.

Asked whether international opportunities were *ad hoc* initiatives or reactive unsolicited approaches, SD<sup>3</sup> stressed:

*“In this sector you have to do the chasing ... you have to keep knocking and knocking – knocking on doors. Then when an opportunity arises you have to be ready, wherever it comes from, to jump on it. Yes, you need to be vigilant – to seize it. Half the game is being prepared. “Let me tell you the sauce or ketchup sector is like a ‘club product’, a closed circuit ... like a British gentleman’s club. The food and sauces business is very fragmented, to succeed you need experience, time and as they say in Italian ‘tenacità [tenacity]. Yes, ... to not give up – you need experience and time – persistence, persistence ...”*

Innovation first brought *WineDivine* into the mainstream a generation ago – investment in a bottling production plant increased the scale of its product and its delivery. Housewives could then purchase wine from retail outlets rather than ferry wine over by the quart from village bars. Recently, WD<sup>3</sup>’s innovation, allying with hundreds of farmers, enabled *WineDivine* to enhance the supply and quality of grapes – leading to product innovation. Asked whether the industry is innovative, WD<sup>3</sup> replied that “*traditionally the industry was not innovative*” – however, lately, due to competition and New World wines, it’s become “*increasingly innovative*”. WD<sup>3</sup> claims *WineDivine* is innovative “*spearheading the industry ... placing Malta on the world map for the best quality wines in the Mediterranean region*”. WD<sup>3</sup> believes that “*government bureaucracy is number 1*” obstacle to development and innovation – losing SMFBs contracts and access to EU funds.

At smaller *GloGlass*, GG<sup>1</sup> incessantly seeks new ideas and opportunities. Investing in new furnaces and technologies he upgraded quality of his materials, travelled and trained to hone his artisans’ skills. From touristic souvenirs to targeting the premium artistic glass domestic market, he diversified into tableware, *objets d’art*, jewellery, light fittings and architectural pieces. He started taking on custom and commercial projects, roping in designers. Once an idea is hatched, experimentation is undertaken in-house with available

resources – relying on experience, and innovatively embracing what Frank Kermode (1991) would call “*the uses of error*”:

*‘You learn through mistakes. You’d be surprised, sometimes, things that work out for us and are a success – such as design – would have started from a mistake. ... We are not accustomed to stopping the process and throwing something away ... we continue it and come up with something. You’d be surprised how many new designs and innovations come about this way. These are factors whereby one can come up with something new.’*  
(GG<sup>1</sup>)

Faced with recurring technical problems developing a new product, GG<sup>1</sup> established contact with University chemistry lab – problem was resolved. GG<sup>1</sup> also leverages his close relationship with foreign supplies when needed – always a source of insight and knowledge on opportunities, technical issues and international business facilitation. In an ideal world GG<sup>1</sup> would like an additional furnace as a lab “*to stay experimenting with ideas I always had and never found the time to explore ... during “production time ... until some time ago, I had a furnace at home in the garage. I used to go down there and stay experimenting”*. Travelling, fairs, maintaining relationships with foreign suppliers and producers, and scouring the internet are a “*good source of ideas*” for product development:

*‘I was in Brescia [Italy], at this art exhibition ... works by Van Gogh, Rodin and so on ... seeing these works of art, I start wondering how I can ... integrate these ideas into our products. ... we’d get a Van Gogh piece, and we [juxtapose] an Mdina landscape scene with [it]. ... techniques Van Gogh used when he paints the sky ... it works well in glass ...’*

GG<sup>1</sup> considers his firm “*very innovative I would say ... because ... the future, the way I look ahead and picture where we want to get to*”, but cites finances as the greatest obstacle to development and innovation:

*“In Italy ... factories have laboratories to analyse the quality of glass they are using, what’s best ... they experiment, understand? ... we experiment... you cannot say we don’t ... not as sophisticated. This is something one must [look into]. ... research and development for your company’s future – spend time experimenting ... for example, ... in fused glass you cannot say that we have scores of experience ... been in it for 5 years, although we’ve advanced a lot in this line of work – however, what happens? When you have ... problems ... something that is not coming out well or is breaking ... if you can ... analyse what is going on scientifically ... experimenting would not hinder or get in the way or production. You’d have a dedicated facility for this.”*

Given limitations, GG<sup>1</sup>'s recourse is then leveraging contacts in the know: “[I] *have a good relationship with a fellow producer [abroad], I would go up to him and ask,*” *‘listen I’m encountering this problem – how do you think I may be able to solve it?’*

At smallest *FiredPride*, ceramics innovation is ‘reactionary’, evolving in response to changing externalities. Still, they received an ‘Achievement in Industry Award’. Yet their protracted 7-year project, refurbishing facilities in the run-up to EU accession saw them lose focus of the market. On EU accession they redirected, upgraded to hand-crafted artisan wares, investing in prime retail locations – including the affluent cruise-liner terminal. Italian master artisans, through their supplier, came over to train *FiredPride*’s craftsmen in new techniques:

*“Italians are advanced and knowledgeable nowadays in our industry. They’ve been in this business hundreds of years ... they’re people that help you. They don’t keep information back and treat you as a potential competitor, they share their knowledge. Anything we ask them they give us.”*  
(FP<sup>2</sup>)

The restrictive domestic market turned out small volumes for their new flagship products, and exports picked up very slowly. Competing imports, however, eroded their traditional sectors. FP<sup>2</sup> and his brothers travel to “*fairs and exhibitions*”, seeking opportunities:

*“We imported some designs and patterns for ourselves, and we moved – we’re moving from one thing to another ... We want to do many things with our ideas. There were moments where they were a success and others ... when they failed. One would wish to be successful in everything they’d do. However, the misfortune that we see is that, we come out with particular designs and colours on our products – and we’d anticipate that we’d do well with that product ... ideas hatched from our own imagination. ... And we didn’t do well ... we didn’t do well. And we kept asking, ‘but what do they want? What’s wrong with our product? Is the painting or design not right?’ The “tastes”, the “tastes” were not there. It’s not what you like – it’s what the market and consumers like that counts. ... We are not happy nowadays – we are not happy with our ideas, because they are not the 100% success that we’d like...”*

*FiredPride*’s brothers diversified, opening a restaurant. In 2009, “*a tremendous level of competition*” bore down and the four siblings split two-ways. Both parties retained a



ceramics connection, each with their take on how best to face an increasingly challenging market.

Drawing from extensive qualitative within-case analysis based on direct interrogation as well as observation and detailed examination of business activity over time, Table 7.12 consolidates the above discussion and analysis across SMFBs (cf. Dimitratos *et al* 2010). It provides indicative evidence observed along the three factors examined here underlying entrepreneurial orientation (Lumpkin and Dess 1996): comparative willingness to engage in *risk-taking*; comparative extent and inclination to *innovate* and the current extent of *proactivity*. Each is respectively attributed ‘low’, ‘moderate’ or ‘high’ evidence. The end column consolidates evidence of the three factors comparatively reflecting on the extent of the owner-MDs’ overall entrepreneurial stance based on consolidated evidence.

**Table 7.12 – Owner-MDs' entrepreneurial stance**

	<b>Risk-taking</b>	<b>Innovation</b>	<b>Proactivity</b>	<b>Overall entrepreneurial stance</b>
<b>GloGlass</b>	Moderate	High	Moderate	Intermediate
<b>FreshCatch</b>	High	High	High	Higher
<b>WineDivine</b>	Moderate	Moderate	Moderate	Intermediate
<b>FiredPride</b>	Low	Low	Low	Lower
<b>SunDeli</b>	High	High	High	Higher
<b>ProJoiners</b>	Moderate	High	Moderate	Intermediate
<b>VegaFont</b>	High	High	High	Higher
<b>StarSnack</b>	Moderate	High	Moderate	Intermediate

Source: Author, consolidated from within-case analysis

Besides personal characteristics, entrepreneurial behaviour also depends on ‘behavioural intentions’ and “*volition*”. It is also influenced by other external elements and extent of resources at one’s disposal (e.g. in providing a fall-back safeguard) – including tacit resources, such as experience and integration in networks with contacts having relevant knowledge for business facilitation, mitigating risk-perception and enhancing capability.

Additionally, owner-MD autonomy, another factor underlying entrepreneurial orientation (Lumpkin and Dess 1996) was also strongly evinced across all SMFBs with the exception of *FiredPride*. While father-son dynamics occasionally came into play at *StarSnack*, effective autonomy in direction and entrepreneurial activity was clearly still evident. Thus the owner-MDs were capable of, and observed as acting swiftly to exploit perceived international opportunities. Their central role gave them “*freedom to act independently, make decisions on internationalisation and implement them*” (Dimitratos *et al* 2010: 596).

Table 7.13 below aligns the comparative evaluation of the owner-MDs’ entrepreneurial stance with other potentially associated characteristics discussed and examined previously.

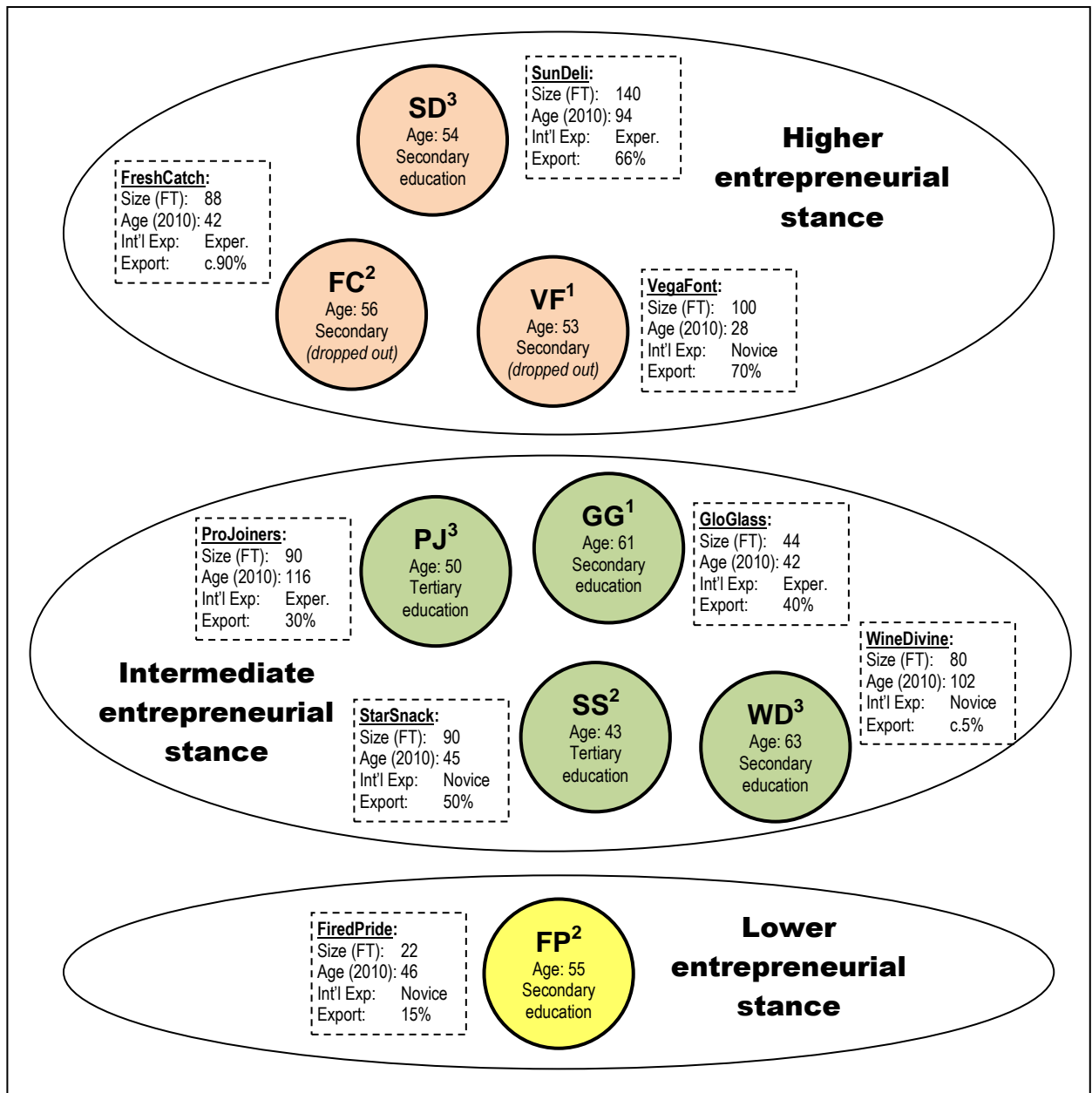
**Table 7.13 – Owner-MDs’ entrepreneurial stance & potentially associated characteristics**

Entrepreneurial stance evidence	MD & gen.	Owner-MD		SMFB			
		Age	Education	Size (FT)	Age	International experience	Exports %
Higher	SD <sup>3</sup>	54	Secondary + Dip	140	94	Experienced	66
Higher	VF <sup>1</sup>	53	Secondary (drop. out)	100	28	Novice	70
Higher	FC <sup>2</sup>	56	Secondary (drop. out)	88	42	Experienced	c.90
Intermediate	PJ <sup>3</sup>	50	Tertiary	90	116	Experienced	30
Intermediate	SS <sup>2</sup>	43	Tertiary	90	45	Novice	50
Intermediate	GG <sup>1</sup>	61	Secondary	44	42	Experienced	40
Intermediate	WD <sup>3</sup>	63	Secondary	80	102	Novice	5
Lower	FP <sup>2</sup>	55	Secondary	22	46	Novice	15

Source: Author, consolidated from primary data and within-case analysis. Age as at 2010

Figure 7.5 below offers a graphic representation of the table above, indicating the 3 clusters, arranged in ‘High’, ‘Intermediate’ and ‘Low’ comparative extents for owner-MDs’ entrepreneurial stance. It also aligns each with other characteristics, both personal and organisational, analysed and discussed earlier – that are commonly associated with entrepreneurial activity.

Figure 7.5 – Owner-MD entrepreneurial stance clusters



Source: Author. Consolidated from primary data and within-case analysis

Up front, there does not seem to be clear association between the owner-MDs' entrepreneurial stance and characteristics such as generation, education, or SMFB age. There does, however, seem to exist a linkage with organisational size – associated with resource availability. The larger SMFBs' owner-MDs are observed as having a 'Higher' entrepreneurial stance, while at the smallest, *FiredPride*'s directing siblings, collectively come across as having a 'Lower' entrepreneurial stance. That said, GG<sup>1</sup> driving one of the smallest SMFBs, *GloGlass*, still projected a considerable entrepreneurial stance comparable to the larger SMFBs. Yet here, personal entrepreneurial characteristics associated with

“*volition*” (Jones and Coviello 2005: 299), tact and leveraging contacts to gain access to resources were vital.

Beyond emphasis on physical resources, detailed qualitative analysis showed that FC<sup>2</sup> and VF<sup>1</sup> for example, proactively embarked on what was perceived as unconventional and highly risky, innovative ventures – from the outset, when they were starting off with nothing, comparatively very little experience and in highly unlikely circumstances. This emphasises the primary importance of – all else being equal – the owner-MD’s personality and attitudinal characteristics – sheer will and “*volition*”. From qualitative observation, it seems that various idiosyncratic factors collectively shape the owner-MDs’ entrepreneurial stance and activity. Circumstance would have played a part – however, alertness, and actively interacting in environments conducive to opportunity, sometimes leads to being ‘in the right place at the right time’, and the ability to recognise and identify a potential, perhaps ‘serendipitous’ opportunity. Does luck play a role?:

*“Definitely. There’s no doubt about that [luck and being at the right place at the right time are important for international businesses opportunities]. Always, they [serendipitous opportunities] are always “aided by contacts”” (PJ<sup>3</sup>)*

When asked specifically on this, SS<sup>2</sup> (*StarSnack*) also replied:

*““Definitely. Success comes with perception, all right – because you have to perceive where you want to be for the stroke of luck to happen. So you have perception, and an element of luck – and an element of business acumen once you hit that luck. ... So I mean, it’s a combination ...then it [depends] how able you are in exploiting the opportunity that arises.”*

This was also directly reflected elsewhere by WD<sup>3</sup>, FC<sup>2</sup>, SD<sup>3</sup> and VF<sup>1</sup>:

*“a little bit of luck never hurt anybody ... [however] ... Let’s face it, things happen with hard work” (WD<sup>3</sup>);*

*“there’s an element of luck and you must seize the opportunities too” (FC<sup>2</sup>);*

*‘I was lucky I would think in those days. “Lucky” more than anything else ... I’d confess with you, it’s not because I actually thought of it – it’s because “being on an island”, you cannot operate as they do abroad – so you kind of have to cater for everything.’ (VF<sup>1</sup>).*

## Family business entrepreneur type

To a certain extent, similar observations are made in analysis, with respect to Donckels and Frohlich's (1991) family-business, owner-MD entrepreneur types based on attitudes. These built on earlier STRATOS<sup>40</sup> research considering entrepreneurial attitudes such as "willingness to change" and "taking risks" (Pichler 2007: 103; see also Frohlich and Pichler 1998: 63):

- Pioneers – "*distinct openness to change and risk*"
- Organizers – "*more pronounced administrative-executive strengths*"
- Allrounders – "*jacks-of-all-trades, without really outstanding strengths*"
- Routineers – "*representing the more traditional, risk-averse 'rentier'*<sup>41</sup>"

These owner-MD types, integrating perspectives of risk-perception and innovation conduciveness as presented by Donckels and Frohlich (1991) can be seen in Figure 7.6. This positions the owner-MDs into type categories integrating perspectives of risk-perception and innovation conduciveness. Here, one considers the "*dynamic*" (i.e. *pioneering*) type as distinct, by comparison, from the more 'tidy' (i.e. *administrative-executive*) Organizer" (Pichler 2007: 105).

As before, drawing from rich qualitative data and consolidating within-case analysis, including direct interrogation, observation, and examination of the SMFBs' development and business decisions taken over time, owner-MDs are respectively positioned on Donckels and Frohlich's (1991) 'owner-MDs' entrepreneur type' matrix (Figure 7.6) below.

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<sup>40</sup> Strategic Orientations of Small- and Medium-Sized Enterprises project. It covered 1,132 companies in eight European countries, also focussing on small-scale family businesses.

<sup>41</sup> Rentier – reliant on income deriving from economic rents rather than value generation from entrepreneurial activity.

Figure 7.6 – Owner-MDs’ entrepreneur type (Donckels and Frohlich 1991)

		Dynamic - Creative	
		Weak (-)	Strong (+)
Administrative - Executive	Weak (-)	<p><i>“the least spectacular... generally representing the cautious entrepreneur”</i></p> <p><b>Routineer</b></p> <p>FP<sup>2</sup> (<i>FiredPride</i>)</p>	<p><i>“the dynamic-creative one ... like Schumpeter’s ‘innovator’”</i></p> <p><b>Pioneer</b></p> <p>FC<sup>2</sup> (<i>FreshCatch</i>)            SS<sup>1</sup> (<i>StarSnack</i>)*            VF<sup>1</sup> (<i>VegaFont</i>)            GG<sup>1</sup> (<i>GloGlass</i>)</p>
	Strong (+)	<p><b>Organiser</b></p> <p><i>“Administratively-oriented, executive entrepreneur”</i></p>	<p>WD<sup>3</sup> (<i>WineDivine</i>)            PJ<sup>2</sup> (<i>ProJoiners</i>)            SS<sup>2</sup> (<i>StarSnack</i>)*            SD<sup>3</sup> (<i>SunDeli</i>)</p> <p><b>Allrounder</b></p> <p><i>“Versatile, universally responsive and adaptive entrepreneur”</i></p>

Source: Author’s analysis based on Donckels and Frohlich (1991). Consolidated from within-case analysis.

Again, a developmental pattern is evident, with owner-MD types moving from ‘pioneer’ characterised by strong dynamic-creative, and comparatively weaker administrative-executive characteristics ... towards the ‘allrounder’, typified by strong dynamic-creative characteristics and comparatively stronger administrative-executive capabilities. While a highly competitive environment requires that owner-MDs be enterprising, creative and dynamic in responding to shifting market forces, comparative differences in administrative-executive capability were observed.

In their quantitative study, Donckels and Frohlich (1991: 158), observed the tendency that *“Family business managers are less often pioneers, but more often all-rounders and organisers”*. Yet based on qualitative investigation, three, FC<sup>2</sup>, VF<sup>1</sup> and GG<sup>1</sup> broadly classified as ‘pioneers’ – primarily distinguished from ‘allrounders’ by lesser administrative-executive capability<sup>42</sup>. SS<sup>1</sup>, *StarSnack*’s founder and SS<sup>2</sup>’s father also

<sup>42</sup> The fact that Donckels and Frohlich’s (1991) research included larger businesses, employing up to 500, in specific manufacturing sectors (clothing, food and electronics) may have influenced results. Also, their research involved a comparison between family and non-family firms. However, their research supported a commonly held understanding derived especially from quantitative research that family businesses tend to be

classified as ‘pioneer’. Enterprising and having comparatively stronger administrative-executive skills, are WD<sup>3</sup>, PJ<sup>2</sup>, SS<sup>2</sup> and SD<sup>3</sup>, classified as ‘allrounders’.

Differentiating among the two clusters, it is noted that ‘pioneer’ owner-MDs tend to be founders or 1<sup>st</sup> generation owner-MDs, heading younger SMFBs. As observed earlier, FC<sup>2</sup> could also be considered founder of his organisation in its current form. This cluster was also the least qualified vis-à-vis formal education. On the other hand, the ‘allrounders’ were 2<sup>nd</sup> and 3<sup>rd</sup> generation owner-MDs heading generally longer-established, older SMFBs – which also tended to be larger. They also included 2 graduates (SS<sup>2</sup> and PJ<sup>3</sup>) and a diploma-holder (SD<sup>3</sup>), while WD<sup>3</sup> dropped out early from a BSc degree programme – possibly influencing administrative-executive capability in comparison to ‘pioneers’. This is in line with the developmental pattern observed.

Nonetheless, ‘pioneers’ relied on family, and other human resources and contacts to ‘*somewhat*’ help enhance their capability. For example VF<sup>1</sup> seeks to employ “*thoroughbreds*” and qualified professionals – his own daughter has recently graduated. FC<sup>2</sup>’s daughter is reading law, while his son is pursuing entrepreneurship postgraduate studies in UK – they occasionally help out. FC<sup>2</sup> also consults his network of business peers and professionals. One of GG<sup>1</sup>’s daughters is a commerce graduate, while SS<sup>1</sup> handed over to his UK business graduate son. It was suggested that these resources ‘*somewhat* help enhance their capability’, since at times due to the owner-MDs centralised control and paternal attitude, across the board it still remains a case of “*what I say goes*” (WD<sup>3</sup>) – the undisputed boss – yet it is an available resource, the owner-MDs can consult and dip into when required. After all, “*for me [GloGlass] is my life, I mean I’m 100% committed*” stresses GG<sup>1</sup> – a sentiment echoed among other owner-MDs. Otherwise management functions are generally still characterised by their informal nature, comparatively unstructured and typified by an organic management style (Daily and Dollinger 1992), “*a heavy emphasis upon informal, adaptive and flexible work practices*” (Goffee and Scase 1991: 337). These owner-MDs and their SMFBs generally “*make decisions, invest in projects, and pursue new ventures in a more informal, intuitive, and less calculated way*” (Naldi *et al* 2007: 41), often “*reluctant to delegate control to management staff and technical specialists ... [striving] to retain close personal control with minimum delegation*

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less dynamic and risk-averse. Irrespective of the fact that Donckels and Frohlich’s (1991) research compared family vs non-family firms, a family business owner-manager characterised by dynamic risk-taking behaviour and lesser administrative-executive capabilities would nonetheless, have irrespectively been categorised as a ‘pioneer’ in their research.

... attempt[ing] to maintain an extensive personal involvement in all aspects of decision making despite substantial business expansion” (Goffee and Scase 1991: 339). With further growth and complexity, competitive market dynamics and internationalisation, this becomes more challenging and potentially restricting.

Among the ‘pioneers’ GG<sup>1</sup> runs the smallest SMFB – with implications on resource availability, especially finances, the other ‘pioneers’ head substantially larger organisations – suggesting other variables considerably influence such a management culture. In the case of ‘routinier’ FP<sup>2</sup>, *FiredPride* is the smallest overall, and is resource-deprived. The siblings’ consensus-driven management style resulted in risk-averse and reactive ‘lowest-common-denominator’ decision-making approaches to market dynamics. Coupled with their administrative style in organising their 22 employees resulted in “*the least spectacular ... cautious*” behaviour (Donckels and Frohlich 1991: 155). During later stages of this research, these siblings split the business into two.

Recognising founders / owner-MDs as central to family businesses’ strategic direction, culture and success (Sorenson 2000; Zahra *et al* 2004; Donckels and Frohlich 1991; Schein 1983; Dyer 1986, 1988), Dyer (1988: 39) identified four types of family business cultures relating to different assumptions about human nature, relationships and the environment (see also Sharma *et al* 1997, and Penn *et al* 1998):

- *Paternalistic* management culture (decisions made by senior individual),
- *Professional* management cultures (decisions made by senior staff),
- *Participative* management culture (decisions made collectively),
- *Laissez-faire* management culture (use of formalised plans / extent of non-interference).

Among the SMFBs under study a ‘*paternalistic*’ management culture prevailed (Dyer 1988). Based, however, on trust-based relationships and a sound rapport with employees. While insight from family or non-family management may be garnered, decision-making firmly remained the sole prerogative of the owner-MD. SS<sup>2</sup> was inclined towards eventually delegating some decision-making to a professional management team he was building – yet this was never fully materialised, and SS<sup>2</sup> eventually departed – his patriarch father resuming the helm. SD<sup>3</sup> also mentioned the possibility of eventually transitioning executive management away from the family onto some professional board. Yet as self-proclaimed “*padrone*” SD<sup>3</sup> remained firmly instated – rather, he appointed his young



graduate son as director, nurturing him to learn the ropes in management. It was amply evident in analysis that the SMFBs' were an extension of their founders' or owner-MD's own persona. The exception was *FiredPride*, where an extent of decision-making was undertaken collectively among siblings running this smallest SMFB.

Wrapping up internal factors influencing internationalisation – owner-MD's entrepreneurial nature and “*volition*” were crucial across all SMFBs in steering their organisations and alertly identifying and exploiting opportunities. Indeed, Gallo and Pont (1996: 55-56, 58) observed that the family businesses' conduciveness “*towards internationalization is tied more to the capabilities and attitudes of people, or the 'entrepreneur system', than to more strategic factors*”, the attitudes of the owner-manager are “*a key issue*” in outbound internationalisation.

Though resources such as finance, technology and equipment were necessary and desired, particularly in seeking international business with larger corporate foreign clients, SMFB's competitive edge derived from more tacit resources – including a dynamic and flexible capability, also drawing from investments in equipment and skilled committed employees but above all the owner-MD's experience and social approach; trust-based relationships and social rapport; and reputation – begetting legitimacy, trust and referrals.

Indeed, while lauding the *fortes* of family businesses' resilience steadfast determination in pursuing long term objectives, PricewaterhouseCoopers' (2007:3) large-scale international survey stressed most entrepreneurial family business owner-managers “*do not have time to look at the big picture; they are too busy grappling with the day-to-day demands of their own businesses. And most economic commentaries are directed at large quoted companies anyway, so getting the right information can be hard.*”

## **7.5 SMFBs' outward internationalisation processes: Analytic overviews**

What is presented here is an analytic overview of these SMFBs' internationalisation process. This has, in some respects, already been partially discussed.

Key relevant factors analysed here relate to *when* the decision was taken to internationalise or enter foreign markets (timing), *how* these SMFBs internationalised and entered foreign markets (mode), and *what* markets these SMFBs entered (location).

The *when*, and associated *why* for internationalisation has already been discussed – detailing the SMFB’s timing and age at internationalisation with respect to internal and external environmental and developmental contexts – triggers and motivations. So was the pace of internationalisation, distinguishing among the INV, ‘born-again internationals’, and incrementally internationalising SMFBs.

### **7.5.1 SMFBs’ internationalisation timelines**

This section provides an overview of the respective SMFBs’ internationalisation timelines – examining into *what* markets they entered, *when* and *how* they internationalised. Drawing from multiple primary and secondary data sources, it presents an overview of each SMFBs’ internationalisation over time drawn from analysis. While key internal and external events are concurrently indicated, more detailed information on each SMFBs’ internationalisation are found in the within-case rich, descriptive narratives from which these timelines derive. Generational change in management control is also indicated in the timelines (Timeline 7.1 through 7.8) that follow.

## Timeline 7.1 – GloGlass: Outward internationalisation chronology and key events

### GloGlass

First exports after 2 years in operation (founder)

#### Outward internationalisation chronology

◀ = Change at helm

#### Select key events

1968. Given incentives, **British** founders set up 1<sup>st</sup> glassmaking factory on island. Fledgling tourism seen as opportunity. GG1 among very 1<sup>st</sup> few employees. Glass popular with tourists substantial indirect export - mainly to **UK**.

1971. Govt change, import substitution. Two **Italian** maestros poached from **UK** to introduce Italian artisan craft. 1972 Malta independence & political pressure see founder leave for **UK**.

1982-1984. Econ downturn & uncertainty. Negative upheaval at Co, GG1 leaves & starts new rival Co.

1985. Remaining founder intent on leaving Malta goes to GG1 who buys out Co. M'time tourism starts to grow. Foreign experts brought in & employs 25 in blowing. Invests in furnices &

1987. Govt change import subst. removed. Int'l Award for Tradition & Prestige in **Brussels**.

1992. Prod changes to higher quality raw material imported from **Italy & Holland**. Wins award *Malta Achievement in Indust.*

1996. Eldest daughter joins helping in sales & exports. Strategically diversifies into premium artistic glass. 1997. Intro fusion glass to Malta. Int'l comp from **Far East** grows.

1999/2000. 2nd & 3rd daughters join in retail & prod develop. 2001. starts int'l fair drive.

2003. Engages designers. **Italian** techniques incorporated. Opens retail galleries & launches website.

2004. Malta joins EU.

#### Export and other outward internationalisation activity

1968-1970. "Although not necessary for survival", immediately upon setting-up Co Harris & Dobson seek internationalisation opportunities. In 1968 sent samples to **Italy**. Immediately started participating at int'l fairs (inc. **UK**) - a "a good contact relationship" led to dabbling in exports to **USA** - short lived.

1971-1985. (14 yrs). Following from an earlier contact established previously at a fair, starts 1st regular exports through **Dexon, UK**. For many yrs remains key export market - until 1985 when GG1 takes over & exports to UK discontinued.

c.1974/75. >70% of production sold to tourists in Malta. 30% being exported (**UK**).

1976-1984. (8 yrs). Starts 2nd regular and sustained export venture to **Germany** via *Top Trade*. Requires product modification for new foreign market. Relationship and exports last till c.1985.

1983. Seeking new opportunities during economic downturn, tentatively exports to **Japan** - but this is a short lived experiment. (During this while GG1 not at Co.)

1987. Exports to **France**. Businessman on holiday in Malta seeks out GG1 afterwards. Strong personal family relationship est. Activity lasts some 5 years.

c.1992/93. Exports to **Greece** start - strong personal relationship fostered.

1994/95. After 10 yr absence (since GG1 took over), recommences exports to **UK** market. 'Stock Pot' Director seeks GG1 in Malta "he was very interested and we started off with them - now we've been with them all this time" [Int end 2006]

During that period GG1 was [proactively] trying to get into the **Italian** market. GG1 has been wanting to try to tap this market - yet difficult to penetrate since Italians are reknown master craftsmen in glassworks.

1998. Starts exporting to **Holland**.

2000. Starts exporting to **Spain**. Gains new clients in **UK** and **Cypriot** markets.

2002. Starts B2B contract works. Commissioned for locally-based Corinthia Hotel works in Tripoli, **Libya**.

2003. New int'l markets such as Hungary and Russia being targeted.

2006. Tourism 50% of sales. Exports c.35%. Exports primarily to: **Greece** (50%), **UK** (25%), **Holland** (12%) and **Cyprus** (12%). Expects growth in Cyprus. Exploring prospects for exports to **Russia, Canada, Spain, Poland** and **USA**. Wants to penetrate new markets via contacts from Birmingham int'l fair. Seeking to penetrate **Dubai** [Int 1; TOM; TMI].

2006. Related to EU accession, **Thai** company with a regional base in **Spain** (EU) contacts GG1 and submits initial order for export to **Thailand** [Int 1, 26].

2007. Exports c. 45% of business (+10% increase since 2006 - due to Cyprus). **Canadian** Co selling GG glass items via website. Employs 44 people and opened retail outlet in **Cyprus**. Regularly exports to: **UK, Holland, Spain, Greece** and **Poland**.

2008. Global econ recession underway. Exports c.30% of its products (about same level as 1974/75. Also; Domestic sales growing). Employs 45. Primarily exporting to: **UK, Greece, Holland, Cyprus, Spain** and **France**. [PN; TOM; TMI]

2009/10. **US** website *Malta Imports* promoting & selling GG items. Recession, many enquiries yet no sales. Maltese emigre. Later, another new more comming "exclusive" relationship & alliance with another Maltese emigre in **US, California: Mdina Glass North America**. Business is internet-based retail. [Int 4 & emails].

2011. Arrangement with **Australian** specialist importer & dist. *Simply European* from April 2011 sees GG glass for sale in Australian retail outlets [SE site].

## Timeline 7.2 – FreshCatch: Outward internationalisation chronology and key events

### FreshCatch

First exports after c.7 years in operation (2nd gen.)

#### Outward internationalisation chronology

◄ = Generational change at helm

#### Select key events

c.1968. FC2 & sibling dropout from school & join their father selling his catch [Int 1]

1970s. FC2 pioneer in popularising fish as an item on restaurateurs' menus locally, starts importing fish as well as eventually buying forward other local fishermen's catches.

c.1980/81. Malta govt requires Japanese power station outlay be offset by exports to **Japan**. Prized tuna. Japan tuna corp visits Malta - "caused many problems". Govt in talks w *FreshCatch* to poss coordinate ops & export [Int 1].

1994. Delt "bulldozer" blow: **Japan's** econ collapse. Fish prices ↓ 50%. LM1m loss due to pre-established forward contracts w Maltese fishermen [Int 1].

2001. Loses Govt. tuna export tender to int'l competitor **Ricardo Fuentes - Spain** [MBW]

2002. Buys Malta-based aquaculture Co run buy **Stirling Uni, Scotland**. Inc. EU compliant grading & packing facility.

2004. Malta joins EU. Invests - now owns & operates deep sea trawlers for prawns, cod & octopus.

2006. **German** client (Cologne) fails to pay - €180,000 lost [Int 1/Up] Malta hosts large int'l aquaculture conf.

2007. Prep for attending **European Seafood Exposition** - one of biggest world-wide. Important: "thousand contacts maintaining personal relationships" [Int 1].

2008. Amid tuna overfishing concerns, Greenpeace raids FC's stand at seafood expo in **Brussels**. Attends **Algeria** delegation .

#### Export and other outward internationalisation activity

c.1975. FC2 (24 yrs old) starts exporting swordfish to **Italy** (*ad hoc*) setting sail using own fishing vessel. Considers this as 1st episode of exporting . FC2 says he started importing and exporting at about the same time - "import and export go hand-in-hand". Ventures off to sell swordfish in Lampedusa, Italy via barter – brushes with Sicilian Mafia [Int 1]. *Ad hoc* exports to countries around Mediterranean basin - often Southern Italy.

1989. "Japanese market starts being tapped". FC2 actively exporting tuna to **Japan**. "We were the first people in the Mediterranean that exported tuna to Japan". [Int 1 / FF]

c.1990/91. Started exporting to **Libya**. Opportunity arises from Malta-based, international hotel chain's project development camp in Libya. Corinthia is mostly Maltese-owned. Exporting c. Lm100,000 pa [Int 1].

c.1999. FC2 establishes "a partnership with a **Korean** and a **Japanese** company" - and through this JV enters the lucrative tuna farming industry. The Japanese partner had been FC2's client for 3 years previously. JV specialises in marketing bluefin tuna in the Asian market and operates 2 tuna ranches in Malta [Int 1].

2005. Wins int'l competitive bid to buy all Maltese fishermen's swordfish catch. "This export order was won through the various fisheries trade fairs that we participate in and the contacts we manage to make". FC2 flies the fish to **Norway** by Air Malta every Mon & Fri sending over 160 heads of swordfish... FC2 says, "swordfish catches have been good in the past month and about 40,000 kilos have been exported not only to Norway but also to **Italy, Holland, Germany and Dubai**." [L2E 2005].

In 2005, Malta was the 2<sup>nd</sup> largest bluefin tuna exporter to **Japan** after Australia. For other species, as a result of bad weather in region, biggest customer is a client in Paris (**France**) [Int 1].

2006. FC2: "Driven by my own courage" sets up Lvant Tuna Ltd. FDI Managing tuna farms in **Cyprus** [Int 1]. (Opportunity also related to EU accession).

Strikes alliances with e.g. **Italian** and **Arab** fishermen (suppliers) – giving them 0% interest loans to finance their fishing sorties & buying their catch at a predetermined price. Mainly for re-export to foreign clients - offsetting resource (supply) limitations.

Sells 40%-55% of all fish caught in Malta. **Sales**: 60% Hotels & restaurants; 20% Retail fish shops. FC (excluding AJD Tuna) 20% exports.

Currently has export clients in Paris (**France**), **Spain**, Milan, Rome (**Italy**) ... FC2 also sends fish to **Tripoli** and **Dubai** and ... "we have regular exports to **Cyprus** and **Greece**". Has "approx between 25 and 32 foreign clients ... in between 9 to 12 countries". **Export destinations in order of volumes: Japan, Italy, France** or any other country ... Also some exports to **German** client.

2007. FDI Buys out 50% stake of **Asian** JV partners - now having 100% ownership. **2007 export figures**: AJD Tuna (100% export) €42m; AF €0.6m [Up 2008].

2008. Current export activity & rapport: "Today all our suppliers and buyers are friends – **France, Spanish, Italian, Libyan, Korean, Japanese, American** ... Nowadays we export to **USA, Dubai, and Denmark** small quantities." [Up 2008]

2009. FC awarded the 2009 tender to represent Malta in exporting prized locally caught bluefin tuna to lucrative Japanese market. FC2 will be handling c.45% of fish caught in Malta. Value of tuna exports from Malta to **Japan** runs into millions of Euros. [TMI 2009]



## Timeline 7.3 – WineDivine: Outward internationalisation chronology and key events

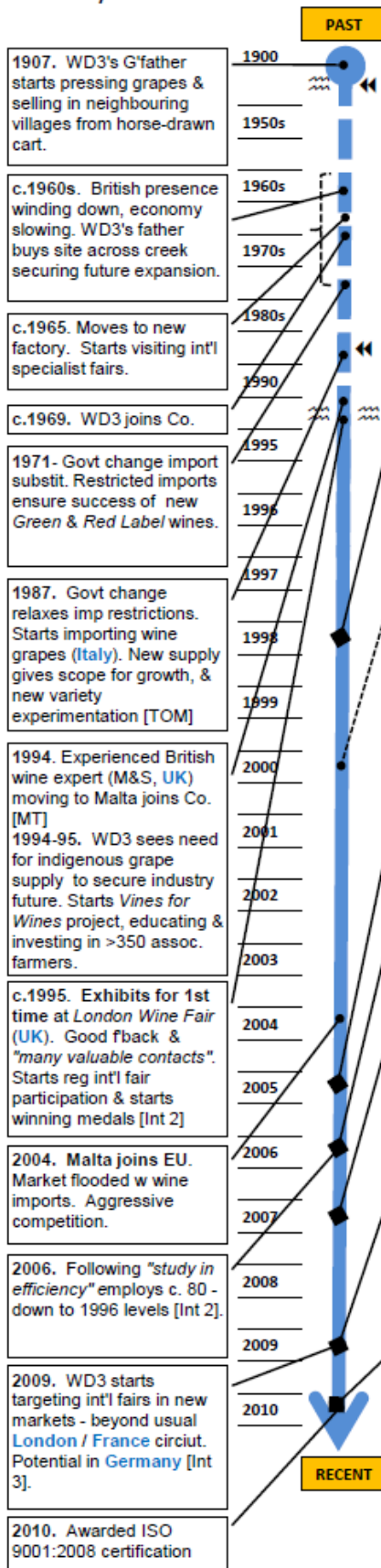
### WineDivine

First exports after c.91 years in operation (3rd gen.)

Outward internationalisation chronology

◀ = Generational change at helm

#### Select key events



#### Export and other outward internationalisation activity

**c.1998-2000.** From about late 1997 (lasting c.2 yrs) Following contact from *London wine Fair*, WineDivine approached by agents working for *Asda* retail supermarket chain: UK importers *Bottle Green*. Through UK importer, results in stint of 2 years regular ongoing exports to UK. Wines sold off *Asda* and *Coop* s'market shelves as well as off-licence *Unwins*. However, s'market business model, based on high volumes, economies of scale and low costs – always squeezing supplier prices, not compatible with WineDivine's business circumstances and profile. This 1st export venture to UK lasts about 2 yrs and does not continue beyond c.2000. [Int 2; Ph int 3; Ph int 6].

**2000.** Co. considers and attempts *WineDivine Italia* JV alliance based in Italy partnering with long known Italian contact and viticulturalist. Export based, in order to "overcome lack of vineyard" *Malta resource limitations*. JV also announced in press - yet venture never took off [Int 3].

**2005.** Est. alliance with *Bodvar of Sweden* - prestigious family business marque with long tradition specialising in fine products by royal appointment. Start of long relationship exporting their *Gellewza* wine to *Sweden* under *Bodvar* label - marketed as a unique Mediterranean boutique wine [Int 2]. Ongoing relationship "good clients" *No1 export destination* [Ph int 4 & 5, 2010].

**c.2006.** Makes inroads into *Amsterdam (Holland)*. This fledgling business with various specialist retailers picks up and does well [Int 3]. Establishes relationship with *Dorpsstratt* as agent - lasts till late 2000s - then brings them together with *Kook-Salon* [Ph int 5, 2010].

**c.2007.** Reference also made to the following "Market penetrations" (ad hoc one-off shipments) ... *Slovakia, Austria, Switzerland, Holland* and the *Czech Republic* ... which are "selling [WineDivine] premium wines". Wines also sent for first time to Far East and "*Korea have taken their first order*" following visit and meeting with Maltese Honorary Consul there [Co].

**2009.** Prospecting new markets: In late 2009, WineDivine's premium wines *Gran Cavalier* and *Grand Vin de Hauteville* selected & exported to the largest delicatessen network in *Poland, Bomi* - A leading food and wine delicacy chain, which is listed on the stock exchange. "Hundreds of cases left the [WineDivine] winery for *Poland* early last week." [TOM 2009]. *No 2 export destination* [Ph int 5, 2010].

Fledgling business in *Holland (Amsterdam)* picking up in various retail chains and doing well, "regular repeat business". [Int 3]

**2010.** *Belgian* couple who run a wine import agency and own a wine bar visit Malta in March and encounter / experience WineDivine wine while on short holiday break. A few months after establishing contact they have added Malta to their portfolio, now importing select wines. WineDivine: "are proud to announce that *Wintralog* is now [WineDivine's] agent in *Belgium*" [Co. site. 2010]. *No. 3 export destination* [Ph int 5, 2010].

**2010.** Establishes contact with UK wine importer at international wine fair in Montpellier, France. *4th largest regular export destination* close tie with also recent *Belgium* activity [Ph int 5, 2010].

**2010.** Building on an established rapport [alliance], a new wine Co. *FenFwijnselectie* set up in *Holland* by 'Kook - Salon' owners. This Co. imports and distributes WineDivine wines in the *Holland* and *Belgium*. The core company 'Kook - Salon' is successful venture providing luxury dining and private party services in people's homes throughout *Holland*. The new company provides them with a retailing arm, making the items they use at their functions available to consumers on-line. WineDivine's range of quality wines are now available on-line through *FenFwijnselectie* website - only WineDivine wine on offer [Co.]. Old Dutch agent *Dorpsstratt* puts them in touch - contacts & relationships very important. *Holland No 5 export destination* [Ph int 5, 2010].

**2010.** WineDivine together with *Cypriot Wine Producers* president organise familiarisation & learning visit for WineDivine's local grape suppliers to vineyards and wineries in *Cyprus*.

## Timeline 7.4 – FiredPride: Outward internationalisation chronology and key events

### FiredPride

First exports after c.15 years in operation (2nd gen.)

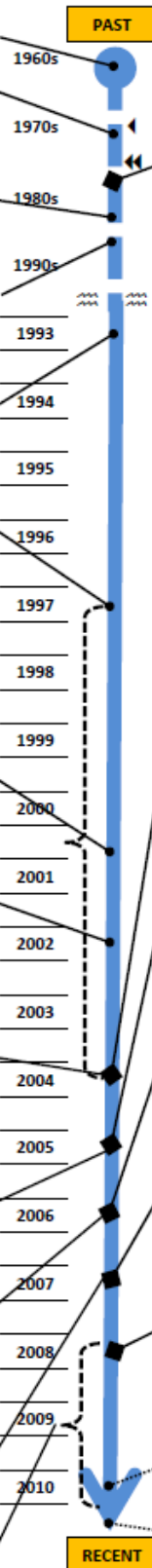
#### Outward internationalisation chronology

◀ = Change at helm; ◀◀ = Generational change at helm

#### Select key events

- 1964. Business set up.
- 1972. 8 yrs later Maltese family buys Co.
- 1984. Tourism & business booming. Participates for 1st time at int'l fair - UK. Costly misadventure [Int 1]
- 1987. Govt change, import restrictions relaxed. Start of gradual import competition.
- 1993. *Acheivement in Industry Award* [Int 1]
- 1997-2004. Lib'lisatoin & comp from imports. Sees need to differentiate. Given future EU accession embarks on huge 7 yr new factory investment. Meantime looses focus on market & slow to respond.
- c.2001. Changes from British to Med Italian manuf. process. Italian consultants & artisans brought in to train employees.
- c.2002. Starts mark'tg & targeting domestic market with newly diversified products.
- 2004. Malta joins EU. Competition grows. New factory, goes upmarket: new *Volcano tables*. Seeking export markets & prod. semi-finished decorative items for foreign markets [MT].
- 2005. Int'l initiative starts. Int'l fairs & seeking contacts. Opens *Luxe pavillion*. Website.
- 2006. Opens upmarket outlet: *cruise liner term*. Ships items to visiting tourists' home countries.
- 2007. This "year is not rosy at all", idle employees & slow sales. Survival concerns. Employs c.22. [Int 2].
- 2008 - 2009. Business split. 2 older bros owners. Co dormant. 2010 young bros. set up new organisation.

#### Export and other outward internationalisation activity



c. 1978/79. Operations "in full swing" producing to maximum capacity and exporting containerloads of items commissioned by Pervex Ceramics to UK. Ad hoc, unsolicited. [Int 2, p. 43]. Employs c.30 employees [Int 1].

c.2004. EU Membership. Contact with Maltese emigre living in USA, leads to feedback and regular trickle of ad hoc export orders being shipped to America. Stokes interest in US market potential [Int 2, p. 7-8].

Additionally: "already targetting a new market - producing semi-finished decorative items for the foreign market". Intent on starting "... participating in a number of upcoming overseas fairs" [MT 2004].

2005. Internationalisation initiative starts in earnest from this year – active drive, attending international fairs and seeking contacts [Int 2, p. 17].  
c.2005. Launches website inc. basic online purchase & int'l dispatch capability. Facilitates occasional export orders to America, also ad hoc orders originating from Europe, coming in "after [participation at the int'l] fairs" [Int 2, p 7-8].

2006. Also as a result from fair participation, "2006 was a good year ... it was good for exports. It was one of our best years – business started picking up" [Int 2, p. 18]

c.2006. Exports container load of volcano tables for personal use and other corporate promotional material commissioned for an oil company directly to the client in Algeria [Int 2, p. 6].

Also: Starts shipping products to visiting foreign cruise liner passengers' home countries since newly opened Waterfront cruise term. outlet. Ongoing ad hoc exports to home countries of visiting tourists - esp to America.

2007. Direct export sales circa 15% - with 8% attributable to exports via the internet [Int 1, pp. 66-67; Int 2, p. 5].

Exports currently: 50% USA. Remaining 50% Europe shared equally mainly UK, Germany and France, and Russia [Int 2, pp. 9-11]. [\*NOTE: inc also shipments to visiting foreigners from Waterfront outlet].

Visits Algeria and Cyprus on trade delegations organised by Malta Enterprise / Chamber of Commerce [DOI / OPM]. Visits Dubai (2<sup>nd</sup> time) – Hotel Show at the Dubai Exhibition Centre. Preparing to visit Russia for 2<sup>nd</sup> time, as well as Poland later this year joining Malta Enterprise trade delegation [Int 1, p. 56].

2008. "Export to a new American client in San Francisco ... May '08" [Update communication 2008]. Also: Evidence on web of California-based trading website owned by Maltese surnamed (Cordina, émigré) 'Malta Imports – A taste of Malta' (USA) promoting and importing [GloGlass] and [FiredPride] products - some form of int'l alliance here.

"Travelled to Ukraine, Poland ... with Malta Enterprise delegations ... March and June 08". NOTE: probably referring to visits undertaken in late 2007 above. [Update communication 2008]

2010. Following business split, younger 2 brothers set-up new org. - int'l oriented. Open to int'l franchise opportunities. Exhibit in Brussels, Belgium showcasing wares in govt / EU event.

2011. Younger 2 brothers' participate at big int'l fair in Ireland. Also join govt / EU project involving collaboration and knowledge transfer with Italian counterparts.



## Timeline 7.5 – SunDeli: Outward internationalisation chronology and key events

### SunDeli

First exports after c.39 years in operation (2nd gen.)

#### Outward internationalisation chronology

◀ = Change at helm; ◀◀ = Generational change at helm

#### Select key events

1890s: 1st gen g'father trading between Gozo & Malta. 1916: 2nd gen children join father & setup business.

1934. Brucellosis rife. Imports Italian milk plant, British gov no permit. Supplier gives idea to transform to tomato prod.

Mid 1960s - early 70s. Father dies mother takes helm. Brit forces start depart. Malta independ. & recession ends yrs of UK exports [TOM, TA]

1977. 22yr SD3 w bro. takes over failed Co.

1985. Anticipates protectionism end & imp of exports due to EC/EU initiates huge invest in new factory & tech. Inaugurated in 1995.

1992. Buys local Co's Italian int'l master franchise in grocer retail also rep for North Africa

1995. Inaugurate new factory, 10yr in making

1997. Employs 102 FT. 1998. Govt change resumes EU application. Wins industry Award. 1999. Attains BRC (UK) standard. Starts ISO mgt 2000. Upgraded to Global Std BRC.

2002. Sainsbury's use Co.as excellence benchmark [Int 1].

2004. Malta joins EU. Intense competition. Imports flood domestic market. ASDA Award for Best Prod Facility.

2007. Mgt training in Germany. Employs c. 160, 5 FT in R&D. Exports 66% of prod.

2008. Global fin crisis. Awarded ISO 22000 Food Safety. Employs c.150. Participates BBC Good Food Show.

2009. Processes 80% Malta grown tomatoes & buys from c.300 assoc farmers. Employs c.140 staff & 150 ancillary.

#### Export and other outward internationalisation activity

1955-c.1971. (c.16 yrs) Co. invests in alu tube pack machine & exports tomato paste in alu tubes to **Britain** (Merchant Navy). This lasts circa 16 years, until early 1970s when UK's joining the EEC (1973) renders Magro's kunserva exports to UK not economically viable [Int 1; Co site; SC 2008; Oriz. 2009].

1996. Sartet export drive after moving manufacturing activities to new, large purpose-built factory. Est ablished *Export Dept.* First client in **Saudi Arabia**. 'through contact at an international fair ... a recommendation' [Int 3, MBW, TOM]

1997. Mostly thru contacts from fairs. Exports 3.5m bottles of ketchup to **Kuwait, Dubai, Saudi Arabia, Tunisia, Russia** and **Ukraine**. Currently employs 102 FT [Int 3, DOJ] c.1997. Initially supplier to local McDonalds franchisee. Then starts exporting: supplying McDonald's **S. European** region (inc **Med**). Export to regional centre: **France**. "competing with the big boys ... The company's competitors are major companies in Spain, Germany and the United Kingdom. SD3 finds that working with a large, international firm such as **McDonald's**, which has helped [it] become more quality oriented, benefits the company's long-term success" [Int 2, WP]

1999. Riding on back of McDonald's, strikes lucrative export deal with large **UK** supermarket chain **Asda**. "contacts very important" [ph int 2, 2010].

2000. Strikes another lucrative deal with UK s'market **Morrisons** [ph int 2, 2010].

c.2001. Strikes another lucrative export deal with **J Sainsbury's** [ph int 2, 2010]. SD3: "We are now exporting to **Greece, Italy, the Netherlands, the UK and Ireland** on a regular basis." ... the largest market is the **UK**. "We aimed for the largest retail chains and have been able to persuade these large companies to buy from us. To do this we have had to improve our quality ... and conform to the **BRC** technical standards." . 2nd largest market **Netherlands** & latest acquisition is **Taiwan**. ... there is room for enormous growth. Participation in international food fairs is essential. "...very expensive to participate but ... a must. [MBW].

2004. "now present in 20 countries, two of which are in the EU: the **UK**, which is their biggest market, and **Holland** ... This year we plan to export over 500 containers, over 10,000 tons of sauces, to the **UK** market only," Mature private label EU market hard to penetrate with 'own' label [MBW].

2005. Invests in aseptic machinery enabling export of c. 2,000 tons of tomato products in winter. These exports mainly to **UK, French and Italian** markets. Substantial financial assistance was made available from EU funds [MRAE]. Develops and starts producing ready-to-eat jellies for **Asda(UK)** [MSA].

In 2006 present in 4 **EU** markets. **UK** largest market, supplying 3 of largest 5 chains: - **Sainsbury's**, - **Asda**, - **Morrisons**. [SBS]

2007. Set up premium brand **Savina** targeted at airports & export. Franchised shops in **UK and Germany**: Frankfurt – doing well. Exports about 65% of production, inc. c.8,000 tons ketchup pa. Export sales growth avg c. 25% pa.

**UK** biggest market (60%), 2nd **Ireland** (18%), 3rd **Italy** ... **Tunisia, Libya** etc... "18% of the market for **UK** table sauces". Also 4 million jellypots to **UK** (**Asda**) pa. "48% of the tables sauces\* market in **Ireland**". "3rd largest in **Italy** – for table sauces\*" [\* Ketchup, brown & bbq sauce etc...] Employs circa 160 FTE & since 2005/2006 employs 5 FT in R&D. [Int 1].

In 2008 "... exports tomato ketchup, table sauces and pasta sauces to various countries in **EU and North Africa**".

2009. "... exports to **Italy, Germany, Cyprus, Tunisia, Libya and Morocco**. It is considering the **Scandinavian** market, particularly **Sweden and Denmark**, and will also be diversifying into retail packaging for the catering sector."

2010. Opens 2nd **Savina** franchised outlet in **Germany**. German franchisees supported by Maltese emigree. New export deal with **Red Lion Foods, UK** for own brand ketchup to be retailed through large supermarkets. Exports >60% Main regular exports to: 1. **Ireland**, 2. **UK**, 3. **Italy**, 4. **Greece**, 5. **Belgium, Cyprus** [Int 2, 2010]. SD ketchup cited as "the best one can find in Europe" [TOM].

2011. Thru contacts from fairs & **UK** client referral, starting exports to 3 clients in: **S. Arabia, S. Africa & Nigeria**. Working on leads since Oct 2010. In May due to visit important, big PLMA private label fair in **Holland** [Int 3]. Also **Australia** retail

# Timeline 7.6 – ProJoiners: Outward internationalisation chronology and key events

## ProJoiners

First exports after c.85 years in operation (2nd gen.)

### Outward internationalisation chronology

◀ = Generational change at helm

#### Select key events

- 1894** c.1894. 19 yr old founder sets up carpentry workshop in Gozo.
- 1900s** Early 1900s. Following brief emigration to USA returns to develop original carpentry business.
- 1910s**
- 1930s**
- 1945** 1945. After WWII, 2 young sons (2nd gen) take over from 70 yr old founder.
- 1950s**
- 1970s** c.1971. Govt. import substitution policy. Lasts till 1987/88.
- 1980**
- 1982** 1984-. 3rd gen, PJ3 joins Co. aged 24 just as father contemplates downsizing. Seeks growth opp. Opens 1st Malta sh'room. Ropes in Italian designer.
- 1984**
- 1986**
- 1987** c.1987. Trade & import restrictions lifted after some 15 yrs- following a change in govt, the Nationalists elected the previous year.
- 1988**
- 1990**
- 1992** 1997. Momentum in UK exports. Sets up UK Co. to process & facilitate payments. 1997-2001. Employs 200. Anticipating liberalisation & greater competition post-EU accession (in 2004), PJ3 initiates large scale restructuring. 1997-2004. Govt initiates liberalisation. Protectionism progressively removed.
- 1994**
- 1996**
- 1998**
- 2000**
- 2001** 2001. Sets up Interprogetti JV w competitors to bid for big contracts.
- 2002**
- 2003** 2003. Launches website.
- 2004** 2004. Malta Joins EU.
- 2006**
- 2008** 2008. Onset of global financial crisis.
- 2010** 2010. Launches Econiteque Ltd. Eco & alt energy solutions Co.
- 2011** 2011. Libya crisis.

#### Export and other outward internationalisation activity

- c.1979- 1981** ... Exporting to UK from c.1979 ... well into the 1980s. UK firm that bought over other local (Maltese) furniture Co. for export – subcontracts PJ2 for kitchen cabinet door manufacture for export to UK [Int1, p. 9-10; Int2, p. 19]. During this period, Malta factory is setup.
- 1987/1988**. Immediately after the kitchen door export venture, started exporting fireplace surrounds to the English market – cheap items yet v important for growth. In 1987 import substitution restrictions had been lifted following govt. change.
- 1998-2005... [7 yrs]**. Exporting in a big way to UK. [Prime Joiners] UK registered [Int 1, p. 19-20]. Starts manufacturing and exporting Tudor furniture reproductions to UK ... "worked well ... managed to penetrate" [Int 1, p.10; Int 2, p. 19]. An area where craftsmanship is valued and manual carving respected ... [DOI 1998]
- 1998**. Thru contacts, approached & contracted by Lafico for leather settees for Bab al Bahr Hotel, Tripoli, Libya. 1st hotel contract. [Int3].
- 2002**. Prior est. relationship w Corinthia. With Interprogetti JV partners wins int'l tender for Maltese int'l hotel chain: Corinthia. Furniture export contract for 5\* Bab Africa Hotel, Tripoli, Libya. Supplies bedroom furniture - 250 rooms, joinery works in common areas; "Largest export contract we have worked on" [Int 2, 3; Co site; Co site; MFBT]
- 2003**. Website launch (2003) generates many enquiries - initially leading to the occasional ad hoc export order. "we also used to sell through the website ... especially to the UK." [Int1].
- 2005**. Referred thru contact. Saga Ruby liner - Saga Ruby Cruises (UK), rooms & public areas; 2004-2005 (Genoa, Italy). Starts focusing more on hotel and business contract markets for int'l. growth. [Int 2,3]
- 2006**. Export job with German hotel. Bachmair Hotel am See. Munich, Germany - Manufactured settees Spirit of Adventure liner - Saga Ruby Cruises (UK), rooms & public areas (S'ampton, UK). Repeat business. [Int 3; Co. site].
- 2007**. Invests, opens Sales office, plans showroom in Tripoli, Libya (\*FDI) [Int 1; Co site; Bugeja 2009].  
**2007**. Regent Grand Hotel de Bordeaux (5\*). Bordeaux, France €700,000 export contract "to supply Bedroom Loose Furniture and Public Areas. [Int 2, p. 12].  
**2007**. Hotel Schloss Reinhartshausen [Kempinski] (5\*). Frankfurt, Germany. Bedroom loose furniture. "This week we're placing some of our work in another hotel in Frankfurt Germany [Kempinski] ... so the prospects look nice." Currently exports 25%
- 2008**. Exporting to Libya (Corinthia Palm City residential project), Germany & a little bit France. N. Africa has "much potential" [Int 2. JV w domestic competitors (Interprogetti) offsets resource limitations to bid for large export contract: doors to Palm City. PJ strikes strategic alliance with Italian Co bidding for Palm City furniture contract. Kitchens manufactured by PJ alone [Int 2]. "largest contract it has ever undertaken: manufacturing, subcontracting and assembling".  
**2008**. Developing software with Shireburn – to be jointly marketed with Italian Co – to be first to be sold in Saudi Arabia.  
**Note:** Intends resurrecting export links with UK in 2009 following mandatory 'fallowing' period. UK IMP market. Currently exports 20% (depends on contracts).
- 2009**. Together w JV partners, Software being developed for Saudi clients. Also offering training. [TOM 2009]. Exports 40% to 50% - depending on contracts [Int 2, p. 11]. "Export market 30% of turnover. Has a sales office & showroom in Tripoli". [Bugeja 2009. MBA. p.71].
- Late 2010**. Contracted by Corinthia for refurbishment works at Bab Africa hotel in Tripoli, Libya [Int 3].



## Timeline 7.7 – VegaFont: Outward internationalisation chronology and key events

### VegaFont

First exports after c.18 years in operation (founder)

Outward internationalisation chronology

Founder at helm, no generational change

#### Select key events

1982. VF1 starts up in garage with second-hand press.

Mid-80s-90s. Travels regularly to UK to "see how things are done" & imports used press.

1996. Moves from garages to new factory.

1999. Employs c.20. Poaches experienced & connected, rival press GM, **Englishman** GC. Sets up *Export Dept.* [Int 1- 44, 52-53]. VF1 & GC visit London Fair (UK) "to see what is happening" and make many contacts.

2003. Thru' contacts engages **Scot** BB as FT UK Sales Mgr. Ext. to new factory finished. Cited "Malta's largest printer", t'over €7.2m, >25% of which UK market [BP2003].

2004. Malta joins EU. Raw material costs rise

2005. Launches new multilingual website, adding value to int'l clients [Int 1, 108]. T'over €8.2m [DOI].

2006. T'over >€9.3m, 12% over 2005. More than 50% of t'over, UK sales. Since 2003 workforce increased 50% [DOI 2007].

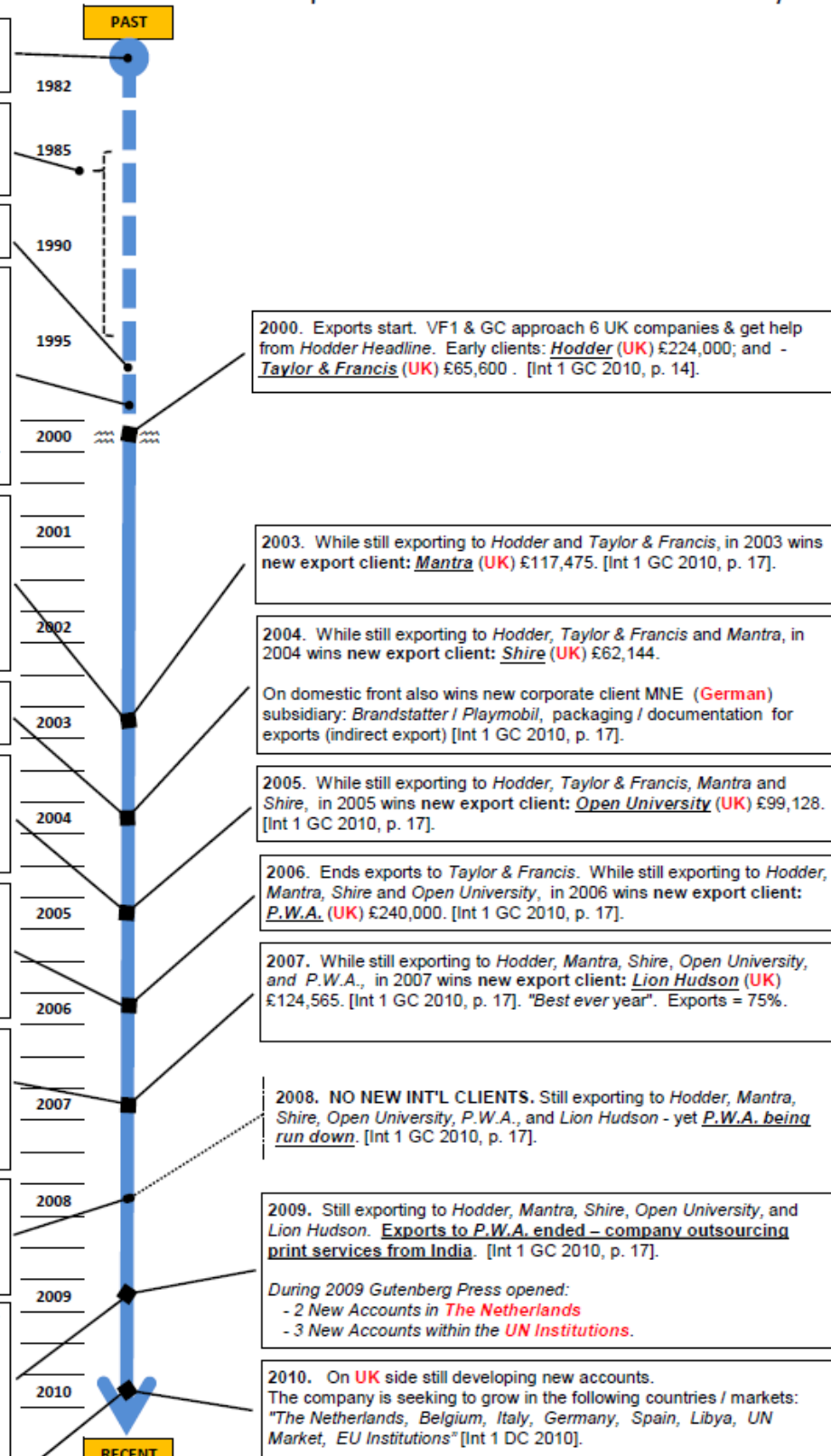
2007. Employs c.110, t'over €11.6m. ISO 9001. Buys new factory & invests in large format press for export [Int 1, 23]. Exports 75%.

2008. Employs c.130. Global recession starts, business slows. Invests further in anticipation of economic recovery.

2009. Recession. T'over €9.1m, Exports 62%. Restructuring *Export Dept.* Targets new non-UK markets. Engages foreign Sales Reps in **Benelux, Italy**

2010. New **Dutch & German** agents. GBP devaluation. Employs c.100.

#### Export and other outward internationalisation activity



## Timeline 7.8 – StarSnack: Outward internationalisation chronology and key events

### StarSnack

First exports (*ad hoc*) after 20 years in operation (founder)

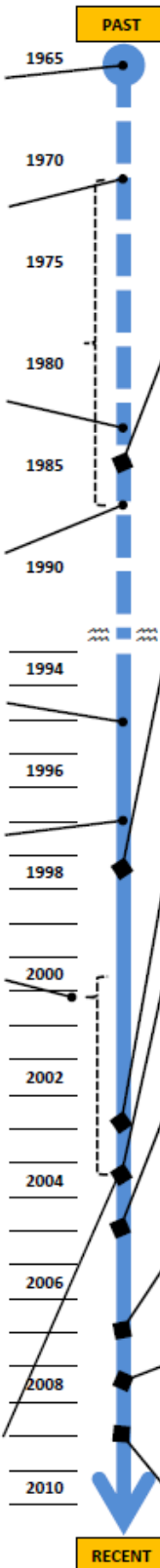
Outward internationalisation chronology

In generational transition from founder to 2nd gen.

◀ \* temporary generational change at helm

#### Select key events

1965. SS1 sets up confectionary import business.
1971. Govt change, import substitution. Survival threat. Thro' "friend" strikes JV with UK partners & starts snack manufacture.
1983/1984. Import substitution now inc. biscuits. Stops biscuit imports (half turnover). SS1 buys out reluctant UK JV partners & invests in biscuit production.
1987. Govt change starts dismantling import substitution.
1995. Start of removal of Import levies. Competition from imports starts to ramp up, albeit market still offers indigenous manufacturers extent of protection.
1997 forms JV and starts importing meat products. SS2 takes this on.
Early 2000s. SS2: "We knew in 2000 that Malta was going to join the EU in 2004. We initiated a restructuring process and consolidated our product range by focusing on products we believe enjoyed a competitive edge on the international scene. Substantial investments in new plants and machinery resulting in increased automation and efficiency were a must to successfully succeed in this new trading environment." [FC 2006].
2004. EU Accession & full liberalisation. Cos sales immediately -65%. Raw material costs increase yet now easier access to intl EU markets. SS2 considers 2004 as start of strategic export drive. Employs Export Manager, [Int 1, 26-27].



#### Export and other outward internationalisation activity

1985. New investment & First dabbling in exports. "In 1985 co moved to a larger factory in Bulebel where the production of Fig Rolls, Coconut Rings, Nice Biscuits, and creamed biscuits commenced. ... also started exporting to Saudi Arabia, Kuwait, China and even Italy. ... purchased the license of the Regal Brand from Elke's Biscuits - UK and started local production under the Regal brand" [Co.].
1998. DOI mentions Co investing in quality & packaging in preparation to also target the export market more specifically. Also: 10% of production exported to Middle East and North Africa. Also launches 'diet' wafer and two ranges of low-fat snacks [DOI 1998].
c.2003. On threshold of EU accession. One-off, <i>ad hoc</i> "irregular" export to Canada and Italy [Int 2, 33]. Also one-off, <i>ad hoc</i> "irregular" export to Lebanon, Middle East through international fair [Int 2, 33].
2004. 1 <sup>st</sup> regular exports to Cyprus. Cypriot baker & seeking similar opportunities intent on importing confectionary to sell through own distribution network [Int 2, p. 15, 25, 35-36]. Contacts important. Here Malta Enterprise assistance was provided also for fair [Int 2, 39]. "a step in the right direction ... and you learn" [Int 2, 37].
2005. Got into French market, "first [int'l] breakthrough". Contract with large French supermarket chain Leader Price. [Int 2, 49] Contacts crucial in brokering this all important 1 <sup>st</sup> big international contract. Malta Enterprise & Embassy had role while at fair in Paris [Int 2, 9-10; see also Court 2009].
2005. Penetrates Ireland in "mid-2005". Via a proactive initiative. After seeking info on potentially suitable clients (via internet etc...) they targeted and sent "a brochure, a letter and stuff like that". Results in regular, on-going export activity. By 2007, exports to Ireland still ongoing & ranked 3rd highest as export destination – about 15% [Int 2, 13-15].
2005. StarSnack "at an advanced stage of negotiations with a German multinational distribution house" ...also exported to Croatia (one off). [FBR 2005].
2007. Exports to UK. (April). Own-brand contract Brierleys Foods UK [Co.]. "Breakthrough" since produces a traditionally English biscuit. Expecting fast growth in UK market. SS1: "important not to ... put all our eggs in one basket. The British company had wanted to buy our full output but I prefer to keep other clients as well," he said, adding that he had a Greek supermarket chain interested." [TOM 2007].
c.2007. Export deal with Auchan, the 2nd French s'market chain (riding on back of the earlier deal with French s'market Leader Price): [TOM 2007]
"hopefully by mid-Oct we'd have also penetrated Greece" [Int 2, p. 3, 8-9]. NOTE: "step-by-step, country by country" gaining experience and confidence... For the first time manager sent to Greece to proactively target potential business opportunities – rather than solely rely on fairs [Int 2, 34].
2008. Consolidates UK foothold by contracting another substantial agreement with Burton's Foods – to produce 'Lyons' biscuits for UK market and 'Bafail' for Saudi market. [Co.]. StarSnack had to invest "heavily" in high tech machinery to guarantee quality – doubling production output [Co.].
2008. Currently exporting to: UK, Irish, French, Belgian and Cypriot markets and it also sent containers as a trial to Greece and Portugal. The company also has contacts to start exports to Australia" [MRN 2008].
2009. "Further expanding its current portfolio ... recently contracted agreements with Aldi (German Co) (for Belgium, France & UK markets)
... and even with a big influential UK importer. Under the latest deal contracted in the UK, [StarSnack] will be shipping the first 26 tonnes of biscuits under the 'Regal' [SS' own] brand [to the UK]"

The next two subsections address in more detail foreign markets entered and choice of market entry modes (Hill 2007).

### **7.5.2 Foreign market entry: Where?**

With the exception of *VegaFont*, SMFBs under study actively exported to multiple countries. However, *FiredPride*'s exports, though ongoing, remained sporadic and *ad hoc*, relying on affluent cruise-liner passengers visiting its strategically located retail outlet at the Valletta cruise-liner terminal – shipping ceramics to visitors' foreign addresses. Table 7.14 gives an overview of the countries the SMFBs regularly export to.

**Table 7.14 – Foreign markets SMFBs currently regularly export to (SMFBs in order of internationalisation experience)**

		SMFB size (FT employ)	Proportion exports	Int'l markets currently reg. exported to	Foreign markets (Order of sales)
Experienced ↑	GloGlass	44	40%	4+1 <sup>△</sup>	Greece UK Holland Cyprus △USA
	ProJoiners	90	30%	4 <sup>**</sup>	**Libya **France **Germany **Saudi Arabia
	FreshCatch	88	c.90%	2+2 <sup>*</sup>	**Japan *Italy *France *Germany
	SunDeli	140	66%	6+2 <sup>△</sup>	Ireland UK Italy Greece Belgium Cyprus △Germany △Australia
← Novice	VegaFont	100	70%	1	UK
	StarSnack	90	50%	4	France UK Ireland Cyprus
	WineDivine	80	c.5%	5	Sweden Poland Belgium UK Holland
	FiredPride	22	c.15%	4 <sup>○</sup>	○USA ○UK ○Germany ○France

Key:	△	Franchising and similar agreements
	**	<i>Ad hoc</i> depending on contracted projects
	*	Ongoing <i>ad hoc</i>
	○	<i>Ad hoc</i> , mostly passive reactive

Source: Author, consolidated from within-case analysis.

Calof (1993, 1994) empirically observed that size did not preclude small firms successfully engaging in foreign markets. However, he noted that it did limit the number of markets served. Cavusgil (1984) and Chelliah *et al* (2010b) observed a similar relationship when size is measured in terms of annual sales.

This does not correspond with the export activity of SMFBs under study. *GloGlass*, one of the smallest SMFBs, exports regularly to 4 countries and recently established a franchising

agreement in a fifth – apart from ongoing *ad hoc* exports to other destinations. On the other-hand, larger *VegaFont*, endowed with more technological and human resources exports to clients in just one country – notwithstanding that its product is easily transferable to others.

It is evident that other factors rather than size *per se* influence the extent of internationalisation. Family aspects such as the owner-MD, and factors associated with experience and extent of international contacts, that are not necessarily always related to size, were observed as playing a more defining role (Reuber and Fisher 1997, Wolff and Pett 2000). Ultimately, as Calof (1993: 68) concluded “*Having the right strategy, product and organization for the intended market is what matters ... small firms possess unique skills, products and expertise which can be successfully applied in foreign markets*”.

- ***Export destination: Psychic distance, regional integration and other considerations***

While all SMFBs under study export to EU countries (see Table 7.5 and Timelines 7.1 – 7.8), they had all done so long before EU membership. Most raw materials were also sourced from European countries, mainly neighbouring Italy – long before commencement of export activities.

Five SMFBs (*GloGlass*, *FreshCatch*, *FiredPride*, *SunDeli* and *ProJoiners*) had exported beyond Europe, namely to: North America, Asia, Australia and the Maghreb. Other sporadic export activity by *WineDivine*, *VegaFont* and *StarSnack* was directed towards Russia, Canada and various Middle Eastern countries.

With respect to export destinations, due to Malta’s colonial past, one notes an extent of shared commonality with English-speaking or Commonwealth countries – Australia, Canada and UK. Furthermore, a large number of 1<sup>st</sup> and 2<sup>nd</sup> generation Maltese émigrés, indeed exceeding the Maltese population, reside in these latter countries. A shared colonial past extends to Cyprus, while due to cultural similarity, language familiarity and geographic proximity, similar affinity exists with Italy and the Maghreb.

Table 7.15 gives an overview of the countries the SMFBs exported to in order of market-entry. Countries considered psychically proximate are indicated with a grey half-tone

band<sup>43</sup>. The first country exported to, whether tentative or regular, was to either of two generally ‘psychically proximate’ and geographically close countries: primarily the UK with 5 instances as first export market, followed by Italy with 3. Albeit, one should, however, interpret this with caution. For instance, as shall be seen, although the indicated countries are generally considered psychically ‘close’, for example in the case of *FreshCatch*’s first enterprising and proactive *ad hoc* export activity personally undertaken to Italy – sailing alone, FC<sup>2</sup> could not even speak a word in Italian – presenting him with considerable challenges and misadventures, that nonetheless failed to dampen his coping enthusiasm and international initiative there. Similarly in *GloGlass*’ case, the first *ad hoc* proactive exports to Italy soon after inception, at a time when the domestic market offered ample opportunity and had hardly begun to be tapped, presented a situation where the original British founders were both unfamiliar with the foreign culture as well as incapable of speaking or communicating in Italian.

Export markets penetrated second include neighbouring Italy and Libya, as well as geographically (USA) and also ‘psychically distant’ (Japan) markets.

With respect to more committing entry modes, ‘psychically proximate’ Italy, the UK and Libya did feature – however, so too did Cyprus, Germany, the USA and Japan.

One observes substantial activity towards what are now EU countries – originally a combination of circumstance, physical proximity and an extent of familiarity that influenced initial exports to those countries – rather than EU membership. Indeed, *GloGlass*, *FreshCatch*, *WineDivine*, *SunDeli*, *ProJoiners* and *VegaFont* started regular exports to such European countries before EU accession. As an aside, when Malta joined the Euro zone<sup>44</sup>, exports from Malta to certain EU countries, including the UK, still presented costs associated with foreign exchange risk. These became more pronounced recently during the ‘global financial crisis’ – particularly affecting *VegaFont*.

Attendant costs hampered international activity to ‘psychically proximate’ yet physically distant Canada, USA and Australia. Trusted contacts with individuals, most often Maltese émigrés, always played a crucial role here.

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<sup>43</sup> Countries commonly considered, for various reasons, as psychically close to the Maltese are: Italy, UK, Australia, Canada, America and Libya.

<sup>44</sup> Malta joined the Euro zone with effect from 1 January 2008.

Table 7.15 – Foreign markets penetrated and countries outwardly internationalised to (in order of entry, over time)

		GG	FC	WD	FP	SD	PJ	VF	SS
Europe – (*EU)	*Austria			○ <sup>4</sup>			*		
	*Belgium			● <sup>7</sup>		● <sup>9</sup>		*	○ <sup>8</sup>
	Croatia								○ <sup>6</sup>
	*Cyprus	● <sup>8</sup> △ <sup>14*</sup>	▲ <sup>7</sup>			● <sup>8</sup>			● <sup>4</sup>
	*Czech R			○ <sup>4</sup>					
	*Denmark					*			
	*France	● <sup>6</sup>	○ <sup>5</sup>		○ <sup>2</sup>	● <sup>4</sup>	● <sup>5*</sup>		● <sup>5</sup>
	*Germany	● <sup>4</sup>	○ <sup>6</sup>	*	○ <sup>2</sup>	○ <sup>8</sup> ▲ <sup>7</sup>	● <sup>4*</sup>	○ <sup>3*</sup>	○ <sup>9*</sup>
	*Greece	● <sup>7</sup>				● <sup>5</sup>			*
	*Holland	● <sup>9</sup>	○ <sup>6</sup>	● <sup>4</sup>		● <sup>5</sup>		○ <sup>2*</sup>	
	*Ireland					● <sup>5</sup>			● <sup>5</sup>
	*Italy	○ <sup>1*</sup>	● <sup>1</sup>	△ <sup>2</sup>		● <sup>5</sup>	▲ <sup>7</sup>	*	○ <sup>1</sup>
	Norway		○ <sup>6</sup>						
	*Poland	○ <sup>12</sup>		● <sup>6</sup>					
	Russia	○ <sup>11*</sup>			○ <sup>2*</sup>	○ <sup>3</sup>			
	Slovakia			○ <sup>4</sup>					
	*Spain	○ <sup>10</sup>						*	
	*Sweden			● <sup>3</sup>		*			
	Switz'land			○ <sup>4*</sup>			*	*	
*UK	● <sup>3</sup>		● <sup>1*</sup>	○ <sup>1</sup>	● <sup>1</sup>	● <sup>1</sup> ▲ <sup>3*</sup>	● <sup>1</sup>	● <sup>7*</sup>	
Ukraine					○ <sup>3</sup>				
Africa	Algeria				○ <sup>3</sup>				
	Libya		○ <sup>3</sup>			○ <sup>8</sup>	● <sup>2</sup> ▲ <sup>6*</sup>	○ <sup>3</sup> △ <sup>3*</sup>	○ <sup>2*</sup>
	Morocco					○ <sup>8</sup>			
	Nigeria					○ <sup>10</sup>			
	S. Africa					○ <sup>10</sup>			
	Tunisia				△ <sup>3</sup>	○ <sup>3</sup>		*	*
M. East	Dubai	*	○ <sup>6</sup>		*	○ <sup>3</sup>			
	Kuwait					○ <sup>3</sup>			○ <sup>1</sup>
	Lebanon								○ <sup>3</sup>
	S. Arabia					○ <sup>2</sup>	○ <sup>7</sup>		○ <sup>1</sup>
A	Canada	*							○ <sup>3</sup>
	USA	○ <sup>2</sup> ▲ <sup>15*</sup>			○ <sup>2*</sup>			*	
Aus. & Asia	Australia	○ <sup>16*</sup>				● <sup>10</sup>			*
	China								○ <sup>1</sup>
	Japan	○ <sup>5</sup>	● <sup>2</sup> ▲ <sup>4</sup>						
	Korea			○ <sup>5</sup>					
	Taiwan					○ <sup>6</sup>			
	Thailand	○ <sup>13</sup>							

● Sustained / regular exports (may have since ended) ○ Sporadic / tentative and ad hoc exports \* Being targeted for exports  
▲ More committing entry mode, beyond exports △ Contemplated more committing mode / investment ■ 'Psychically close' country  
n Denotes first instance of entry to that market (country), progressive entry in successive order. Entries in same year are given same order rank number.

Source: Author, consolidated from within-case analyses including multiple data sources.



One must examine the nature of the foreign market – both with respect to its potential for the SMFBs’ products on the one hand, as well as a potential production or operational location on the other. For example, from a product perspective, respective owner-MDs did not see a retail market for artistic glass (*GloGlass*) and premium ceramic-ware (*FiredPride*) in Libya’s emerging economy. Wine (*WineDivine*) of course runs counter to regional and cultural religious sensitivities there. However, more generic items such as fish (*FreshCatch*), sauces (*SunDeli*), print services (*VegaFont*) and biscuits (*StarSnack*) do have competitive potential in this market. This especially so for quality and office furniture, where *ProJoiners* established a lucrative market-foothold with excellent growth prospects coinciding with Libya’s economic growth and construction development trend.

In sectors involving quality, or ‘Western’ standard requirements, such as professional services, premium print services, or quality bespoke furniture for large development projects, Maltese firms possess a competitive advantage due to cultural affinity and trust-based rapport. From a ‘cost of production’ perspective, Libya and Tunisia attracted interest as potential lower-cost production locations for *VegaFont* and *FiredPride*.

Interestingly, ‘psychic distance’ was perceived as a challenge in but one isolated instance. Remarkably, this perception was attributed to second generation SS<sup>2</sup>, the UK business and economics graduate – who drove *StarSnack*’s recent internationalisation thrust:

*“The only countries that we can’t relate to ... are Scandinavia, Holland, Belgium, France, mmm Luxemburg, Poland ... Then you’ve got the Eastern Bloc... never tried with those – think that there’s large “cultural differences”. Well, we tried, we tried let’s say in one or two of them ... they’re still in the process of development ... I’m referring to the Eastern bloc, now ... mmm ... the Scandinavians, mmm, ... we are in contact with and we’re trying to tap into. It’s not an easy market ... It’s proving to be hard because, there’s one particular thing – that we cannot produce at the moment. Once we get around to doing it, we’ll do it. The problem is the distance – understand?”*

This perspective contrasts with ‘in-their-stride’ opportunity tackling, displayed by other owner-MDs, some with just barely secondary-level schooling, not shying from unfamiliar markets. Interestingly, although the UK (in fact more distant than France, Holland, Belgium and Luxembourg) was the most strategically important market for *StarSnack* due to expertise in English-type biscuits, and notwithstanding ‘they [SS<sup>2</sup>]can’t relate to the French’, France was their first big export break. There, fending off competition from



international suppliers, *StarSnack* repeatedly sealed lucrative deals with large French multinational supermarkets *Leaderprice* and *Auchan* – today their largest export destination. Current activity also targets Scandinavia, while his albeit secondary-schooled father, had in earlier years targeted countries such as Kuwait, China, and Lebanon with sporadic export consignments.

Reasons for SS<sup>2</sup>'s perception could arise from the fact that his foreign clients, often large corporations, involve complex negotiation with hierarchies of purchasing boards, rather than a personal rapport with another owner-MD ... say from Greece.

SS<sup>2</sup>: *“The Greeks – let me tell you one thing. The Greeks are more ... relaxed as a culture and with time frames... I’m not telling you that they’re like that. That everything goes – but you’re not going to compare him [his Greek client] with a bloody purchasing manager from [Leaderprice] ...”*

Another point might be that as a business graduate, SS<sup>2</sup>'s formal education would have led him to flagging-up potential risks – derived from a calculated and quantified approach to planning and strategizing. Whereas SS<sup>1</sup> (his father) and other owner-managers would have relied on instinct and gut-feeling, even when they couldn't speak the language. Ultimately entrepreneurship here results from sheer will and “*volition*” rather than profiled personal characteristics (Jones and Coviello 2005: 299). Evidence for this derives from SS<sup>2</sup>'s contrasting his skills and style with his father's:

*“I’m talking about my business... we’re talking about family-owned businesses - he [father, SS<sup>1</sup>] expects that you have his skills, however, we are completely different. I have skills, of which only 10% to 15% overlap with his ..., I have my set of skills and he’s got his. I mean we’re a good team together, but ... today he appreciates the fact that I work completely differently to the way he works. In the beginning it wasn’t easy. I’m a bit more strategic, a bit more into planning ... more into figures. He always tells me, ‘you’re always looking at the numbers’. Mmm, “he is a bit more irrational – he’s a self-made man”, accustomed to everybody doing what he tells them to ... acting more on gut-instinct ... yes, [I’d] rather be poring over a spreadsheet ...”*

It is clear that business graduates are not the norm for SMFB owner-MDs.

Importantly however, in many instances, evidence showed that ‘psychic distance’ did not prove critical for the resourceful SMFBs’ owner-MDs under study – contrary to what the literature suggests. This phenomenon, generally running counter to quantitative study

findings was noted by Bell (1995) and more recently Brennan and Garvey (2009: 131) observing that with respect to the notion of psychic distance, “*qualitative data indicated that this did not guide internationalization decision-making in these firms*”. Marked differences in cultures, customs and unknown languages<sup>45</sup> did not deter these Maltese owner-MDs’ exploration of international opportunities in unfamiliar contexts.

For example, as noted earlier, having recently dropped out of school, not speaking a word of Italian did not deter young FC<sup>2</sup> (*FreshCatch*) from setting sail under cover of darkness in his small boat, seeking a better return for his catch in neighbouring Italy. Initially he attempted to take along a friend who spoke Italian, however, the plan didn’t work, and he preferred to manage on his own. In this particular case, inability to speak the language, and experiencing hair-raising brushes with the Sicilian Mafia who controlled fish trade in the region ensured things were challenging and unfamiliar. Yet he resiliently persisted:

*“you go and you hear them speak – you feel or sense them, you feel from within you what they are talking about – and you just start to communicate in some way – as long as it is fish we are talking about ... because you have your own feelings – you pick up a word here [and there] ... Listen, you have to consider that within you lies a tremendous motivation...”*

FC<sup>2</sup>’s business embraced a social network of informal relationships through which access to opportunities, knowledge and “*know-how*” was gained – underlining the importance of trust and contacts. Years later, FC<sup>2</sup> did not consider it difficult to establish working relationships with Japanese and Korean partners – leading to a joint venture which he ultimately bought out. Rather, this was a valuable learning experience – a new dimension enriching his *modus operandi*, particularly in matters relating to persistence, service and quality.

*“when you’re dealing with business there’s one thing. If you want to do something – you just do it. ... even in Japan ... you ‘feel’ or sense them ... Even in Korea ...”*

Cultural differences, FC<sup>2</sup> stressed, do not hinder international opportunities: *‘When you’re dealing in fish there’s one culture – rather there’s one religion ... one kind of ‘politics’: you either trust him, or you don’t trust him [the person you deal with]’*. His enterprising nature is evident: *“whoever comes in front of me, I want to make [sic] business”*.

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<sup>45</sup> Knowledge of English would be an advantage since it is the internationally recognised *lingua franca* for business.

This kind of reaction when questioning the impact of different cultures and languages on international opportunities in unfamiliar markets, recurred.

As with GG<sup>1</sup> *GloGlass*:

*“these different people [cultures], all kind of have that something that is characteristically theirs. ... However, how can I say this? – when you’re in business, you take any opportunity – especially if you’d have just started ... I mean every enquiry was important, understand?’ ... physical distance [for pursuing export opportunities in Japan] doesn’t bother me at all’.*

Asked whether cultural “*divides*” hinder pursuit of international business, PJ<sup>3</sup> at *ProJoiners* responded:

*“No not really – no, as long as the people involved have good intentions and goodwill, then you’ll be able to get along with everyone”.*

Again, the importance of contacts and trust for acquiring ‘know-how’ and ‘know-who’ was equally prevalent to mitigate unfamiliarity in foreign markets. WD<sup>3</sup>’s young son, recently appointed *WineDivine*’s export manager, said:

*“We always strive to engage people from the area or country we are seeking to gain entry to – distributors who are established and experienced, who know the market ... familiar with their own cultures, and they’d have their own contacts, know other traders and the business there. ... established locals would have important ‘inside information’ ... what you see on paper is one thing, but in reality ... you’d need them – to know their market ...”*

At the smallest SMFB, FP<sup>2</sup> underlined closeness and affinity in dealing with neighbouring Italians:

*“you almost become a family with them ... because the Italians have a culture similar to ours. They’re like us if not better than us, you know? We trust and respect them ...”*

This affinity extended to Italian suppliers – an important source of market and product knowledge, insight on opportunities, know-how and other contacts via their network:

*“I’m telling you, when they come here, we care for them well, as much as they look after us ... Italians ... they pass certain information on to you – too. That comes from contacts. ”*

Notwithstanding size, seeing a potential opportunity *FiredPride* repeatedly attended international fairs teasing out opportunities in unfamiliar Dubai, adjusting to their hues and styles – seeking insight and advice from contacts who had penetrated there:

*“It’s a question of [personal] trust and familiarity before actually [conducting business] ... they want to see you, see you and see you again – then, afterwards, they kind of have trust in you. They’d say, ‘if this individual has come up here 1, 2, 3, 4, 5, 10 times he’s trying to get into the market’ - they’re serious, understand?” (FP<sup>2</sup>).*

*ProJoiners* on contract work for prestigious hotels in France emphasised direct trust-based rapport:

*“you need direct contact with your client, understand? Not just with your “go between”... with your client. In the sense that when the client sees you present there ... mmm, ... to get this French contract, they weren’t content with anything, before we sent them samples, understand? They, I mean they know Malta as a [holiday] “resort”, they wouldn’t imagine that here [professional business relationships can be maintained?]” (PJ<sup>3</sup>).*

Here it was evident that, due to centuries’ of occupation, Maltese attitudes are conducive to striking friendships and trust-based relationships transcending cultures:

*“We’re very capable of adapting ourselves – I mean, we’ll go out of our way to accommodate ... that’s the way I see it. As Maltese, I mean we are capable of establishing a good rapport with both the German and the Libyan ... which is quite a difference’ (PJ<sup>3</sup>).*

*VegaFont*’s founder refers to a national ‘identity’ warmth and accommodating flexibility, striving for innovative solutions to clients’ requests. One of his managers independently cited this affinity-inducing social and personal “*Maltese way of doing things*” as a relational competitive advantage in international business activity.

Elements associated with Malta’s colonial past and the tourism industry also play a part. Several SMFBs consider UK strategically important: *StarSnack*: “*we produce an English type of biscuit*”; *WineDivine*: “*they come here as tourists and taste our wine*” or have links with the Island; *ProJoiners* was successful in the UK with Tudor furniture reproductions. *FiredPride* consider tourism “*our bread and butter*”, relying on cruise-liner visitors especially Americans, for exports. In other respects, product / market

characteristics, such as book printing *VegaFont* sees the UK market as the world's second largest, while selling a Mediterranean lifestyle product, *SunDeli* have a universal allure.

Finally, the shared identity of Maltese émigrés (mostly in Australia, Canada and America) also featured as a crucial social link for some SMFBs' more committing (e.g. franchising) internationalisation strategies (*GloGlass*, *SunDeli* and *FiredPride*) – a trusted platform conducive to enabling international business.

In consolidating the above, one notes a recurring theme in the importance of these owner-MDs contacts and relationships – in gaining market knowledge, insight into opportunities, access to markets, networks and business facilitation.

While many scholars might over-emphasise the restrictive implications on internationalisation caused by resource limitations in smaller organisations, Calof (1993: 68; see also Bonaccorsi 1992) had suggested that size does not preclude a firm from successfully engaging in foreign markets. He observes, however, that size “*seems to limit the number of markets served*”. While one clearly notes that the largest SMFB *SunDeli* had regular activity in the largest number countries, a cursory glance at Table 7.14 and particularly Table 7.15, indicates that INV *GloGlass*, one of the smallest yet most internationally experienced SMFBs, registered more regular export activity in more countries than all the remaining larger SMFBs. Furthermore, *GloGlass* had engaged in sporadic and tentative exports to another 8 countries as far afield as Japan, and explored FDI in Cyprus. Notably, from analysis both SD<sup>3</sup> and GG<sup>1</sup> indicate evidence of higher innovation attributes, and extent of entrepreneurial conduciveness.

Further examination indicated that beyond size *per se*, other factors and tacit resources, specifically the characteristics and capability of owner-MDs, and their contacts – plus circumstance and product characteristics, collectively have a more determining impact on the extent and scope of internationalisation – especially in SMFBs. Here, an SMFB's culture additionally also provided a competitive edge – for instance in respect of trust-based, relational capability coupled with flexible solutions for international clients.

### 7.5.3 Foreign market entry: Entry modes

Researching family firm internationalisation more recently, Claver *et al* (2007: 1) stressed that among important issues in researching “*the internationalisation process is the choice of market entry strategy, which can be linked to the degree of international commitment*”. Also important is how modes of entry change over time. Determinants are associated with risks and rewards, as well as control and resource availability (Agarwal and Ramaswami 1992), the latter including finances, knowledge and managerial capability.

Table 7.16 below shows SMFBs’ foreign market entry modes over time – respectively associated with progressive resource commitments to internationalisation, risk exposure, control and profit potential (Madhoc 1997; Pan and Tse 2000). Additionally, studies show among various factors, firm-specific (Erramilli and Rao 1993; Madhoc 1997), as well as industry- and country-specific factors (Kogut and Singh 1988; Tse, Pan and Au 1997) also feature in entry mode selection (Pan and Tse 2000).

The years indicated in Table 7.16 relate to the first instance for each respective entry mode. For ‘direct exports’, in the case of SMFBs having initially engaged in irregular export activity (see Figure 7.1), the year listed relates to the initiation of such initial *ad hoc* and sporadic activity – which may have been an isolated tentative instance. The SMFBs are arranged in ascending internationalisation-experience (‘experienced’ and ‘novice’ internationalisers) order (Table 7.3).

Table 7.16 – SMFBs' foreign market entry modes (in order of internationalisation experience)

SMFB	Int'l extent	Non-equity modes					Equity (FDI) modes		
		Exports		Contractual agreements			Int'l JVs	Wholly owned / subsidiaries	
		Indirect exports	Dir. Exports (inc. agents/dist.)	Col alliances (inc. co-mrk, dist., R&D etc...)	Turnkey / cont projects	Licencing / franchising	JVs (Minority, 50/50, Majority)	Acquisitions	Green-fields
<b>GloGlass</b> - Size: Small - Est: 1968 (*1 <sup>st</sup> gen)	<i>Experienced</i> <i>Substantial</i> int'l (c.40%)	✓ <b>1: 1968</b> (Visiting tourists)	✓ <b>2: 1970</b> (2 yrs)		✓ <b>3: 2002</b> (32 yrs)	✓ <b>4: 2009</b> (7 yrs)			Initiative to open retail outlet in Cyprus (2007)
<b>ProJoiners</b> - Size: Medium - Est: c.1894 (3 <sup>rd</sup> gen)	<i>Experienced</i> <i>Substantial</i> int'l (30%)		✓ <b>1: c.1979</b>	✓ <b>5: 2008</b> (6 yrs)	✓ <b>3: 1998</b> (0 yrs)		✓ <b>4: 2002</b> (4 yrs)		✓ <b>2: 1998 (UK) / 2007 (Libya)</b> (c.19 yrs)
<b>FreshCatch</b> - Size: Medium - Est: c.1968 (2 <sup>nd</sup> gen)	<i>Experienced</i> <i>Predominant</i> int'l (c.90%)		✓ <b>1: c.1975</b>	✓ <b>5: 2006</b> (<1 yr)	✓ <b>2: 1989</b> (c.14 yrs)		✓ <b>3: c.1999</b> (c.10 yrs)	Scot-owned farm (c.2001); Asian JV buyout (2007)	✓ <b>4: 2006 (Cyp)</b> (c.7 yrs)
<b>SunDeli</b> - Size: Medium - Est: 1916 (3 <sup>rd</sup> gen)	<i>Experienced</i> <i>Predominant</i> int'l (c.66%)	✓ <b>1: 1955</b> (Merchant Navy)	✓ <b>2: 1996</b> (41 yrs)			✓ <b>3: 2007</b> (11 yrs)			Explored prod. FDI possibilities (c.2001)
<b>VegaFont</b> - Size: Medium - Est: c.1982 (1 <sup>st</sup> gen)	<i>Novice</i> <i>Predominant</i> int'l (c.70%)		✓ <b>1: 2000</b>				Explored JV pos. prepress Malta, printing in Libya (c.2009)		
<b>StarSnack</b> - Size: Medium - Est: 1965 (1-2 gen)	<i>Novice</i> <i>Substantial</i> int'l (50%)		✓ <b>1: 1985</b>						
<b>WineDivine</b> - Size: Medium - Est: 1907 (3 <sup>rd</sup> gen)	<i>Novice</i> <i>Low</i> int'l (c.5%)	○	✓ <b>1: c.1998</b>	✓ <b>2: 2010</b> (c.12 yrs)			Unsuccessful attempt (Italy) (2000)		
<b>FiredPride</b> - Size: Small - Est: 1964 (*2 <sup>nd</sup> gen)	<i>Novice</i> <i>Low</i> int'l (c.15%)	✓ <b>1: 1964</b> (Visiting tourists)	✓ <b>2: c.1979</b> (c.14 yrs)						Considered prod. FDI in Tunisia (c. mid-2000s)

KEY: *n*: shows progressive entry mode; *Year* indicates first instance of entry mode; (*n*) indicates gap in years from 1<sup>st</sup> instance of prior entry mode; '○' indicates a generic extent of influence due to tourism.

Source: Author, consolidated from within-case analysis. Pan and Tse (2000) taken as conceptual basis

- *Experienced internationalisers – entry modes*

With SMFBs in Table 7.16 listed in order of internationalisation experience, primarily gauging years' elapsed since engagement in regular foreign sales (see Table 7.3), a cursory glance suggests that the more experienced SMFBs internationalised using increasingly committing modes over time. Beyond arms-length export modes normally associated with SMEs, these SMFBs progressively internationalised via franchising, alliances and FDI. It is also apparent that generally, the gap in years between successively more committing entry modes tended to lessen.

With respect to size-related resource implications, more committing FDI modes were engaged-upon – not by the largest – but by the 4<sup>th</sup> and 5<sup>th</sup> largest SMFBs (*ProJoiners*, *FreshCatch*). Size did not stop one of the smallest and youngest (yet experienced), *INV GloGlass* from prospecting retail presence abroad – and recently pushing sales in distant America via a franchising arrangement. Here, trust-based contacts were a crucial resource. Essentially, SMFBs categorised as 'experienced', all generating 'substantial' or 'predominantly' international sales, varied in both size and age, ranging from 1<sup>st</sup> to 3<sup>rd</sup> generation control.

While industry- and country-specific factors would have played a role with respect to entry modes e.g. *turnkey and contract projects* for hotel furnishing contracts (*ProJoiners* and *GloGlass*), and government supply contracts (*FreshCatch*), and while EU accession somewhat facilitated *FreshCatch's* FDI in Cyprus, the social, contact-based Libyan *modus operandi* and business culture encouraged *ProJoiners* to set up a sales office in Libya to consolidate their presence and prospects for growth there. Yet the key factors consistently influencing entry mode and commitment to internationalisation were more idiosyncratically related to circumstance and firm-related factors, also most markedly converging on the owner-MD, incorporating accumulated experience, contacts and opportunity perception.

While, the SMFBs tended to internationalise along progressively more committing modes, *ProJoiners'* 3<sup>rd</sup> generation Gozitan owner-MD (PJ<sup>3</sup>) enterprisingly went directly from 'direct exports' to setting up a UK company years later – specifically to facilitate foreign currency transactions and assist operations when Malta was not yet an EU member. Around the same time, PJ<sup>3</sup> concurrently initiated export contract hotel projects in another market, followed by setting up a joint venture company a few years later specifically to pool



resources to target larger export contracts. Following the establishment of a sales office in Libya, in collaboration with an Italian contact, PJ<sup>3</sup> diversified into software, leveraging his tacit knowledge in emerging foreign markets.

Similarly, *FreshCatch*'s FC<sup>2</sup> had already embarked upon an Asian joint venture and set up fish farming facilities in Cyprus, prior to establishing alliances with Italian and Libyan fishermen more recently – subsidising their fuel in return for their future catch at negotiated rates.

For example, the largest SMFB, 3<sup>rd</sup> generation Gozitan *SunDeli* franchised the retail of its unique traditional Mediterranean delicatessen maintaining control on its premium products' positioning and presence in dedicated outlets in Germany. Similarly, small, 1<sup>st</sup> generation *GloGlass* entered into a collaborative franchising agreement establishing controlled retail presence for its creative, artisan wares in USA – enhanced by a dedicated internet retail platform and social networking. In both cases, these more committing modes of entry were based on contacts and trust-based relationships – both shored by relationships with Maltese émigrés residing in the respective foreign markets, again, established through contacts.

Rather than size and physical resource endowments, more committing entry modes were mostly associated with tacit, accumulated experience, contacts, and internationalisation and network knowledge – in relation to circumstance, throughout underlining the central role and enterprising characteristics of the founder / owner-MDs.

- ***Novice internationalisers – entry modes***

The less internationally experienced SMFBs, including rapidly internationalising “*Born-again*” *internationals*' *VegaFont* and *StarSnack*, similarly varied in size, age and generation. These ‘novices’ were all solely engaged in ‘direct exports’ – with *WineDivine* recently nurturing a loose collaborative alliance.

Notwithstanding ‘novice’ status and ‘direct export’ modes, rapidly internationalising *VegaFont* and *StarSnack* respectively export 70% and 50% of their sales – to foreign corporate clients in publishing and supermarket sectors. This partially resulting from an industry characterised by comparatively large-volume corporate clients.

Though as noted, all ‘novice’ SMFBs were active through less-committing export modes, lack of experience and in the latter instance size, did not stop owner-managers exploring possibilities and potential for more committing modes of internationalisation.

For example, *WineDivine*’s attempt at a joint venture with a long-time Italian contact, was mainly motivated by country-specific factors and an established trust-based relationship – seeking to offset limitations imposed by small-island characteristics and restrictive EU regulations. On the other hand, pausing to catch its breath after rapid internationalisation in the UK, and a recession underway, *VegaFont* more recently explored the potential for a joint venture in which it would locally prepare all pre-press work and have the actual printing undertaken in Libya at lower cost.

Following EU accession and a deteriorating competitive position, *FiredPride*, the smallest and least experienced SMFB also explored the prospects of having its production run from Tunisia, seriously considering host government incentives. However, *FiredPride*’s international sales remained mostly static, reactive and *ad hoc*. Notwithstanding increasing fair participation, most international business remained circumstantially driven, generally shipping tourist clients’ bulky purchases, and internet enquiries. Here, familial decision-making dynamics among the 4 sibling Directors steering this smallest business result in a potentially compromising consensual approach and hesitant strategic direction.

Compounded by competitive pressures and acute survivability concerns, the family business was split in 2009. A year later, the younger siblings started a new operation with a refreshed corporate identity and renewed internationalisation intent. Actively seeking to franchise their ‘Mediterranean’ ceramic art and wares internationally, they immediately sought international exposure and opportunities through participation at fairs – also embarking on an EU support project engendering international collaboration and knowledge sharing with Italian counterparts.

Here too, with ‘novice’ internationalisers, the tacit experiential factors influencing internationalisation associated with entry modes, were centrally convergent upon the key individual – generally the owner-MD. This learning process and accumulated knowledge interacts with the individual’s characteristics, moderating risk-perception and enhancing opportunity identification in given idiosyncratic circumstantial contexts. For example, *StarSnack*’s founder readily attested to his graduate son’s catalytic role as MD in the

business' rapid internationalisation – the son leaving the company later due to testing family relational dynamics in direction and control. Similarly, *VegaFont's* internationalisation “*explosion*” was triggered when through established contact, the founder poached a seasoned foreign professional who was MD at a competing firm.

- ***Internet – exports and foreign market entry***

In discussing market entry, the Internet, given its ubiquitous availability and relative ease of deployment, as well as importantly its effectiveness in defying traditional size and resource limitations, should have its role in exports and internationalisation also considered – whether as a standalone or complementary channel.

In increasing instances it is the preferred channel through which certain enterprises internationalise. From a transaction / export order point of view, the Internet played a role in the case of some of the SMFBs under study (Table 7.17).

**Table 7.17 – Internet-based exports and foreign market entry  
(including instigated internationalisation activity)**

SMFB	Online or internet-based exports & instigated international activity	Website function and characteristics
<b>Glo Glass</b>	<ul style="list-style-type: none"> <li>Malta: “not many” direct online sales via website. However, rising activity, exposure &amp; <i>ad hoc</i> sales via Facebook. Indirect: enquiries, contacts via internet promote working relationships followed by export business. Other contacts &amp; 3rd parties also promoting retail of GG products in foreign markets via internet (USA, Canada).</li> <li>USA (web-based) franchise (2009): c.1yr after start-up c.\$1,000.</li> </ul>	<ul style="list-style-type: none"> <li>Malta: Website set-up 2003. Substantially developed. Primary purpose informational. Solicits online purchases. E-shop, product catalogue &amp; checkout cart (“we don’t follow or push this much”). Not updated regularly.</li> <li>USA franchise: Set-up 2009. Well developed, audio visual media. Primary purpose online retail (main sales point). Product catalogue, secure checkout cart. Feedback forms &amp; social networking (Facebook [very active], Twitter). Regularly updated.</li> </ul>
<b>Fresh Catch</b>	<ul style="list-style-type: none"> <li>No direct sales. n/a.</li> </ul>	<ul style="list-style-type: none"> <li>Basic. Primary purpose informational, customer &amp; PR. Not regularly updated. Inactive Facebook account recently set up.</li> </ul>
<b>Wine Divine</b>	<ul style="list-style-type: none"> <li>No direct sales.</li> <li>Indirect: Via unsolicited enquiries, contact established and export business (Poland), also agents (Belgium). Other contacts &amp; 3rd party clients promoting &amp; retailing WD wines via internet (Holland, Belgium).</li> </ul>	<ul style="list-style-type: none"> <li>Well developed. Primary purpose informational, and promotional. Supports establishment of prospective corporate client rapport and trust – evidence &amp; eligibility. Audio-visual &amp; social media functionality (Facebook temporary, inactive). Regularly updated.</li> </ul>
<b>Fired Pride</b>	<ul style="list-style-type: none"> <li>Direct: Sporadic enquiries resulting in occasional sales. c.8% of sales are internet generated exports (c. half of direct exports, at 15%). USA market receptive.</li> <li>Indirect: Through contact (Maltese émigré), 3rd party collaboration FP wares promoted &amp; retailed via internet (USA).</li> </ul>	<ul style="list-style-type: none"> <li>Website set-up c.2005. Reasonably developed. Primary purpose informational, yet solicits online purchases. Product catalogue &amp; rudimentary checkout facility. Not updated regularly. Inactive Facebook account.</li> <li>New set-up following Co. ‘split’ – established 2010. Well developed. Primary purpose informational. Solicits int’l franchise opportunities &amp; feedback via forms.</li> </ul>
<b>Sun Deli</b>	<ul style="list-style-type: none"> <li>No direct sales. n/a</li> <li>Indirect: Through contact (Maltese émigré), 3rd party promotion &amp; retail of SDs deli products via Internet (Australia).</li> </ul>	<ul style="list-style-type: none"> <li>Reasonably developed. Primary purpose informational, also international corporate client orientation. Supports establishment of prospective corporate client rapport and trust – evidence &amp; eligibility. Updated regularly. Active Facebook account.</li> </ul>
<b>Pro Joiners</b>	<ul style="list-style-type: none"> <li>“used to” export direct sales to UK via Internet in earlier years. “Now on hold”.</li> </ul>	<ul style="list-style-type: none"> <li>Website set-up c.2002/3. Well developed (re-launched 2008). Primary purpose informational &amp; promotional exposure (online purchase facility removed). Supports establishment of prospective corporate client rapport and trust – evidence &amp; eligibility. Solicits enquiries &amp; feedback via forms. Regularly updated.</li> </ul>
<b>Vega Font</b>	<ul style="list-style-type: none"> <li>No direct sales. n/a.</li> </ul>	<ul style="list-style-type: none"> <li>Website set-up c.2005 (rudimentary c.2002). Well developed, multi-lingual. Primary purpose informational &amp; promotional exposure. Supports establishment of prospective corporate client rapport and trust – evidence &amp; eligibility. Also support, work-flow mgt and uploading services for clients. Also solicits enquiries. Regularly updated. Inactive Facebook account recently set up.</li> </ul>
<b>Star Snack</b>	<ul style="list-style-type: none"> <li>No direct sales. n/a.</li> </ul>	<ul style="list-style-type: none"> <li>Website set-up 2004. Basic. Primary purpose informational &amp; promotional exposure. Supports establishment of prospective corporate client rapport and trust – evidence &amp; eligibility. Not updated regularly. Currently not online.</li> </ul>

Source: Author, consolidated from primary data, within-case analysis and online (as at 7 July 2011)

Three SMFBs effected direct sporadic export sales via the Internet (*GloGlass*, *FiredPride*, *ProJoiners*).

Six SMFBs more recently showed interest in potential for internet-based social networking opportunities via Facebook. However, in the case of *FreshCatch*, *VegaFont* and *FiredPride* these were very recently set up and are inactive. *WineDivine* set up temporary Facebook accounts to promote specific events, such as its annual wine festival. On the other hand, *SunDeli* and *GloGlass* both had very active Facebook interactivity. Yet only in *GloGlass*' case was evidence of international business activity and retail sales via Facebook observed (Figure 7.7). *ProJoiners* and *StarSnack* did not employ such social-networking media.

Otherwise, no serious commitment was evinced in respect of directly targeting Internet-based retail e-commerce. In most instances, product and sector characteristics rendered such a mode less appropriate – e.g. having either product characteristics or operations directed towards serving large foreign corporate clients (*FreshCatch*, *WineDivine*, *SunDeli*, *ProJoiners*, *VegaFont* and *StarSnack*). Here, the Internet was rather considered useful by the owner-MDs in providing exposure and presence – an important source of information and insight as well as a reassuring ‘confirmation of existence’ to potential foreign corporate clients – breeding trust and legitimacy following the establishment of contacts.

However, indirectly, on-line retail of SMFBs products in foreign markets was in instances taken on by 3<sup>rd</sup> parties, collaborating contacts – often Maltese émigrés with whom contact and trust was established, partly upon the basis of shared cultural affinity – in instances also leveraging access to a potential catchment in Maltese diaspora (*GloGlass*, *WineDivine*, *FiredPride*, *SunDeli*).

**Figure 7.7 – GloGlass: International business activity via Facebook social networking**

The screenshot shows a Facebook page for GloGlass Malta. At the top, the Facebook logo and a search bar are visible. The main content consists of several posts:

- Post 1:** A post by GloGlass Malta titled "Glass Fountain" dated 28 June at 01:48. It includes a photo of a colorful glass fountain. Comments include:
  - Cynthia Cilia Sillato, Lisa Vella, Mohamed Ibrahim and 10 others like this.
  - View all 6 comments.
  - GloGlass Malta: "this is about 6feet tall and has over 300 glass curls. we still have to work out a price so we'll get back to you asap" (11 July at 04:56).
  - Mohamed Ibrahim: "ok thanks for your helping and interesting awaiting your reply" (11 July at 05:08).
- Post 2:** A post by Annie Ramos Fischer dated 08 July at 00:06. It includes a photo of a landscape painting. Comments include:
  - Miguel Ricardo, Carmen Esther Grech and Doris Casha Camilleri like this.
  - View all 4 comments.
  - Pauline Kimber: "I'd like to see more like this on your web site to buy!" (Wednesday at 00:44).
  - GloGlass Malta: "we will post some more pictures in the coming days." (Yesterday at 04:45).
- Post 3:** A post by GloGlass Malta titled "Glass Fountain" dated 28 June at 01:48. It includes a photo of a colorful glass fountain. Comments include:
  - Miguel Ricardo, Charles J. Desira, Lora Starbuck Aragon and 7 others like this.
  - Danny Willis: "want this" (28 June at 01:52).
  - GloGlass Malta: "you can order one in any size and colour!" (28 June at 01:53).
  - Simply European: "Brilliant workmanship!" (30 June at 03:49).
- Post 4:** A post by Kana Brogren Umehara dated 12 May at 05:32. It includes a photo of a woman. Comments include:
  - GloGlass Malta: "yes sure we do ship to Sweden. is there anything in particular that you wish to buy?" (12 May at 05:51).
  - Kana Brogren Umehara: "Thanks!! I am interested in buying Wall decolations(Wall art?)." (12 May at 06:18).

Red brackets on the right side of the page group the comments for each post, indicating the scope of the activity shown.

Source: Online. GloGlass' Facebook page. Activity from June-July 2011

- *Consolidating – entry modes*

With reference to Table 7.16, as well as detailed SMFB-specific analyses undertaken, it is evident that, besides firms' circumstances and idiosyncratic characteristics, all else equal, key factors influencing the mode of entry underlined owner-MD characteristics and their international experience – tacit internationalisation and network knowledge, acting as a social, often informal access channel to myriad insight and tacit knowledge on all sorts of opportunities and business facilitation. Increasing commitment to foreign markets and exposure, in most cases generated further learning, accumulation of internationalisation knowledge and experience, generating insight and enhanced awareness on potential future opportunities. In turn, this increasing presence and exposure presented the owner-MDs with opportunities for additional social interaction and the establishment of additional international contacts – often acting as a 'conduit', providing for 'internationally fortified' insight and various forms of knowledge, business facilitation and further international business opportunities. These aspects are discussed later.

All SMFBs engaged in 'direct exports'. In the case of *GloGlass* and *FiredPride*, both country- and product- characteristics also resulted in immediate and substantial 'indirect exports' resulting from sales to visiting tourists. While from a knowledge perspective there was evidence highlighting big divergences between e.g. visiting British tourists' tastes and those of domestic UK consumers, in instances leading to substantial foreign-market bumbles, owner-MDs nonetheless gained an indicative extent of insight and confidence regarding foreign markets from such exposure. Furthermore, such 'indirect exports' to visitors and tourists enhanced social interaction and the establishment of international contacts – in instances also resulting in serendipitous international business opportunities arising from foreign business owners encountering the SMFBs' wares while holidaying in Malta (Crick and Spence 2005; Caliskan *et al* 2006). This was the case on various occasions for *GloGlass*, *WineDivine* and *FiredPride*.

Indeed, from a knowledge resource and association perspective, indigenous and unique characteristics directly linked with the Mediterranean islands' traditions and cultures, manifested in the products themselves, added an integral element of unique value – enhancing exportability (Barney 1991). While this is clearly seen in the case of *GloGlass*, *SunDeli*, *WineDivine* and *FiredPride*, and to a somewhat lesser extent in *ProJoiners* and *StarSnack* – interestingly, as noted there was a direct reference to international competitive

advantage also being derived through the social and interactional relational dynamics in professional service delivery – “*the Maltese way of doing things*” in the case of *VegaFont* – a pattern also evinced throughout the SMFB’s international activity. This seemingly unique or value adding, social or interactional “*Maltese way*” is discussed further later in relation to these SMFBs international business activity.

Consolidating, more ‘experienced’ SMFBs progressively proceeded to more committing entry modes – suggesting a link with accumulated tacit internationalisation-related knowledge stocks – such SMFBs affecting ‘substantial’ to ‘predominant’ international sales. That said, while one may initially perceive a pattern suggesting general evidence relating to process and Uppsala stage models of internationalisation, one, however, also notes the incidence of an INV (*GloGlass*), and 3 late, yet rapidly internationalising “‘*born-again*” internationals’ (*SunDeli*, *VegaFont* and *StarSnack*), spanning both ‘experienced’ and ‘novice’ categories. In *GloGlass*’ case, size did not deter internationally experienced GG<sup>1</sup> from internationalising using more committing modes, such as projects and franchising. Here, contacts and trust-based relationships established by GG<sup>1</sup>’s also played a crucial role.

Idiosyncratically addressing circumstantial opportunities faced, *ProJoiners*’, 3<sup>rd</sup> generation owner-MD went directly from years of direct exports to setting up a UK company – and then to other modes of varying levels of commitment – including a sales office in Libya.

## 7.6 SMFBs’ internationalisation: An ACAP approach

The next part of this analysis builds further on analysis thus far and draws on rich, detailed within-case investigations in order to examine the SMFBs’ outward internationalisation adopting an ACAP approach. In line with stated objectives, complementing earlier analysis and discussion, the following research questions are addressed:

- ▶ **How** do such SMFBs approach knowledge requirements associated with internationalisation, as proposed by the absorptive capacity approach?

Toward this end, along established fundamental ACAP elements represented in the conceptualised research framework discussed and presented earlier for examining and



analysing ACAP associated with internationalisation, the following sub-questions are addressed:

In *what* way and *how* is information and knowledge relative to internationalisation acquired and assimilated, utilised and leveraged to exploit international opportunities, and *what* is the influence of these SMFBs' dynamics?

Furthermore, analysis presented here also builds further on cross-case analytic investigation discussed previously, highlighting emergent empirical evidence from this study emphasising the central role of the founder/owner-MD and the importance of contacts and relationships in these SMFBs' internationalisation. In this section the two associated core corollary research questions are examined more closely with respect to parallel entwined internationalisation and ACAP dynamics:

- ▶▶ *What* is the role of the founder / owner-MD in these SMFBs' internationalisation and associated absorptive capacity processes, and *how* does this impact on overall internationalisation?
- ▶▶ *What* role do contacts and relationships play in these SMFBs' internationalisation and absorptive capacity processes? *How* and *why* are these often social and informal contacts and relationships employed, operationalized and leveraged?

As noted, this part of the analysis adopting an ACAP approach consolidates within-case analysis and focuses examination across cases, analysing the dynamics involved in specific outward internationalisation events – seeking to better understand how external information and knowledge associated with internationalisation is acquired, assimilated and exploited via engaging in international activity.

Based on extensive discussion presented earlier, in line with the research framework, *antecedents* broadly included the existing knowledge base, prior international activity, circumstances and characteristics of owner-MDs, external environmental dynamics or critical events triggering responses related to strategy and growth. *ACAP* elements considered dynamics and processes involved in the *acquisition* and *assimilation* of external information and knowledge associated with internationalisation, and 'potential' capability

‘realisation’ through its *exploitation* via the pursuit of international opportunities. *Outcomes* investigate strategic adaptation and competitive advantage, performance, new international contacts, accumulation of new forms of knowledge and types of innovation and increased internationalisation capability. Analytic templates detailing these fundamental internationalisation ACAP elements, guiding investigation and analysis, were discussed and presented in Chapter 5, *Methodology and research design*.

The specific, strategically important outward internationalisation events emphasised in analysis are reiterated below:

- Current internationalisation situation, general international activity, events and stance (including prospecting activity),
- Any initial, tentative *ad hoc* or sporadic export activity (first steps),
- The 1st regular, ongoing international business venture (onset of sustained internationalisation thrust),
- The 2nd regular, ongoing international business venture,
- Subsequent international business activity and foreign market development.

As a process, linkages and associations between these specific outward internationalisation events are also investigated. These sought to explore learning and developmental processes and included:

- any associations between any initial, *ad hoc* or tentative sporadic exports, and 1st, 2nd, and subsequent regular internationalisation events and activity,
- any associations between inward internationalisation and outward internationalisation events and activity.

Furthermore, any linkages and associations between domestic activity and internationalisation, as well as international activity or ventures terminated and opportunities not pursued were also investigated.

In concluding, as established, core to the research objectives, analysis emphasised examining the role of the owner-MD as well as that of contacts and relationships. Thus, in

line with this study’s evolving research focus, analysis here progressively focussed on examining:

- general processes and dynamics involved with respect to SMFB internationalisation and associated ACAP phenomena,
- role and impact of the founder / owner-MD,
- role and impact of contacts and relationships.

### 7.6.1 Initial, tentative or ad hoc export activity

Prior to regular exports, *GloGlass*, *FreshCatch*, *FiredPride*, *SunDeli* and *StarSnack* had engaged in tentative or sporadic, *ad hoc* export activity. With the exception of INV *GloGlass*, the time lapse between initial sporadic export activity and onset of regular exports was substantial – 14 years in the case of *FreshCatch* and 41 years for *SunDeli* (See Figure 7.1 and Table 7.5). Table 7.18 summarises information relative to SMFBs’ initial *ad hoc* export activity.

**Table 7.18 – Key information - Initial, tentative or *ad hoc* exports**

SMFB Info	Glo Glass	Fresh Catch	Fired Pride	Sun Deli	Star Snack
Owner-MD at helm. ( <i>gen.</i> )	UK Found. ( <i>previous</i> )	FC2	FP2	SD2 ( <i>previous</i> )	SS1 ( <i>previous</i> )
Year these exports started	1970	c.1975	c.1979	1955	1985
SMFB age at this int’l event	2	c.7	c.15	39	20
Export destination	Italy, USA	Italy	UK	UK	Various
Reactive / Proactive	Proactive	Proactive	Reactive	Proactive	Proactive
Nature of exports	Tentative one-off + short-lived shipments	Ongoing <i>ad hoc</i> exports	One-off venture, 2 containers shipped	Isolated c.16 yrs via UK M. Navy	Tentative short lived shipments. Sporadic.

Source: Author, consolidated from within-case analysis.

Building on detailed within-case analysis, including analytic matrices and rich case narratives, the following sub-sections analyse the SMFBs’ internationalisation process adopting an ACAP perspective for this specific internationalisation event.

### 7.6.1.1 ACAP process

- *Antecedents and prior knowledge*

From an external environmental perspective *SunDeli's* first exports occurred when still under colonial rule – at that point, in operation for 39 years. SD<sup>3</sup>'s father had just invested in a machine that packaged tomato concentrate in aluminium tubes. This greatly increased his product's portability since it was previously ladled onto greaseproof paper and sold by weight. Used to dealing and trading wares between Gozo and Malta, SD<sup>2</sup> was well connected.

For INV *GloGlass'* newly arrived founding Britons' priority was settling in Malta and setting up shop. Having just gained independence, Malta government was encouraging new sectors. Experienced in glassmaking, having targeted an untapped local market, they nonetheless immediately sought export opportunities.

*FreshCatch*, *FiredPride* and *StarSnack* (respectively after circa 7, 15 and 20 years in operation) engaged in sporadic exports in the period following independence, under a Labour government enforcing import substitution policies.

FC<sup>2</sup> promoted fish with restaurants mushrooming around the island as tourism took hold post-independence. The British connection favoured meat cuts rather than fish – the poor man's staple. Importing exotic fish and lobster for the trade, he recognised opportunities beyond Malta's shores. Knowledge and experience were important for FC<sup>2</sup> to personally navigate to neighbouring Sicily and gain access to Italian markets. Barely 20 years old and unable to speak Italian, his determination and knowledge of “*all things fish*” were crucial in overcoming challenges presented by language barriers and the Sicilian Mafia – empowering his negotiating ability when it came to transacting and bartering. *'I've learnt my schooling from the streets. From the streets and from facts ... past happenings and experiences'* (FC<sup>2</sup>).

Self-made founder SS<sup>1</sup> had just enterprisingly bought-out his hesitant British joint venture partners and diversified into biscuit production as a result of 'import substitution'. With a new factory and facilities, enjoying quasi-monopoly status in the domestic market, excess capacity pointed to exploring potential export opportunities abroad.

While *FiredPride* was not seeking export opportunities, an extent of prior insight related to foreign markets (especially the UK) was had through sales to British tourists visiting the Islands.

For SMFBs, with the exception of *GloGlass*' founders, prospecting foreign markets was a novel proposition. Besides, indigenous owner-MDs had no schooling beyond mandatory secondary schooling – and any prior knowledge was experiential, derived from dealings and contacts, mostly driven by opportunistic gut instinct. *FiredPride* had already been bought and indigenised by the current family for circa 6 years when the first unsolicited and isolated export opportunity occurred.

- ***Information & knowledge acquisition***

With respect to *GloGlass*' founders, both Italy and USA were unknown terrain as they felt their way about establishing their business in Malta. However, the allure of their homeland and concomitant contacts and links in the UK had an important role to play, especially when they visited their first international fair there: “*We went to the trade fair, naturally there was [we made] a contact, and we started doing something with them*” (GG<sup>1</sup>).

For FC<sup>2</sup>, initial market knowledge was gained through his network of local fish traders and later from dabbling in directly importing fish for the hotel and restaurant trade – “*Import and export go [went] hand-in-hand*” (FC<sup>2</sup>). Beyond the first foray bartering fish in Italy, market knowledge and insight into the unwritten *modus operandi* in the Southern Italian fish trade (including the Mafia control) was mainly garnered through experience and interaction – “*know how*”, also from foreign contacts and trusted links established there. Relationships were crucial in gaining information and facilitating first steps in internationalisation for *FreshCatch*. Combined with experience in ‘all things fish’, a spirit of adventure transcended language barriers for FC<sup>2</sup>.

*“you feel from within you what they are talking about, and you just start to communicate in some way ... because you have your own “feelings, you pick up a word here [and there] ... a sentence on fish or dealing with an account, I’ll pick it up. ... within you lies a tremendous inner motivation.”*

*FiredPride*'s export opportunity was an *ad hoc*, unsolicited chance encounter. A British ceramics company director, holidaying in Malta, approached FP<sup>2</sup> to outsource and

commission a product. Product knowledge was mainly via specification requirements through direct interaction with client. Initially little need for market knowledge existed.

SD<sup>2</sup>'s many contacts with the military provided insight into potential export opportunities via British Merchant Navy. Little market knowledge was required for these indirect exports. The product, well in demand since fresh tomatoes were seasonal, was in exportable packaging.

*StarSnack's* founder did not target any single market specifically while engaging in sporadic exports. Mainly opportunistic activity addressing excess capacity. Insight was gained into foreign market knowledge and tastes through visiting international fairs which increased as EU accession drew closer – actively '*testing the waters*'. Important foreign contacts established were a useful source of insight into market characteristics and opportunities. Long-standing relationships with Italian suppliers were leveraged, providing useful market, product and technological knowledge. Consignments to the Maghreb relied on cultural affinity, business contacts and gradual experience, while those to China involved government initiatives fostering close economic and cultural ties.

Across the board, owner-MDs gained knowledge on procedural aspects of internationalisation through direct experience and interaction. At the time agency support for outward internationalisation was sparse or unavailable.

- ***Information & knowledge assimilation***

External information, insight and knowledge on markets, product and technology and internationalisation was directly assimilated by the owner-MDs directly interacting with various actors. Ongoing interaction, international exposure and communication with foreign contacts, including suppliers, first export clients and others from international fairs impelled this organic process – in turn influencing owner-MDs' risk-perception, motivations and conduciveness to internationalisation. GG<sup>1</sup> observed such knowledge acquisition and assimilation occurred as part of a proactive step-wise approach, "... *one finds his feet first and then puts a foot out – seeing what comes out of it*".

In instances, this knowledge resulted in product adjustments or innovations ... noting demand for a Mediterranean product, SS<sup>1</sup> developed fig roll biscuits.

In these cases, owner-MDs gained procedural internationalisation knowledge through direct experience, interacting with relevant government departments.

All knowledge and learning processes were generally embodied by the owner-MDs. In *FiredPride*'s case, there was collective involvement among the siblings.

- ***Information & knowledge exploitation [internationalisation event]***

*“Although not necessary for survival”* *GloGlass* founders immediately sought export opportunities. Through contacts established, samples were sent to Italy and short-lived exports despatched to USA, after *“a good contact relationship”* was established during a fair.

*FreshCatch*: Seeking growth and a sense of adventure, FC<sup>2</sup> set sail for Italy. Through sheer volition, FC<sup>2</sup> exploited rapport with local trusted contacts, and overcame both language barriers and potentially dangerous Mafia intrusion.

*FiredPride*: Isolated export venture, exporting container-loads of commissioned items to UK ceramics company. Relatively short duration.

*SunDeli* exploited new techniques in packaging their tomato concentrate paste, indirectly exporting to Commonwealth countries via the locally-based British Merchant Navy. This lasted over a decade until UK joined EEC, rendering their exports uncompetitive.

Exploiting information and contacts with peers established during fairs, *StarSnack* founder SS<sup>1</sup> explored export opportunities to utilize excess capacity of his new biscuit plant. *Ad hoc* consignments were initially shipped to Scotland, Saudi Arabia, Kuwait, Italy and China. Middle East and Libya were revisited. With his son by his side, on the threshold of EU membership SS<sup>1</sup> shipped one-off export consignments, *‘testing the waters’* to Canada, Italy, and *‘through foreign contacts’*, Lebanon and the Middle East.

- *Outcomes*

Such early activity in *FreshCatch*'s ongoing opportunistic *ad hoc* exports, and *SunDeli*'s sustained indirect exports, fostered contacts, ensured better capacity utilisation and had some effect on performance – increasing sales and assisting growth. Similarly, for the duration of particular contracts, *FiredPride* had operations running “*in full swing*”, employment levels swelling to 30. However, in the case of *GloGlass* and *StarSnack*, these *ad hoc* exports had little impact on quantifiable performance measures associated with sales and revenues.

Across the board, however, important outcomes were experiential knowledge – pertaining to markets, products and technology, internationalisation procedures – and the consolidation of links and trusted-contacts. In FC<sup>2</sup>'s case, this “*know-how*” and ‘*know-who*’, were vital in manoeuvring ‘around-about’ access to Sicilian markets – so that when his Maltese contemporaries unsuccessfully returned to port laden with unsold fish, he would buy their catch, sail for Sicily, and make it to market without a hitch. This led to further export activity, and an extent of business innovation, as FC<sup>2</sup> took on the role of ‘broker’. Through exports and barter he supported complementary imports of fine species, domestically leading to market innovation, as he popularised fish with the restaurant and hotel trade.

To tap opportunities for indirect exports, SD<sup>2</sup> invested in new equipment packaging *kunserva* in easily transportable aluminium tubes. A canning facility soon followed this innovation – enhancing convenience for shopkeepers and consumers, boosting domestic sales.

Eyeing opportunities, SS<sup>1</sup> invested in product and process innovation upgrading the quality of products as well as packaging “*to target the export market more specifically*”.

Yet from the perspective of the owner-MDs, a most important outcome was associated with accumulated experience and individual learning on a new international dimension to their business operations – keening confidence and awareness to potential opportunities beyond Malta's shores.



### 7.6.1.2 The role of the owner-MD

Of the 5 SMFBs engaging in tentative exports, *GloGlass* was an INV and *FreshCatch* a young family affair. Both still rudimentary, their owner-MDs were solely responsible for proactively driving first internationalisation opportunity. The same can be said of initiatives undertaken by *SunDeli*'s earlier generation owner-MD and *StarSnack*'s founder.

In *FiredPride*'s case this role was less marked, first opportunities arising from a chance encounter and unsolicited order. Nonetheless the owner-MD, in consultation with his siblings, had a role to play – exploiting an opportunity involving customised production at a time when the domestic market was sufficiently profitable.

Table 7.19 draws from rich qualitative primary and secondary data sources, consolidated in case narratives, and within-case analysis, and provides an overview of the role of the owner-MD in identifying and exploiting first tentative steps in outward internationalisation.

**Table 7.19 – Role of owner-MD: Initial, tentative or *ad hoc* exports**

Glo Glass	Fresh Catch	Fired Pride	Sun Deli	Star Snack
EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	SOMEWHAT IMPORTANT ●●○○○	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

### 7.6.1.3 The role of contacts and relationships

First steps in outward internationalisation were crucial on many fronts. Contacts provided insight on opportunities and foreign markets, products and requirements. Besides information and insight, contacts generally led to introductions, further contacts – a conduit for insight, knowledge and business facilitation. Contacts and relationships with foreign suppliers as well as those established at international fairs were observed as important. Otherwise, all manner of local social contacts were leveraged and exercised as and where necessary by the owner-MDs.

Table 7.20 below draws from rich qualitative primary and secondary data sources, consolidated in case narratives and within-case analysis, and gives an overview consolidating the role and importance of contacts and relationships in identifying, enabling and facilitating the exploitation of this international opportunity and event.

**Table 7.20 – Role of contacts and relationships: Initial, tentative or *ad hoc* exports**

Glo Glass	Fresh Catch	Fired Pride	Sun Deli	Star Snack
EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

## 7.6.2 First regular and sustained exports (onset of internationalisation thrust)

Key information for this internationalisation event is summarised in Table 7.21.

**Table 7.21 – Key information - First venture in regular and sustained exports**

SMFB Info	Glo Glass	Fresh Catch	Wine Divine	Fired Pride	Sun Deli	Pro Joiners	Vega Font	Star Snack
Owner-MD at helm	UK found. (previous)	FC2	WD3	FP2	SD3	PJ2 (previous)	VF1	SS2
Year these exports started	1971	c.1989	c.1998	c.2004	1996	1979	2000	2004
SMFB age at this int'l event	3	c.21	c.91	40	80	c.85	c.18	39
Export destination	UK	Japan	UK	USA & various	S. Arabia & others	UK	UK (x4)	Cyprus
Prior exports? (years prior)	Yes (1)	Yes (c.14) ongoing	None	Yes (c.25) isolated	Yes (41) isolated	None	None	Yes (19) sporadic
Reactive / Proactive	Proactive	Circumstantial	Active circumst.	Active reactive	Proactive	Reactive	Proactive	Proactive circumst.
Nature of exports	Last c.14yr via dist. agent	Govt cont. exporting Malta tuna	Last c.2yr via import agent	<i>Ad hoc</i> exports ongoing	Sustained w various clients	Last c.2yr contracted by client.	Ongoing direct to publishers	Ongoing direct to family bus.

Source: Author, consolidated from within-case analyses.

### 7.6.2.1 ACAP process

- *Antecedents and prior knowledge*

With the exception of *WineDivine*, this point in outward internationalisation, marking the first regular and sustained exports, also marks the onset of a marked internationalisation thrust initiated by the respective owner-MDs.

For 3 SMFBs (*WineDivine*, *ProJoiners* and *VegaFont*), this was the first exporting experience. As observed, five of the SMFBs (*GloGlass*, *FreshCatch*, *FiredPride*, *SunDeli* and *StarSnack*) had already engaged in *ad hoc* exports resulting in an extent of internationalisation experience. In *SunDeli* and *StarSnack* there occurred generational change at the helm in the interim between first tentative exports and these first regular and sustained exports. Otherwise, with the exception of *GloGlass*, *ProJoiners* and *StarSnack*<sup>46</sup>, the owner-MDs at this point of first regular and sustained exports are the current ones.

*GloGlass* and *ProJoiners* started regular exports during a Labour administration enforcing ‘import substitution’ policies. While *GloGlass* had been operating for 3 years, *ProJoiners* was circa 85 years old, but had only been 7 years since it registered as a company – industrialising operations, transferring from workshops to factory operating specialised Italian machinery. PJ<sup>2</sup> started “*establishing international contacts and relationships*”, initially importing furniture for assembly.

In *FreshCatch*’s case, Malta government policy to offset payments to Japan for infrastructural investment and installation of boilers for the power station expansion led to their circumstantial opportunity – being “*the first people in the Mediterranean who exported tuna to Japan*” (FC<sup>2</sup>).

First regular exports for *SunDeli*, *WineDivine*, *VegaFont*, *FiredPride* and *StarSnack* were effected during the 8 year run-up to EU accession from 1996 to 2004.

*SunDeli* (1996) had invested hugely, moving to a state-of-the-art factory, and immediately sought “*overseas markets for our products in 1995*”.

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<sup>46</sup> SS<sup>2</sup> left the business in 2008. At 75, his father, founder SS<sup>1</sup> resumed the helm temporarily.

Four years before, WD<sup>3</sup> initiated his ‘Vines for Wines’ alliance with farmers and employed an experienced British wine connoisseur who had settled down in Malta with his Maltese wife. Beyond visiting, WD<sup>3</sup> had started actively participating at international fairs where against expectations he got “*very, very good feedback*” and “*made many valuable contacts ... we continued participating in several ... it was a great encouragement*” – commendations and medals started flowing in.

Four years before, *VegaFont*’s founder undertook great investment, moving from a cluster of garages to a purpose-built factory. Growth more than EU accession were on VF<sup>1</sup>’s mind, even as he poached the experienced English GM from the competition.

Similarly, yet gearing towards EU membership, *FiredPride* inaugurated their newly equipped factory, launching premium products. This huge investment had taken 7 years’ construction. Concerned about impeding competition FP<sup>2</sup> and siblings started visiting international fairs: “*working on exporting a new range of products to different overseas markets, through participating in ... upcoming overseas fairs*”.

Anticipating intense competition with EU accession, SS<sup>2</sup> and his father undertook restructuring at *StarSnack*, investing in equipment, paring the workforce, terminating wafer and chocolate production, employing an Export Manager.

*StarSnack* and *FiredPride* effected first such exports in 2004, the year Malta joined EU.

- ***Information & knowledge acquisition***

The five owner-MDs who had already engaged in sporadic exports already had experiential internationalisation knowledge – somewhat irrelevant for *FreshCatch* – market knowledge was experientially gained later through FC<sup>2</sup>’s direct interaction with Asian parties. Given its British founders, market knowledge and contacts were evident for *GloGlass*.

Market, product and technology knowledge was complemented through employment of knowledgeable individuals. An experienced English wine connoisseur previously at *Marks and Spencer*’s provided WD<sup>3</sup> with insight into UK markets as well as into vintage quality characteristics. The well-connected English general manager poached from the competition

proved a catalyst for *VegaFont's* rapid internationalisation, giving VF<sup>1</sup> access to UK market knowledge, and product specification insights. In both cases, know-what, know-how and know-who played an important role in knowledge acquisition.

SS<sup>2</sup>'s employment of an export manager 'imported' internationalisation knowledge into *StarSnack*.

At *ProJoiners*, PJ<sup>2</sup> acquired manufacturing and technical knowledge, frequent travelling to Italy tapping his contacts with equipment suppliers, thus enhancing exportability potential for the UK market. Similarly, WD<sup>3</sup>'s close links with Italian vintners, referred to as trusted "*friends*", brought into *WineDivine* "*technical know-how and creativity*". Again, at *FiredPride*, FP<sup>2</sup> underlined help of Italian suppliers, transmitting product and technology knowledge: information "*that comes from contacts ... we learn a lot from being with them ...*". At that time, *GloGlass* tapped into the tacit knowledge of 2 Italian master craftsmen again poached from UK glassworks through leveraging contacts – product and technology knowledge enhancing capability and artisan value.

Owner-MDs' participating and establishing contacts at international fairs, proved crucial for the SMFBs' realisation of their first regular and sustained exports. Besides market knowledge, and insights into production and technologies, in instances the actual opportunity arose through contacts established at these fairs. The founders at *GloGlass* had just returned from a fair in Britain, where they established a contact. WD<sup>3</sup>'s exports arose from contacts established with a buying agent at *London Wine Fair*. SD<sup>3</sup> had "*no internet in those days ... we would have been knocking on these countries' doors ... – working on leads.*" For *SunDeli*, SD<sup>3</sup>'s "*first exports [came]... through a contact at an international fair ... a recommendation ... recommendations are the best marketing ... essential to doing business – establishing contacts, gaining trust. ... [SD<sup>3</sup>] travelled a lot ... to these countries to gain information on opportunities and establish contacts*".

At *VegaFont*, VF<sup>1</sup> immediately travelled to the *London Book Fair* with his recently poached consultant – "*to see what was happening*", scouting for new business – yet:

*"Most clients were actively sought and fulfilled the profile that we could honestly supply at that time with our limited equipment; hence little time was wasted chasing unlikely business. True we did meet potential clients at Book Fairs and followed up these likely possibilities at a later date"* (GC).

*StarSnack*'s first regular exports arose through Malta Enterprise rapport leveraged to broker an export deal with contacts from another family business at an international fair.

*FiredPride*'s FP<sup>2</sup>'s personal contact with an émigré in the US developed into a friendship – providing market knowledge and an exploratory initiative resulting in a “regular trickle” of *ad hoc* export orders. Otherwise attendance at international fairs was considered crucial for market and product knowledge.

For *ProJoiners* the opportunity arose when a UK firm bought a local furniture company to employ on export contracts. A trusted contact recommended PJ<sup>2</sup>.

Apart from important exposure to export and networking opportunities, fairs also proved to be an important source of knowledge:

*“Fairs are ... a melting pot. You get to see your competitors, what new ideas they come up with, what new products they have on offer – ... it helps a lot ”*(GG<sup>1</sup>).

- ***Information & knowledge assimilation***

Assimilation of knowledge relevant to these first regular sustained exports occurred mostly organically and internally in relation to the owner-MDs' characteristics and decision-making processes. Experiential knowledge helped shape the owner-MDs' risk perception and conduciveness to internationalisation – yet where EU accession and competitiveness dynamics were more imminent, such externally-driven, survival-related motivations were overriding. In instances, the owner-MD was supported by employed knowledgeable foreigners with cultural affinity to markets. Nonetheless, sense-making and decision-making remained centrally with the owner-MD. At times trusted contacts and suppliers helped provide insight on prospective foreign clients – mitigating risk, positively influencing internationalisation decisions: “*the checks we did were through other Cyprus contacts*” (SS<sup>2</sup>).

Assimilation of information and knowledge also occurred through owner-MDs' direct exposure and interaction with foreign clients and other contacts themselves. Interaction with foreign clients in instances also resulted in product modification and development in

line with specified requirements, as well as associated production processes. *GloGlass* fine-tuned designs and hues in line with insight gained from their UK distributor. Knowledge about Asian quality requirements had *FreshCatch* FC<sup>2</sup> train fishermen to handle their tuna catch appropriately – a challenging task for the fish to be sold at lucrative Japanese markets. *SunDeli*' SD<sup>3</sup> introduced quality and production processes in line with *McDonald's* exacting supplier requirements, while *ProJoiners* designed kitchen cabinet doors to client specification.

- ***Information & knowledge exploitation [internationalisation event]***

Forms of knowledge associated were assimilated and consolidated, ultimately resulting in the exploitation of the first regular sustained exports.

*GloGlass* started exports to UK market through import agent. Regular ongoing exports lasted circa 14 years.

*FreshCatch* bid to buy local fishermen's tuna landings and started exporting to Japan, first Mediterranean firm to export prized bluefin tuna to Japan – lucrative business increasingly competitive over time.

*WineDivine*'s first ever exports results in two years regular exports of its vintage wines off the shelves at *Asda*, *Unwins* and others.

*FiredPride*'s émigré contacts led to sporadic exports to US ... *ad hoc* exports to visiting tourists' addresses in the US and Europe picked up. Commissioned works for Algerian client saw one-off container-loads exported.

*SunDeli*'s trade-fair contacts and proactive action resulted in their ketchup being exported to Saudi Arabia, Kuwait, Dubai, Tunisia as well as Russia and Ukraine. Within a year 3.5 million bottles of ketchup were exported – a 'born again international'. Leveraging contacts and trust-based rapport with the local franchisee, SD<sup>3</sup> "*persisted ... became certified, official McDonald's suppliers for ketchup*".

*ProJoiners*' first exporting venture saw PJ<sup>2</sup> contracted by a UK company to manufacture kitchen cabinet doors. These exports to the UK were regular and sustained for several years.

*VegaFont* VF<sup>1</sup>'s and his English manager's reconnoitre at the *London Book Fair*, started first export ventures, securing multiple publishing clients – *Grandreams Books*, *Hodder Headline*, *Taylor & Francis* and *Landmark Publishers*. Thus VF<sup>1</sup> rapidly internationalised 'born-again international' *Vega Font*.

*StarSnack*'s first regular exports secured a family-owned Cypriot baker and confectionery import business. A warm rapport established quickly among both families, exports of own brand biscuits became ongoing.

- **Outcomes**

The onset of SMFBs' (*FreshCatch*, *WineDivine*, *SunDeli*, *ProJoiners* and *VegaFont*) regular sustained exports resulted in outcomes related to organisational performance associated with increased sales, revenue and growth – markedly in larger volumes to corporate clients.

Other outcomes included experiential knowledge associated with all aspects of internationalisation – increasing owner-MDs' confidence, accumulating links and contacts, network knowledge. From an operational perspective at *GloGlass*, this 14 year relationship provided continuing insights into streamlining operations to take advantage of seasonal demand, UK market dynamics, the *modus operandi*, and management relationships with distributing clients. Tacit knowledge from Italian artisans was assimilated and reflected in innovative product designs.

At *FreshCatch*, FC<sup>2</sup> stressed:

*"I learnt a lot from Koreans and the Japanese ... tremendous people to do business with ... there's a big difference in how Koreans and Japanese approach business when compared to us Europeans"* (FC<sup>2</sup>).



FC<sup>2</sup> went on to establish joint ventures targeting the Asian market with Japanese and Korean partners – which he bought out several years later after learning the ropes.

SS<sup>2</sup> observed the first sustained venture was “*a step in the right direction ... and you learn*”.

Owner-MDs gained confidence and assertiveness in international activity. WD<sup>3</sup> attempted striking a joint venture with long-standing, trusted Italian suppliers. For *ProJoiners*' PJ<sup>2</sup>, the first export venture ‘*was an eye opener and an important learning experience*’. He also gained familiarity with contract technicalities, and know-how into organising job process flows for mass production and efficiency.

Apart from gaining confidence and assertiveness in exporting, outcomes also resulted in process innovation and related investments – boosting capability, legitimacy and scale of operations. Besides learning what it was like “*to compete with the big boys*”, *SunDeli*'s SD<sup>3</sup> gained insights in quality processes to acquire *McDonald's* supplier status. It “*built a new culture within our company ... benefits the company's long-term success ... opening the door*” to subsequent lucrative export contracts and opportunities.

At *VegaFont* as “*exports grew and [we] invested in ... equipment our horizons expanded and we were able to look for larger publishers while maintaining the old ones. Certainly our reputation grew and publishers ... actively sought our quotations. Our reputation flourished and existing customer[s] gave us a referral*” (GC).

### **7.6.2.2 The role of the owner-MD**

Through the first regular sustained export venture, owner-MDs remained central in pursuing and exploiting this opportunity. Table 7.22 draws from rich qualitative primary and secondary data sources, consolidated in case narratives, and within-case analysis giving an overview of the owner-MD's role in actualising this first regular and sustained export venture.

**Table 7.22 – Role of owner-MD: First regular sustained export venture**

Glo Glass	Fresh Catch	Wine Divine	Fired Pride	Sun Deli	Pro Joiners	Vega Font	Star Snack
EXCEEDINGLY IMPORTANT ●●●●●	VERY IMPORTANT ●●●●○	IMPORTANT ●●●○○	IMPORTANT ●●●○○	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	VERY IMPORTANT ●●●●○	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

While the owner-MDs remained instrumental in all cases for this internationalisation event, they were considered ‘very important’ in the case of *FreshCatch*, given governmental manoeuvring giving rise to this opportunity, and for *VegaFont* where VF<sup>1</sup>’s poaching was crucial in driving internationalisation forward. In *WineDivine*’s case, the reactive way by which this venture arose rendered WD<sup>3</sup>’s role ‘important’. Similarly, FP<sup>2</sup>’s role was ‘important’, given that ongoing export orders accompanying *FiredPride*’s export drive remained reactive and *ad hoc*.

### 7.6.2.3 The role of contacts and relationships

Across the board, contacts played an ‘exceedingly important’ role in identification and exploitation of opportunities. Table 7.23 draws from rich qualitative primary and secondary data sources, consolidated in case narratives, and within-case analysis giving an overview of the level of importance attributed to contacts and relationships in this internationalisation event. Furthermore, at this stage of internationalisation, international business and exposure generated new contacts and relationships, extending owner-MDs’ networks and access to network knowledge – in instances, on the basis of trust and past experience, opening doors to further international opportunities.

**Table 7.23 – Role of contacts and relationships: First regular sustained export venture**

Glo Glass	Fresh Catch	Wine Divine	Fired Pride	Sun Deli	Pro Joiners	Vega Font	Star Snack
EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

### 7.6.3 Second regular and sustained export venture

Key information for second regular sustained outward internationalisation events is summarised in Table 7.23. As *FiredPride's* export activity remained *ad hoc* and mostly reactive, maintaining *status quo* without marked export contracts beyond its initial sporadic export pattern, it is not included.

Table 7.24 – Key information - Second venture in regular and sustained exports

Info	SMFB	Glo Glass	Fresh Catch	Wine Divine	Sun Deli	Pro Joiners	Vega Font	Star Snack
Owner-MD at helm		UK found. (previous)	FC2	WD3	SD3	PJ3	VF1	SS2
Year these exports started		1976	c.1990/91	2005	c.1999 - c.2001	c.1987	2003	2005
SMFB age at this int'l event		8	c.22	98	c.83	c.93	c.21	40
Export destination		Germany	Libya	Sweden	UK (x3)	UK	UK	France Ireland
Gap since start of prior 1 <sup>st</sup> venture		c. 5 yrs	c.1 yr	c.7 yrs	c.3 yrs	c.8 yrs	c.3 yrs	1 yr
Reactive / Proactive		Proactive circumst.	Proactive	Active reactive	Proactive	Proactive	Proactive	Proactive circumst.
Nature of exports		Last c.8yrs via dist. agent	Last c.2yrs to Maltese dev. proj.	Ongoing. private label	Ongoing & sev. yrs. S'markets	Sev. yrs. Via dist. agent	Ongoing direct to publisher	Sev. yrs. Direct to s'markets

Source: Author, consolidated from within-case analysis

#### 7.6.3.1 ACAP process

- *Antecedents and prior knowledge*

At this stage, all owner-MDs had had prior experience of regular sustained export activity, generating substantial tacit knowledge. At *ProJoiners* PJ<sup>2</sup> had handed the helm to his son.

For *WineDivine*, this was the event that kick-started a concerted internationalisation thrust.

The gap between the first onset of internationalisation and second export venture ranged from 1 year for *FreshCatch* and 'born-again international' *StarSnack*, to 8 years for *ProJoiners*.

*GloGlass*' second regular export venture had occurred long before (1976) – with the economy closed to imports, and tourism was starting to pick up. For *ProJoiners*, 1987 had just marked a change in government and the relaxation of import restrictions after a period of economic stagnation. *FreshCatch* started this export venture when the Maltese economy was on an upswing. *SunDeli* and *VegaFont* initiated second ventures prior to EU accession (not a key motivating factor in VF<sup>1</sup>'s case). For *WineDivine* and *StarSnack*, second ventures occurred immediately following EU membership – driving WD<sup>3</sup>'s and SS<sup>2</sup>'s resolve to internationalise.

For these second regular sustained internationalisation ventures, owner-MDs were now considerably familiar with export processes. In instances owner-MDs were revisiting a market they had already exported to (*ProJoiners* and *VegaFont*, UK). Importantly, owner-MDs' entrepreneurial persistence, proactivity and alertness to international opportunities was strengthened through accumulated prior experience:

*“... you have to do the chasing ... keep knocking and knocking. Knocking on doors. When an opportunity arises you have to be ready – wherever it comes from – to jump on it. Yes, you need to be vigilant – to seize it. Half the game is being prepared ...”* (SD<sup>3</sup>).

Following *WineDivine*'s first stint of regular exports, WD<sup>3</sup> attempted a joint venture with an Italian viticulturist, to offset Malta's limitations for land under vine. Especially in the case of those who had already served large export clients, e.g. *SunDeli* (regional *McDonald's* supplier), *WineDivine* (selling off *Asda* and *Unwins* shelves), *VegaFont* (printing for publishers *Taylor & Francis*) and *FreshCatch* (exporting Malta's bluefin-tuna to Japan), 'eligibility' and 'legitimacy' and recognition was gained through association with renowned clients – their quality processes, and capacity investments affected. Established contacts and ensuing trust-based relationships often brought recommendations, leading to new international business opportunities.

*“definitely my status as international supplier to McDonald's gave me eligibility and recognition, it opened the door ... through McDonald's they knew where [little] Malta was on the map, and they got to know about us – better. They could look at us with credibility ...”* (SD<sup>3</sup>).

- ***Information & knowledge acquisition***

Except for *FreshCatch*, owner-MDs fostered participation at international fairs – sustaining international exposure, establishing contacts and remaining receptive to potential opportunities. Alternating between product and industry technology fairs provided access to market, product and technology knowledge. Combined with experiential knowledge gained this influenced opportunity perception and decision dynamics.

At times prior experience proved deceptive. *GloGlass*' founder assumed items selling like "hot cakes" in UK would sell well in Germany. Not one item was sold. Penetrating the market required specific market knowledge – necessitating product development, new designs, colours and even a new furnace. Collaboration with a German agent provided required knowledge and made GG<sup>1</sup> aware: "what we were supplying to England and what we were selling in Germany were totally different".

Contacts and social relationships featured importantly in accessing information about potential opportunities. FC<sup>2</sup> knew personally Maltese hoteliers handling big development projects in Libya. *FreshCatch* exported fish to their Libyan camp throughout the 2 year project.

While WD<sup>3</sup> proactively sought opportunities in Scandinavia, leveraging contacts with Maltese ambassadors to gain market knowledge and information on potential clients – as luck would have it, the owner of a Swedish family business premium marque (Bodvar) arrived in Malta. Savouring *Wine Divine*'s frizzante rosé at his hotel, he contacted WD<sup>3</sup>. A relationship developed between the two family business owners, becoming "friends", paving the way for business to flow.

Emboldened by earlier success, SD<sup>3</sup> had been actively travelling gaining contacts and market knowledge, he "aimed for the largest retail chains". Getting into the lucrative, highly competitive UK market, "definitely contacts were very important ... and trust" (SD<sup>3</sup>). With a breakthrough with Asda in the offing, McDonald's not being direct competitors, "they talked together" behind the scenes. Emphasising "trust", SD<sup>3</sup> underlined: "As a certified McDonald's supplier I had the credentials". This had a multiplier effect:

*“there is no doubt that contacts and credibility as well as experience gained from supplying McDonalds and Asda opened the door to subsequent opportunities with Morrisons and Sainsbury’s” (SD<sup>3</sup>).*

Process, product and technology knowledge at *SunDeli* also derived from compliance to ‘British Standards Institution’ quality management system – required by exacting foreign clients.

PJ<sup>3</sup> relied on experience in an already familiar market. Market information and insight deriving from existing contacts and fairs – saw *ProJoiners* establish a rapport with a new distributor and engage in product development: an inexpensive fireplace surround for the UK market.

Apart from experiential market and internationalisation knowledge from business with UK publishers, VF<sup>1</sup> also leveraged local trust-based relationships with the local MD of a German MNE’s subsidiary. A Chamber of Commerce peer, this relationship between *“friends more than anything else”* proved invaluable for learning on quality and just-in-time inventory management systems, and the *modus operandi* of international corporate clients. Here too, referrals from satisfied publishers with whom trust-based professional relationships were established, also led to new business opportunities.

*StarSnack*’s SS<sup>2</sup> discovered past experience somewhat insufficient in the face of their first big breakthrough with a French multinational supermarket chain. This was at a completely *“new level”*. Knowledge on the opportunity arose through a contact at a fair. Yet it was crucial to leverage contacts at Malta Enterprise and the Maltese Embassy in France in order to gain introductions and access to the supermarket’s complex corporate decision-making hierarchy. Past experience dealing with big foreign suppliers and his father’s bold stance were also useful in complex negotiations. The supermarket’s requirement involved product development – replicating a competitor’s offering at lower cost. Here *StarSnack*’s experience and tacit knowledge was combined with scientific knowledge and expertise of the supermarket’s frequently visiting product and sourcing teams. With respect to penetrating the Irish market, the internet proved important in harvesting market knowledge and information on potential distributors – being proactively targeted.

As it has become ubiquitous over the years “*the Internet is increasingly becoming important*” (WD<sup>3</sup>) as an inexpensive tool through which one acquires various forms of knowledge associated with internationalisation.

- ***Information & knowledge assimilation***

Across the SMFBs most of the information and knowledge, mostly experiential, was again, organically assimilated and tacitly embodied in owner-MDs. Indeed, at times knowledge assimilation also involved direct interaction with the foreign clients themselves or other contacts.

German market and product knowledge acquired by *GloGlass* through trial and error, involved the founder’s and GG<sup>1</sup>’s interaction with a German agent in developing new products. In some instances, knowledge transfer went beyond the owner-MD. For example, GG<sup>1</sup> had been promoted Production Manager, and was also actively involved.

The social aspect was equally important in assimilating new knowledge and facilitating the exploitation of opportunities. Trust and a warm rapport between two family business ‘bosses’ transcended cultural differences in the case of *WineDivine*. This “*friendship*” led to open ongoing communication and interaction, access to new learning opportunities, better understanding and insight.

At *SunDeli* knowledge assimilation and contacts remained centralised with SD<sup>3</sup>. Complexity brought about by serving large corporate clients and compliance to required audited standards resulted in varied amounts of internationalisation-related knowledge being assimilated. Here, gradual involvement of other employees in these processes led to some extent of (advisable) intra-organisational knowledge transfer.

At *StarSnack*, relationships with the visiting supermarket technical staff, enhanced knowledge assimilation through hands-on interaction, involving product analysis and plant modification over months to develop the final product. SS<sup>2</sup>’s recruitment of new managers also organically assimilated extents of this new knowledge.

Finally, *VegaFont*’s VF<sup>1</sup> together with his expert side-kick assimilated the new knowledge in tandem, complementing each other. Nonetheless, with respect to sense-making and the

sizing-up of potential opportunities, decision-making and control remained firmly and centrally positioned in the hands of the owner-MD across all SMFBs.

- ***Information & knowledge exploitation [internationalisation event]***

External information and assimilated knowledge, shaped the perception and exploitation of SMFBs' second regular sustained international venture.

*GloGlass* started regular exports lasting 8 years to Germany via a distributing agent.

*FreshCatch* started regular fish exports lasting two years to project camps of a Maltese hotel company in Libya.

*WineDivine* exported own *frizzante* to Sweden as a private label premium wine. Regular exports to these "good clients" are ongoing, with Sweden their top export destination.

*SunDeli* supplied UK supermarket giant Asda with own-label ketchup. This led to deals with other big players: Morrisons and Sainsbury's.

*ProJoiners* exported fireplace surrounds to UK market via an agent over several years.

*VegaFont* won a new UK client: *Mantra*. Ongoing, considerable and regular exports in children's educational books. Other smaller UK publishers were also engaged.

*StarSnack* exported to French multinational supermarket chain, *Leaderprice*: "first international breakthrough" (SS<sup>2</sup>). A potentially intimidating experience, the founding father's gut-entrepreneurial spirit and acumen proved invaluable. No external help was sought to offset experiential deficits, but prior experience with large foreign suppliers helped. That same year, *StarSnack* penetrated Ireland via a distributor, resulting in substantial ongoing exports.



- **Outcomes**

As internationalisation increased, large clients and export volumes reflected upon performance outcomes related to sales growth and increased revenues. Rapidly internationalised, ‘born-again internationals’ *SunDeli*, *VegaFont* and *StarSnack* increased their scale of operations, offsetting an increasingly competitive and saturated domestic market. SD<sup>3</sup> observed: “*the company has managed to double the value of its exports each year*”. *SunDeli* won the METCO ‘Most Consistent Exporter Award’ in 2001, *ProJoiners* the ‘National Award for Achievement in Industry’ in 1991. At *VegaFont*, more than 7 million pounds turnover were generated by UK exports. *StarSnack* was “*exports[ing] in excess of 3 million packets of biscuits per annum*”.

Importantly, tacit experiential knowledge about internationalisation continued to be accrued by owner-MDs – broadening their scope of operations. Additionally contacts remained an important conduit for all forms of knowledge, business facilitation and insight into opportunities – network knowledge. E.g. FC<sup>2</sup>’s “*lot of good contacts*” in Libya resulted in further business for *FreshCatch* – especially since imposed international embargoes resulted in Malta becoming Libya’s Western gateway. Experience, contacts and the landing of lucrative contracts emboldened the owner-MDs’ internationalisation drive: “*such a milestone fills us with confidence and optimism for the future*” (SS<sup>2</sup>).

Outcomes from these second regular sustained ventures led to recognition and the opening of new opportunities, resulting in product innovation and development in *GloGlass*, *FreshCatch*, *WineDivine*, *SunDeli*, *ProJoiners* and *StarSnack*. Process innovation and investments were undertaken by *GloGlass*, *FreshCatch*, *WineDivine*, *SunDeli*, *VegaFont* and *StarSnack* – resulting in enhanced capability, eligibility and flexibility in operations. For *SunDeli*, compliance to BRC standards enhanced management and production quality systems.

Ultimately, this second international activity involved learning, adaptation and business innovation for SMFBs concerned.

### 7.6.3.2 The role of the owner-MD

Although by this time, gradually growing, some SMFBs had either employed outside managers (*SunDeli*, *VegaFont* and *StarSnack*), or appointed their young graduate children to help out (*WineDivine*), owner-MDs retained full control in driving their firms' internationalisation forward.

Table 7.25 draws from rich qualitative primary and secondary data sources, consolidated in case narratives, and within-case analysis, and gives an overview of the role and importance of owner-MDs in this second regular sustained export venture.

**Table 7.25 – Role of owner-MD: Second regular sustained export venture**

Glo Glass	Fresh Catch	Wine Divine	Sun Deli	Pro Joiners	Vega Font	Star Snack
EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	VERY IMPORTANT ●●●●○	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

### 7.6.3.3 The role of contacts and relationships

With owner-MDs' international contacts and relationships growing, networks based on social interaction increased further in their value to their international business operations. These contacts and trust-based relationships, often resulting in "friendship", with suppliers, an increasing portfolio of foreign clients and others increasingly led to new international business through opportunity identification, referrals and recommendations. Table 7.26, consolidated from rich qualitative data from primary and secondary sources, gives an overview reflecting this.

**Table 7.26 – Role of contacts and relationships: Second regular sustained export venture**

Glo Glass	Fresh Catch	Wine Divine	Sun Deli	Pro Joiners	Vega Font	Star Snack
EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

## 7.6.4 Subsequent internationalisation activity

Key subsequent outward internationalisation events for the SMFBs is summarised in Table 7.27. This distinguishes between regular, sustained export business ventures as well as *ad hoc* exports or exploratory consignments. It includes more committing modes of entry beyond exports. This table can be viewed in conjunction with chronological timelines 7.1 to 7.8 presented earlier.

**Table 7.27 – Key information - Subsequent outward internationalisation (regular and prospecting)**

SMFB Info	Glo Glass	Fresh Catch	Wine Divine	Sun Deli	Pro Joiners	Vega Font	Star Snack
<b>SMFB details</b>	Size: Small (44) Est: 1968 (42) Export: 40% Experienced	Size: Med (88) Est: c.1968 (42) Export: c.90% Experienced	Size: Med (80) Est: 1907 (103) Export: c.5% Novice	Size: Med (140) Est: 1916 (94) Export: 66% Experienced	Size: Med (90) Est: c1894 (116) Export: 30% Experienced	Size: Med (100) Est: c.1987(28) Export: 70% Novice	Size: Med (90) Est: 1965 (45) Export: 50% Novice
<b>O-MD</b>	GG <sup>1</sup>	FC <sup>2</sup>	WD <sup>3</sup>	SD <sup>3</sup>	PJ <sup>3</sup>	VF <sup>1</sup>	SS <sup>2</sup> / SS <sup>1</sup>
<b>Export gap</b>	11 Yrs	c.8 Yrs	1 Yr	c.1 Yr	c.11 Yrs	1 Yr	<1 Yr
<b>International business year of commencement &amp; country</b>	1987 France	1999 Asia <sup>△</sup>	2006 Holland	c.2001 Ireland	c.1998 UK <sup>▲</sup>	2004 UK	2005 Germany
	c.1992 Greece	2005 Norway	2007 Slovakia	c.2001 Italy	1998 Libya <sup>**</sup>	2005 UK	2005 Croatia
	c.1994 UK	2006 Cyprus <sup>▲</sup>	2007 Czech R.	c.2001 Greece	2002 Libya <sup>**△</sup>	2006 UK	2007 UK
	1998 Holland	2006 Italy <sup>*</sup>	2007 Austria	c.2001 Belgium	2003-2006 Internet	2007 UK	2007 Greece
	2000 Cyprus	2006 Libya <sup>*</sup>	2007 Switz.	c.2001 Holland	2004 UK <sup>**</sup>	2009 Holland	2008 UK
	2000 UK	... ongoing <i>ad hoc</i>	2007 Korea	2007 Germany <sup>○</sup>	2006 Germany <sup>**</sup>	2009 Libya	
	2000 Spain		2009 Czech R.	2010 Germany <sup>○</sup>	2006 UK <sup>**</sup>	2010 UN EU	
	2002 Libya <sup>**</sup>		2009 Poland	2010 UK	2007 Libya <sup>▲</sup>		
	2006 Thailand		2009 France	2011 Australia <sup>*</sup>	2007 France <sup>**</sup>		
	2007 Poland		2010 Holland <sup>*</sup>		2007 Germany <sup>**</sup>		
	2008 France		2010 Belgium		2008 Libya <sup>**/*</sup>		
	2009 USA <sup>○</sup>		2010 UK		2008 Italy <sup>*</sup>		
	2011 Australia <sup>*</sup>				2010 Libya <sup>**</sup>		
<b>Key:</b>	<ul style="list-style-type: none"> <li>■ Tentative <i>ad hoc</i> exports or exploratory consignments</li> <li>* Collaborative alliance</li> <li>** Turnkey / contracted project</li> <li>○ Franchising</li> <li>△ Joint venture</li> <li>▲ Wholly owned FDI</li> </ul>						
	<p style="text-align: right;">SMFB size FT employment (EU definition) SMFB age as at 2010</p>						

Source: Author, consolidated from within-case analysis

#### 7.6.4.1 ACAP process

- *Antecedents and prior knowledge*

After departing and setting up his own business in direct competition, GG<sup>1</sup> returned and bought-out *GloGlass*. Due to the combined effects of the economy and the British founder's indecisiveness, the SMFB had been through a stagnant period. This is reflected by a gap of 11 years between the start of prior exports to Germany and the onset of exports to France in 1987.<sup>47</sup> GG<sup>1</sup> sought to immediately renegotiate ongoing terms with UK and German agents – unsuccessful he terminated long-standing exports there. With an invigorated vision, he sourced new raw material foreign suppliers, invested in quality and renewed the internationalisation thrust. By the time exports to France commenced, a change in government had signalled the opening of the Maltese economy. GG<sup>1</sup> continued internationalising progressively – undertaking a project contract in Libya, and later franchising and forming collaborative alliances in far afield USA and Australia. In all of these trusted contacts were central.

Otherwise successive outward internationalisation activity of the remaining SMFBs continued from more recent times: from 1998 (*ProJoiners*) to 2006 (*WineDivine*). Generally all owner-MDs were participating at international fairs, establishing contacts and seeking opportunities.

Subsequently rapidly internationalising 'born-again internationals', *SunDeli* (from c.2001) and *StarSnack* (from 2005), *ProJoiners* (from 1998) and novice internationaliser *WineDivine* (from 2006), sought to penetrate multiple countries from the outset. By this time, EU-related competition was already in the air. These initiatives resulted in sustained, regular exports for only the experienced internationalisers: *SunDeli* and *ProJoiners* – the latter setting up a UK company to facilitate transaction processing. From 1998 *ProJoiners* started focussing on contract projects – mostly hotels and cruise liners.

Dominant domestically, yet with very low exports, *WineDivine* was nonetheless actively prospecting international business. More recently both *WineDivine* and *StarSnack* penetrated the UK – a strategically important market for both.

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<sup>47</sup> Albeit, in GG<sup>1</sup>'s absence, *GloGlass*' founder had in the meantime sent a tentative consignment to Japan.

‘Born-again international’ *VegaFont*’s rapid internationalisation remained focussed on the UK market. The onset of the global financial crisis in 2008 emphasised its risk exposure – also in relation to exchange rate fluctuations. This critical event adversely affected the SMFBs and export operations – yet *SunDeli*’ business proved resilient.

*FreshCatch* continued its lucrative, contract-dependent bluefin-tuna exports to Japan, entering into joint ventures, setting up foreign operations, and extending its export activity depending on market opportunities.

The other experienced internationalisers, *SunDeli* and *ProJoiners* also engaged in more committing modes of internationalisation. The onset of civil and military unrest in Libya early in 2011 was highly detrimental to SMFBs with export activity and committing investments there – particularly *ProJoiners*.

Beyond the aforementioned, other crucially important antecedents related to internal resources – particularly owner-MDs’ various forms of accumulated prior knowledge and experience, which by now was extensive. Repeatedly highlighted by the owner-MDs were their established trust-based relationships, contacts and reputations acted as conduits for information and knowledge access, as well as presenting new international business opportunities. Also important were their ongoing investments in technology and capability. In some instances, professional human resources were also employed (*SunDeli*, *VegaFont* and *StarSnack*).

- ***Information & knowledge acquisition***

Much knowledge on internationalisation, markets, products and technology was gained experientially by the owner-MDs through direct interaction and exposure in foreign markets. ‘*Experience is important – sure. ... The experience you acquire and accumulate is always important in everything you do. It helps ... in all aspects of business.*’ (FC – Sales Manager, *SunDeli*).

Beyond experience and prior knowledge, the two most crucial sources for external information and knowledge on internationalisation, markets, products and technology, were (i) trust-based relationships and contacts, and (ii) international fairs – in themselves a source for furthering contacts (network knowledge). “*We learn from the fairs we attend,*

*and when we travel – and importantly we establish contacts”* (FC – Sales Manager, SunDeli). These contacts and relationships were also very important for opportunity identification as well as business facilitation.

Market knowledge is gained from both foreign suppliers and foreign agents: *“when you ... interact with [foreign] agents, they all start telling you what they’d like to do for their market. So in France, they buy certain products, the day after tomorrow they’ll be buying other products ... you’d already start distinguishing between markets ... ”* (SD<sup>3</sup>).

The network of social contacts with whom owner-MDs maintained relationships and extensively resorted to for the purposes of learning, gaining knowledge and international business facilitation varied widely. These included domestic networks involving peers and professionals, foreign suppliers, foreign joint venture partners, international clients and agents, contacts at embassies abroad, connections with Maltese diaspora and émigrés residing abroad, as well as weaker yet valuable social ties such as *“friends of friends”* (Boissevain 1974). For example beyond any formal market intelligence, SS<sup>2</sup> stresses that *“such contacts are useful to you, there is value ... because they’d be able to give you insight and insider market information”*. Evidence indicated information and knowledge generally gained informally:

*“Now with regards to information on market trends, basically when you’re with somebody knowledgeable, you shut up and listen – you’ll learn. Mmm, ask, and you’d be surprised how people will come and share their information and experiences with you”* (SS<sup>2</sup>).

*“you’d be talking about certain things – you’d be surprised how much you learn. You learn from information sharing, always discover new things. Though sometimes one may think you know all there is to know, you’d say, ‘Ah, I didn’t know this’ ... ”* (GG<sup>1</sup>).

Owner-MDs consistently emphasised *“trust”*, *“reputation”* and often a *“personal”* and *“friendship”* dimension as crucial in realising value from this myriad of important social connections. Thus casual ties generated from travel and interaction at fairs were not only important for gaining various forms of knowledge on markets, products and technologies, through social interaction they also frequently resulted in owner-MDs learning of new international business opportunities *in situ* – establishing rapport leading to business deals.

GG<sup>1</sup> sought contacts from a fair in Birmingham to explore prospects in Poland and “penetrate new markets”. Similarly, in 2009 WD<sup>3</sup> was seeking to target new fairs beyond his usual London and France circuit, prospecting new contacts and business. He penetrated the strategically important UK market through a contact established at a fair in Montpellier. Yet as his well indoctrinated young son, now helping with exports, notes, first “we got to know each other better”.

Where different cultures, methods and systems, as well as distance add complexity to the undertaking, important social relationships often precede international business and economic transactions. Owner-MDs are aware of this. PJ<sup>3</sup> observes:

*“First of all, let’s start from fairs and exhibitions. It is important to maintain contact with the market – by the market, I do not only mean with respect to designs ... You must always be present at these fairs ... you attend personally – not that you just exhibit your wares – understand? Notwithstanding that [furniture production] is a big sector in Europe, it is comprised of the same people. ... you’d show that you’re still there. It is important for the people you know, it is important for your “networks”. From time to time “go to base” ... meet with them, in their place [countries] – not just keeping contacts by ... “email” etc... Personal relationships are important”.*

As a result of SD<sup>3</sup>’s travelling, attending fairs, personally “knocking on doors”, SunDeli penetrated “UK, Ireland, Greece and Italy – those were through contacts from fairs ... You learn a lot, you see things, you meet and talk to people, they see you. Fairs are most important for our business” (FC – Export Manager, SunDeli). The two most recent export deals (South Africa and Nigeria) signed in 2011 resulted from contacts “always through fairs”. SD<sup>3</sup>’s export manager stressed:

*‘Contacts are very, very important ... to learn what’s happening. From Malta we are very limited in what we can get to know about and learn. We learn what’s happening “out there” from our contacts ... Ultimately, maintaining contacts and relationships – the trust, our reputation with our clients are “top priority”.’*

As FreshCatch’s retail business grew, initially ‘fair-hesitant’ FC<sup>2</sup> started attending fairs regularly:

*‘We managed to make many contacts in Europe ... The most important thing is that it is a fair where there’d be a ‘million’ persons ... contacts from around the world. They all convene there. You meet people, some others*

*chase you to talk to you. It's a meeting place ... everybody comes to your place to talk to you. ... A person who knows you would come over, you'd ask how he is ... At a fair such as that, I make a thousand "personal" contacts from India, Argentina, Greece, the whole of Europe, from around the world ... You'd know for instance that his name, e.g. would be Iannis, you'd know him, and let's say you'd be able to just pick up the phone and call him for instance and tell him, 'I have a good supply of Trill', he'd say 'yes', and you'd just send them over.'*

This social dimension was also underlined by GG<sup>1</sup> and FP<sup>2</sup>, while SS<sup>2</sup> explicitly considered fairs the most important external source of information for learning on new business opportunities and innovation. They stressed the ease by which casual and social relationships allowed them to casually pick up the phone and conduct business informally or gain important business leads.

An important aspect associated with international business opportunities, or rather being introduced to them, was trust and reputation – leading to recommendations from international suppliers or clients oftentimes referred to as “*friends*” by the owner-MDs. At times this is enhanced by ‘legitimacy’ earned through serving demanding and renowned foreign clients.

*SunDeli* landed recent lucrative deals in the UK (*Red Lion Foods*, 2010) and Saudi Arabia (2011) that way – recommendations through good rapport with Asda, and “*a friend – a UK client – he recommended us to this Saudi client*” (FC – Export Manager, *SunDeli*). Similar recommendations saw *WineDivine* initiate a collaborative alliance in Holland.

Good rapport with clients resulted in recommendations and exports to new clients for PJ<sup>3</sup> in Libya, starting off *ProJoiners*' contract business with European hotels, as well as cruise liners (UK). When cruise liner business dried up, it was because the “*contacts had moved*” and we couldn't get in again – “*always contacts, they are what's important in conducting this business*”. Earlier, business in UK dried up seeing PJ<sup>3</sup> withdraw as a result of a souring rapport with his agent there – and a contractual obligation to not re-enter the market for a period of years. Likewise, after years of ongoing exports, GG<sup>1</sup> had withdrawn from important UK and German markets for similar reasons – underlining the importance of relationships.

Often international suppliers were also a source of product and technology knowledge, in instances also coming over to provide know-how and training on site (*GloGlass*,



*FiredPride*), while personal exchange visits, sometimes including spouses and family (“*his son talks to my daughter*” WD<sup>3</sup>), provided useful insight pertaining to organising and conducting business operations. All owner-MDs made references to emerging family friendships. Indeed, the term “*family*” was used by all, with reference to both employees, as well as certain international clients and suppliers.

All sorts of useful knowledge and business facilitation ensued from such rapport – for example PJ<sup>3</sup> would just phone his foreign ‘friend’ to get a second opinion in the process of quoting for competitive international contracts. The opportunity for PJ<sup>3</sup> to leverage *ProJoiners* tacit expertise and diversify into software development and training services for export derived from a long-standing rapport with an Italian supplier.

GG<sup>1</sup> and his daughter recently gained product knowledge via hands-on, know-how imparting training programmes in Italy and USA after insight from their foreign suppliers. With respect to market, product and technological knowledge, at *FiredPride*, FP<sup>2</sup> noted:

*‘Suppliers also pass on useful information – information that comes from contacts. We learn a lot from being with them ... you almost become a family with them. We trust and respect them, and they respect us ... if let’s say today I wanted to buy this recorder, they’d put me directly in touch with the agent for that product ... they’d do everything they can to accommodate you and facilitate your needs ... I can say that they never hid or kept anything back from us, rather they taught us everything ...’*

GG<sup>1</sup> reflects both family closeness as well as the learning value in process knowledge and insight gained from such relationships:

*‘In Italy for instance, we often deal with this company that supplies us with raw materials – not in the same business – I’ve now known them for ... 8 years, we have a very good relationship ... You learn ... how they work ... how organised they are ... you go there... and when you come back ... you immediately say to yourself, this process of mine is not organised well – or as well as my friend’s set-up, this part of my factory. And you learn a lot from this ... You get ideas. Ooh, it’s a stimulus – these things that you see, and hear ...’*

FP<sup>2</sup> consolidates this sentiment:

*“if you are a gentleman and trustworthy in conducting your business, ... they’ll conduct business [and share] with you blindfolded – and in absolute trust”.*

Relationships with ‘native’ agents abroad are considered useful for gaining market knowledge and insight on potential opportunities:

*“For example in Germany we have a person there ... careful to monitor what’s going on in this regard over there. This same person has other networks and presence, and also caters for France and Switzerland” (PJ<sup>3</sup>).*

VF<sup>1</sup>’s graduate sales manager (DC) considers that as strategically important for international growth:

*“The engagement of sales people from the actual country itself, is imperative ... Visits to book fairs in Europe are essential to identify prospective customers. ... The company is seeking individuals with a sound knowledge of the industry and with a good network in the manufacturing industry to tackle the industrial print market.”*

Similarly WD<sup>3</sup>’s son stressed:

*“Contacts are very important. We always strive to engage people from the area or country we seek to gain entry to – distributors who are established and experienced, who know the market, their markets, they would be familiar with their own cultures, and they’d have their own contacts, know other traders and the business there.”*

Contacts with embassies were effectively leveraged by WD<sup>3</sup> and SS<sup>2</sup>, while sound contacts established with émigrés drove SD<sup>3</sup>’s own-brand franchise in Germany and helped him penetrate Australia. Similarly, GG<sup>1</sup> franchised his web-based retail presence, and made inroads into Australia via trusted links with Maltese émigrés. Here, it appears that national roots and ‘indigenous’ trust were crucial especially for involvement in more committing modes in distant regions.

Otherwise, Malta’s allure also had a part to play in for example contacts with holidaying businessmen leading on to a rapport and international business. Such serendipitous encounters led to *GloGlass*’ exports to France and UK; as well as *WineDivine*’s recent exports to Belgium. Business to Poland started when an import agent seeking boutique wines with character contacted WD<sup>3</sup> via email. The internet was again cited as helpful in gaining some market knowledge, and information on trends. SS<sup>2</sup> targeted Greece researching over the internet – gaining market statistics, identifying potential clients, establishing contact, then travelling there.

Technical knowledge requirements tended to be greater especially in aspects associated with marine biology (*FreshCatch*), oenology (*WineDivine*) and food processing (*SunDeli* and *StarSnack*) as well as printing (*VegaFont*). Beyond informal experimentation, the largest SMFB, *SunDeli* invested in a laboratory, engaging a handful of employees in ‘R&D’. Otherwise, besides employing qualified professionals for this purpose, the remaining owner-MDs leveraged contacts with professionals and scientists as necessary. An occasional consultant at *FreshCatch* is a university marine professor who also heads the government’s aquaculture programme and labs. At the same time, through contacts, SD<sup>3</sup> sought membership with a UK food technology research institute and, WD<sup>3</sup> involved himself in the international ‘Mediterranean Wine Campus’.

- ***Information & knowledge assimilation***

Given that owner-MDs remain the central, often sole, protagonist in all strategic matters, particularly in seeking and orchestrating international business, most of this newly acquired knowledge, know-what, know-how and know-who lay tacitly with the owner-MD himself. Organically assimilated via direct experience and interaction.

In instances, the contact persons themselves, were also involved, through interaction, in the assimilation of knowledge – for example in the case of international suppliers imparting product and technology knowledge, know-how and training. This was also the case where familiarity and friendship in such relations resulted in an ongoing, open and direct line of communication – facilitating understanding beyond making further knowledge and information available. In other scenarios, collaboration in ongoing operations, as in the case of joint ventures, also involved knowledge assimilation in direct association and interaction with foreign partners. For instance FC<sup>2</sup> considered his venture with Asian partners a valuable learning experience – after learning and assimilating for several years, he bought them out. As he pointed out, “*Today all our suppliers and buyers are friends – France [sic], Spanish, Italian, Libyan, Korean, Japanese, American[s] ...*”.

Indeed, in the same way that internationalisation is a social process (Hymer 1976), here emphasising the role of the owner-MD, “*The knowledge developed and used by the entrepreneur and manager is socially embedded and is a function of personal constructs*” (Thorpe *et al* 2005: 266), so the ‘network knowledge’ transcending the physical boundaries

of SMFBs, inheres in owner-MDs and is assimilated, transformed and enacted in a social context. Valuable experiential and tacit knowledge, ensuing from, and dependent on relational dynamics and social interaction. Representing knowledge embodied in the contacts and relationships comprising the network, and associated with ‘know-who’ (Kogut 2000; Zahra *et al* 2009; Mejri & Umemoto 2010) this process is crucial for the acquisition, assimilation, transformation and exploitation of various forms of knowledge – offsetting resource limitations and embracing opportunities for international growth in challenging and competitive environments:

*“...much SME learning occurs through the help and assistance of a host of others including family and friends, and professional help such as bankers, solicitors and accountants forming a “network of interdependency ... such networks provide owner-managers opportunities to learn and create contextual knowledge in an informal way, through providing access to scarce resources including, skills information and knowledge. In this way, the owner-manager can exploit these networks of personal relations and use the contextualised learning acquired to pursue his/her aims for the business ...” (Clarke et al 2006: 445)*

When the assimilation of knowledge associated with internationalisation involved others beyond the owner-MD within the SMFB, the process remained informal and tacit, generally relying on observation and hands-on experience while for example accompanying the owner-MD.

In this study, apart from situations where e.g. scientific technicalities are entailed, involving the engagement of specialists, or the employment of professionals assisting with internationalisation processes, the eventual inclusion of others, especially younger upcoming family generations, helping with business operations, assisted somewhat the assimilation of such tacit knowledge beyond the owner-MD.

Still, within these SMFBs, knowledge associated with internationalisation largely remained tacitly embodied with owner-MDs who aligned their SMFBs’ strategies with their vision, their decisions engendering the transition from “*potential*” to “*realised absorptive capacity*” (Zahra and George 2002b).

Ultimately, it is evident from analysis that in the SMFBs under study, trust is the fundamental element upon which knowledge relating to internationalisation is often acquired, assimilated and exploited in pursuing international business opportunities – aided

by informal social processes and interaction converging on the owner-MD, and in interaction with others outside the SMFB.

- ***Information & knowledge exploitation [internationalisation event]***

Owner-MDs exploit the knowledge they assimilate in decisions associated with pursuing international business opportunities. In doing so, various other factors associated with networks and contacts such as trust, reputation and recommendations also played a part in the social interaction. A general overview of the SMFBs' outward internationalisation activity follows (see also Table 7.27)

*GloGlass*: one of the smallest SMFBs gradually increased its international business in new countries, while repositioning itself in the domestic market. Through local contacts it engaged in architectural development in Libya, and leveraging contacts with Maltese émigrés, more recently committedly penetrated distant US and Australian markets.

*FreshCatch*: Reliant on winning lucrative internationally competitive tenders to export Malta's tuna catch – FC<sup>2</sup> eventually bought out his Asian partners and also setup tuna farming facilities in Cyprus. Investing in trawlers and seafood processing facilities, FC<sup>2</sup> struck operating alliances with foreign fishermen, exporting to Europe and beyond – depending on the market situation.

*WineDivine*: Though exports still constitute a very small proportion of this SMFB's sales, WD<sup>3</sup> continues to pursue international growth, exercising all possible contacts and involving his young graduate son. Recent entry into the UK market is a strategically promising prospect.

*SunDeli*: With an expanding portfolio of large foreign clients, SD<sup>3</sup>'s international business activity has grown consistently. Establishing contact with trusted émigrés, SD<sup>3</sup> franchised his own-brand innovative premium Mediterranean delicacies in Germany – as well as penetrated the Australian market with his own basic, value brands. Another lucrative private label deal was sealed in the UK more recently.

*ProJoiners*: PJ<sup>3</sup> maintained steady export business with quality custom furniture contracts – generally for 5 star or premium developments. Full potential from diversifying into

software and services for export has yet to be realised. Given its investments and prospects there, *ProJoiners* has a lot at stake with the current unrest in Libya (2011).

*VegaFont*: Following rapid internationalisation, VF<sup>1</sup>'s predominantly international business remains focussed in the UK market. Employees and agents have now been engaged to develop Eurozone European markets beyond the UK.

*StarSnack*: Rapidly internationalised, *StarSnack* continued with its internationalisation thrust, seeking new opportunities. Instability at the top saw SS<sup>2</sup> leave and 75 year-old founder SS<sup>1</sup> temporarily resume the helm. Internationalisation drive maintained, recent multiple business deals in important UK augur well.

*FiredPride*: FP<sup>2</sup> and his three siblings actively maintained a lookout for opportunities, attending international fairs and delegations – exporting *ad hoc*, mostly to visiting foreigners and via the internet. The brothers recently split the business and went their separate ways. Reconstituted, the younger brothers' operation is now up and running (2011), involved in an international knowledge-sharing collaborative project, and seems directed towards pursuing international opportunities.

- **Outcomes**

Further international involvement in new markets, in instances using more committing modes of entry, added greatly to owner-MDs' experiential knowledge. Increased international exposure and interaction extended the owner-MDs' contacts and relationships – establishing a network of 'friendships', increasing confidence and accumulating mostly internationalisation and market knowledge, enhancing internationalisation conduciveness.

As international activity increased, so did the quantifiable performance outcomes of the SMFBs. *FreshCatch*, *VegaFont* and *SunDeli* ran predominantly export operations, while *StarSnack*, *GloGlass* and *ProJoiners* had substantial exports.

In the case of the larger organisations, serving multinational corporate clients (*SunDeli*, *ProJoiners*, *VegaFont*, *StarSnack* and *FreshCatch*) led to international recognition and reputation. This enhanced confidence and trust in the SMFBs' eligibility and capability to

take on new international business – opening doors to new opportunities, or leading to recommendations. This is important since: “*What do our potential clients know about Malta? Who knows where Malta is? So I mean, it takes a lot to get your products out there ... so reputations, generate trust – recommendations*” (FC – sales manager, *SunDeli*). At *StarSnack*, SS<sup>2</sup> noted: “*slowly, slowly you have to build a reputation ... once you penetrate into a [foreign] market you’ll have spill-offs*”.

Furthermore, a combination of accrued knowledge and experience associated from international exposure, social interaction and especially learning through the servicing of large demanding foreign clients, resulted in increased investments in technology, capacity, processes and quality accreditation. This led to process, product and business innovation – know-how and capability, potentially applicable to domestic and other international markets, also realising greater flexibility and efficiency.

For example, apart from investments in production technology, *SunDeli* launched various innovative products including natural jellies for Asda, as well as a complete range of Mediterranean delicatessen with sensory accompaniments including music and aromas. It also innovated into premium traditional dairy products on the domestic market. *StarSnack* developed customised products and health varieties for supermarket private labels. *ProJoiners* got into software and services; *FreshCatch* into seafood processing for retail, aquaculture and tuna ranching; *GloGlass* extended its product portfolio extensively, also getting into fashion jewellery and architectural projects.

Substantial ongoing investments in production, technologies and infrastructure were undertaken in all SMFBs, comparatively less so for the smaller SMFBs. While training, development and learning-on-the-job experience were steadily accrued, with growth, some SMFBs (*SunDeli*, *VegaFont*, *StarSnack* and *WineDivine*) also employed some professional employees in their administrative ranks. However, while all owner-MDs recognised the importance of formal education, particularly in increasingly complex and competitive environments – only slight shifts were observed towards the professionalization of management within their SMFBs. Management functions and decision-making remained predominantly informal and unstructured, converging on the owner-MD.

#### 7.6.4.2 The role of the owner-MD

Excluding *FiredPride*, analysis reinforced the notion that the owner-MD embodied the soul, character, vision and directional stance of their respective SMFB. Untiring and committed, travelling here and there, they generally left no stone unturned or contact unexercised, in harnessing their unique tacit resources and comparatively limited physical ones, to creatively address challenges, and to actively prospect international opportunities – moving swiftly, exploiting eligible ones as they materialise.

This ‘oneness’ between the owner-MD, the undisputed ‘boss’ and his SMFB came across in both the smaller and larger SMFBs:

*‘It is enough for me to tell you that for me [GloGlass] is my life. My life. “I mean I’m 100% committed”’ (GG<sup>1</sup>)*

*‘in 40 years there was never a day in which I didn’t come to the company – I’d have to literally be away from the country ... once my bank manager told me, “it would be better to insure you rather than the place’ (WD<sup>3</sup>)*

Complementarily, evidence also highlighted the fact that notwithstanding intense competition and challenging times, owner-MDs look ahead boldly with steadfast determination as they resiliently direct their SMFBs:

*“We took a lot of knocks after 2004 ... But that helped us come forward fighting, and the prospects now are good. ... the future of Maltese wine is far from bleak” (WD<sup>3</sup>).*

*“If you look out for opportunities, there are opportunities ... you have to have a good team of people and excellent facilities, but the opportunities are there for those with the determination to grasp them” (SD<sup>3</sup>).*

*“hurdles can be overcome if there is determination. We must be positive and talk positive. This is a sector renowned for the hard work and high quality craftsmanship ... visions and strategies can be realised if there is wisdom, acumen and creativity... you need to have the courage to move ahead” (PJ<sup>3</sup>).*

*" the future is a real challenge for the family but I think that if you look at our past, you will understand why we are confident about the future" (SS<sup>1</sup>)*



Table 7.28 draws from rich qualitative primary and secondary data sources, consolidated in case narratives, and within-case analysis giving an overview of the evinced role and importance of the owner-MDs throughout subsequent outward internationalisation. At rapidly internationalised *VegaFont*, founder VF<sup>1</sup> is considered ‘important’ in directly pursuing further internationalisation since he actively employed more professionals to drive forward his internationalisation initiative – including an experienced Scotsman embedded in the UK market. Although all control and decision-making remain firmly in VF<sup>1</sup>’s hands, some of his centrality, specifically associated with the internationalisation process, is now shared with his “*thoroughbreds*”.

**Table 7.28 – Role of owner-MD: Subsequent outward internationalisation**

Glo Glass	Fresh Catch	Wine Divine	Sun Deli	Pro Joiners	Vega Font	Star Snack
EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	IMPORTANT ●●●○○	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

### 7.6.4.3 The role of contacts and relationships

Analysis showed that contacts and relationships were crucial in the SMFBs' subsequent outward internationalisation. These links generally always converged upon the owner-MD, except at *VegaFont*, where the ‘poached’ English consultant is allowed leeway to leverage his links and experience to help drive forward internationalisation.

Owner-MDs generally internalised contacts and relationships with others outside the organisation, establishing friendships based on trust and familial relations based on informality. These important tacit social resources offset resource limitations in several ways already discussed, acting as a conduit providing many forms of knowledge associated with internationalisation and operations, facilitating business, and directly leading to international opportunities through introductions, referrals and recommendations.

Weak and casual ties from chance encounters and social interaction at international venues were also important in providing various forms of information as well as opportunistic leads from which international business sometimes derived. Their broader incidence and composition also provided owner-MDs with wider exposure to new and potentially

important serendipitous situations and experiences (Crick and Spence 2005; Caliskan *et al* 2006).

From another perspective, the quality and commitment of personal relationships between owner-MDs and foreign clients came across as constituting a competitive advantage and a mutual source of added value. This derived from both the rapport as well as from the creative and somewhat unassuming way by which SMFBs’ owner-MDs and employees tried their ‘damned’st’, innovatively finding integrative solutions for exacting clients. The warm yet professional Maltese disposition conducive to rapport building and social interaction played a role here. Dealing with demanding blue-chip clients, the young MBA-qualified regional sales manager at *VegaFont*, unprompted, explicitly referred to this forthcoming attitudinal advantage as “*the Maltese way of doing things*” stressing the importance of “*personal contacts and genuineness*” coupled with a ‘nothing-is-impossible can-do’ attitude.

Table 7.29, consolidates rich qualitative primary and secondary data in case narratives and within-case analysis, giving an overview of the ‘exceedingly important’ role of contacts and relationships evinced in these SMFBs internationalisation-related knowledge acquisition and successive outward international business activity, reflecting this analysis.

**Table 7.29 – Role of contacts and relationships: Subsequent outward internationalisation**

<b>Glo Glass</b>	<b>Fresh Catch</b>	<b>Wine Divine</b>	<b>Sun Deli</b>	<b>Pro Joiners</b>	<b>Vega Font</b>	<b>Star Snack</b>
EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●	EXCEEDINGLY IMPORTANT ●●●●●

Source: Within- and cross-case analyses

## **7.7 Associations between internationalisation events and other business activity**

### **7.7.1 Associations between initial ad hoc and subsequent outward internationalisation events**

Beyond evolutionary development in internationalisation, also in line with process theories, more immediate direct links between specific internationalisation events were evinced as observed previously. This besides repeat business with existing clients.

SD<sup>3</sup>'s McDonald's supplier status led from one lucrative deal to another. McDonald's executives' contacts with Wal-Mart saw *SunDeli* supplying Asda in the UK – which they own. This rapidly led to international business with other large UK supermarkets Morrisons and Sainsbury's.

Similarly, SS<sup>2</sup>'s "*first breakthrough*" with French multinational supermarket Leaderprice soon saw *StarSnack* exporting to Auchan, another large French supermarket. This mainly resulted from reputation – a raised profile creating recognition, placing the SMFBs on corporate clients' 'radar' as eligible potential business partners. Afterwards, SS<sup>2</sup> landed a second lucrative UK client the year after penetrating this strategically important market. As SS<sup>2</sup> stated: "*build a reputation ... once you penetrate into a market you'll have spill-offs*".

Penetrating the UK market, *VegaFont's* reputation and contacts rapidly won several publisher accounts, and exports soared to 70%.

*ProJoiners'* initial kitchen cabinet door exports to a UK company, led to fireplace surround exports via an agent, and later Tudor furniture reproductions through another agent. A minor hotel contract in Libya, led to much larger lucrative development projects in Libya with a new client – establishing a reputation and consolidating its presence by investing in a sales office and showroom there. In both cases, accrued market knowledge and experience as well as local contacts were vital to clinch the deal. PJ<sup>3</sup> stressed that contacts were so crucial, that even when targeted international business didn't take place, his 'quasi-client' some time later recommended him for lucrative international business. A respectful rapport, saw his potential Italian client personally recommending PJ<sup>3</sup> to a client in Germany working on a development in France. Experiencing difficulty with a Turkish supplier, they found *ProJoiners* both reliable and flexible – overcoming resource limitations PJ<sup>3</sup>

leveraged his contacts, liaised with another Gozitan family business, and seamlessly also supplied all the required upholstery.

While links between ‘high visibility’ corporate international business ventures were more easily identifiable, linkages between less significant international events were also observed riding on the back of previous contacts and recommendations. In other instances, engaging agents with international networks also led to subsequent business prospects in third countries. For example, PJ<sup>3</sup>’s well-connected German agent also caters for opportunities in France and Switzerland.

In such ‘*opening of doors*’ (SD<sup>3</sup>), when one internationalisation event leads to another venture, the important common underlying factor remained contacts – providing insight into opportunities and business facilitation including recommendations and access to further contacts, as well as acting as sources of various forms of knowledge.

### **7.7.2 Associations between inward and outward internationalisation**

In instances, owner-MDs indicated “*import and export go hand in hand*”. Thus in *FreshCatch*’s case FC<sup>2</sup> personally ferried fish to Sicily: “*I started importing and exporting at the same time ... both together.*”

Other owner-MDs’ trusted relationships with foreign suppliers were invaluable for outward internationalisation. Thus for *ProJoiners*: “*when you have a “network, it works both ways”*” (PJ<sup>3</sup>).

Across the board, relationships based on trust and reciprocal respect led to an extent of familial intimacy. Owner-MDs referred to them as “*friends*”, and “*family*” – knowing family members and even reciprocating visits. Such strong ties are crucial in offsetting resource limitations and potential liabilities of smallness:

*“We’ve now been importing for 18 years ... It is “phenomenal”, the fact that you’d just pick up a phone ... If I had to call him [my supplier], he knows each and every “export person” in Germany. He might tell you, ‘listen, you need to talk to so and so at that company ... this individual in this other company’ – [He’d say] “Give me a week, and I’ll get my secretary to*

*send them an email to introduce you” – understand?’ (SS<sup>2</sup>).*

In instances the suppliers themselves prompted opportunities. At small *GloGlass*, GG<sup>1</sup> observed:

*‘... I have a raw material supplier – we’ve become the very best of friends, we [even] go abroad together, only recently we went to Cortina [Italy] together ... we were two couples, we enjoy a very good relationship. They sometimes come to Malta – Yes, from these relationships themselves opportunities arise. He’d happen to get to know of some opportunity from his contacts, and he’d call you ... yes, that’s right’.*

At larger *ProJoiners* the idea to leverage tacit knowledge and know-how by diversifying into software and training came from PJ<sup>3</sup>’s long-standing Italian supplier – who also introduced the first Saudi client. This rapport led to innovation and mutual collaboration.

Even at smallest SMFB *FiredPride*, FP<sup>2</sup> confirmed that his close Italian suppliers *‘also pass on ... useful information ... information “that comes from contacts – we learn a lot from being with them ...”’* – particularly know-how on production techniques and processes as well as in instances insight into markets and opportunities.

SS<sup>2</sup> explained how such valuable relationships were also indispensable in gaining access, or ‘know-who’, into the complex decision-making hierarchies of prospected foreign corporate clients:

*‘my “imports contacts” ... bring me leads, put me in touch with the “supermarkets”, ... my German suppliers, English suppliers, my Dutch suppliers, they all sell to their supermarkets – so you’d get inside information and knowledge. ... I’ve had suppliers ... taken me onto their stand [at a fair] and introduced me. So you’d go there, and he’d tell you, ‘I’m going to introduce you to this person – and he’ll ... introduce you further to so-and-so ... understand? ... it’s not the first time that you’d have been going round in circles trying to establish a contact within a multi-national chain and you wouldn’t have been able to make any headway. So you’d talk to one of your suppliers, and he’d tell you, ‘let me tell you what the [organisational] structure is. The structure is, Mr so-and-so is the “factotum” – he’s everything. Now this guy has these structures’ ... the way the “decision process” works – understand? ... “When you’ve been introduced, it’s much better than a handshake, right ... it’s much better than just going up to someone and saying, ‘I am Mr X’ – understand?’*

At *WineDivine*, WD<sup>3</sup> attempted to setup a joint venture with a long-standing Italian vintner seeking to offset Malta's restrictions in limited land under vine. His relationships with suppliers referred to as a gold mine of knowledge and opportunities, e.g.: *"it's a personal relationship we enjoy [with the] world's number one manufacturer [for corking machines] his son talks to my daughter"*. Such rapport, aids speed of response in tackling market opportunities, in cases lowering transaction and business costs:

*'many [foreign] suppliers we have known for ages ... Nowadays I don't call them 'suppliers', I consider them to be "colleagues ... we visit each other's homes ... we transact business amounting to hundreds and thousands of pounds without resorting to formal contracts ... [we're] like, "one big family"' (WD<sup>3</sup>).*

With respect to referrals and recommendations, at *StarSnack* relationships with suppliers are *"priceless"*. SS<sup>2</sup> explains:

*"If I'd contact my water supplier", and tell him, 'listen, I am looking for distilled water, do you produce that?'. And the answer would come back, 'No', but he'll continue, 'however, let me tell you, let me give you the contacts of 2 companies that do ...'. "And that is very important. When you have a new project ... whatever ... you'd always go around your suppliers – right? I mean alright, you can go on the internet and get other contacts, but you always go round your suppliers. They're in the know. ... So basically, what he does is, he sends you an email cc-ing them. It helps you – in the sense that, I mean they'd wonder, ... 'Can we trust you? Will you pay us?'. Understand? So you'd say, 'listen, if you're uncertain, or if you have a problem, I've been dealing for 10 years with that supplier – you can contact them and ask them about me ..."*

New product developments are generally related to international business opportunities. Sometimes the SMFBs import parts or semi-finished goods for processing and re-export – again the basis of sound importer relationships and trusted access to their networks forms the critical foundation making such operations possible:

*"I needed to buy doors of a certain type from Italy. I got in touch with the [Italian] person that supplies me with varnish – and he recommended ... trustworthy door suppliers – even personally introduced me to them. ... contacts are precious ... we wouldn't go to any other new firm. We'd go to firms that we might get to know, through someone who knows them that we already know – understand? ... And even they – wouldn't export just to anyone. They'd want to export to someone "reliable" ... (PJ<sup>3</sup> – ProJoiners).*

Another time, PJ<sup>3</sup> was importing items from Tunisia for export in relation to a project in France. At smallest *FiredPride*, FP<sup>2</sup> similarly considers close relations crucial in making such international business activity possible – via trusted access to foreign suppliers’ own networks:

*“previously we used to deal with the English. There were very few places in Italy where one could run a verification or reputation check on us. We conducted business with these [Italian suppliers], living up to their expectations on payment terms, no hitches – and we established a very good relationship. We invited them here, they invited us there ... So to establish contact with these [other] suppliers, we asked about these [Italian kiln suppliers]. ... said, ‘listen Andrea, we’d like to buy “biscotto” [tiles]’. Andrea immediately replied, “biscotto? Go and buy it from Gianni go and buy it from Peter ... we can vouch for them”. ... Reputation’, that’s the word ... [I] go to buy ‘biscotto’ from this guy, and he asks me to pay “cash”. Then I’d tell him, ‘let’s not conduct business like that ... talk to Andrea. I’m buying this much from you. Now talk to Andrea’. So he’d phone Andrea. Andrea told him ‘Sell to this guy from Malta, I’ll be his “guarantee”’ – and that’s it. All it takes is a phone call. The Italians believe in this... [Andrea] had then [also] put us in touch with the machinery guys ... also with others from where we could buy our [raw] material ... Because everybody knows everybody else there ....”*

## **7.8 Importance attributed to key sources and resources for new information, learning and knowledge acquisition**

Following thorough within-case analysis involving multiple primary data sources, the cross-case analytic overviews below consolidate and summarise findings across SMFBs, offering an indicative comparative evaluation of select key internal and external research-specific factors and resources’ impact on the acquisition of new information and knowledge associated with internationalisation.

Given the qualitative, rich nature of the data, and idiosyncratic elements unique to each SMFBs’ circumstances, a qualitative comparative interpretation across SMFBs was required taking into consideration relevant subjective elements in evaluation (Sapienza, Smith and Gannon 1988: 43). This included direct interrogation rating each factor for importance. Relative comparative evaluation for each factor is gauged along 5 levels of importance (Table 6.13). For each case, the attributed level of importance was also





**Table 7.31 – Attributed importance for acquiring new information and knowledge associated with internationalisation - Key ‘internal’ sources and resources**

	Formal education & training	Experience	Contacts & relationships with others outside SMFB	In-house experimentation / any rudimentary internal R&D
<b>GloGlass</b> - Size: Small - Est: 1968 (42) / 1 <sup>st</sup> gen* - Int'l: c.40% Experienced	Very Important (4) ●●●●○	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●	Very Important (4) ●●●●○
<b>FreshCatch</b> - Size: Medium - Est: c.1968 (42) / 2 <sup>nd</sup> gen - Int'l: c.90% Experienced	Very Important (4) ●●●●○	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○
<b>WineDivine</b> - Size: Medium - Est: 1907 (103) / 3 <sup>rd</sup> gen - Int'l: c.5% Novice	Very Important (4) ●●●●○	Very Important (4) ●●●●○	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○
<b>FiredPride</b> - Size: Small - Est: 1964 (46) / 2 <sup>nd</sup> gen* - Int'l: 15% Novice	Important (3) ●●●○○	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●	Somewhat Important (2) ●●○○○
<b>SunDeli</b> - Size: Medium - Est: 1916 (94) / 3 <sup>rd</sup> gen - Int'l: 66% Experienced	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●
<b>ProJoiners</b> - Size: Medium - Est: c.1894 (c.116) / 3 <sup>rd</sup> gen - Int'l: 30% Experienced	Important (3) ●●●○○	Very Important (4) ●●●●○	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○
<b>VegaFont</b> - Size: Medium - Est: c.1982 (c.28) / 1 <sup>st</sup> gen - Int'l: 70% Novice	Very Important (4) ●●●●○	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○
<b>StarSnack</b> - Size: Medium - Est: 1965 (45) / 1 <sup>st</sup> →2 <sup>nd</sup> g. - Int'l: 50% Novice	Very Important (4) ●●●●○	Exceedingly Important (5) ●●●●●	Very Important (4) ●●●●○	Important (3) ●●●○○

Source: Author, consolidated within- and cross-case analyses. Age as at 2010

Overall, the highest level of importance for gaining new external information and knowledge associated with internationalisation was attributed to accumulated experience as well as contacts and relationships with others outside the SMFB. Both these internal tacit knowledge resources converged on owner-MD himself. Only at the largest, resource-endowed SMFB, were education and training, experimentation and R&D attributed equally high levels of importance. Indeed *SunDeli* has long served many blue-chip multi-national corporate clients. Besides stringent quality requirements, also for its own private label export business, and investments in product development, SD<sup>3</sup> had set up a lab, and employed graduates in R&D, collaborating with supermarkets’ laboratory professionals and with international food research networks.

## **7.8.2 Key external sources and resources**

Table 7.32 gives a consolidated overview of the relative, comparative importance attributed to external entities and select factors queried for the purposes of learning and acquiring new external information and knowledge associated with international business activity.

As can be seen in this consolidated overview, without exception, all owner-MDs and where relevant, others involved in internationalisation initiatives, considered attendance and participation at international fairs and exhibitions as most important for the purposes of acquiring new external information and knowledge associated with internationalisation opportunities. This corresponds with detailed analyses discussed previously – stressing social interactional opportunities offered by such fairs, resulting in new contacts, and the extension of new or existing networks besides maintaining relationships and rapport.

Perceived as an increasingly useful tool for accessing generic information associated with internationalisation, the internet is mainly used for preliminary desk research, establishment of contacts, or also, in a few cases, for reaching internet-based international retail clients.

**Table 7.32 – Attributed importance for acquiring new information and knowledge associated with internationalisation - Key ‘external’ sources and resources**

	Govt. agencies, Industry associations & chambers of commerce	International fairs and exhibitions	Internet	Recruiting grads., engaging ext. professionals, consultants & ext. training prog.
<b>GloGlass</b> - Size: Small - Est: 1968 (42) / 1 <sup>st</sup> gen* - Int'l: c.40% Experienced	Somewhat Important (2) ●●○○○	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○	Very Important (4) ●●●●○
<b>FreshCatch</b> - Size: Medium - Est: c.1968 (42) / 2 <sup>nd</sup> gen - Int'l: c.90% Experienced	Important (3) ●●●○○	Exceedingly Important (5) ●●●●●	Somewhat Important (2) ●●○○○	Very Important (4) ●●●●○
<b>WineDivine</b> - Size: Medium - Est: 1907 (103) / 3 <sup>rd</sup> gen - Int'l: c.5% Novice	Minimally Important (1) ●○○○○	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○	Very Important (4) ●●●●○
<b>FiredPride</b> - Size: Small - Est: 1964 (46) / 2 <sup>nd</sup> gen* - Int'l: 15% Novice	Important (3) ●●●○○	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○	Somewhat Important (2) ●●○○○
<b>SunDeli</b> - Size: Medium - Est: 1916 (94) / 3 <sup>rd</sup> gen - Int'l: 66% Experienced	Important (3) ●●●○○	Exceedingly Important (5) ●●●●●	Very Important (4) ●●●●○	Very Important (4) ●●●●○
<b>ProJoiners</b> - Size: Medium - Est: c.1894 (c.116) / 3 <sup>rd</sup> gen - Int'l: 30% Experienced	Somewhat Important (2) ●●○○○	Exceedingly Important (5) ●●●●●	Important (3) ●●●○○	Important (3) ●●●○○
<b>VegaFont</b> - Size: Medium - Est: c.1982 (c.28) / 1 <sup>st</sup> gen - Int'l: 70% Novice	Minimally Important (1) ●○○○○	Exceedingly Important (5) ●●●●●	Very Important (4) ●●●●○	Exceedingly Important (5) ●●●●●
<b>StarSnack</b> - Size: Medium - Est: 1965 (45) / 1 <sup>st</sup> →2 <sup>nd</sup> g. - Int'l: 50% Novice	Important (3) ●●●○○	Exceedingly Important (5) ●●●●●	Exceedingly Important (5) ●●●●●	Very Important (4) ●●●●○

Source: Author, consolidated within- and cross-case analyses. Age as at 2010

With respect to seeking to recruit graduates, engaging external professionals or consultants as needed, or availing of external training programmes, VF<sup>1</sup> whose rapid internationalisation “*explosion*” was triggered by his poaching of an experienced, English MD – considered investments here as being also ‘exceedingly important’. Indeed, today his objective is to always seek engaging “*thoroughbreds*” to drive his family business forward – paying well for the right individuals.

An interesting observation was the low importance attributed to government agency support for the purposes of accessing information and knowledge in relation to facilitating internationalisation activity. While various owner-MDs found for example Malta Enterprise’s support in assisting attendance or participation at international affairs helpful –

they somehow, nonetheless retort to the effect that “*my expectations of them is not very high ... I consider them like a government department*” (SS<sup>2</sup>). This association with government departments was also put forward by FP<sup>2</sup>. Although in instances useful data was made available, or assistance with accessing EU funds was forthcoming, comments cited them and other government support as “*bureaucratic and greatly hindering the flow of business*” (FC<sup>2</sup>).

WD<sup>3</sup> extended his observation to include other institutions such as the Federation of Industries: “*bureaucracy ... a lot of political baggage surrounding these institutions*”. When he was elsewhere asked on what the main obstacle hindering his company’s innovation and new ways of doing things was, he replied “*government bureaucracy is number 1 ... bureaucracy is incredible ... they built a monster that nobody can control*”.

VF<sup>1</sup> declared “*I’m against*” government agencies, saying he never participated in trade delegations, where they “*quickly round up a delegation and go off on a holiday*” – often adopting a broad or scattergun approach when the visiting delegates are widely varied, their requirements necessitating a more tailored approach.

Possessing greater resources with which to deal effectively with bureaucratic processes, tomato processors *SunDeli* perceived value from government agency support – also for growers. This partially derives from the fact that government recognises the tomato crop and related processing as being of strategic importance to Malta’s economy. While grapes are classified as a crop of strategic significance – WD<sup>3</sup>’s perception on the value of government agency services is less edifying.

## **7.9 Conclusion**

In line with this research’s stated objectives, based on extensive within-case analyses, this chapter consolidated and presented this study’s cross-case analysis, findings and discussion. It specifically addressed the research questions, analyses contextually examining the *nature and extent of the SMFBs’ internationalisation*, and investigating their *internationalisation process adopting an ACAP approach*. The role of the *founder / owner-MD* and that of *contacts and relationships* in their internationalisation and ACAP dynamics were systematically explored and emphasised in analysis. Drawing analyses together, it

provided investigative insight into the *influence and impact these SMFBs' characteristics and ACAP dynamics have on their internationalisation.*

In concluding, the next chapter further consolidates these findings. It highlights key contributions and, based on this study's findings presents an empirically based conceptual model for the core components identified as determining SMFBs' internationalisation ACAP (iACAP) – this, also theoretically grounded in the three key converging literature areas within which this research is positioned. Recommendations for management and policy are made, while inherent limitations and proposed areas for further research are also presented.



# Chapter 8

Consolidation of findings  
and Conclusion





## 8 Consolidation of findings and conclusion

### 8.1 Introduction

**The overall aim of this research has been to investigate and examine the outward internationalisation of small and medium-sized family businesses engaged in traditional business activity.**

Researchers underline the strategic importance of small firm internationalisation at both national and firm-level (Jones 1999; OECD 2000; Lu and Beamish 2001; George, Wicklund and Zahra 2005), establishing their unique characteristics with respect to internationalisation (Donckels and Frohlich 1991; Sirmon and Hitt 2003; Zahra 2003).

Although family businesses dominate enterprise and SME populations, also representing a “*very important share*” of international activity (Gallo and Garcia Pont 1996: 45; Sharma *et al* 1996; Gomez-Mejia *et al* 2001; IFERA 2003; Zahra 2003), family business research remains “*in its infancy*” and severely under-researched (Schulze and Gedajlovic 2010: 191; Neubauer and Lank 1998; IFERA 2003; Casillas and Acedo 2005; Fernandez and Nieto 2005; Casillas *et al* 2007; Moores 2009; Kontinen and Oija 2010).

When this study started, implications of ownership and family business characteristics on internationalisation had “*almost never been analysed*” (Casillas and Acedo 2005: 135). Recognising “*internationalisation is the most complex strategy that any firm can undertake*”, scholars have stressed “*more effort should be devoted to studying forms of international expansion for family firms*” (Fernandez and Nieto 2005: 77).

Given that understanding such resultant complexity acknowledges learning and knowledge as crucial (Erkko *et al* 2000; Brennan and Garvey 2009), an absorptive capacity approach has been adopted in analysis. This emphasises that external knowledge, recognition of its value, its attainment, assimilation and exploitation are core to organisational performance and competitive advantage (Cohen and Levinthal 1990). This is accentuated in SMFBs with resource and infrastructure limitations in comparison to larger corporations. Thus through this perspective, this study has also:

**investigated how SMFBs employ prior knowledge, as well as acquire new external information and knowledge relevant to internationalisation activity, assimilate it and eventually leverage it towards exploiting internationalisation opportunities in increasingly competitive dynamic markets.**

Extant research in this emergent (ACAP) area emphasises larger corporate forms, generally basing investigations on high-technology or knowledge-intensive activity, operationalized via more structured and formalised approaches such as R&D budgets, or registered patents. Even here scholars call for more research in “*non-R&D contexts*” (Lane *et al* 2006: 853) and the adoption of qualitative methods to shed insight on ACAP processes (Easterby-Smith *et al* 2008). Additionally, “*a lack of systematic research on the construct of knowledge in family business*” is observed (Chirico 2008: 434). Thus, adopting an absorptive capacity perspective introduced a further under-researched dimension to this study.

Consolidating synthesis of extant literature from *small firm internationalisation, family business research* and *absorptive capacity*, and insight from early interaction with the SMFBs, specific core questions emerged further focussing the thrust of this study:

***What*** is the role of the founder / owner-MD in these SMFBs’ internationalisation and associated absorptive capacity processes and ***how*** does this impact on overall internationalisation?

***What*** role do contacts and relationships play in these SMFBs’ internationalisation and absorptive capacity processes? ***How*** and ***why*** are these often social and informal contacts and relationships employed, operationalized and leveraged?

Detailed analysis and extensive discussion of this study’s findings, also in relation to relevant theory, has already been presented and expounded in the previous chapter (Chapter 7, *Cross-case analysis, findings and discussion*). This chapter consolidates observations related to this study’s specific research objectives and presents salient findings, highlighting contributions and recommendations. This research’s implications for the literature, as well as management practice and public policy are considered, followed by limitations of the study, and proposed areas for further research.

This chapter is structured as follows: It starts with a consolidating overview of key findings and conclusions pertaining to the overarching aim of this study, examining the *'nature and extent of internationalisation among SMFBs in this context'* – circumstances, motivations and patterns (8.2). Next, key conclusions drawn from analysis into the SMFBs' absorptive capacity associated with internationalisation are presented (8.3). Here, findings associated with the important central roles of (i) the founder / owner-MD, and (ii) contacts and relationships are specifically and independently addressed. A conceptual model emerging from this empirical study, for internationalisation absorptive capacity (iACAP) in the context of SMFBs, is presented and explained in 8.4. This is followed by implications for the literature and contributions to theory for the respective areas of *small firm internationalisation, family business studies* and *absorptive capacity* (8.5). Implications and recommendations for *management* and *policy* are covered in 8.6 and 8.7. Finally, the study's limitations and proposed areas for further research are presented in 8.8.

## **8.2 Findings: Internationalisation of traditional SMFBs**

Small firms internationalise for multiple reasons depending on idiosyncratic circumstance and an interplay of personal, entrepreneurial and managerial factors related to internal motivations and environmental dynamics (Cavusgil and Naor 1987; Aaby and Slater 1989; Zhou and Stan 1998; Zucchella *et al* 2007). Investigating family dynamics, this study observed that family businesses cannot be considered a homogenous group, and that each SMFB's unique characteristics at particular points in time radically influenced their internationalisation.

### **8.2.1 External factors**

Malta's island characteristics as well as historic politico-economic circumstances invariably influenced these SMFBs' first steps in outward internationalisation. Besides challenges arising from Malta's small size and geographic location, exogenous factors related to the country's political and economic evolution were namely: national independence and a nascent economy steering away from reliance on British military presence (1964-1971); Labour's introduction of 'import substitution' policies leading to an increasingly closed economy (1971-1987); the opening of the economy following government change (1987); and the run-up to EU accession in 2004.

Prior to mid-70s and 80's, most domestic sectors in Malta were a greenfield opportunity as the fledgling economy redirected and industries started establishing themselves. By this time, 6 out of the 8 SMFBs under study, ranging from the smallest to the largest, had already taken their first steps in outward internationalisation. For 4 of these SMFBs, this was isolated activity – yet in 2 cases, exports were regular and sustained.

In 1987 the newly elected Nationalist government liberalised the economy. Development and trade led to business activity and growth in the domestic market. The critical event was EU accession (2004) and the dismantling of protectionism in run-up years. With market share eroded by price-competitive imports from competitors' scale-efficient operations, the founders and owner-MDs revised their domestic strategy and some looked beyond Malta's shores for growth and survival. This period saw the onset of regular sustained exports for 5 of the SMFBs. EU membership generated a “*push*” to internationalise, more than a “*pull*” (WD<sup>3</sup>). Indeed, all SMFBs under study had been exporting to neighbouring EU countries before membership – some long prior.

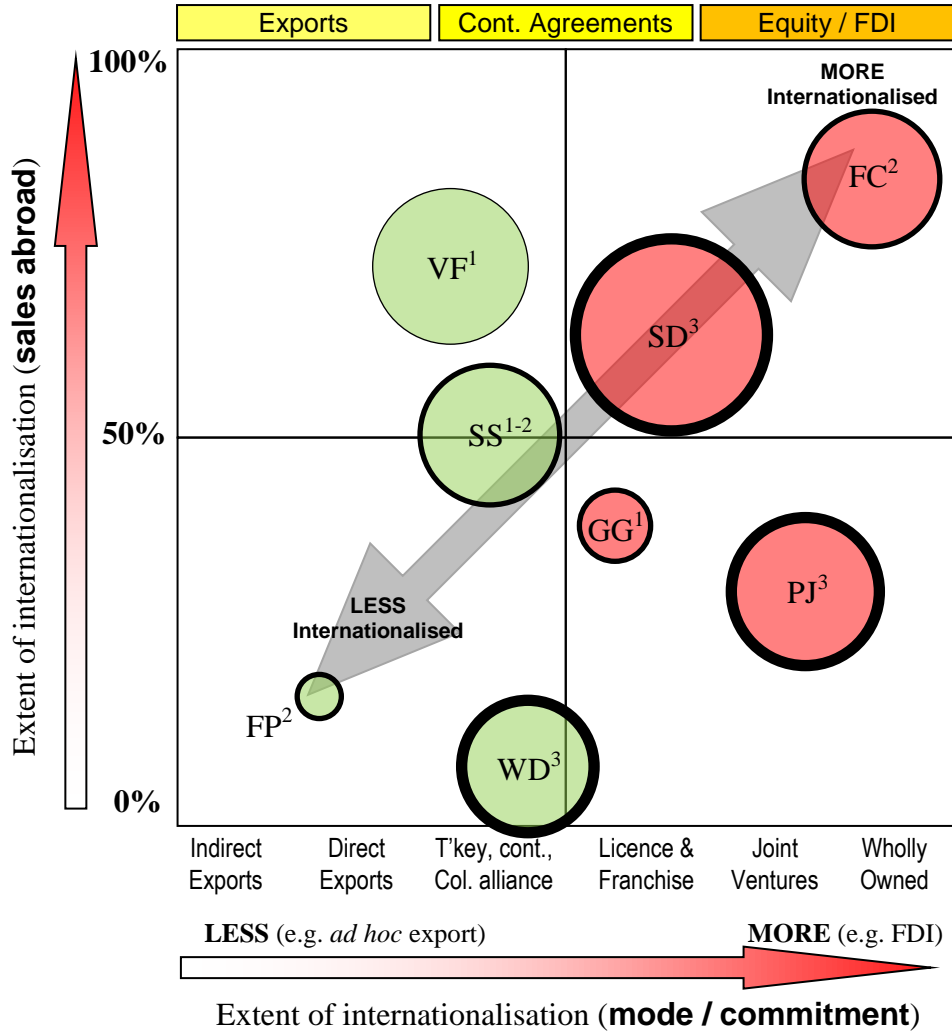
What clearly came through in this study was how in the face of shifting market dynamics, SMFBs' owner-MDs utilized their unique idiosyncratic characteristics to adapt and offset resource limitations – maximising their capability to exploit opportunities for growth or survival.

### **8.2.2 Internal factors**

SMFB size ranged from the smallest with 22 employees (*FiredPride*) to 140 (*SunDeli*). Five employed between 80 and 100. All SMFBs were long established, ranging from 28 to 116 years, spanning founders at the helm to 3<sup>rd</sup> generation descendants in control – 3 SMFBs had already embarked initial *ad hoc* or sporadic isolated export activity in previous generations. Otherwise, the current generation, initiated outward internationalisation.

Consolidated from earlier analysis, Figure 8.1 provides an overview of indicators relating to SMFBs' organisational size, age, generation and international experience in relation to their extent of outward internationalisation.

Figure 8.1 – Extent of SMFBs’ outward internationalisation



■ Int'l. experience: **novice**; ■ Int'l. experience: **experienced**  
 (Int. experience based on onset of regular ongoing export activity *not* the first instance of irregular, sporadic or isolated exports)  
 ∅ *Diameter size* denotes **size** of organisation in terms of employment  
 ○ *Diameter thickness* denotes **age** of organisation; AB<sup>n</sup>: 'n' denotes **generation**

Indicative extent of outward internationalisation gauged via 3 indicators:

- 1) % of international sales
- 2) Internationalisation mode and extent of int'l commitments
- 3) Years of engagement in regular exports & int'l sales activity

Source: Author. Consolidated from primary data, within- and cross-case analyses

Although an association between internationalisation experience and levels of commitment to foreign markets and entry modes was observed, the extent of internationalisation and outward international activity evidenced transcended organisational age and generation, as well as size and international experience. Depending more on respective SMFBs’ unique characteristics and idiosyncratic circumstances, internationalisation patterns included

uncharacteristic internationalisation soon after inception and ‘born-again’ rapid internationalisation in later generations.

SMFBs’ strategic direction and decision-making were centrally controlled by the founder / owner-MD – “*boss*” or “*padrone*”. Indeed, putting “*heart*” (FC<sup>2</sup>, SD<sup>3</sup>, SS<sup>1</sup>, VF<sup>1</sup>) and passion into their “*baby*” (SD<sup>3</sup>; SS<sup>1</sup>; VF<sup>1</sup>), owner-MDs embodied their SMFB’s vision and culture, complementing scholars’ observations that – “*they define the personality of the business*” (Sorenson 2000: 198; Schein 1983; Dyer 1986; Zahra *et al* 2004).

Considering that family culture “*plays an important role in determining the success of the business beyond the first generation*” (Sorenson 2000: 198), in this study, founder/owner-MDs emerged the key determinant on the future direction, internationalisation and success of the SMFB – the single most important resource among several “*key factors that enable or limit family business’ internationalisation processes*” (Gallo and Garcia Pont 1996: 46).

In the case of this study – founder/owner-MDs generally had a positive influence, on several occasions resiliently and enterprisingly turning stumbling blocks into stepping stones, while they manoeuvred beyond the confines of Malta’s restrictive market. In many instances, sheer will, “*volition*” (Jones and Coviello 2005: 289) rather than quantified strategizing determined their exploitation of international opportunities. They were predominantly ‘entrepreneurial owner-managers’, alert to opportunities, with high market orientation and comparatively less developed control systems (Goffee 1996). For example size did not keep INV *GloGlass*, one of the smallest under study, from internationalising from inception at a time when the domestic market was a greenfield opportunity and survival not an issue. GG<sup>1</sup> maintained international business activity in several countries, also engaging in more committing modes beyond exports.

Singular ‘undisputed boss’ status were evinced in 6 of the 8 SMFBs studied. In two cases, though owner-MD siblings were also involved in the business, the MD’s absolute leadership and strategic direction was clear, the ‘secondary’ brother keeping a lower profile. At *WineDivine*, WD<sup>3</sup> became sole shareholder following a business split in earlier years.

At smallest *FiredPride*, four sibling directors were all directly managing their business of only 22 employees. Lack of unified vision led to this second generation SMFB most

recently splitting – pursuing survival from two ‘new’ competing entities. At *StarSnack* generational transition was not always clean-cut. After purportedly handing the reins over to his business graduate son, the 75 year-old founder remained actively involved. This eventually saw the son depart, and his father resume the helm. This detrimental situation was noted in both the smallest and one of the larger SMFBs. It is evident in this study that long-term, a single vision driven by an undisputed owner-MD was more effective than one where other family members were actively involved at a top-level.

### **8.2.3 Management, employees and administration**

#### *Family*

In 6 of 8 SMFBs, the founders / owner-MDs had no schooling beyond mandatory secondary level education – in two cases dropping out early. SD<sup>3</sup> had a diploma in finance and PJ<sup>3</sup> a theology degree. This low prevalence of formal education among the founders / owner-MDs corresponds with typical observations in the literature (e.g. Hall and Nordqvist 2008). Across the board, experiential knowledge, foresight and contacts, sheer determination and enterprise characterised the founder / owner-MDs’ personal knowledge base. For example extensively internationalised *FreshCatch* with predominantly export operations and FDI investments, and rapidly internationalised “‘born-again’ international’ *VegaFont*, also predominantly export-based, albeit a ‘novice’ internationaliser – are both headed and run by owner-MDs that dropped out of secondary school.

Four owner-MDs were in their 50s and three in their 60s. At *StarSnack* the founder is 75, his graduate son (SS<sup>2</sup>), MD for a span of 7 years, is 43.

In six SMFBs, owner-MDs’ children were employed, involved to different extents within the business. In five SMFBs these were young recent graduates – in 3 SMFBs assisting in management positions, their management role generally titular, the objective somewhat being to get up-coming generations to learn the ropes – decision-making remained centralised, their fathers’ hand firmly determining all aspects of the business.

## *Non-family*

SMFB management was characterised by a flat hierarchical structure, as noted direction and control centralised with founder / owner-MDs. In the larger SMFBs, some having ISO or similar processes in place, semblance of a functional structural set-up was observed, but managers were generally “*just managers*”. Across the board, however, employees were perceived as key assets, a source of competitive advantage because of their experience and commitment. Indeed, owner-MDs fully appreciated the dedication of both non-family employees and ‘managers’ – owner-MDs referring to them as “*one family*”, or “*like my children*”.

No non-family managers were employed at the two smallest SMFBs. The larger SMFBs employed non-family departmental managers. In most instances, besides a financial controller or accountant, these were experienced dedicated employees promoted internally. Owner-MDs recognised the need for formal training and education as their SMFBs faced increasingly complex competitive environments. Graduate professionals such as oenologists and marine biologists were engaged in production or technical posts, rather than administrative positions. Other professionals were recently brought in as experienced outsiders previously employed in corporate environments. Owner-MDs identified gaps in their management ranks, and in an ideal world would have engaged professionals, but overall did not consider employing graduates as most important for acquiring new information and knowledge – also in relation to internationalisation. Rather in most instances, international contacts, relationships and attendance at international fairs were considered ‘exceedingly important’ instead.

Despite an inclination to somewhat professionalise among larger SMFBs, overall management and planning remained organic and informal, meetings unstructured and decisions often taken on the go – decision-making and direction firmly in the hands of owner-MDs. Even at *StarSnack*, where incoming graduate SS<sup>2</sup> expressly started building a management team, the situation was portrayed as: “[sometimes] *we sit around the table, we discuss and between us we try to come up with a strategy for moving forward. ... that is the way decisions are taken, and we just plod along*”.



### **8.2.4 Key strengths and weaknesses: Enablers and hindrances to internationalisation**

SMFB strengths that emerged from this study primarily included the owner-MD's vision, perseverance and autonomous commitment to internationalisation. Associated with this was the fact that centralised ownership, management functions and decision-making facilitated owner-MDs' ability to react swiftly to opportunities as they materialised. Combined with this was importantly the flexible operational and organisational set-up of the SMFBs, allowing them to seize opportunities and take on higher value, non-mainstream customised orders – usually lower-volume contracts matching the SMFBs' capacity and business model.

An overarching critical resource transcending all aspects of the business were the owner-MDs' foreign contacts with “*people you know*”, business-acquaintances-turned-“*friends*” and others, who in various instances made the ‘impossible possible’, facilitating and enabling business. These were ‘exceedingly important’ sources of external knowledge associated with internationalisation and know-how. Another advantage evinced was their team of committed and dedicated employees – a ‘familial’ culture prevailing among the workforce, where tacit knowledge and experience was likened to a “*gold mine*”. This, combined with the “*Maltese way of doing things*”, creatively finding solutions to international clients' exacting requirements, contributed to these SMFBs' competitive advantage – a value adding differentiating factor deriving from SMFBs' tacit resources and capabilities, a ‘rare’ and ‘imperfectly imitable’ organisational culture (Barney 1986).

These SMFB characteristics are potentially a double-edged sword, resulting in competitive advantage or disadvantage depending on owner-MD's and the SMFBs' organisational culture (Gallo and Sveen 1991; Gallo and Garcia Pont 1996; Goffee 1996).

Limitations associated with international business activity included capacity and scope of operations. Owner-MDs, especially those in larger SMFBs, also mentioned a need to increase their management capacity through employing professionals as businesses grew and internationalisation activity grew more complex. Another resource limitation cited was lack of finance for investments and innovation associated with international business activity. Government red tape was also cited as hindering.

As expected, within the context of this study, Malta's segregation from mainland Europe presented considerable challenges, partially eroding the SMFBs' competitive advantage by increasing costs as a result of transportation and lead times.

### **8.2.5 Internationalisation patterns**

Overall, owner-MDs' entrepreneurial orientation was deterministic, characterised by willingness to embrace risk towards innovatively pursuing international business opportunities.

While patterns compatible with IPT / Uppsala stage theories (Johansson and Vahlne 1977, 1990) exhibiting incremental internationalisation were generally evinced, this was clearly not always the case. *GloGlass*, one of the smallest SMFBs, an INV or "born-global" (Oviatt and McDougall 1994; Bell *et al* 2003). Thus although generally SMFBs are perceived as conservative and risk-averse in the literature, this research found evidence of firms internationalising almost from inception. Again, *VegaFont*, the youngest SMFB, internationalised rapidly after 18 years – a "born-again" international' (Bell *et al* 2001), 70% of its sales attributable to exports. Similarly, *SunDeli* and *StarSnack* both internationalised rapidly, respectively seeing 66% and 50% of their output exported. Here, the nature of the business (e.g. exporting to large corporate clients) played a role – as did reputation, 'legitimacy' and recognition gained from doing business with prominent international players. This rapidly internationalising pattern evidenced was not fully explained by traditionally applied gradualist IPT / Uppsala stage theories. Neither is such behaviour, exhibited by traditional small firms, accommodated by IE and INV perspectives (Dimitratos *et al* 2010). Furthermore, rather than those identified by Bell *et al* (2001) (change of ownership, acquisition and client followership), a key critical incident associated with the "born-again" pattern evinced was exogenous: Malta's EU accession.

As noted earlier, internationalisation experience did not play a determining role with respect to the proportion of foreign to domestic sales. Among those with predominantly export sales, both 'experienced' and 'novice' SMFBs were equally represented (Figure 8.1). Indeed, rapidly internationalised 'novice' *VegaFont* exported 70%. Here again, business with corporate foreign clients gained through contacts and as a result of reputation, resulted in high volume exports. Second generation *ProJoiners* and 3<sup>rd</sup> generation *WineDivine* internationalised as mature organisations, leapfrogging tentative *ad hoc*

experimentation, directly engaging in sustained direct exports. While scholars observed that it was “*harder for a firm with long domestic experience to change their mental models and processes in the internationalization process*” (Blomstermo, Eriksson and Sharma 2004: 239), this study confirmed otherwise. At least 4 SMFBs who internationalised as mature organisations after several years, sometimes generations, of domestic activity, effectively committed to internationalisation – in instances doing so rapidly. It seems here that earlier scholars might not have placed sufficient emphases on the potential implications of external factors and competitive circumstances on motivations.

Among SMFBs traditionally associated with less committing modes of internationalisation, *ProJoiners* went directly from exports to setting up a UK company several years later – to facilitate business and transactions there.

With respect to modes of entry, international experience, however, did play a part. All ‘novices’, notwithstanding their extent of exports are involved in less committing export activity.

Irrespective of size, age or generation, the ‘experienced’ internationalisers were involved in more committing modes of internationalisation, including franchise operations, joint ventures and wholly-owned FDI. As noted earlier, this included one of the smallest SMFBs, *GloGlass*, having limited tangible and financial resources and limited management capacity (see also Table 7.16). A recurring crucial resource here was the owner-MDs’ contacts and relationships, providing insight and knowledge, opening doors to opportunities. Maltese émigrés formed an important trust-based link for franchise operations and higher-commitment internationalisation activity.

Thus while scholars suggest that employment size in aggregate might help explain internationalisation (e.g. Calof 1993; Bonaccorsi 1992; Andersson *et al* 2004), this study confirmed that this cannot be generalised to specific cases since various idiosyncratic factors and circumstances are involved – furthermore, different sectors and activity present different size implications (Williams 2011).

With respect to internationalisation scope most SMFBs exported regularly to 4 countries (see Table 7.14, Table 7.15). Size again did not seem to play any major determining role with respect to the number of countries exported to. Indeed, besides having exported to

several other countries earlier, *GloGlass* currently regularly exports to 4 countries and coordinates franchise operations in a fifth, and has, over the years, exported to at least 14 countries. Largest *SunDeli* was regularly exporting to six countries, while large yet novice *VegaFont* was exporting 70% of its sales to just one country. Key determining factors centred around the owner-MD's "*volition*" and alertness in seizing opportunities as they emerged in their idiosyncratically unique circumstances – leveraging and forging contacts and relationships-cum-friendships in the process. Other relevant factors included the SMFBs operational context (such as industry or sector served).

One consequently notes that straightforward correlations often found in the literature (especially quantitative studies involving diverse organisations in different sectors) between SME size and number of markets served, is a simplistic and inaccurate averaged generalisation. Rather than size alone, unique contextual and circumstantial aspects have a crucial bearing on the number of foreign markets served.

For similar reasons converging on owner-MDs' "*volition*" and enterprise, beyond, in certain instances the first step, psychic distance did not have a determining role, and did not deter owner-MDs from seeking or exploiting opportunities in distant countries with unfamiliar cultures, customs and languages. Owner-MDs' enterprising characteristics and volition, coupled with eventually formed trust-based rapport transcended such differences – presenting opportunities for new business and prospects for '*valuable*' double-loop learning.

### **8.3 Findings: Absorptive capacity in SMFB internationalisation**

Just as for other firms, for SMFBs "*firm internationalisation is considered as a dynamic process*" encompassing multiple external and internal variables – involving change and adaptation to new environments (Casillas and Acedo 2005: 135). Likewise, absorptive capacity is a "*dynamic capability pertaining to knowledge creation and utilization that enhances a firm's ability to gain and sustain a competitive advantage*" (Zahra and George 2002b: 185). Complementing the resource-based-view of the firm (Barney 1991), Teece *et al* (1997: 517) defined dynamic capabilities as "*the ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments*" – essential for owner-MDs and internationalising SMFBs under study.

Within these SMFBs, absorptive capacity as a fundamental process was evidently taking place in an organic manner: owner-MDs recognised the value of external information and sought to acquire relevant knowledge, assimilate and eventually leverage it in exploiting internationalisation opportunities towards, growth and survival – within their unique circumstances, characterised by resource limitations and increasingly competitive markets (Cohen and Levinthal 1990).

In contrast with extant ACAP research, these SMFBs were not engaged in high-technology or knowledge-intensive activity. Within the context of their size and resource limitations, notions of formal R&D and patents were alien – and in instances irrelevant. Yet these SMFBs were transforming ideas into new product development and innovation, process and technological innovation, as well as business and strategic innovation – including internationalisation in itself (Granovetter 1934; Amabile *et al* 1996; Luecke and Katz 2003) – enabling them to “*advance, compete and differentiate themselves successfully in their marketplace*” (Baregheh *et al* 2009: 1334).

As threatening challenges were overcome, such capability enabled owner-MDs to innovatively reinvent themselves and their SMFBs – developing new products, adopting new processes, targeting international markets.

While IPT (Johanson and Vahlne 1977) emphasises market knowledge and largely ignores product and technological knowledge, findings in this study observed that smaller as well as larger traditionally oriented SMFBs also sought and valued such knowledge in connection with their internationalisation. This was important for owner-MDs to embrace new efficient processes to offset costs of operating from Malta, and develop innovative products conducive to internationalisation and specific foreign markets.

Tacit experiential knowledge was a very important resource and knowledge stock for owner-MDs and their SMFBs. This included objective as well as subjective knowledge relating to internationalisation activity. Experiential knowledge was also gained vicariously and informally through “*valuable*” contacts and relationships – these owner-MDs’ and their SMFBs’ most crucial resource for mitigating resource limitations and ‘liabilities of newness’ (Sapienza *et al* 2006). In a few instances external experience, insight and expertise were brought into the SMFB either through external consultants or

professionals, via exercising generally social and informal “*network contacts*” (Berry *et al* 2006 : 36) – or by approaching government agencies or embassies.

Generally, the absorptive capacity process, involving the acquisition, assimilation and exploitation of external knowledge, involved informal processes converging on owner-MDs. The various knowledge types, whether subjective or objective, remained tacit in their assimilation through organic processes. In instances interaction with contacts was involved in the process of assimilating this knowledge and combining it with existing internal prior knowledge and experience.

### **8.3.1 The role of the founder / owner-MD**

From this research it emerged that the founder/owner-MD clearly embodied the SMFB, the undisputed ‘boss’. Vision, strategy, direction and all decision-making converge on the owner-MD who is involved in all aspects of the business – including strategic internationalisation initiatives.

A perpetuated paternalistic management culture (Sharma *et al* 1997; Penn *et al* 1998), saw behaviour and decisions associated with exploration, the recognition and exploitation of international opportunities converge upon the owner-MD, his “*volition*” and entrepreneurial drive – within his circumstantial context.

Sense-making and the weighing up of potential opportunities including risk perception involved information and knowledge assimilation, generally through organic processes internal to the owner-MD. Mostly based on enterprising gut-feeling and past experience rather than rational logic or quantified strategizing. Mostly “*entrepreneurial owner-managers*” (Goffee 1996), with one exception, owner-MDs were characterised either as ‘pioneers’ or ‘allrounders’ – dynamic and creative, responsive and adaptive (Donckels and Frohlich 1991).

Travelling to a fair or international client, or, in one case setting sail to personally export his own fish catch in neighbouring Sicily, it was owner-MDs themselves who were travelling, observing, socially interacting, learning and establishing rapport. Though in 3 of the larger SMFBs the owner-MD was, in later instances, assisted by an export manager, the central actor affecting international activity remained the owner-MD.

Thus through direct, generally sole, interaction and exposure the founder-MD remained the main recipient of experiential knowledge relating to markets, internationalisation, products and technology.

Forging links, contacts and establishing relationships, owner-MDs partook in ‘network knowledge’ (Kogut 2000; Mejri and Umemoto 2010) a conduit for various forms of knowledge, opportunities and business facilitation.

This engendered crucial internationalisation dynamic capability in the owner-MDs (Sapienza *et al* 2006) – where beyond knowing ‘what’, in conjunction with know-‘who’, the owner-MDs gained know-‘how’ – increased confidence and mitigated risk, propagating internationalisation activity (Grant 1995, 1996; Kogut and Zander 1992).

This runs parallel to the notion that relationships and social capital are integral to the process of learning and interaction offered through internationalisation – an activity based on social transactions (Hymer 1976). Indeed, on revisiting their thesis, Johanson and Vahlne (1990, 2003) maintained the central importance of knowledge in internationalisation, further emphasising the importance of networks – ultimately viewing social transactions and interaction as the basis of international business activity (Johanson and Vahlne 2009). In this regard, Monye (1997: 7) revisits scholars’ description that *‘the internationalisation of the firm follows a logical and sequential process of acquisition, integration and use of knowledge about foreign markets’* (see Johanson and Vahlne 1977; Cavusgil 1984), juxtaposing and almost perfectly mirroring Cohen and Levinthal’s (1990: 128) basic definition of absorptive capacity: *“the ability of a firm to recognise the value of new, external information, assimilate it and apply it to commercial ends”*.

Essentially, this strong evidence, stressing the central importance of these owner-MDs’ multi-faceted, accumulated experiential knowledge in their SMFBs strategic direction, is echoed by Ekanem and Smallbone’s (2006: 123) recent observation, highlighting that:

*“By learning from experience, owner-managers learn from approaches that give them the greatest rewards or payoffs ... In effect, they are bringing knowledge, skills, values and attitudes together and learning by doing, through problem-solving and opportunity taking and learning from making mistakes. It is this process of learning by experience that underpins gut-feeling, instinct and judgement”*.

Apart from untiring leaders with vision, these owner-MDs also acted as coaches and guardians of their family business' ethos and culture – reputation, honour and way of doing things.

### **8.3.2 The role of contacts and relationships**

In this study contacts and relationships with others outside the organisation, especially those in the international domain, were internalised by the owner-MDs as the most critical resource for these SMFBs, central in their role of absorptive capacity and internationalisation activity.

Differences were observed between 'strong' ties characterised by established relationships and 'weak' or even 'negligible' ties which included acquaintances as well as casual or chance encounters – which were nonetheless important with respect to knowledge and opportunities associated with internationalisation (Granovetter 1973; Kontinen and Ojala 2011).

As Granovetter (1973, 1983) observed, these owner-MDs' ties evolved over time, through events and interaction. In instances strong ties at some earlier point may have become 'dormant' over the passage of time – yet they were very quickly resuscitated as strong trust-based links when needed partly due to a shared past. Conversely, weak or casual ties also developed into strong relationships that transcended business and became family friendships. In the same way that Granovetter (1973: 1361) deemed "*negligible ties*" as useful in the case of e.g. a "*disaster*", within the context of this study, such ties were also valuable to the owner-MDs, where 'disasters' were critical events and situations related to the SMFBs' quest to survive – the owner-MDs leaving no stone unturned to mitigate resource limitations, gain knowledge and secure new international business – leveraging and resorting to all social contacts and 'friends of friends' (Boissevain 1974), and acquaintances to gain legitimacy and trust, and access to new information and opportunities to facilitate business.

These contacts and relationships, notably converging on owner-MDs, formed the basis of an important, valuable tacit resource, 'network knowledge'. Through their contacts and



relationships, owner-MDs gained market, internationalisation and product and technology knowledge, as well as direct access to opportunities for international business and business facilitation, lowering transaction costs, mitigating risk and liabilities of newness and foreignness. Together with accumulated experiential knowledge, owner-MDs' social capital, ties and relationships, acted as important antecedents and integral elements to the ACAP processes entailed in internationalisation activity.

Owner-MDs' strong ties characterised by trust-based relationships and friendships mainly developed from close rapport with long-standing foreign suppliers and satisfied international clients. Through them, besides important tacit knowledge and know-how, the owner-MDs often got recommendations and introductions directly leading to subsequent international business. Alliances and joint ventures were struck with both domestic competitors as well as foreign suppliers for mutual gain, offsetting resource and knowledge limitations, enabling them to punch above their weight, tendering for large lucrative international contracts or diversifying into new innovative products for export markets. Relationships with émigrés were sought and established. Leveraging these strong ties based on trust deriving from a common Maltese heritage, the owner-MDs penetrated geographically distant markets via more committing modes such as franchising.

On the other hand, weak ties were very important for the owner-MDs in creating opportunities and acquiring new information and knowledge beyond established routines or the existing *modus operandi* – creating exposure to new circumstances and “*access to information [that is] different*” (Granovetter 1973: 1371). Such was gained through travel, and social interaction. A valuable source of knowledge and opportunities was that through contacts established at international fairs and exhibitions (Kontinen and Ojala 2011). Such important encounters led “*not only to the diffusion of innovations but to the diffusion of any ideas or information*” (Granovetter 1983: 214) on new market and product trends, technology and production development, and insight into new international business opportunities, but also to exposure and direct interaction with potential new foreign clients.

Besides access to market knowledge, strong ties were also a source of product and technological / process knowledge – in instances also providing training. Importantly, through established “*friendships*”, and regular social interaction they provided insight into new international business opportunities, as well as introductions and recommendations directly leading to new business. Such trust-based relationships also facilitated business,

lowering transaction costs and enhancing flexibility and swift response to eventualities and opportunities – often all the owner-MD had to do was “*pick up the phone*” to call his “*friend*” to get things underway or gain important knowledge or information – mitigating risk and associated liabilities of foreignness and newness.

The owner-MDs’, as “*decision-makers are social actors*” (Ellis 2001: 126). It is upon the basis of this social interaction and circumstance that opportunities for international business were often presented – generally resulting in the owner-MDs’ opportunistic and entrepreneurial exploitation of such opportunities – arising from social interaction, “*volition*” driving the internationalisation venture forth – rather than pre-meditated, formulated strategizing.

Overall, participants in this research directly attributed contacts and relationships, as well as international fairs (from where new contacts were also established) as most important for acquiring new information, knowledge and insight on matters directly related to internationalisation.

Additionally, it was also evident that the quality of the rapport, especially with foreign clients, referred to as “*the Maltese way of doing things*” characterised by “*genuineness*” – a professional yet warm approach conducive to relationship-building typified by an accommodating and flexible ‘can-do’ attitude, was a vital competitive advantage.

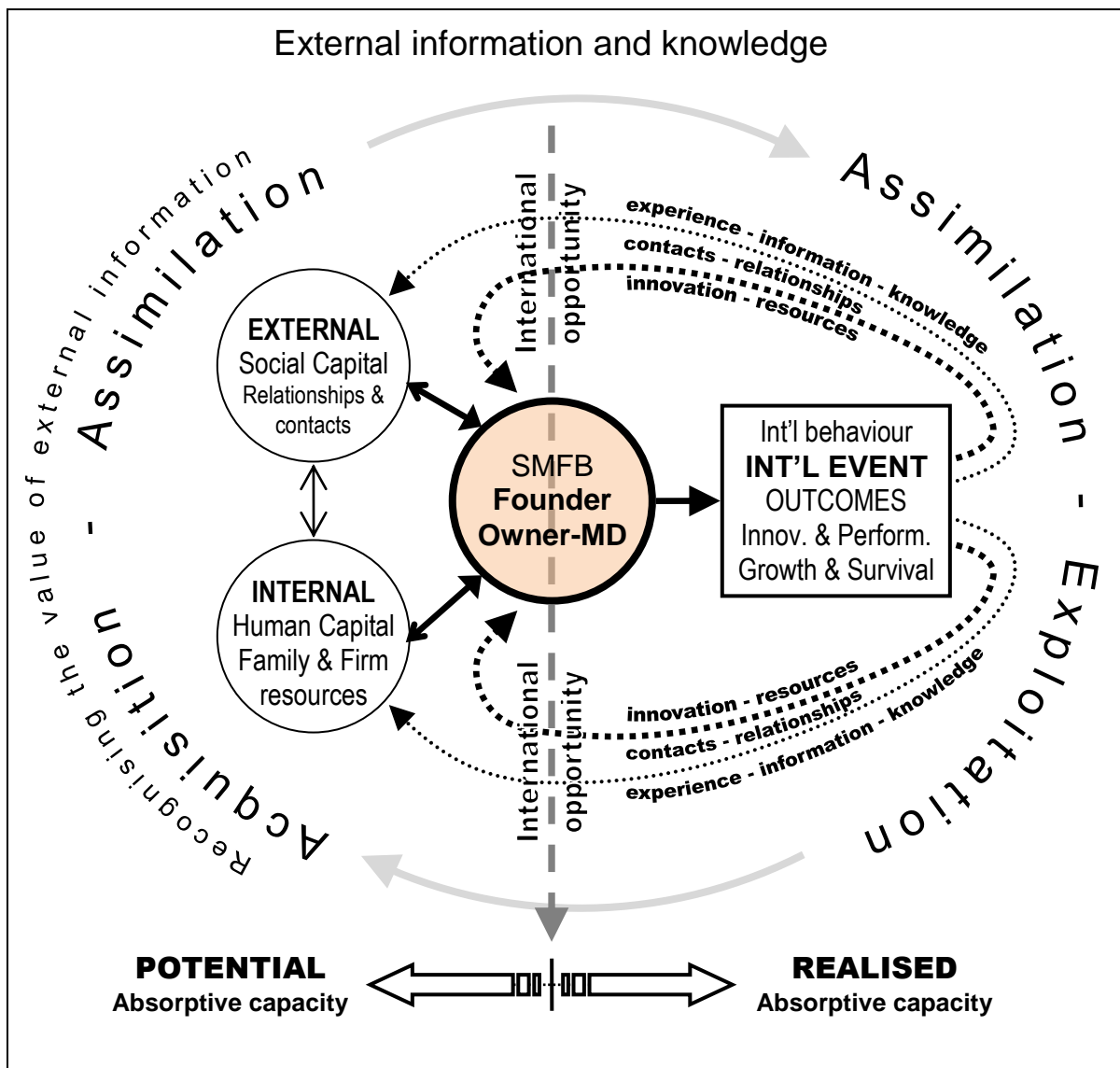
## **8.4 Conceptualising internationalisation ACAP in SMFBs**

An important contribution forthcoming from this research ensues from the novel ACAP approach adopted in investigating the severely under-researched internationalisation of small- and medium-sized family businesses – particularly those engaged in more traditional business activity. Positioned at the critical yet unexplored overlap of three distinct domains, informing *small firm internationalisation*, *family business research* and *absorptive capacity*, this thesis’ cuspidal core theoretical contribution is presented in two emergent conceptualised models – derived from empirical evidence and substantiated by converging complementary theory. Conceptualising (i) the key components determining the *internationalisation ACAP* (iACAP) of SMFBs, as well as (ii) the outward

internationalisation of SMFBs from an ACAP approach, the consolidating rationale forming the basis for these models follows.

Given the general inapplicability of current ACAP operationalisations to the context of internationally active SMFBs engaged in traditional economic activity, based upon this study's analysis and findings, the following conceptual model for 'internationalisation absorptive capacity' (iACAP) in SMFBs is presented (Figure 8.2).

Figure 8.2 – Internationalisation absorptive capacity of SMFBs - A conceptual model



Source: Author. Acknowledged elements from Cohen and Levinthal (1990); Zahra and George (2002b)

As observed, the founder or owner-MD is centrally positioned, characterising and embodying the culture, vision and strategic direction of the SMFB. Ultimately, it is the

founder / owner-MD's perception and "*volition*" (Jones and Coviello (2005: 289) on potential international opportunities, informed and assisted by their 'internalised' external social contacts and relationships, as well as internal family and firm resources, that controls decision-making – sometimes strategic, oftentimes opportunistic – as they creatively exploit internationalisation opportunities. Thus it is the owner-MD through decision-making that affects transition from *potential* to *realised* absorptive capacity.

While retaining Zahra and George's (2002b) distinction between 'potential' absorptive capacity and the enacted 'realised' absorptive capacity, the model presented for this context sticks to the less 'mechanistic' three elements of absorptive capacity originally presented by Cohen and Levinthal (1990). Given the informal and unstructured, organic processes involved in the absorptive capacity process of 'acquiring', 'assimilating' and 'exploiting' external information and knowledge in these SMFBs, Zahra and George's (2002b) 'transformation' stage was omitted. Here, any transformation happened tacitly as the knowledge was assimilated. Indeed, typically no evidence of the transformation of tacit or experiential knowledge into codified or formalised explicit knowledge was observed. Also in line with Todorova and Durusin's (2007) critical argumentation presented earlier, this study observed that assimilation of information and knowledge occurred both at the 'potential' stage, as well as in the 'realised' stage, during interaction and exploitation.

In this process, internationalisation in itself is a major new source of external knowledge and information presenting multiple sources of knowledge and opportunities for new experiences beyond the confines of normal domestic operations – exposing owner-MDs to outsiders and new ideas beyond any insular thinking – necessitating the "*creative exploitation*" of such knowledge (Zahra 2010: 346) and adaptation in order to harness opportunities or shore against threats presented by increasingly dynamic and complex (ever-globalised) markets – the owner-MD as the key actor. This runs parallel to Zahra *et al*'s (2009: 81) recent findings on SMEs' innovative gains from internationalisation and the role of social knowledge:

*"Faced with rising competition in their domestic markets and attracted to opportunities in foreign markets, smaller and medium-sized enterprises (SMEs) are increasingly looking towards internationalization as a means of creating and sustaining competitive advantage. ... beyond just financial outcomes. Internationalization can promote learning and the accumulation of the knowledge, skills and capabilities that SMEs need to survive and prosper. Learning and knowledge accumulation can also improve SMEs'*

*product innovations. ... a wider international market scope exposes SMEs to a rich network of information that encourages and enhances future product innovation. ... analyses also show that social knowledge magnifies and strengthens the effects of international market scope and mode of entry (high control as well as high involvement) on SMEs' product innovation."*

Family business research investigating comparative strategic advantage, focus on three types of factors enabling or limiting family business' processes, including internationalisation. Perfectly juxtaposed with this iACAP model emergent from this research, these are 'external factors', 'internal organisation factors' and 'founder / owner-manager attitudes' (Gallo and Sveen 1991; Gallo and Garcia Pont 1996:46). Here broadly defined, performance "*refers to efficiencies in terms of utilization of resources as well as the accomplishment of organizational goals*" – which in this case concerns internationalisation (Dyer 2006: 259; see also Steers 1982). Several scholars, including Dyer (2003), Habbershon and Williams (1999) and Steier (2001) observed that "*families are thought to influence firm performance primarily through family goals and family resources or assets*" (Dyer 2006: 259, Author's emphases). As emerged clearly from this study, crucial and central SMFB assets and resources employed for the purposes of effective internationalisation are *social* as well as *human capital*.

The social capital of these SMFBs includes goodwill and accumulated resources deriving from connections and relationships with others (Zahra 2010; Arregle *et al* 2007), '*network knowledge*' (Kogut 2000; Mejri and Umemoto 2010) – it "*enables family firms to assemble the resources (especially knowledge) necessary for successful adaptation. Connecting with new ventures, the vanguard of radical change, is a priority for family firms seeking to achieve survival, profitability and growth*" (Zahra 2010: 345). Such intangible resources proved crucial in establishing and sustaining competitive advantage for these owner-MDs and their SMFBs in this study (cf Sirmon and Hitt 2003; Grant 2008; Zahra 2010) – "*Because of the causal ambiguity that surrounds intangible resources it is difficult for competitors to imitate, making their contributions more enduring*" (Zahra 2010: 345; see also Nahapiet and Ghoshal 1998; Barney 1991). In support of Gibb (1997), this study observed that in these SMFBs, relational dynamics and direct interaction (know-how and action learning) were generally more important for learning than formal training – especially given resource limitations. Furthermore, this study's findings and conceptualisation are also supported by Fernandez and Nieto (2005: 80) "*Apart from generating resources internally, the family firm can obtain them from other companies*

*through stable relationships*”, locally or internationally – thus blurring organisational boundaries vis-à-vis resource availability.

Ultimately, this centrality of owner-MDs in the internationalisation of these SMFBs in relation to the critical importance of social contacts and external relationships presented in this model, is supported by the network perspective on small firm internationalisation as discussed earlier (Chetty and Blankenburg Holm 2000: 91):

*“Firm and decision-maker characteristics influence how the firm will respond to initiatives from its network relationships. In [SMEs], the manager plays an important role in identifying the stimuli for internationalisation. The manager may not have the knowledge ... to recognise these internationalisation stimuli when they appear. It is the manager who decides whether the firm will pursue internationalisation opportunities ... . A manager can inhibit internationalisation of the firm although the network wants to drive it into internationalisation.”*

Furthermore, Ruzzier *et al* (2006b: 485) underline, that especially in the case of SMEs, *“knowledge embedded in long-term relationships is often concentrated in one person in the firm, who will have a substantial impact on internationalization through close social relationships with other individuals. Such social relationships are extremely important for entrepreneurs and their business”* (see also Davidsson and Honig 2003; Hoang and Antoncic 2003).

Thus in the case of these SMFBs, a critical emphasis is placed on the unique role and characteristics of the owner-MD, shaped by *“who they are, what they know, and whom they know”* (Sarasvathy 2001: 249) – having a crucial bearing on internationalisation conduciveness and decisions (Dew and Sarasvathy 2002; Schweizer, Johanson and Vahlne 2010). Essentially SMFBs’ owner-MDs and their social network of contacts and relationships drive, facilitate and determine internationalisation (Coviello and Munro 1995; Holmlund and Knock 1998; Coviello and McAuley 1999; Jones 2005; Prashantham 2008; Schweizer, Johanson and Vahlne 2010).

This is also the basis of the resource-based view, where the growth from innovation associated with internationalisation activity arises from owner-MDs’ competency in coordinating bundles of resources effectively towards productively exploiting opportunities (Penrose 1959). In adapting to a dynamic and competitive external environment, the SMFBs’ owner-MDs’ dynamic and combinative capabilities (Kogut and Zander 1992;

Amit and Schoemaker 1993; Teece *et al* 1997; Eisenhardt and Martin 2000) deploy, reconfigure and adjust their resources, including hard to replicate tacit knowledge and contacts, to add value, enhanced international performance and competitive advantage (Barney 1991; Petrarf 1993). This process in itself invokes learning and know-how, generating knowledge and a “*set of capabilities, that enhance the chance for growth and survival*” (Kogut and Zander 1992: 384).

### ***Empirically-based core statements ensuing from this study***

Attendant to this conceptual model (Figure 8.2) the following core statements emerge from the research. Findings indicated that in these SMFBs’ internationalisation, core elements influencing the SMFBs’ absorptive capacity impacting on their internationalisation, were concentrated at *two* foci: both centralised *within* the organisation as well as located *beyond* the legal boundaries of the organisations in question:

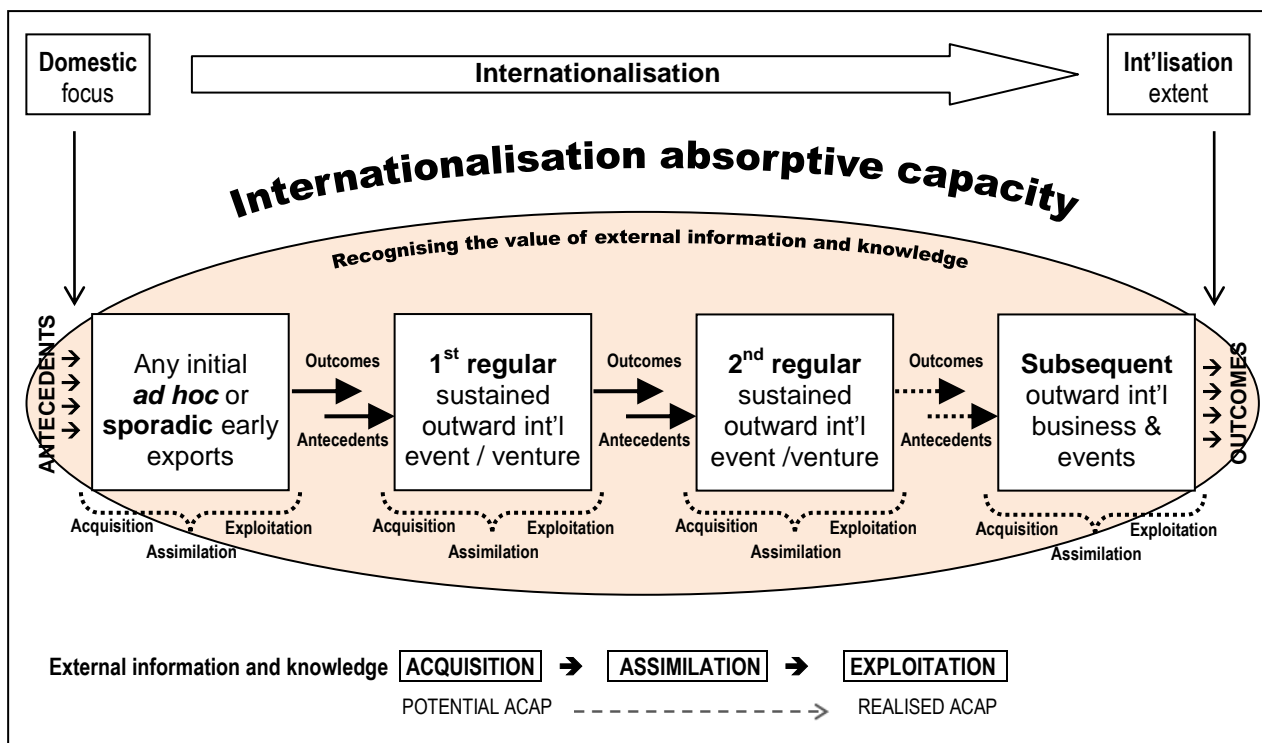
1. The *founder / owner-MD*. It was observed that the characteristics and individual absorptive capacity of the founder / owner-MD in these SMFBs are overriding and critical in determining internationalisation. The marked difference between *individual* and *organisational* absorptive capacity observed by Cohen and Levinthal (1990) is therefore much less significant in such contexts.
2. Social, mostly international *external contacts and relationships* are critical to these SMFBs’ internationalisation. They are ‘internalised’ and leveraged as a core absorptive capacity component – a key organisational resource, offsetting resource limitations and facilitating internationalisation. A source for interactive / experiential learning, tacit knowledge acquisition and generation as well as opportunity identification: *potential* absorptive capacity. Also contributing to knowledge assimilation through social interaction, in exploiting opportunities, these social and informal contacts further act as important business facilitators – a catalyst in the transition from *potential* to *realised* absorptive capacity.

### ***SMFBs’ internationalisation: An ACAP approach – A further conceptualisation***

Additionally, from an overall internationalisation process perspective integrating absorptive capacity, another subsidiary conceptual approach further emerged from empirical evidence, also grounded in the relevant literature domains. This pertained to the internationalisation process of SMFBs adopting an ACAP approach (Figure 8.3).

Outcomes from realised ACAP in exploited outward internationalisation opportunities, besides influencing performance, generally result in increased international exposure, experience and various forms of knowledge associated with internationalisation. Importantly, often new international contacts and relationships are established, further enhancing knowledge acquisition and network knowledge (Mejri and Umemoto 2010), also mitigating risk and uncertainty, liabilities of foreignness and newness. Based on social interaction and trust, as observed in this study, these social connections embody potential to facilitate international business, lower transaction costs and present new international opportunities. Furthermore, outcomes resulting from international business activity often included innovations associated with products as well as technologies and process developments including to some extent management capability.

Figure 8.3 – SMFB internationalisation: An ACAP approach



Source: Author. Contributions of Cohen and Levinthal (1990); Zahra and George (2002b) acknowledged

These mostly tacit, knowledge-based outcomes from specific outward internationalisation events and ventures enhance the SMFBs' dynamic internationalisation capability. Over time, they automatically constitute contributory antecedents for the next and consecutive outward internationalisation ventures.



In this approach, internationalisation is conceptualised as a process involving the progressive accumulation of experience, learning and knowledge ongoing with international activity over time. It specifically fortifies the SMFB's internationalisation absorptive capacity (iACAP) enhancing its potential, capability and capacity to acquire new external information and knowledge, assimilating it and exploiting it via additional outward international business activity – realised ACAP.

## **8.5 Implications for the literature and contributions to theory**

Adopting an exploratory approach, this study brings together literature from *small firm internationalisation*, *family business research* and *absorptive capacity* investigating SMFB internationalisation processes and seeking synergies and interrelationships among and between these fields. In sustaining this investigation it also draws from supporting research streams such as opportunity recognition, dynamic capabilities and the resource-based view of the firm to consolidate findings and establish a basis for the interpretation and development of a model presenting the key elements of absorptive capacity involved in the internationalisation of SMFBs. This study offers findings towards better understanding the internationalisation dynamics and phenomena in this context, including theoretical, empirical and methodological contributions. The implications of findings and specific contributions to the three key literature domains follow.

### **8.5.1 Small firm internationalisation**

This study contributed to literature on small firm internationalisation by providing research insight into the overlap of two additional areas where not much is known: the context presented by a characteristically unique organisational form, small and medium-sized family businesses, and the adoption of absorptive capacity as a contributing research perspective.

More specifically, this study observed the internationalisation of SMFBs researched as a “*process of adapting firms’ operations (strategy, structure, resources, etc...) to international environments*” (Calof and Beamish 1995: 116), essentially a ‘dynamic’ and

‘combinative capability’ converging on the founder / owner-MD. This, an ongoing evolutionary process (Melin 1992) involving learning and social interaction. Objectives driving internationalisation derived from owner-MDs’ perspectives where growth, development and survival of their SMFBs were key objectives (Calof and Beamish 1995).

Although some SMFBs’ general internationalisation patterns were congruent to traditional IPT / Uppsala models (Johansson and Vahlne 1977) – as expected since the study dealt with small firms engaged in traditional, *non*-high-technology activity – support was only partial at best. The linear, gradualist theoretical approach offered insufficient explanation on these firms’ internationalisation.

As observed, one of the smallest SMFBs internationalised from inception at a stage when it was still finding its way about and working on its artisan wares, the domestic market a greenfield opportunity and survival not an issue. Eventually this small craft firm went on to engage in more committing modes of internationalisation, also exploring FDI. Internationalisation theories did not sit comfortably or accommodate such international behaviour.

Such opportunistic behaviour, incompatible with classic IPT and stages theories (Johansson and Vahlne 1977), also did not fit the profile of firms in the “*INV*” and “*born-global*” literature (Oviatt and McDougall 1994; Jones 1999, 2001), which emphasises high-technology and knowledge-oriented firms internationalising with strategic rather than opportunistic intent.

Also, incompatible with gradualist stages theories, another three SMFBs internationalised rapidly at a mature stage, two in later generations. Exhibiting traits of “*Born-again*” ‘internationals’, critical events for these SMFBs, two of which ‘novice’ internationalisers, were associated with small market limitations and EU accession.

Another SMFB internationalising as a mature organisation, leapfrogged from direct exports to setting up a company abroad, while another opportunistically worked up and down the internationalisation mode continuum in a non-sequacious manner – contrary to the linear, progressive stages suggested by the IPT and Uppsala models.

As established, in certain circumstances, key determining factors rather than experiential learning, were the owner-MD's "*volition*" and will (Jones and Coviello 2005: 289), in instances creatively exploiting opportunistic prospects in a non-linear process from one international venture to another depending on idiosyncratic circumstances. Another important factor was the social contacts and relationships established by the owner-MD, allowing vicarious learning from others' experience, the rapid gaining of insight and a trusted social basis mitigating risks entailed associated with internationalisation in unfamiliar circumstances.

The fundamental concept of psychic distance as implied in the Uppsala stages model (Johansson and Vahlne 1977) did not determine the internationalisation pattern of these SMFBs. This perspective implied that small firms would first internationalise to culturally close countries and familiar markets, before gradually acquiring experiential knowledge and only gradually eventually moving to unfamiliar markets. Beyond in some cases the first step, psychic distance clearly did not prevent these owner-MD's from internationalising to unfamiliar countries. Again, the owner-MD's "*volition*", will and adapting capabilities, in instances also combined with knowledge and business facilitation from social contacts, enabled owner-MDs to, beyond stage models, be exposed to cultural and other international dissimilarities. Exposure to these novel situations and contexts enabled owner-MDs to experience new international circumstances and acquire new and unfamiliar knowledge on novel settings and regions, diversifying their knowledge base beyond the familiar. Owner-MDs often referred to these as 'valuable learning opportunities' – they mitigated "*rigid capabilities*" and path-dependent managerial cognition (Todorova and Durusin 2007: 777). This enhanced the owner-MDs knowledge (market, internationalisation, product and technology) and capability (Teece *et al* 1997; Kogut and Zander 1992) in numerous ways, enabling the identification, acquisition and absorption of new external knowledge – a fundamental component of absorptive capacity – crucial for double-loop learning (Argyris and Schon 1978) and innovation, presenting further potential internationalisation opportunities. Sometimes, vicariously learning others' experience, contacts and social interaction mitigated risks as owner-MDs sought or exploited internationalisation opportunities in unfamiliar foreign markets.

Furthermore, extending the breadth and scope of their social contacts and relationships, enabled the owner-MDs to cast a broader net(work) to act as an important conduit for knowledge, insight and business facilitation for the purposes of internationalisation, as well

as general operations (such as knowledge related to productivity or technology resulting in process innovation and efficient systems) (Szulanski 1996; Dyer and Singh 1998).

On the other hand network and relational perspectives on internationalisation helped explain aspects of these SMFBs' internationalisation processes and dynamics. Drawing from social exchange and resource dependency, this viewpoint rightly characterises these owner-MDs' behaviour within "*the context of a network of interorganisational and interpersonal relationships*" (Coviello and McAuley 1999: 227). In this respect, mitigating resource limitations, these SMFBs' organisational boundaries were broadened, effectively incorporating or internalising mostly social (informal) as well as business (formal and informal) external relationships – including those with "*customers, suppliers, competitors, support agencies, family friends and so on*" (Coviello and McAuley 1999: 227) – effectively internalising a critically important resource.

Thus social interaction arising from internal capabilities (often restricted in respect of tangible resources), and external circumstantial and competitive forces (Madhok 1996) towards effective internationalisation generates 'collaborative capabilities, trust, reputation and social capital' – enabling owner-MDs to add value, strengthening their SMFBs' strategic position (Gulati 1995). These hardly perceptible organic social aspects of interaction and relationships are "*critical for network success*" (Ghauri *et al* 2003: 747).

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From this study it is evident that stages models at best offered only partial explanations of the internationalisation process of these traditional SMFBs (Andersen 1993). While network and relational perspectives helped explicate aspects of these owner-MDs' internationalisation behaviours, certain important dynamics relating to external environmental factors such as the competitive situation and related circumstances were not effectively addressed (Vissak 2004) – indeed rendering this viewpoint vague in trying to provide rationale or distinguish between for example 'early' and 'late starters' (Chetty and Blankenberg Holm 2000; Bjorkman and Forsgren 2000; see also Johanson and Mattsson 1988).

Given the multifaceted dynamics involved in internationalisation, a more holistic perspective also combining elements from the resource-based view (Barney 1991),

incorporating an emphasis on knowledge perspectives (Grant 1996; Kuivalainen and Bell 2004; Mejri and Umemoto 2010) and ensuing dynamic capabilities (Teece *et al* 1997; Eisenhardt and Martin 2000) would offer a more complete understanding of the complex internationalisation processes involved – effectively considering internal and external dimensions and resources, including dynamic and combinative capabilities across firm, individual and network levels (Ahokangas 1998; Ruzzier *et al* 2006a).

Table 8.1 summarises key implications for the literature on small firm internationalisation and contributions.

**Table 8.1 – Summary implications for the literature: Small firm internationalisation**

<b>Implications and contributions</b>
<b>■ Theoretical</b>
<ul style="list-style-type: none"> <li>○ In SMFBs, recommends more holistic perspective drawing from IPT &amp; network perspectives using RBV / KBV as foundation emphasising dynamic &amp; combinative capabilities. Thus offering more complete understanding of complex int'l. dynamics involved – at firm, individual and network levels.</li> <li>○ Contributes a conceptual model based on empirical findings and grounded in core contributory literature fields, consolidating core internationalisation absorptive capacity dynamics involved in the internationalisation of SMFBs engaged in traditional economic activity. This model emphasises the central role of the founder / owner-MD and the importance of contacts and relationships.</li> </ul>
<b>■ Empirical</b>
<ul style="list-style-type: none"> <li>○ Research into SMFBs – a severely under-researched area. Repeated calls for research initiatives.</li> </ul> <p>IPT / Uppsala models only partially support SMFBs' int'l. patterns. Network perspectives offered partial explanation too – external factors and competitive dynamics not effectively addressed.</p> <ul style="list-style-type: none"> <li>○ Evidence of small traditional SMFB internationalising from inception. Others leapfrogging stages.</li> <li>○ Evidence of “<i>born-again</i>” activity and rapid internationalisation among traditional SMFBs.</li> <li>○ Evidence of opportunistic behaviour dependent on owner-MD characteristics and volition rather than logical planning or formal strategizing. Owner-MD a core, key determinant in SMFB internationalisation. Mostly paternalistic management culture and autocratic, yet not observed to be detrimental to internationalisation – rather swift and creative response to market dynamics, flexibly seizing international opportunities.</li> <li>○ Lack of management capacity considered by owner-MDs as a concern and need as complexity increases with growth and internationalisation. Yet in face of professionalization, informal approaches persist and owner-MD remains undisputed boss driving internationalisation and interacting directly. Internationalisation knowledge and experience generally centrally siloed.</li> <li>○ Skilled, committed &amp; trusted employees, ‘part of the family’, together with flexible systems and a ‘can-do’ attitude (‘Maltese way of doing things’) conducive to rapport building and creatively finding solutions to exacting clients’ needs – a key resource and competitive advantage in foreign markets.</li> <li>○ Concept of psychic distance insignificant. Exposure to novel, unfamiliar markets and social interaction there considered ‘valuable learning’ experiences, potential for double-loop learning. Diversifying knowledge base, enhancing internationalisation capability and absorptive capacity.</li> <li>○ Experiential knowledge important in determining progression along mode of entry. Irrespective of size, age and generation only ‘experienced’ SMFBs engaged in more committing modes (e.g. franchise, JV, FDI). Yet, irrespective of size, age and generation, ‘novice’ SMFBs relied on exports.</li> <li>○ Owner-MDs consider int'l social contacts &amp; relationships (e.g. clients, suppliers, agents, émigrés, embassies etc.), often becoming trust-based family friendships as most important resource for gaining external information and knowledge (network knowledge), know-how, know-who and access to friends-of-friends, business facilitation, lowering of transaction &amp; risk costs, introductions, recommendations and direct international business opportunities. Also alliances &amp; joint ventures.</li> <li>○ Owner-MDs consider attendance at international fairs most important for insight &amp; internationalisation opportunities, networking &amp; casual encounters, gaining knowledge on markets, products and technologies – enhancing internationalisation capability and absorptive capacity.</li> <li>○ Government and agency support overall considered least important in gaining knowledge and assistance in relation to internationalisation initiatives</li> </ul>
<b>■ Methodological</b>
<ul style="list-style-type: none"> <li>○ Adopted an absorptive capacity approach to aid investigation and help explore knowledge processes involved in the internationalisation of traditional SMFBs.</li> </ul>

### **8.5.2 Family business research**

This study also contributes to evolving family business literature, considered “*still at an early stage*” (Casillas *et al* 2007: 7; Bird *et al* 2002; Chrisman *et al* 2003; Sharma 2004; Zahra and Sharma 2004) – especially in the area of internationalisation, where scholars find it “*surprising*” that “*very limited empirical work on this topic has been carried out, and ... there is no specific theoretical framework*” (Casillas *et al* 2007: 73).

Contributions, empirical as well as conceptual, propose a model of the internationalisation absorptive capacity of internationally active SMFBs, based on findings, and grounded on theoretical insight from research areas converging on the study.

Specific contributions included empirical confirmation of the “*absolutely central position of the founder-owner-manager*” in family businesses (Donckels and Frohlich 1991: 150). Furthermore, this crucial emphasis on the individual’s attitudes and capabilities in comparison to other, more strategic factors, such as planning (Gallo and Garcia Pont 1996), did not essentially change with pursuit of internationalisation. This, notwithstanding that for example the majority of owner-MDs’ formal education did not go beyond secondary schooling. Directly involved in all aspects, it was owner-MDs’ vision, energy, resilience and “*volition*” (Jones and Coviello 2005: 289) that drove their SMFBs’ internationalisation as they sought international opportunities beyond Maltese shores.

This study confirmed that the resourcefulness and attitudes of the owner-MDs are “*a key issue*” and that the SMFBs’ conduciveness “*towards internationalisation is tied more to capabilities and attitudes of people, or the ‘entrepreneur system’, than to more strategic factors*” (Gallo and Garcia Pont 1996: 55-56, 58). This ran parallel to research on learning in SMEs, emphasising ‘entrepreneurial skills’ and capability rather than ‘general management ability’ – underlining qualities such as “*energy levels, risk-taking, social adroitness, autonomy and change*” (Penn *et al* 1998: 131; see also Sexton and Bowman-Upton 1991). Among the SMFBs under study the crucial centrality of the owner-MD remained – assuming an ever more critical role in the more complex environment presented by international activity (Lloyd-Reason and Mughan 2002).

Scholars stressed an importance in generational or related developmental stages in understanding family business’ internationalisation drive and motivations (Okoroafo and

Koh 2010; Gersick *et al* 1997; Harris, Martinez and Ward 1994; Gallo and Sveen 1991). For example Okofaro and Kaye (1999: 6) observed from empirical investigation “*that the propensity to initiate foreign-market involvement tapers with post-founding-generation owners*”. However, in this study internationalisation activity was indiscriminately observed and investigated at 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> generational stages among SMFBs. Rather, it was combined elements associated with owner-MDs’ volition and their SMFBs’ unique circumstances and exogenous factors that were crucial for understanding internationalisation motivations and dynamics at play.

Donckels and Frohlich (1991) observed family business managers in general as less likely to be ‘pioneers’. However, this study evinced half the owner-MDs’ behaviour characterising them as ‘pioneers’, dynamic and creative with comparatively weaker administrative executive capabilities (Donckels and Frohlich 1991; Pichler 2007). With one exception, the remainder were classified as ‘allrounders’, nonetheless dynamic and entrepreneurial yet leaning towards being somewhat more organised and “*tidy*” (Pichler 2007: 105; Donckels and Frohlich 1991). This latterly in line with the literature (Donckels and Frohlich 1991). Here, together with owner-MD characteristics, the internationalisation context and competitiveness circumstances offered by Malta also played a defining role.

Although several scholars typified SMFBs as conservative and risk averse (e.g. Aronoff and Ward 1997; Kets de Vries 1993; Sharma *et al* 1997), in this study, with one exception, owner-MDs were innovative and willing to take risks – ‘entrepreneurial’ owner-managers with high market orientation and comparatively under-developed control systems (Scase and Goffee 1996). As Ward (1997: 323) observed, among family businesses, “*without risk-taking ... the prospects for business growth wane*”. In highly competitive situations, growth concerns turn to survival (Naldi *et al* 2007).

Complementing observations in the literature, in SMFBs under study, employees were well cared for and trusted (e.g. Ward 1988; Harris, Martinez and Ward 1994; Donckels and Frohlich 1991). Indeed, personally selected and ‘hand’-reared, these skilled, motivated and committed employees, were considered “*family*”, referred to as “*children*” by owner-MDs who see them as a “*gold mine*” and source of competitive advantage – manifested in flexibility and capabilities crucial for international business activity and service to discerning foreign clients.



In parallel, within the SMFBs a predominant paternalistic management culture prevailed in both decision-making and relational aspects, as reported by the literature (Dyer 1988; Sharma *et al* 1997; Penn *et al* 1998). Yet observations showed that this autocratic leadership leaning (Sorenson 2000) did not negatively impact employee satisfaction and commitment, or business outcomes – rather on the contrary, mirroring Sorenson’s (2000) own finding not supporting such hypotheses.

Another important observation was that stability and direction were ensured by clear, undisputed leadership centred on a sole family member, the founder/ owner-MD. Where this was not the case, family harmony was disrupted, and discord negatively influenced operations.

Ultimately, a competitive advantage observed, especially in relation to the SMFBs’ internationalisation activity, was grounded in their intangible resources and capabilities, including flexibility, tacit knowledge (Chirico 2008; Chirico and Salvato 2008; Zahra, Neubaum and Larraneta 2007), and crucially in their contacts and relationships (Dyer 2006; Sirmon and Hitt 2003), critical for these SMFBs’ internationalisation (Arenius 2002; Basly 2007). These resources converged upon the owner-MD.

Table 8.2 summarises key implications for the literature on family business studies.

**Table 8.2 – Summary implications for the literature: Family business studies**

<b>Implications and contributions</b>
<p>■ <b>Theoretical</b></p> <ul style="list-style-type: none"> <li>○ Contributes a conceptual model based on empirical findings and grounded in the core contributory literature fields, consolidating the core internationalisation absorptive capacity dynamics involved in the internationalisation of SMFBs engaged in traditional economic activity.</li> </ul>
<p>■ <b>Empirical</b></p> <ul style="list-style-type: none"> <li>○ Contributed empirical insight into SMFB internationalisation: an area that has ‘almost never been analysed’, heeding calls for ‘studying forms of international expansion for family firms and how to improve them’.</li> <li>○ Observed that notwithstanding traditional resource limitations, and scholars’ typical assumptions and observations suggesting SMFBs are less conducive to internationalisation, within this context, entrepreneurial, creative and innovative behaviours were evinced in proactively exploiting international opportunities with success. Provided evidence of SMFBs internationalising rapidly and also from inception.</li> <li>○ In cases, internationalisation activity was observed indiscriminately e.g. across SMFBs at different generations and stages of development – including e.g. rapid internationalisation among ‘mature’ SMFBs with longstanding prior sole domestic focus. SMFBs’ unique characteristics and idiosyncratic circumstances playing an important role.</li> <li>○ Evidence that the core deterministic element in driving successful SMFB internationalisation was centred on a sole individual: owner-MD. Rather than emphasising formal education and other typical demographics – what was determining was ‘volition’ and entrepreneurial stance combined with social connectedness, contacts and relationships. This observation did not discriminate on the basis of SMFB size, age or generation – and in certain respects, years’ involvement in exports.</li> <li>○ In this context, rather than unfavourable, a paternalistic management style and leadership approach centralised on a sole entrepreneurial owner-MD proved positive for internationalisation allowing swift response to market opportunities as they emerged and commitment. Opportunities that under more structured or reasoned approaches would not have been exploited. In instances where management decision-making was not focussed on an ‘undisputed boss’ lack of stability and consensus in direction proved detrimental.</li> <li>○ Especially for internationalisation, SMFBs’ most crucial resource was contacts and relationships, a conduit for network knowledge on all aspects associated to internationalisation, know-how, know-who, and more. Source of business facilitation, lowering costs of operation, reputation and trust-based introductions and recommendations, potential strategic partners.</li> <li>○ Trusted, dedicated and committed skilled workforce combined with flexible work practices and capability, manifested in a ‘can-do’ attitude. Becomes ‘part of the family’. These were observed as a key source of differentiation, whether in product uniqueness or service added-value – source of competitive advantage in international contexts. This ensuing from the family business culture, ethos and ‘way of doing things’ primarily propagated by the owner-MD.</li> </ul>
<p>■ <b>Methodological</b></p> <ul style="list-style-type: none"> <li>○ Adopted an absorptive capacity approach to help better understand and investigate important knowledge processes and dynamics involved in the internationalisation of SMFBs.</li> </ul>

### **8.5.3 Absorptive capacity**

This study also contributes to the nascent yet evolving literature on absorptive capacity in several ways.

Given that research has been “*largely at a conceptual level with major contributions building on secondary data and literature reviews*” and that “*There are very few studies that seriously address the concept based on fresh primary data*” (Easterby-Smith *et al* 2005: 3; 2008), this study contributed by way of its empirical research in scarcely researched contexts, as well as via conceptual contribution.

Scholars also highlighted that “*disappointing*” progress since 1990 resulted “*from the dominance of quantitative studies which have failed to develop insights into the processes of absorptive capacity*” (Easterby-Smith *et al* 2008: 483), and that “*few studies examine the internal processes of absorptive capacity*” (see also Jansen *et al* 2005). The research contributed methodologically, in adopting a qualitative approach – also utilising the absorptive capacity concept as an analytic framework to investigate and gain insight into the internationalisation processes of SMFBs. This in itself was another methodological contribution in that while various perspectives on small firm internationalisation emphasise the critical importance of knowledge, and although absorptive capacity was deemed as “*one of a firm’s fundamental learning capabilities*” (Lane *et al* 2006: 839) and “*one of the most important constructs to emerge in organisational research over the past decades*” (Lane, Koka and Pathak 2002: 1), as noted earlier, no research had been conducted explicitly focussing on the internationalisation process of small firms.

Another gap addressed by this study is that research in this area has been characterised by an emphasis “*on technological or scientific knowledge ... at the expense of process knowledge*” (Lane *et al* 2006: 852; also Easterby-Smith *et al* 2008). Scholars called specifically for research in “*non-R&D contexts*” (Lane *et al* 2006: 853), offering alternative perspectives on the field (Easterby-Smith *et al* 2008). The SMFB context of this study presented a research setting characterised by traditional business activity detached from R&D processes, patents and other formal, structured knowledge-related processes typically featuring in the research emphasising larger organisational forms. This study focuses on small organisations characterised mostly by generally informal and tacit knowledge processes. Furthermore, absorptive capacity research specifically focussed on family businesses has not been undertaken. This study offers useful empirical insight into for example how the family dynamics in SMFBs emphasises to a great extent the *individual* absorptive capacity of the owner-MD. In this regard, absorptive capacity research is mostly undertaken at firm level. This study sheds insight into organic processes taking place at the individual level within the context of these internationalising SMFBs.

Given the centrality of owner-MDs, assimilation of external knowledge often took place partially internally and externally. Internally owner-MDs combined prior experience and accumulated knowledge with newly acquired knowledge in an organic process of sense-making. Secondly, owner-MDs' social interaction with foreign contacts, often on the basis of trust, acting as a channel for this external knowledge and insight, as well as internal human capital, aided this assimilation process. More notable in the larger SMFBs, the role of internal human capital, through informal discussion with employed family or non-family 'managers', contributed towards informing the owner-MDs' perception, sense-making and knowledge assimilation. The assimilation of knowledge remained a tacit organic process with limited direct internal knowledge transfer or the transformation of tacit knowledge into codified or explicit form. While this centrality presents a potential shortcoming, hindering maximal exploitation of knowledge resources, scholars posit that due to the nature, challenges and costs involved in its transfer, tacit knowledge is more likely than explicit knowledge to result in sustainable advantage (Kogut and Zander 1992). In the context of these SMFBs, this emphasised the importance of "*combinative capabilities*" particularly of owner-MDs (Kogut and Zander 1992). Individuals' knowledge and social interaction contributed towards organisational learning enabling the recombining of current capabilities (Teece *et al* 1997; Kogut and Zander 1992, 1996).

This built on perspectives of the resource-based view and aspects of the knowledge-based view stressing that the basis of the firms' competitive advantage lies internally – in the application of a bundle of valuable resources, mostly idiosyncratic, also including tacit knowledge and routines (Wernerfelt 1984; Barney 1991) – as well as, in this case, beyond the boundaries of the SMFBs, in the networks of contacts and relationships of owner-MDs.

This stressed the importance of distinct capabilities in deploying resources in response to a dynamic environment (Teece *et al* 1997).

Thus, this study observed the importance of dynamic capabilities (Teece *et al* 1997) and combinative capabilities (Kogut and Zander 1992; Van den Bosch *et al* 1999), as the owner-MDs sought performance gains, growth and survival (sustained competitive advantage), through adaptation and organisation – marshalling resources, on the basis of, and including knowledge, towards addressing external dynamics and realities – via evolution, adaptation and change.

Social interaction and international exposure, offered opportunities for double-loop learning (Argyris and Schon 1978) – also through weak ties and casual encounters, such as those established through travel or presence at international fairs. Beyond path dependency and incremental, single-loop learning opportunities, this provides for insight into new domains presenting new opportunities for business and innovation. The fact psychic distance did not restrict or determine these SMFBs' continued internationalisation patterns, complemented such learning opportunities, as the owner-MDs ventured into less familiar markets. Such double-loop learning opportunities were also evinced in the study to the extent where casual encounters and serendipitous situations directly resulted in international business opportunities for the SMFBs on various occasions. This relates to Dyer and Singh's (1998) building on Szulanski (1996) introducing the relational importance of motivation and sociological interactions to absorptive capacity.

Essentially, this study observed absorptive capacity as an important capability-building process with learning at its core (Lane, Koka and Pathak 2006). This, complementary to dynamic and combinative capabilities (Teece *et al* 1997; Kogut and Zander 1992; Zahra and George 2002). Thus owner-MDs' international activity, exposure and social interaction generated internationally fortified absorptive capacity, enhancing prospects for international opportunities and growth. Yet given the potential limiting effects of structural embedding arising from strong ties reinforcing incremental learning, it is important for owner-MDs to maintain international exposure and visits at for example fairs. Beyond trust-based strong ties, crucial for offsetting resource limitations via business facilitation and lowering transaction costs, and which maintain owner-MDs' 'embedded knowledge base', the establishment of weak ties enhances the identification and absorption of new external knowledge (Todorova and Durusin 2007).

Table 8.3 summarises key implications for the literature on absorptive capacity and contributions.

**Table 8.3 – Summary implications for the literature: Absorptive capacity**

<b>Implications and contributions</b>
<p>■ <b>Theoretical</b></p> <ul style="list-style-type: none"> <li>○ Presented a new perspective on fundamental aspects of absorptive capacity alternative to predominant frameworks focussed on formal and structured processes and knowledge infrastructure (such as R&amp;D, patents, scientists etc...) associated with technology-intensive organisations. In this context, this perspective emphasised the central role of individuals and social interaction and organic systems involved with mostly tacit processes.</li> <li>○ Contributed a conceptual model based on empirical findings and grounded in the core contributory literature fields, consolidating the core internationalisation absorptive capacity dynamics involved in the internationalisation of SMFBs engaged in traditional economic activity.</li> </ul>
<p>■ <b>Empirical</b></p> <ul style="list-style-type: none"> <li>○ Heeding scholars' calls, given the dearth of studies available in this nascent area, this study contributed empirical insight in a mostly conceptual field, overly relying 'on secondary data and literature reviews'. It engaged in holistic investigation using 'fresh primary data'.</li> <li>○ Investigated and provided evidence of absorptive capacity processes and dynamics involved in the (i) internationalisation process, of (ii) SMFBs, engaged in (iii) non-technologically oriented traditional activity. Where scarcely any empirical studies exist in the areas independently, and none in the collective context.</li> <li>○ In the SMFBs the processes of acquiring, assimilating and exploiting knowledge associated with internationalisation was an organic, mostly tacit process converging centrally on the owner-MD.</li> <li>○ In such SMFBs owner-MDs were evinced as the core key component of absorptive capacity, determining the transition from potential to realised absorptive capacity.</li> <li>○ Another key component important for acquiring external information and knowledge crucial for internationalisation and enhancing absorptive capacity in these iSMFBs was social contacts and trust-based relationships transcending business and social dimensions.</li> </ul>
<p>■ <b>Methodological</b></p> <ul style="list-style-type: none"> <li>○ Contributed through empirical qualitative investigation – in line with scholars' calls to counter over-emphases on quantitative methods which had 'failed to develop insights into the processes of absorptive capacity'.</li> </ul>

#### **8.5.4 Other contributory insight: Small island studies**

While island studies is not the focus of this study, due to its context it nonetheless offers potential contributions and useful insight into internationalisation off small island states in a Mediterranean setting. Indeed given a dearth of raw materials, 75% of Malta's SMEs are engaged in direct imports, the highest among EU countries (EU 2010). This typical small island characteristic has been documented (Armstrong and Read 2004; Baldacchino 2005). Other aforementioned considerations involving segregation, market size and openness with implications on market thinness, economies of scale, competition and competitiveness present important implications on resources and market access, export orientation and, here observed, evidence of accentuated importance in foreign contacts and links. This study

offers the field of small island studies, useful insight on generally successful internationalisation of small family firms in such settings.

## 8.6 Implications for management

At practitioner level, this study provides founders and owner-MDs with insights into factors and processes likely to affect the successful realisation of international opportunities – through better leveraging learning opportunities and generally tacit knowledge resources, enhancing their dynamic capabilities.

As indicated, the same unique characteristics and potential sources of family businesses' competitive advantage in innovation, internationalisation and performance, could become the source of competitive disadvantage – a double-edged sword (Gallo and Sveen 1991). Succession is a critical juncture. Effective transfer of tacit knowledge between generations is crucial for maintaining competitive advantage (cf Chrisman *et al* 2003). Operationally and strategically important, tacit knowledge is idiosyncratic, involving know-how gained through accumulated experience and direct interaction. It also includes all-important contacts and relationships, know-who – which as this study evinced, converge on the owner-MD. These important resources are core to absorptive capacity, where knowledge stocks and contacts enable recognition, acquisition and assimilation of new external knowledge (Cohen and Levinthal 1990).

While greater involvement and active interaction with others within the SMFB would assist knowledge sharing and transfer *within* the organisation, maximising potential value from collective knowledge stocks, the difficulty presented by transferring tacit knowledge presents a particular challenge in generational transition. Here, owner-MDs should involve upcoming generations or trusted successors earlier rather than later – even if assuming passive or observer roles should a paternalistic management culture be maintained at all costs. Just as critically important is the fact that relationships are struck between *individuals*. This study observed that in instances business and opportunities ceased just because “*contacts moved*”. Nurtured carefully, relational dynamics and contacts should ideally be handed over with great care, gradually, with long-term hand-holding following introductions. In this protected environment, upcoming generations would be allowed to work the networks established by the owner-MD to develop strong, trust-based rapport

ensuring continuity – effectively ‘inheriting’ and maintaining access to resources, business facilitation and goodwill.

This study observed value in the SMFBs’ culture, and way of doing things, upheld by and mirrored from the owner-MDs’ personality – particularly reflected in products and services as well as interaction with clients and employees. A source of competitive advantage (cf Gallo and Sveen 1991; Gallo and Garcia Pont 1996; Goffee 1996). Notwithstanding paternalistic management cultures and autocratic leadership styles, owner-MDs observed a need to employ professionals. Besides bringing new tacit and explicit knowledge, and expertise into the SMFBs, this also introduces associations and linkages with new networks and contacts. Given the typically low managerial and administrative capacity of SMFBs, such knowledge and capability resources are important following increased complexity through internationalisation. It is recommended that particularly at such junctures in the SMFBs’ development, owner-MDs overcome potential anxieties associated with employing non-family professionals. Utmost care should be dedicated to the selection process to ensure cultural fit. Furthermore, a teamwork approach should be eventually cultivated to maximise potential value from and ensure knowledge transfer both ways. In certain instances, owner-MDs supported and encouraged promising long-standing and trusted employees to pursue e.g. an MBA degree. Such investments may limit risks associated with asymmetry of information, and employing ill-fitting personalities. Such employees would have a track record and would already have been assimilated into the culture of the SMFB. Reinforcing motivation and commitment, the opportunity for self-development and recognition creates a win-win situation for SMFB and employee. In agreement with Hall and Nordqvist (2008: 52), this study recommends that professional management engaged be sensitive to SMFBs’ values, norms and goals, and endowed with “*cultural competence*”.

Arguing that “*in general, the wisest course for any business, family or non-family, is to move to professional management as quickly as possible,*” (Levinson 1971: 98), scholars have also stressed that professionalization of family firms should not necessarily equate to bringing in outsiders (Hall and Nordqvist 2008). Enhancing management capacity and professionalization can also be derived through family members’ formal training. Though generally not effectively engaged in decision-making, this study observed owner-MDs encouraging their children to pursue degree courses in commerce, management and law. This is commendable since besides contributing to professionalization and bringing in new knowledge and expertise, important culture and ‘familiness’ characteristics within the



business would be reinforced and retained through a professionally-trained upcoming family generation (Hall and Nordqvist 2008).

That said, importantly, beyond inroads towards professionalising management, this study provided evidence that on several occasions involving internationalisation ventures, the paternalistic and autocratic leadership style of these alert owner-MDs allowed them to swiftly and entrepreneurially seize and exploit opportunities as they emerged – unaided by professional support. Opportunities that quantified strategizing or formalised planning would have likely dismissed out of hand. This finding is supported by Schulze and Gedajlovic (2010: 195):

*“... family governance and leadership creates unique conditions which can make them more effective than non-family firms. Unification of ownership and control, for example, increases CEO discretion and makes it possible to make opportunistic investments and/or to rely on intuition or judgement when making choices (Gedajlovic et al, 2004). Family-led enterprises might then be better able to create products or to enter markets that outside investor-controlled or managerially led firms cannot, and to better adapt to changing environments (Dyer, 2006).”*

Care should be taken to balance and not neuter this crucial dynamic capability and potential advantage for swift market response, opportunity exploitation, adaptation and perseverance as a result of professionalization. Aptly, Hamel and Prahalad (1994: 31) argue that in today’s dynamic environments emphasising intangible value, where constant innovations see fast emerging under-defined markets, while long-established markets fade with equal haste, *“Competition for the future is competition for opportunity share rather than market share. It is competition to maximise the share of future opportunities a company could potentially access within a broad opportunity arena”*. This is directly in line with ACAP fundamentals – where through the quest for information and learning, critical resources in tacit knowledge residing in human capital and social contacts combine with dynamic capabilities driving an organisation’s core competencies towards the identification and exploitation of opportunities, *realised* ACAP, generating learning, innovation and sustained competitive advantage. Such dynamic and competitive environments accentuate a shift from a strict emphasis on economic perspectives towards a behavioural and relational viewpoint, combining formal and informal relationships underlining collaboration through networks as crucial resources for internationalisation and international business opportunities (Tornroos 2002).

Increasingly, it is imperative for resource restrained SMFBs to look beyond putting out daily fires and retain alertness and flexibility, creatively competing for “*opportunity share*” instead – ever crucial in competitive international contexts. Thus it is recommended that in the absence of mitigating factors detrimental to the SMFB, under most circumstances governance, leadership and decision-making should remain centrally invested in the experienced, entrepreneurially-oriented owner-MD. Rather, a professional management team should be engaged to inform, balance and advise the owner-MD (assuming an advisory role), creating a platform for ongoing open communication for free discussion – debate, brainstorming and presenting potential alternative views on matters related to broad strategic issues and opportunity pursuit.

In other respects professional management approaches could help streamline operational processes, enhance efficiency, drive innovation in specific areas and through involvement help propagate and codify tacit knowledge. This and interactive dynamics would contribute towards a learning organisation (Kogut and Zander 1992) and knowledge transfer, enhancing ACAP and helping maintain continuity and retention of valuable knowledge beyond succession and changes in owner-MDs. For learning to occur at SMFB-level, and for knowledge to be retained beyond succession, “*learning agents’ discoveries, inventions and evaluations must be embedded in organizational memory*” – if not effectively encoded in the images that other individuals, family or non-family, have, and the social maps and associations they construct with others, then “*the individual will have learned but the organization will not have done so*” (Argyris and Schon 1978:19).

This study found participation at international fairs ‘exceedingly important’ for owner-MDs to acquire various forms of valuable new external knowledge (on internationalisation, markets, products and technologies), as well as the establishment of contacts through social interaction and exposure. Serendipitous circumstances and chance encounters sometimes directly led to international business deals. SMFBs, especially those initiating internationalisation, should identify and regularly attend specific fairs – to enhance their ACAP, learn, establish contacts, increasing exposure and conduciveness to international business opportunities. Owner-MDs should also inform themselves on existing agency support available for this purpose.

It was also observed that in various instances, when owner-MDs got international exposure beyond their oft-trodden ‘beaten paths’, travelling to new fairs or unfamiliar foreign

markets – such novel settings led to new experiences as well as the establishment of casual and weak ties enhancing network knowledge and exposure to new ideas and opportunities for double-loop learning (Granovetter 1973, 1983; Argyris and Schon 1978).

Owner-MDs should also strive to exploit the potential offered by the internet for international business. Especially so, those SMFBs offering unique or artisan products. The internet offers opportunities for small businesses to enjoy international exposure and web-presence comparable to that of larger organisations at relatively low cost, in a borderless domain where consumer activity and business transactions are growing exponentially. The study observed one of the smallest SMFBs exploiting web-based applications such as *Facebook* – in itself an international social networking tool – to gain further international exposure, network virtually and interact with potential clients in diverse regions, effecting sales in new foreign markets. This complements substantial traditional export activity. Such tools are suited for SMFBs as they can be employed with profit at no cost save for time, and no requirement for expertise.

Owner-MDs should also forge links and contacts with universities and other centres of research. This way they might access various forms of explicit technical knowledge as well as opportunities for R&D, leveraging other organisations' resources. Such links offer possibilities for cost-effectively pooling resources for R&D. Owner-MDs can also encourage graduate students to research dissertations on aspects relevant to their SMFB, whether on management or technical matters. Additionally, these would potentially constitute a future pool of acquainted professionals from which to recruit.

Table 8.4 summarises implications for SMFB management.

**Table 8.4 – Summary of implications for SMFBs**

Implications for SMFB management in respect of enhancing internationalisation capability
<ul style="list-style-type: none"> <li>○ Effective transfer of tacit internationalisation knowledge as well as contacts and external relationships between generations is crucial for maintaining competitive advantage and absorptive capacity across generations.</li> <li>○ These important tacit resources mostly reside centrally with owner-MDs. Owner-MD should involve upcoming generations earlier rather than later – even if as observers with no decision-making. Learning the ropes and ‘know-how’. Key contacts, ‘know-who’, should be transitioned carefully and sensitively, preserving trust-based rapport, ensuring continuity, maintaining goodwill and access to resources as well as business facilitation across generations.</li> </ul>
<ul style="list-style-type: none"> <li>○ Ensuring owner-MDs’ gut-feeling and entrepreneurial orientation is not ‘neutered’, balanced initiatives to professionalise management are encouraged as complexity increases due to growth and internationalisation. Bringing in new expertise, explicit and tacit knowledge, and contacts.</li> <li>○ A teamwork approach, facilitating formal / tacit knowledge transfer and balancing paternalistic management-orientation is recommended. Given right characteristics, paternalistic owner-MDs with centralised systems are ideal for enterprising activity – swiftly reacting to market opportunities. Assuming an advisory role, professionals balance gut-feel with debate and alternative perspectives supporting owner-MD in strategic direction. Operations can be streamlined for efficiency gains. Great care should be taken to preserve important SMFB culture, ethos and reputation – its ‘soul’ and source of competitive advantage – in professionalising.</li> <li>○ (i) Professionalising through encouraging younger generation family members to pursue formal degree programmes is ideal in maintaining ‘familiness’ and trust – with a professional outlook.</li> <li>○ (ii) Supporting trusted employees with potential to read for degrees (e.g. evening MBA) provides win-win opportunities while mitigating risks associated with unknown and unfamiliar recruits.</li> <li>○ (iii) Professional non-family outsiders, bring in new knowledge perspectives &amp; contacts, reinforcing objectivity. Owner-MD should carefully ‘hand-pick’ candidates and transfer family culture.</li> <li>○ Such internal professional interaction ‘decentralises’ knowledge stocks and knowledge assimilation beyond a central silo, enhancing SMFB absorptive capacity and maximising value potential from pooled knowledge and internal transfer. Professionals could assist with codifying tacit knowledge.</li> </ul>
<ul style="list-style-type: none"> <li>○ Owner-MDs intent on internationalisation should identify and attend relevant international fairs and exhibitions. A most important source for knowledge acquisition, insight on opportunities and networking venue. Enhancing absorptive capacity and conduciveness to int’l. opportunities. Consistent attendance enhancing social rapport establishment is ideal. Opportunities for agency support should be sought.</li> <li>○ Contacts and relationships transcending business and personal spheres, especially in int’l. domain, most important source for all manner of resources including knowledge, business facilitation, lowering transaction &amp; operating costs, and direct opportunities. Owner-MDs should effectively leverage this wealth of resources and social capital with foreign clients, suppliers, agents, émigrés, embassies etc. to gain new knowledge, introductions, facilitate internationalisation.</li> <li>○ SMFBs should fully exploit internet-based technologies for gaining int’l. exposure and reaching new markets (also sourcing materials, and knowledge). Inexpensive internet presence mitigates size limitations. Social-networking sites (e.g. Facebook) could generate much <i>ad hoc</i> exports in conducive contexts.</li> </ul>
<ul style="list-style-type: none"> <li>○ It is recommended that owner-MDs cultivate links and relationships with universities and research organisations – aiding access to external R&amp;D resources useful for technological and product innovation as well as process innovation enhancing competitiveness in demanding foreign markets.</li> <li>○ Encouraging students to research dissertations provides access to explicit knowledge and tailored expertise, and a pool of acquainted professionals from which to potentially recruit.</li> <li>○ Owner-MDs should join int’l. Chambers of Commerce and establish rapport with Malta Enterprise to learn of and utilise all available financial &amp; non-financial support for internationalisation.</li> </ul>

## 8.7 Implications for policy

This study's findings provide government and agencies with insight on key factors influencing successful internationalisation and growth of SMFBs. This insight informs policy by indicating ways by which they may effectively assist such firms to internationalise, better complementing their idiosyncratic contexts, resource endowments and capabilities. This, towards better maximising value and effect from expanded initiative, effort and limited funds.

A key concern ensuing from this study involved the rather negative perception owner-MDs have of the function, effectiveness and potential value derived from such government agency internationalisation support. All SMFBs had in some way interacted with such agencies, some also availing of services. Others went their own way. The most appreciated services involved organisational and financial assistance related with visiting international fairs. Albeit, across the board, the owner-MDs attributed internationalisation support government agencies and chambers of commerce the lowest importance for acquiring new external information and knowledge associated with internationalisation. Although in certain instances Malta Enterprise proved helpful in assisting internationalisation, recipient owner-MDs and others nonetheless considered them *“like a government department”*. Others cited them as *“bureaucratic and really hindering the flow of business”*, declaring *“I’m against”*. Government bureaucracy, *“a monster that nobody can control”*, and surrounding *“political baggage”* was identified as *“number 1”* hindrance to the SMFBs' innovation and growth development. Even support for fair attendance came under fire – a scattergun approach where ‘they’ *“quickly round up a delegation and go off on holiday”*. This finding creates evident concern, particularly since initiatives and funds for this purpose are being emphasised and becoming increasingly available, also at EU level.

This concern tallies with European Commission findings that only 2% of Maltese internationally-active SMEs availed of financial support for internationalisation – ranking close to bottom among 27 countries (EU 2010). This, notwithstanding that in this thesis SMFBs indicated finances as a notable limiting resource in various instances. The same report saw Maltese internationally-active SMEs rank last for use of non-financial support – joining a cluster of 12 other countries reporting 0%. More broadly, the WEF *Global Competitiveness Report's* Executive Survey consistently ranks by a wide margin

*“inefficient government bureaucracy” as “the most problematic factor(s) for doing business” in Malta (WEF 2009: 216; WEF 2010: 232; WEF 2011: 252).*

It is proposed that agency operations and strategies urgently and effectively address this negative perception, and conduct a qualitative, interactive investigation into the circumstances and needs of their target client base. A focussed outreach programme should be initiated intent on: (i) learning about client requirements, (ii) informing and educating clients on services available, and (iii) building a trusted rapport linking the owner-MD to a fixed contact person at the agency, who would also be specialised in the specific sector.

Initiatives should be undertaken to offer somewhat tailored services, more in line with recipient requirements – mitigating against resource-inefficient ‘scattergun’ approaches.

Explicit agency knowledge on internationalisation, foreign markets and other useful information held in agency knowledge bases should be made available in more user-friendly, non-technical formats, flexible in querying capability and coupled with trained individuals taking a proactive stance in transferring such knowledge to SMEs and SMFBs. Agencies should also use successful aid recipients as case studies, promoting such assistance and sharing experiences and knowledge at peer-level, with other owner-MDs and likely candidates via networking opportunities and venues.

Given SMFBs limitations in financial resources and management capacity, agencies should seek EU funds in order to provide expert consulting and professional support in relation to internationalisation. Again, a proactive approach should be adopted, and besides internationally-active SMFBs, likely candidates and sectors ripe for internationalisation should also be targeted. Such services should be cautiously and persistently pushed out, driven by the agency until perceptions are changed and a trust-based rapport sensitive to the unique circumstances of the respective SMFBs is built with owner-MDs. Correspondingly, funds, scholarships and similar assistance should be sought and made available for training, human capital development and formal qualification – towards enhancing competencies and professionalization from within.

Across the board, owner-MDs considered fairs and exhibitions as ‘exceedingly important’ i.e. most important for the purposes of gaining external information and knowledge relevant to internationalisation as well as establishing valuable contacts – venues for serendipitous

opportunities and double-loop learning. Initiatives promoting important international exposure, attendance and participation at fairs and opportunities for networking should be sustained and refined. Attention should be paid to coordinating events in view of client characteristics and profiles – maximising value exposure and interaction with receptive target ‘audiences’. Another role might be for agencies to use their extensive portfolio of contacts, access to databases and expertise to act as liaisons and go-betweens, acting as potential brokers for international ventures and introducing potentially interested parties at such venues.

On the domestic front, owner-MDs should also become members in Chambers of Commerce and trade associations (Williams 2011). Besides access to useful external knowledge in explicit and tacit form, membership provides important opportunities for networking and social interaction with peers in similar circumstances offering opportunities for vicarious learning from others’ personal experiences and serendipitous possibilities for double-loop learning.

Table 8.5 summarises implications for policy.

**Table 8.5 – Summary of implications for policy**

Implications for policy
<ul style="list-style-type: none"> <li>○ A concerted drive should be undertaken from top-level to investigate and effectively rectify rife negative perception towards Malta Enterprise and agency support, as well as low service take up. Efforts should be made to streamline processes and instil an accessible client-centred approach.</li> <li>○ A focussed outreach programme should include: (i) learning about client circumstances, needs and requirements; (ii) information campaign informing potential clients on available services; (iii) building a trusted rapport linking owner-MDs to a fixed person as an agency liaison, specialised in the specific sector.</li> <li>○ One-size-fits-all initiatives should be steered away from, and initiatives be undertaken to offer an extent of ‘tailoring’ in service offerings in line with SMFB requirements and unique circumstances.</li> </ul>
<ul style="list-style-type: none"> <li>○ Explicit agency knowledge on internationalisation, foreign markets etc. and knowledge-base repositories should be made available and more accessible – where possible interfaced with user-friendly, client driven, internet-accessible querying capability. A proactive approach should be taken to push customised, relevant data and knowledge to target clients, where relevant also helping with interpretation to enhance knowledge transfer, assimilation and exploitation.</li> <li>○ Successful aid recipients and SMFB internationalisation success stories should be used to promote agency assistance and raise Malta Enterprise’s profile. Using such case-studies, networking events can be organised to encourage internationalisation experience knowledge sharing at peer-level.</li> </ul>
<ul style="list-style-type: none"> <li>○ Given SME / SMFB limitations in financial resources and management capacity, agencies should seek EU funds to proactively provide expert consulting services associated with internationalisation. Likely candidates and sectors ripe for internationalisation should be also actively targeted.</li> <li>○ Funds should be sought and scholarships and assistance be made available for training, human capital development and formal qualification – towards enhancing SMFB competencies and management capacity. Professionalization from within.</li> </ul>
<p>Trade delegations and international fairs were considered most important for gaining important market and product/technology knowledge, double-loop learning as well as opportunities for contacts and direct exposure to opportunities.</p> <ul style="list-style-type: none"> <li>○ Agencies should sustain trade delegation initiatives and international fair attendance drives, refining their approach, maximising potential value from exposure, matching clients to receptive audiences – away from scatter-gun approaches.</li> <li>○ Agencies should use expertise, extensive portfolio of contacts and access to databases and resources to act as liaisons and go-betweens, introducing potentially interested parties at such venues – brokering relationships and potential international ventures.</li> </ul>

## 8.8 Limitations and areas for further research

Due to value residing in its exploratory nature investigating phenomena at the juncture of evolving domains, this study presents limitations, some of which retrospectively apparent, ensue from findings and insight gained.

As indicated, the island context of this study presents potential implications in accentuating certain internationalisation dynamics, particularly when extending findings to other contexts. The nature of family businesses is also likely to vary cross-nationally according to differences in culture, social values and norms of behaviour (Goffee 1996). Future research may add value by conducting cross-national research accounting for value



differences (Hofstede 1991), and associations with variations in workplace attitudes and behaviours (Laurent 1983; Trompenaars 1993).

Due to its nature, this study generated large volumes of rich, qualitative primary and secondary data requiring time-consuming analyses. Supported by the literature, core primary data was derived primarily from the founders / owner-MDs, as well as where relevant, other key family or non-family individuals that might have assisted the owner-MDs in internationalisation initiatives. Beyond submission requirements and time / length limits, further research may investigate the phenomena at play, also involving further other individuals within each SMFB, possibly including ‘invisible’ family members, such as supporting spouses or others – covert dynamics that may provide additional insight on the SMFBs initiatives and direction. Additional research may also wish to push deeper, possibly including non-family SMEs for direct qualitative comparative analysis, also emphasising more focussed examination on the characteristics of specific knowledge types involved.

This research emphasised performance indicators associated with internationalisation, also in line with ACAP elements – namely pertaining to international growth and extent of internationalisation, knowledge acquisition, the establishment of contacts and relationships and various forms of innovation – non-financial outcomes. Beyond general qualitative insight into increases or decreases in sales or turnover in instances, specific financial performance indicators were not the objective of this study. Additionally, operating in a small, highly competitive domestic market, owner-MDs felt uncomfortable and generally reluctant to disclose commercially sensitive figures relating to financial performance – notwithstanding assured confidentiality and anonymity. Malta’s small size, where almost everyone knows everyone else, further accentuated concerns, since by elimination, descriptive cues easily lead the casual Maltese reader to deduce the SMFB under study. Scholars (e.g. Sapienza, Smith and Gannon 1988; Siram, Neelankavil and Moore 1990; IFERA 2003) acknowledge this as typical: “*SMEs are often unwilling to provide sensitive financial data even when confidentiality is assured*”. For example, recently conducting similarly qualitative, case-based research on internationalisation in SMEs, Dimitratos *et al* (2010b: 596) experienced at first-hand that “*Managers were generally reluctant to disclose performance figures on foreign activities other than international sales ratios*” – requiring reliance on more qualitative “*and, non-measurable aspects*”. Rich, qualitative data from multiple sources provides for valuable contextually sensitive insight and examination of

researched phenomena, as well as comparative evaluation and analysis – indeed, in similar contexts scholars recommend and acknowledge “*Using subjective evaluations of organizational performance in small business research*” is required (Sapienza, Smith and Gannon 1988: 43).

Future research may wish to attempt creative ways at integrating specific financial performance analysis, including e.g. cost structures and profitability. For example, larger sample quantitative research approaches could possibly aggregate performance figures indicating trends and patterns rather than attributing observations to specific SMFBs.

Value also exists in mapping out the networks and specific node characteristics of SMFBs, as would research specifically focussing on the social capital involved – investigating important structural, relational and cognitive dimensions involved in internationalisation.

The internationalisation absorptive capacity (iACAP) model presented could be refined and developed further. Future research could look more closely at the directional flows and interrelationships among its main components. Hypotheses and variables could be established and tested via quantitative research.

As noted, much research has yet to converge on this distinct area of family business internationalisation. Certainly, as conceptual research develops and the field evolves its own frameworks, empirical observation will continue to drive and fine-tune these early inroads into the field of SMFB internationalisation. Findings from this research recommend a more holistic theoretical approach to researching and effectively explaining SMFB internationalisation. One such approach could for instance draw from IPT, network and international entrepreneurship perspectives using the resource / knowledge based-views as a basis, emphasising the role of dynamic and combinative capabilities.

## **8.9 Conclusion**

Evolving over generations, SMFBs possess unique skills, products, inseparable synergistic resources and flexible capabilities which can be successfully applied in international markets. Ultimately, as observed, “*it is not the strongest of the species that survives, nor the most intelligent, but those that are most adaptable to change*”. This over-used adage

commonly misattributed to Charles Darwin amply reflects SMFBs' and their owner-MDs' circumstances in increasingly competitive global markets. Characterised by resource limitations and in it for the long-haul, owner-MDs must be alert, flexible and responsive to dynamic external environments. They must creatively leverage all resources and contacts, use their combinative capabilities to acquire and exploit insight and knowledge, turning stumbling blocks into stepping stones, as fleet-footed they enterprisingly seize opportunities as they materialise – seeking to thrive ... and survive.

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# Appendices

- 1 Introductory correspondence
- 2 a Interview narrative flashcards
- 2 b In-depth interview 1 guide
- 2 c In-depth interview 2 guide
- 2 d Update enquiry correspondence
- 3 Case, timeline (sample: WineDivine)
- 4 Case, iACAP analytic table (sample: SunDeli)
- 5 Case, importance attributed to key sources of knowledge (sample: StarSnack)
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# Appendix 1 – Introductory correspondence

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UNIVERSITY OF MALTA  
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FACULTY OF ECONOMICS,  
MANAGEMENT AND ACCOUNTANCY

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Mr Xxxxx Xxxxx  
*Managing Director*

Address Xxxxx  
Address Xxxxx  
Address Xxxxx

Date

Dear Xxxxx,

I trust you are well. It was good to talk over the phone, earlier today.

I was also pleased to learn of your interest in participating in this UK-based research on successful family businesses. I look forward to our meeting on Date at Time – yet as agreed I'll be calling you earlier in the day to confirm.

Meantime, as promised, kindly find below some background information relating to my research.

Re: Your participation and valuable contribution towards Ph.D. research at the *University of Glasgow* on internationally active, Maltese family businesses.

I am writing following our earlier conversation regarding your organisation qualifying as a worthy participant in research I am currently undertaking in connection with my Ph.D. programme at the *University of Glasgow Business School* in the UK.

As mentioned previously, in brief, **the key theme of my research deals with exploring and learning more about why and how successful Maltese family businesses engage in international activity** – mainly through either exporting or by setting up operations in foreign countries. Apart from adding value to academic research in the field, it is expected that this work will add useful insight to other business owners on effective management practice and help inform future policy initiatives.

Your participation is a very valuable and welcome contribution to this research.

In this regard, I look forward to our first meeting. It is anticipated that our meeting will last circa 1hr 30min, and may be held in either Maltese or English. A second meeting would also need to be held at a later date. After that, I'll be keeping in touch from time to time for updates.

**The purpose of this meeting will be to share in your organisation's colourful past, development and your vision for the future in a relaxed and informal way. Of particular interest will be the *organisation's evolution and international activity*, related**

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**learning and knowledge processes, as well as the role of contacts and relationships in this process of international growth.** I am also attaching a draft list of key topics we are likely to discuss at our future meeting.

Of course, should you wish, I would welcome the opportunity to share and discuss ensuing general research findings. Should you be interested, it would also be possible for your organisation to gain international exposure through its mention in conferences, seminars and business fora ensuing from this research. This international exposure of your firm as a "successful, internationally active organisation" could potentially lead to new contacts and business opportunities that might be of value to your organisation. However, and importantly, you would need to let me know – otherwise, full confidentiality and anonymity will be assumed and preserved.

While I assure you of my personal and professional disposition at all times, I also remind you that this academic research is conducted under the auspices of the *University of Glasgow* and its rigorous regulations safeguarding confidentiality and ethical research requirements to strictest international standards.

In the meantime, while I look forward to meeting in the near future, should you require any further information or clarification, please do not hesitate to contact me via email, or at my office at *University of Malta* on 2340 2706. Alternatively I can be reached on my mobile phone on 7995 0202.

Kindest regards,

Nathaniel (Massa)

*Doctoral Researcher*  
Business School  
University of Glasgow



Department of Management  
Faculty of Economics, Management and Accountancy  
University of Malta

PHD exploratory\_research\_cover letter\_fm\_m\_rms



# Appendix 2a – Narrative flash cards

Reverse side of each flash card printed in Maltese.

1. **Setting up – early days**

Take me for a trip down memory lane ...  
... to the setting up of this business.

- Talk to me about how the **idea of setting up** this business came about.
- How was the business **set up**?
- What were the very **early days** like?

2. **Managing the enterprise**

- Talk to me about **your role as owner & Managing Director** of this business.
- Discuss what this business / company **means to you**.
- **How do you take decisions?**
- Talk about the **'bitter'** and the **'sweet'** that your business presents you with.
- Does the fact that you are managing a **family** business influence your job any way?
- What is **your vision** for the organisation?

3. **The managers in the organisation**

- Talk to me about your **management team**.
- How is the company's management organised?
- **How is the business managed** overall? ... Together?

4. **What you do – who you serve**

- Talk to me about **all the products and services** that your business offers today.
- What type of **customers or clients** do you serve?
- Talk to me about **your markets** ...  
... and the **levels of competition** that you face.


5. **Important events in the company's history**

Along the timeline below:

- Chart all **important points and critical events** in the history of the organisation, that had an **important impact on the business**.

*E.g. Giving rise to change, instigating growth etc...*  
Also include difficult and challenging or negative moments.

Start-up 19\_\_      Present 2007



- What were these **key events?** ... Why and how did they happen?
- Were these the result of changes in the **external environment?**  
*E.g. ... Markets? ... Tastes? ... Technology? ... Legislation? ...*

6. **Innovation – new ideas**

*"the introduction of something new"* (Merriam-Webster)  
*"the successful exploitation of new ideas"* (DT&I, UK)

... in business, **'innovation'** must be substantially different – increasing **customer or producer** value.

- **Do you consider your company to be innovative?**
- Why?
- How?

7. **Life & existence: ongoing learning processes**

- Talk to me about how you and your company **gain information and learn** in general.

E.g.: **How do you learn of:**

- ... **new business ideas or opportunities?** (*local & foreign*)
- ... **market trends** and changing or **new consumer tastes?**
- ... what your **competitors** and similar **businesses in other markets** are doing?
- ... **new product ideas?** (*new designs / new products etc...*)
- ... **new production techniques and technologies?**

8. **International business**

- Talk to me about your **current international activity** and ventures.
- **How are things going on here?**
- Is this **international business activity any different** to your **local / domestic** operations? ... What does it entail?

9. **Key international events**

Along the timeline below:

- Indicate all **international experiences, events and ventures** in the company's history.

**Start-up** 19\_\_ ●————→ **Present** 2007

- What were these **key international events / ventures**? ... Why?
- Which of these international ventures are **no longer in operation**? ... Why? ... When did they stop?

10. **International exposure and learning**

- Talk to me about the **learning and valuable insights** that you might have **gained from your international experiences** ...

E.g. From:

- ... selling abroad / exporting
- ... importing and dealing with foreign suppliers
- ... attending international fairs and exhibitions
- ... other international experiences ... (*specify*)

11. **The first international venture / experience**

- Talk to me about your **very first international venture** or attempt at **exporting** (*whether successful or unsuccessful*).
- How did this **first international opportunity** present itself? What were the circumstances?
- What made you consider **the idea of going abroad** with your product – beyond Malta's shores?
- What were the **emotions, headaches and breakthroughs** involved in this **first** international drive?
- What or who was the key driver for this **first** international opportunity?

12. **The second international venture / experience**

- Talk to me about your **second international venture**. How did this **second international opportunity** present itself? ... What were the circumstances?
- Did this **second** venture in any way **build upon** the opportunities, contacts or experience obtained from your **first** international venture?
- Was this **second** international venture in any way **easier or smoother** than the **first** international venture? Did it cause less stress and anxiety? ... Why?

13. **Contacts and the people we get to know**

Throughout life we're constantly dealing with people. During *work* or *play* we come across people – we make contacts and establish relationships.

- Talk to me about the **general relevance** of contacts and relationships.
- Discuss the importance of **your contacts and relationships** in running **your business**. ... Why?
- When contacts "flower" and relationships develop – Does a **personal dimension or developed friendship** make any difference to business? ... How?

# Appendix 2b – In-depth interview 1 guide

Main interview / meeting # 1 – Interviewer's guide & schedule (Narrative & semi-structured)	
Participant: _____	Company: _____
Designation: _____	Date: _____
<b>■ START UP AND EARLY DAYS</b>	
<b>1</b>	<p><i>Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion &amp; enquiry</i></p> <p><b>[CARD 1] Setting up – early days</b></p> <p>Take me for a trip down memory lane to the setting up of this business.</p> <ul style="list-style-type: none"> <li>• Talk to me about how the <b>idea of setting up</b> this business came about.</li> <li>• How was the business <b>set up</b>?</li> <li>• What were the very <b>early days</b> like?</li> </ul>
	<p>In what <b>year</b> was <b>this business set up / start</b> operating? _____</p> <p>What was <b>founder's age</b> when he decided to set up the business? _____</p> <p>What were <b>key motivations</b> for start-up? (<i>financial / non-financial etc...?</i>)</p> <p>What were <b>founder's personal circumstances</b> when starting-up the business?</p> <p><b>How</b> did the original founder <b>set up</b> the business?</p>
	<p>How was the business' <b>start-up originally financed</b>?</p> <p><i>[E.g. Own funds / borrow from family &amp; friends / other investors / bank ....?]</i></p> <p>Was any <b>assistance / government grant</b> or subsidy <b>availed of</b>? ... Did any exist then?</p> <p><i>[E.g. Low interest rates on borrowing / tax moratorium / non-financial assistance ...?]</i></p>
	<p>What was <b>company's situation</b> like then? (<i>internally</i> as an organisation)</p> <p><i>[E.g. No of employees?, premises?, organisation structure? etc... in the early days]</i></p> <p>What was <b>external environment / industry situation</b> like then?</p> <p><i>[When setting up the business &amp; soon after? E.g. competition, suppliers, etc...]</i></p> <p>How would you describe the <b>founder's personality</b> and characteristics then?</p> <p><i>[E.g. aversion to risk? Entrepreneurial? Forward looking? Perception &amp; attitudes towards growth / expanding / exporting ... etc...]</i></p>

	<p>What was the <b>founder's vision</b> for the company then – when starting up?</p> <p>Were <i>exports / internationalisation</i> in the founder's mind in those early days?</p>
	<p>Did the founder set up <b>any other businesses</b> <i>before</i> or <i>after</i> this company?</p> <p>Did the founder have any <b>prior experience</b>? (relevant to running a business)</p> <p><i>[If 'yes'.....what? E.g. working in related business?, family dealings? Etc ...]</i></p> <p>Did the founder have any <b>formal education / qualifications</b>? <i>[What / what level?]</i></p>
<b>■ CURRENT SITUATION – Internal and organisational</b>	
<b>● Management &amp; human resources</b>	
<b>2</b>	<p><i>Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion &amp; enquiry</i></p> <p><b>[CARD 2] Managing the enterprise</b></p> <ul style="list-style-type: none"> <li>• Talk to me about <b>your role as owner &amp; Managing Director</b> of this business.</li> <li>• Discuss what this business / company <b>means to you</b>.</li> <li>• <b>How do you take decisions</b>?</li> <li>• Talk about the <b>'bitter'</b> and the <b>'sweet'</b> that your business presents you with.</li> <li>• Does the fact that you are managing a <b>family</b> business influence your job <b>any way</b>?</li> <li>• What is <b>your vision</b> for the organisation?</li> </ul> <p><b>Pointers:</b> Management, control &amp; decision dynamics • Relationship with other managers (family?) • Affinity &amp; commitment to business • What impact would he like to leave on the business? • Succession?</p>
	<ul style="list-style-type: none"> <li>• <b>Owner - Managing Director:</b> <i>[Consolidate with earlier questions if founder]</i></li> </ul> <p>Name / <b>date of birth</b>? _____ MD's relation to founder? _____</p> <p>Focused on any <b>particular function</b> / area of expertise or <b>general manager</b>?</p> <p>MD's <b>affinity and psychological commitment</b> to family business?</p> <p>Does he do <b>anything else apart</b> from manage <i>this</i> business?</p> <p>Formal <b>training / education</b>? _____ <i>[level / qual / exit age?]</i></p>

<p>If not the <i>founder</i> (e.g. 2<sup>nd</sup> generation) <b>when did MD take the helm</b> of the company?</p> <p><b>For how long had MD been working in the business before taking the helm?</b> Doing <i>what</i>? How did MD work his way up?</p> <p>How many <b>changes in top management</b> since the business <u>was</u> established? <i>[Apart from generations were other siblings involved?]</i></p> <p>Is the <b>key founder still 'active'</b>? In a management position? ... Doing what?</p>	
<p><b>'Managers':</b></p>	
<p>3 <i>Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion &amp; enquiry</i></p> <p>[CARD 3] <b>The managers in the organisation</b></p> <ul style="list-style-type: none"> <li>• Talk to me about your <b>management team</b>.</li> <li>• How is the company's management organised?</li> <li>• <b>How is the business managed</b> overall? ... Together?</li> </ul>	
<p><b>How many</b> other managers are there? _____</p> <p>What are their <b>responsibilities / departments</b>? _____</p> <p>Any <b>relation to the family</b>? _____</p> <p>What is their <b>age</b>? _____</p> <p>How <b>many years</b> have they been <b>in the business</b>? ... And <b>as managers</b>?</p> <p>What <b>is</b> their <b>experience / formal education</b>? _____</p> <p>Anyone in <b>mgmt</b> specifically <b>responsible for exports / int'l. activity</b>?</p>	<ul style="list-style-type: none"> <li>- Name</li> <li>- Dept resp.</li> <li>- Relation</li> <li>- Age</li> <li>- Yrs in bus.</li> <li>- Yrs as Mgr</li> <li>- Exp / Educ</li> </ul>

<p><b>Other staff in employment:</b></p> <p><b>No of employees</b> FT / PT / casual _____ <i>[Also if relevant: local / foreign outlets?]</i></p> <p>What <b>responsibilities / departments</b> are they generally assigned to? _____</p> <p><b>Any employees</b> specifically <b>assigned to exports / international activity</b>? Why? ... Is any specific training offered (in-house)? _____</p> <p><b>Labour growth:</b> How many employees were <b>employed c.10 yrs ago</b>? ... (FT / PT)? What changes in employment levels have happened since? ... Why?</p> <p>Any employees generally <b>formally trained or qualified</b>? ... What <b>quals</b>? ... Why?</p> <p><b>In-house</b> training, knowledge sharing / transfer? <i>[Experiential, on-job or formal?]</i></p> <p>How would you rate <b>employee's commitment</b> to the business? (high / moderate / low) <i>[Ask what is meant by chosen answer] (Examples?)</i></p> <p>How would you rate your business' <b>employee turnover</b>? (high / moderate / low) <i>[Ask what is meant by chosen answer] (Any particular job categories prone?)</i></p> <p>Easy to <b>attract / find / and keep employees</b>? <i>(esp. non-family)</i></p> <p>What are any key <b>'keepers' / motivators</b> for employees? <i>[E.g. esp. non-family loyalty / pay / bonuses / profit sharing / conditions etc...]</i></p> <p>General <b>working relationship</b> like / <b>commitment / trust of mgmt</b> towards employees.</p>
<ul style="list-style-type: none"> <li>• <b>Planning &amp; decision making</b></li> </ul>
<p>Do <b>other managers</b> have a critical role in <b>contributing towards organisation strategy</b> / decision making – <i>directly</i>? ... How? ... Meetings?</p>
<p><b>How is planning undertaken?</b> <i>Informally? Formally / periodic meetings?</i> <i>What for? How often? Who attends?</i> <i>Structured: reviews / plans / targets?</i></p>
<p>How are <b>important decisions</b> (<i>strategic – influencing the direction of the business</i>) generally taken?</p> <ul style="list-style-type: none"> <li>- Paternalistic (taken by senior individual / MD)</li> <li>- Professional (taken by senior managers poss. also <i>inc.</i> consultant / accountant)</li> <li>- Participative (made collectively, involving family members &amp; employees)</li> </ul>

[Managing a business involves taking decisions that include an element of risk.]

Would you describe yourself as a **risk-taker**? ... Why? [Examples?]

How **comfortable do you feel** with risk? [Examples?]

**How do you approach 'risky' decisions? ... Before taking such decisions do you:**

- Engage in *extensive research and planning*?
- Rely more on *experience* and *gut instinct*?
- Other? [E.g. maybe recourse to others? ... etc ...]

● **Organisational structure**

Request / draft **org. chart** / **no. of depts.** / **rept'ing** relationships / dept. employ levels

**Org. design:** \_\_\_\_\_ [E.g. single location / retail branches / off-site w/housing?]

Any **owned foreign outlets** (FDI)? \_\_\_\_\_

Any **change in the org's structure** / set-up / depts. in **past c.10 years**? What / Why?  
[E.g. change in no of depts / divisions or change in working / reporting relationships etc...?]

■ **CURRENT SITUATION – Ops, markets & competition**

● **Products / sales / market and competitiveness**

4 Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion & enquiry

[CARD 4] **What you do – who you serve**

- Talk to me about *all* the **products** and **services** that your business offers today.
- What type of **customers** or **clients** do you serve?
- Talk to me about your **markets** ... and the levels of **competition** that you face.

● **Current sales and products / services offered:**

List **products / services offered**.

What are the **key / main products** or services? \_\_\_\_\_ What are your **top sellers**?

Any previous products now **been discontinued**? ... Why?

Who are your **customers**? \_\_\_\_\_ [E.g. individual / retail / B2B / corporate, etc...?]

Who are your **main / most imp. customers**? [Comparative sales composition %]

Which products are **most profitable** to sell? \_\_\_\_\_

Which products are **most costly to produce**? \_\_\_\_\_

Comparative sales composition % (*domestic vs export / int'l*) \_\_\_\_\_ [volume / value]

Have *domestic sales* been: **growing / stable / declining** ... over the past **yrs**? ... Why?

Have *exports / int'l* been: **growing / stable / declining** ... over the past **yrs**? ... Why?

● **Market situation / Competitiveness**

**How competitive is your local market?** [Aggressive? ... Saturated market?]

Why is this so?

Who are the businesses you broadly compete with? \_\_\_\_\_

Who are your **direct competitors**? ... How many direct competitors? \_\_\_\_\_

Any local competition from **foreign imports**? ... How many compete **directly**?

How competitive are these foreign imports? ... What country of origin?

Is there **room for further growth** and expansion in the **domestic market**?

Is **local demand** of your products: growing / slowing / stable / receding? .... Why?

What's most **important for survival** & growth in your market / industry? ... Why?

5 Present prepared blank timeline sheet and pencil. Discuss and complete. Afterwards proceed with semi-structured questions as guide to further related discussion, probing & enquiry

[CARD 5] Important events in the company's history

Along the timeline below:

- Chart all important points and critical events in the history of the organisation that had an important impact on the business.

E.g. Giving rise to change, instigating growth etc...

Also include difficult and challenging or negative moments.

What were these key events? ... Why and how did they happen?

Were these the result of changes in the external environment? ... market? ... tastes? ... technology? ... legislation? Etc...

Is an element of luck or being at the right place at the right time sometimes attributed to some earlier moves and successfully exploited opportunities? ... Why?

Give examples ... [Domestic & international?]

■ GENERAL ACAP RELATED

- Innovation & new developments

6 Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion & enquiry

[CARD 6] Innovation – new ideas

Innovation: "the introduction of something new" (Merriam-Webster)  
"the successful exploitation of new ideas" (DT&I, UK)

... in business, 'innovation' must be substantially different – increasing customer or producer value.

- Do you consider your company to be innovative?
- Why?
- How?

What recent important changes and new developments can you mention?

- **Business model** innovation (changing the way business is done)
- **Product innovation\*** (new / improved products or services).
- **Process** innovation (new / improved production methods, increase efficiency / lower costs)
- **Marketing** innovation (new / marketing methods with improvement in product design\* or packaging, product promotion or pricing)
- **Supply chain** innovation (innovations in the sourcing of input products from suppliers and / or the delivery & distribution of output products to customers)

[Ask for examples + year innovation introduced]

Do you feel that innovations and changes in your company, are generally driven by:

- reactive approach** addressing competitor's strategic changes ...
- or a **proactive approach**?

- Learning & training

7 [CARD 7] Life and existence: ongoing learning processes

- Talk to me about how you and your company gain information and learn in general.

E.g.: How do you learn of:

- ... new business ideas or opportunities? (local & foreign)
- ... market trends and changing or new consumer tastes?
- ... what your competitors & similar businesses in other markets are doing?
- ... new product ideas? (new designs / new products etc...)
- ... new production techniques and technologies?

- What are the sources of information?
- Where does the learning originate from?

What was the change?

How & why was the opportunity / idea brought about?

Assoc. with international activity?

How was the change undertaken?

When, what year?



How is learning, research & development undertaken in the company?

**How do you learn & keep up to date** on: ..... [also as a company]

- What your **customers want**?  
[E.g. networks / relationships / feedback forms / dist. Salesmen / trade fairs, etc ...?]
- What your **competitors are doing**?  
[E.g. trade fairs / exhibitions / news / www / out shopping / contacts, etc...?]
- How to **develop new products / learn new techniques**?  
[E.g. R&D / labs? / in-house experts / consultants / fairs / suppliers, etc ... ?]
- How to **improve manufacturing** processes & production / efficiency ... **new tech**?  
[E.g. Ind. assoc. / labs / engineers / uni students / consultants / suppliers, etc ...]

Any periodic invest. / engagement in some form of *product* or *process*-based R&D?

- In-house / lab
- Local networks / agencies / university (also research students) etc...
- Foreign networks / partners / agencies / alliances etc...

Which of the above **learning** is: i) Ad hoc & occurring 'as you go along'?

ii) **Actively sought / planned & proactive?**

**Training:** Does the company invest in improving the **technical skills** and **competencies / knowledge / know-how** of key employees involved in the company?

... Why? ... Who?

Production?                       Management?

How? Is there any **formal / structured** or **regular** programme(s)?

In general, *how important* do you feel **formal education / technical training** is?

... Why? ... How? ... Does the company engage in this?

In general, *how important* to you feel **experience** is as a **learning process** to acquire **new knowledge**? ... Why? ... How?

... Is this experience **shared**? ... How?

In general, how important to you feel **contacts and relationships with others outside the company** are in acquiring **information and new knowledge**? Why? How?

... Are these contacts / knowledge shared? ... How?

With respect to **gaining information** and **new knowledge** (e.g. of int'l. opportunities), rank the following in order of *priority* and *importance* to your business:

\_\_\_ Formal education / training

\_\_\_ Experience

\_\_\_ Contacts (network) and external relationships                      ... Why?

*How is knowledge and information shared* among and between *employees and management* (and salespersons?)

... How / often? ... How easily? ... [informally / formally?]  
[retained as tacit or made explicit?]  
[residing with who? / main recipients?]

Are **formal meetings** held? ... How often / Why? ... Who generally attends?

Documented, written plans etc...? What is discussed at these meetings?

How important are the following for **learning**, acquiring new insight and **knowledge** associated with **internationalisation & discovering new opportunities**?

**Key 'internal' sources and resources:**

- **Formal education / training** [HR / professional qualifications]

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Who? ... Explain.

- **Experience / acquired know-how**

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Who? ... Explain.

- **Contacts & relationships** [Business / social; formal / informal; domestic / intl.]

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Who? ... Explain.

- **In-house experimentation / any rudimentary int. R&D**

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Who? ... Explain.

**Key external sources and resources:**

- **Govt. agency support / industry associations / chambers of commerce**

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Which? ... Explain.

- **International fairs / exhibitions**

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Which? ... Who? ... Explain.

- **Internet**

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Explain.

- **Engaging graduates / commissioning professionals / ext. consultancy**

1 - Minimally imp.	2 - Somewhat imp	3 - Important	4 - Very important	5 - Exceedingly imp
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Why? ... How? ... Explain.

Which source is considered as **most important** for **learning** on **new int'l business opportunities** and **innovation**? [int / ext]

How easy is it for **knowledge or information to be shared internally** among **management** and with **employees** (and salespersons?) **formally** / **informally**.

**Any obstacles hindering** the development of **innovations** in products / processes or **new ways of doing things**?

Give examples ... E.g. Resource limitations / size ...

- Financial issues?
- Lack of know how / technical issues?
- Difficulty in accessing ext. institutions / Govt. bureaucracy?

For the purposes of: i **gaining contacts**,

ii **innovating**,

iii **learning** about and exploiting **int'l business opportunities**

Did you / do you make use of **Govt. agency support**?

[E.g. Malta Enterprise, Chambers of commerce, EU etc ...]

What? \_\_\_\_\_ Why? \_\_\_\_\_

[NOTE: Throughout distinguish between *Financial* / *Non-financial* support]

[E.g. *organised* networking / trade delegations & visits / exhibitions & fairs / knowledge trans. facilitation / contacts for research labs & Co.s, funding etc...]

- If 'no', **do you intend to avail** of such services in the future? ... What? ... Why?
- If 'yes', what services did you avail of? \_\_\_\_\_
- Are these services relatively **to apply for / access**? \_\_\_\_\_
- How did you **get to know** of this potential support? \_\_\_\_\_
- **What value** do you attribute to this support? \_\_\_\_\_
- Any comments / suggestions re this support? \_\_\_\_\_ [If you had a *magic wand* ...?]



■ **Internet / company website**

• **Online & web presence:**

Does company have a web-site? ... Why? If so, in operation since? (*year*) \_\_\_\_\_

What's its **primary function**? How does it **add value** to business and / or customers?

Is website **regularly maintained** / updated? \_\_\_\_\_

Can customers **enquire** via the web? ... Do they? \_\_\_\_\_ (*local & foreign*)

How are enquiries dealt with? ... Swiftly? ... On a daily / weekly basis?

Anyone **in charge** of regularly looking after web-related needs & enquires?

If relevant, can clients **buy products via internet**?

Online product catalogue? ... Secure transaction processing?

Have **local customers** *purchased* via the website? \_\_\_\_\_ ... How many?

Have **int'l customers** *purchased* via the web-site? \_\_\_\_\_ ... How many?

Has the website brought the company any **tangible benefits / advantages**?

What do you see the **future of the website** as? ... Why? ... How and by when?

## Appendix 2c – In-depth interview 2 guide

Main interview / meeting # 2 – Interviewer's guide & schedule (Narrative & semi-structured)	
Participant: _____	Company: _____
Designation: _____	Date: _____
<b>■ INTERNATIONALISATION</b>	
<b>Current international activity</b>	
<b>8</b>	<p><i>Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion &amp; enquiry</i></p> <p><b>[CARD 8] International business</b></p> <ul style="list-style-type: none"> <li>• Talk to me about your <b>current international activity</b> and ventures.</li> <li>• How are things going on here?</li> <li>• Is this international business activity <b>any different</b> to your <i>local / domestic</i> operations? ... What does it entail?</li> </ul> <p><b>How important is this international activity</b> to your business?</p>
<p>Remind me – What % of <b>total sales</b> constitute your <b>exports</b>? _____ %</p> <p><b>What countries do you currently export to / have international activity in?</b></p> <p><b>1</b> _____ % <u>since:</u> _____ Regular? _____ How did it come about? _____ Diff. clients? _____</p> <p><b>2</b> _____ % <u>since:</u> _____ Regular? _____ How did it come about? _____ Diff. clients? _____</p> <p><b>3</b> _____ % <u>since:</u> _____ Regular? _____ How did it come about? _____ Diff. clients? _____</p> <p><b>4</b> _____ % <u>since:</u> _____ Regular? _____ How did it come about? _____ Diff. clients? _____</p> <p><b>Other?</b> .....</p> <p>Which of these <b>countries</b> are considered <b>most strategically important</b>? _____</p> <p>Why? _____ ... [Reiterate] what % of exports? _____ %</p>	

<b>9</b>	<p>Do you <b>directly import</b> material or equipment from <b>foreign countries / suppliers</b>?</p> <p><b>How many foreign suppliers</b> have you got? _____ Countries? _____</p> <p>What do they supply you with? _____</p> <p>How would you describe your relationship with them? _____ On-going rapport? <i>[... Nature of rapport... purely business or also personal? Extent of trust?]</i></p>
<p><i>Present prepared blank timeline sheet and pencil. Discuss and complete. Afterwards proceed with semi-structured questions as guide to further related discussion, probing &amp; enquiry</i></p> <p><b>[CARD 9] Key international events</b></p> <p>Along the timeline below:</p> <ul style="list-style-type: none"> <li>• Indicate <u>all</u> <b>international activity</b> and experiences, 'events' and ventures in the company's history.</li> </ul> <p><b>Start-up</b> ●—————→ <b>Today</b> 19__ 20__</p> <ul style="list-style-type: none"> <li>• What were these <b>key international events / ventures</b>? ... Why?</li> <li>• Which of these international ventures are <b>no longer in operation</b>? ... Why? ... When did they stop?</li> </ul>	

What **contacts / relationships / ties / networks** have your *international activities* resulted in? \_\_\_\_\_ (E.g.: from exports, imports, int'l. fairs & exhibitions, etc...)

Would you generally consider such **contacts / relationships at all important?** Why?

**Local** contacts / networks / relationships? ... \_\_\_\_\_

**Foreign** contacts / networks / relationships? ... \_\_\_\_\_

If at all, which contacts / relationships do you rate **most important & valuable** for your company? ... Why? ... **What do you get from them?** [also int'l. activity?]

**How** were these important relationships **established?** \_\_\_\_\_

How are they **sustained & how** do they 'work'? \_\_\_\_\_

Do any **int'l contacts / relationships** develop into **personal friendships?**  
[E.g. (supplier / customer ...) Invite each other home? ... visit families ...]

Does this **personal dimension add anything?** ... What? ... Why? ... How?

**10** Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion & enquiry

[CARD 10] **International exposure and learning**

- Talk to me about the **learning** and **valuable insights** that you might have **gained from your international experiences** ...

E.g. From: ... selling abroad / exporting  
 ... importing and dealing with foreign suppliers  
 ... attending international fairs and exhibitions  
 ... other international experiences ... (specify)

With respect to **experience and learning** ...

What were the **most important things you learnt** from **international activity?**  
 [Keep eyes open for tech transfer / internal processes / administrative & red tape / strategic, vision & opportunity recognition & exploitation etc...]

What value do you feel this **learning** and **experiential knowledge** generated for the company? \_\_\_\_\_ ... Why?

In relation to **international business activity** ...

Did you ever make use of **Govt / agency / EU** support e.g. *export promotion?*  
 [E.g. METCO, Malta Enterprise, Chamber of Commerce, EU etc...]

E.g. - actual information / learning / training / preparation / customs  
 - potential initial contacts / trade visits  
 - facilitating actual exports / shipping / insurance  
 ... **financial / non-financial** ?

**Have you made use** of such internationalisation support? What? ... Why? ... How?  
 If so, **how effective** and what value did these services generate for your company?

Are you **currently availing of such services?** \_\_\_\_\_ What? / Why?  
 Will you be using any such services in the future?

What is your **opinion** on such **Govt / agency / EU** services? \_\_\_\_\_  
 [If you had a **magic wand**, what would you change in the provision of such services?]

Has **EU membership** influenced your company **in general** in any way? (pos. / neg.)  
 Has **EU membership** influenced your **int'l. activity** in any way? ... Why? How?

Overall, how **important** do you believe your **international activity** is for the **company's growth and survival?** \_\_\_\_\_ ... Why?

**■ 1st outward international 'event' / venture**

**11** Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion & enquiry

[CARD 11] **The 1<sup>st</sup> outward int'l experience: 'event' / venture**

- Talk to me about your **very first international venture** or attempt at **exporting** (whether successful or unsuccessful).
- How did this **first international opportunity** present itself? What were the circumstances?
- What made you consider the **idea of going abroad** with your product – beyond Malta's shores?
- What were the **emotions, headaches** and **breakthroughs** involved in this **first international drive**?

What or who was the key driver for this **first international opportunity?**

**REMEMBER:** We are talking about the *first ever international venture or attempt at exporting whether successful or unsuccessful*. If *unsuccessful* ask WHY, discuss & move on to 1<sup>st</sup> *successful*.

**What year** did this 1<sup>st</sup> international experience / 'event' take place? \_\_\_\_\_

**What country(ies)** did this 'event' involve? \_\_\_\_\_ (actual export to / set up in)?

**How** did this 1<sup>st</sup> 'event' opportunity actually **come about**? \_\_\_\_\_  
*[unsolicited OR proactively sought?, ad hoc / luck – right place at right time?  
 ... ALSO... in any way aided by contacts with existing foreign suppliers?]*

**What** did this **international venture** at first involve? ... **Mode of entry**?  
*[E.g. direct export to customer / agent / distributor / FDI ... etc...?]*

**What** did it entail, **how did you go about it**? Were there any particular agreements?  
*[E.g. with distributors etc... monthly quotas, payment for sales only? etc...]*

---

Was this 1<sup>st</sup> international venture a **strategically necessary move** at the time?  
 Why? **Proactive / reactive**? *[E.g. competition, survival, an urgent need for growth, etc...]*

... Or was it just '**dabbling**' in **internationalisation** with an opportunity that came along – seeing what comes out of it? \_\_\_\_\_ *[Triggers / motivators / drivers]*

---

Was there much **planning and researching** in preparation for this 1<sup>st</sup> international 'event' / experience? \_\_\_\_\_ *[E.g. prospecting?, on what to expect? ... etc...]*

Was **help** and the **opinion of others / contacts** sought for this purpose?  
*[E.g. Contacts, family, friends & business acquaintances? Other professionals, accountants, consultants ... etc...]* ... **Who?** ... **Why?** ... **How?**

**What value** do you attribute to any leads, **contacts, relationships** that you exercised in establishing this 1<sup>st</sup> international venture? *[E.g. int'l. / domestic; formal / informal]*

Was the **internet** then a useful tool in any way to find out more? \_\_\_\_\_  
*[E.g. potential foreign business customers, foreign market conditions; necessary procedures; foreign culture etc...?] ... If at all, **how useful** was it?*

**Was any kind of information / assistance** sought from **Govt / agencies** for this 1<sup>st</sup> int'l. 'event' / experience? *[E.g. Metco / Malta Enterprise / Chamber etc...]*

- Access to info. / trade directories / foreign contacts
- Trade delegations / visits etc...
- Export promotion etc...

**What?** ... **How?** ... If 'not', do you know **whether such assistance existed**?  
 If 'yes', was assistance **useful**? ... Was any assistance **easily accessible** then?

**[NOTE: Ensure reference made pertains to this 1<sup>st</sup> international 'event' / venture].**

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**What** was your (or founder's) **initial outlook** on this 1<sup>st</sup> outward int'l. 'event' / venture? ... **Why**?  
*[E.g. sceptical, worried, anxious, unsure, unknown procedures, unknown contacts, confident, optimistic ... etc...?]*

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**What new contacts and relationships** did this 1<sup>st</sup> international venture lead to?

**With who** were any such new contacts struck?  
*[E.g. new customers / distributors / agents / govt departments / agencies etc...]*

**What kind of relationships** were established with these new contacts?  
*[E.g. formal / informal ... Did any contacts / relationships develop into personal friendships?]*

If at all, which were the **most important / valuable relationships / contacts** made through this 1<sup>st</sup> international 'event' / experience? \_\_\_\_\_ **Why**?

Did any **familiarity** or a **personal dimension** to these relationships develop?  
 ... If so, did this add anything or help **facilitate business** in any way? \_\_\_\_\_

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Did these (1<sup>st</sup> int'l. event / experience) **contacts and relationships** lead to the **awareness or discovery** of other / **new international business opportunities**? **How**?  
 ... Were they explored and taken up?

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Did this 1<sup>st</sup> int'l. **event 'happen' smoothly** *[E.g. no unexpected hiccups or challenges?]*

What might have been any **key challenges or difficulties** involved? ... **Why**?

How were any such **challenges addressed or overcome**? \_\_\_\_\_

<p>Has (or did) the <b>'mode of entry'</b> to this 1<sup>st</sup> country <b>change</b> over the years? Why? ... How? <i>[If changes occurred, what year?]</i></p> <p>Was any such change <b>due to greater experience</b> / need for <b>greater commitment / more control</b>? ... etc ... <i>[Evidence of stages theory? ... Any stages 'leapfrogged?]</i></p>
<p>Would you consider this 1<sup>st</sup> int'l event / venture <b>successful</b>? ... In what way?</p> <p>To date, are you <b>still exporting / operating internationally</b> via this 1<sup>st</sup> int'l. event?</p> <p>If 'not', Why? <u>.....</u> and for how long did it last? <i>[Also seek details on relational dynamics]</i></p> <p>Did this lead to some other arrangement with another company / distributor / person ... still servicing the same country? <u>.....</u> How?</p>
<p>Did this 1<sup>st</sup> int'l. <b>experience change</b> or modify in any way your <b>sentiments or outlook on further international growth</b>? ... Why? ... How?</p> <p><i>[E.g. experience &amp; learning / networks / confidence / relatively easy growth / not worth the time &amp; energy / difficulties to promote product abroad ... etc...?]</i></p>
<p>Overall, what <b>value or importance to the business</b> do you attribute to this 1<sup>st</sup> international initiative? <u>.....</u></p> <p>Personally, what were the most <b>important lessons or experience gained</b> from this 1<sup>st</sup> international initiative? <u>.....</u></p>
<p><b>Refer to ACAP template.</b> Discuss and probe deeply for <b>1<sup>st</sup> international event</b>. Enquire and consolidate:</p> <ul style="list-style-type: none"> <li>- <b>Antecedents &amp; prior know.</b> Situation, experiential <u>know</u>, who, what, etc... ?</li> <li>- Info. &amp; know. <b>acquisition</b> What, how, where, who, why, etc... ?</li> <li>- Info. &amp; know. <b>assimilation</b> What, how, who, where, why, etc... ?</li> <li>- Info. &amp; know. <b>exploitation</b> How, what, who, where, why, etc... ? [mode]</li> <li>- <b>ACAP outcomes</b> Int'l activity &amp; capability, perform, competitive adv., <u>innovations</u>, experience &amp; learn, contacts ... ?</li> </ul> <p>Role of <b>F / O-MD</b> in this int'l 'event' (vis-à-vis role of others [family / non-family]).</p> <p>Role of <b>contacts / relationships</b> in this int'l 'event'.</p>

<p>■ <b>2<sup>nd</sup> outward international 'event' / venture</b></p>	
<p><b>12</b> Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion &amp; enquiry</p> <p>[CARD 12] The 2<sup>nd</sup> outward int'l experience: 'event' / venture</p> <ul style="list-style-type: none"> <li>• Talk to me about your <b>second international venture</b>. How did this <b>second international opportunity</b> present itself? What were the circumstances?</li> <li>• Did this <b>second</b> venture in any way <b>build upon</b> the opportunities, contacts or experience obtained from your <b>first</b> international venture?</li> <li>• Was this <b>second</b> international venture in any way <b>easier or smoother</b> than the <b>first</b> international venture?</li> <li>• Did it cause less stress and anxiety? ... Why?</li> <li>• Would you consider this <b>second international</b> venture successful or unsuccessful?</li> </ul> <p>What or who was the key driver for this <b>second international</b> opportunity?</p>	
<p><b>REMEMBER:</b> We are talking about the 2<sup>nd</sup> international venture / attempt at exporting <b>whether successful or unsuccessful</b>. If unsuccessful ask WHY &amp; move on to 2<sup>nd</sup> successful.</p> <p><b>What year</b> did this 2<sup>nd</sup> international experience / 'event' take place? <u>.....</u></p> <p><b>What country(ies)</b> did this 'event' involve? <u>.....</u> [actual export to / set up in?]</p> <p><b>How</b> did this 2<sup>nd</sup> 'event' opportunity actually <b>come about</b>? <u>.....</u> <i>[E.g. unsolicited OR proactively sought?, ad hoc / luck – right place at right time? ... ALSO... in any way aided by contacts with existing foreign suppliers?]</i></p> <p>What did this <b>international venture</b> at first involve? ... <b>Mode of entry</b>? <i>[E.g. direct export to customer / agent / distributor / FDI ... etc...?]</i></p> <p>What did it entail, <b>how did you go about it</b>? Were there any particular agreements? <i>[E.g. with distributors etc... monthly quotas, payment for sales only? etc...]</i></p>	
<p>Was this 2<sup>nd</sup> international venture a <b>strategically necessary move</b> <u>the</u> at the time?</p> <p>Why? <b>Proactive / reactive</b>? <i>[E.g. competition, survival, an urgent need for growth, etc...]</i></p> <p>...Or was it just <b>'dabbling' in internationalisation</b> with another opportunity that came along – seeing whether you could build on your 1<sup>st</sup> venture? <i>[Triggers / drivers]</i></p>	

Was there much **planning and researching** in preparation for this 2<sup>nd</sup> international 'event' / experience? \_\_\_\_\_ [E.g. prospecting? on what to expect? ... etc...]

Was **help** and the **opinion of others** / **contacts** sought for this purpose?  
[Contacts, family, friends & business acquaintances? Other professionals, accountants, consultants ... etc...] \_\_\_\_\_ ... **Who?** ... **Why?** ... **How?**

**What value do you attribute** to any leads, **contacts, relationships** that you exercised in establishing this 2<sup>nd</sup> international venture? \_\_\_\_\_

**Did contacts / relationships** acquired in the 1<sup>st</sup> int'l experience contribute in any way to information / intelligence gathering etc...? \_\_\_\_\_  
[Were the contacts: international; formal / informal; ...customers; agents; suppliers etc...?]

Was the **internet** then a useful tool in any way to find out more? \_\_\_\_\_  
[E.g. potential foreign business customers, foreign market conditions; necessary procedures; foreign culture etc...?] ... If at all, **how useful was it?**

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Was any kind of **information** / **assistance** sought from **Govt** / **agencies** for this 2<sup>nd</sup> int'l 'event' / experience? \_\_\_\_\_ [E.g. Metco / Malta Enterprise / Chamber etc...]

- Access to info. / trade directories / foreign contacts
- Trade delegations / visits etc...
- Export promotion etc...

**What?** ... **How?** ... If 'not', do you know **whether such assistance existed?**  
If 'yes', was assistance **useful?** ... Was any assistance **easily accessible** then?

**[NOTE:** Ensure reference made pertains to this 2<sup>nd</sup> international 'event' / venture].

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What was your **initial outlook** on this 2<sup>nd</sup> outward int'l 'event' / experience? ... Why?  
[E.g. Sceptical, worried, anxious, unsure, unknown procedures, unknown contacts, confident, optimistic ... etc...?]

Did the **learning and experience** from the **earlier 1<sup>st</sup> international venture** inspire **more confidence** / more **insight** in dealing with this 2<sup>nd</sup> venture?

To what extent? ... **How did it influence** in this 2<sup>nd</sup> venture?

Was it **easier to deal with the internationalisation process** this 2<sup>nd</sup> time round?  
... Why? ... How? ... What specifically?  
[E.g. paperwork / documents / foreign customs / knowledge on processes and procedures / dealing with people / accessing agency assistance etc...]

What **new contacts / relationships** did this 2<sup>nd</sup> int'l. venture lead to? \_\_\_\_\_  
**With who** were any such new contacts struck? \_\_\_\_\_  
[E.g. new customers / distributors / agents / govt departments / agencies etc...]

**What kind of relationships** were established with these new contacts? \_\_\_\_\_  
[E.g. formal / informal ... Did any contacts / relationships develop into personal friendships?]

Is at all, which were the **most important / valuable relationships / contacts** made through this 2<sup>nd</sup> international 'event' / experience? \_\_\_\_\_ Why?

Did any **familiarity** or a **personal dimension** to these relationships develop?  
... If so, did this add anything or help **facilitate business** in any way? \_\_\_\_\_

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Did these (2<sup>nd</sup> int'l. 'event' / experience) **contacts and relationships** lead to the **awareness or discovery** of other / **new international business opportunities**? How?  
... Were they explored and taken up?

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Did this 2<sup>nd</sup> int'l. **event 'happen' smoothly** [E.g. no unexpected hiccups or challenges?]  
What might have been any **key challenges or difficulties** involved? ... Why?  
How were any such **challenges addressed** or overcome? \_\_\_\_\_

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Has (or did) the '**mode of entry**' to this 2<sup>nd</sup> country (if different from the 1<sup>st</sup> venture's) change over the years? \_\_\_\_\_ Why? ... How? [If changes occurred, what year?]  
Was any such change due to **greater experience** / need for **greater commitment / more control**? ... etc... [Evidence of stages theory? ... Any stages 'leapfrogged?]

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Did the **earlier 1<sup>st</sup> international experience** in any way **effect, shape or influence** this 2<sup>nd</sup> international venture? ... How? ... Why?

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Would you consider this 2<sup>nd</sup> int'l event / venture **successful**? ... In what way?  
... **How would you compare it to the 1<sup>st</sup> international venture?** \_\_\_\_\_

To date, are you **still exporting** / **operating internationally** via this 2<sup>nd</sup> int'l. event?  
If 'not', Why? \_\_\_\_\_ and for how long did it last? [Also seek details on relational dynamics]

Did this lead to some other arrangement with another company / distributor / person ... still servicing the same country? \_\_\_\_\_ How?



	<p>Did this 2<sup>nd</sup> int'l experience change or modify in any way your sentiments or outlook on further international growth? ... Why? ... How?</p> <p><i>[E.g. Experience &amp; learning / networks / confidence / relatively easy growth / not worth the time &amp; energy / difficulties to promote product abroad ... etc...?]</i></p>
	<p>Refer to ACAP template. Discuss and probe deeply for <b>2<sup>nd</sup> international event</b>. Enquire and consolidate:</p> <ul style="list-style-type: none"> <li>- Antecedents &amp; prior know.      Situation, experiential know., who, what, etc... ?</li> <li>- Info. &amp; know. <b>acquisition</b>      What, how, where, who, why, etc... ?</li> <li>- Info. &amp; know. <b>assimilation</b>      What, how, who, where, why, etc... ?</li> <li>- Info. &amp; know. <b>exploitation</b>      How, what, who, where, why, etc... ? [mode]</li> <li>- ACAP outcomes      Int'l activity &amp; capability, perform, competitive adv., innovations, experience &amp; learn, contacts ... ?</li> </ul> <p>Role of F / O-MD in this int'l 'event' (vis-à-vis role of others [family / non-family]).</p> <p>Role of contacts / relationships in this int'l 'event'.</p>
	<p>■ Subsequent outward international 'events' / ventures ...</p>
	<p>Were any 3<sup>rd</sup> and subsequent international ventures <i>similar</i> or <i>different</i> in any way to the 1<sup>st</sup> and 2<sup>nd</sup> international experiences? _____</p> <p><i>[E.g. proactive / reactive; modes of entry; levels of commitment; region etc...]</i></p> <ul style="list-style-type: none"> <li>- Discuss &amp; enquire as above, any <b>specific</b> subsequent 'events' along timeline.</li> <li>- How they came about, who was involved: when, what, why, how, modes?</li> <li>- Refer to ACAP templates and probe.</li> <li>- Role of founder / owner-MD; Role of contacts relationships?</li> </ul>
	<p>■ International &amp; general – Relationships and culture</p>
13	<p><i>Present and discuss this narrative flash card. Afterwards proceed with semi-structured questions as guide to further discussion &amp; enquiry</i></p> <p>[CARD 13] <b>Contacts and the people we get to know</b></p> <p>Throughout life we're constantly dealing with people. During <i>work</i> or <i>play</i> we come across people – we make contacts and establish relationships.</p> <ul style="list-style-type: none"> <li>• Talk to me about the <b>general relevance</b> of contacts and relationships.</li> <li>• Discuss the importance of <i>your</i> contacts and relationships in running <i>your</i> business. ... Why?</li> <li>• When contacts 'flower' and relationships develop – Does a <b>personal dimension</b> or <b>developed friendship</b> make any difference to business? ... How?</li> <li>• What is the relevance of contacts / relationships to <i>your</i> <b>international business</b> activity? ... Why</li> </ul>

	<p>In general how important are <b>contacts &amp; established relationships</b> in conducting both domestic and international business? _____ Why?</p> <p>What about <b>informal, personal / social relationships</b>? _____</p> <p>Do any of the <i>formal</i> relationships develop into <b>personal and social, out-of-business relationships</b> based on e.g. <i>trust, respect</i> etc...? _____</p> <p>Which <b>contacts and relationships</b> would you say were generally <b>most valuable</b> to the business' <b>international activity</b>? _____ Why?</p> <p><i>[E.g. formal / informal; customers; suppliers; agents; distributors etc ...?]</i></p>
	<p>Recount any <b>positive</b> experience where an <b>important contact</b> made a <b>big difference</b> to your business or <b>saved the day</b>? _____</p> <p>Recount any <b>negative</b> experience where one of these important contacts was needed, yet you <b>couldn't get through</b> or the <b>relationship broke down</b>?</p> <p>What effect did it have on the business? _____</p> <p>How were these challenges overcome? _____</p>
	<p>How important is the notion of <b>trust</b> (and / or <b>reputation</b>) to established relationships? _____ <i>[also with respect to int'l. business activity?]</i></p>
	<p>Does <b>reputation</b> or any form of <b>recommendation</b> play a part in the establishment of contacts or relationships? _____ <i>[also with respect to int'l. business activity?]</i></p>
	<p>Did and do <b>language differences</b> ever influence or effect in any way communication or dealings with foreigners involved in international ventures? _____</p> <p>Why? ... What languages do you conduct international business in? _____</p> <p>Do <b>cultural differences</b> influence or effect in any way your international business activity? _____ Opportunities? _____ Why?</p> <p><i>[E.g. time perception; ways of doing business; customer tastes etc ...?]</i></p> <p>Did <b>misunderstandings</b> or <b>complications</b> ever arise from <b>language</b> or <b>cultural differences</b>? _____ Why? <i>[Do they consider language a barrier?]</i></p>

Do you feel it may be **more challenging** and **demanding** to **conduct business** with certain **countries / cultures** rather than others? \_\_\_\_\_

Why? \_\_\_\_\_ *Give examples* [Do they consider culture a barrier?]

**■ CORE COMPETENCIES**

- Core competencies:**

What do you consider your company's **core strengths** to be?  
... What are you especially good at? \_\_\_\_\_

Where do you feel you might have a **competitive advantage**? \_\_\_\_\_

Where do you feel you **add more value** to your customers (vis competition)?  
[Any resource-based characteristics for sustainable competitive advantage?]

What do you see as **key areas** where your **company may improve**?

- Family business:**

Discuss **3 key strengths**, characteristic of **family businesses**. \_\_\_\_\_

Discuss **3 key challenges**, characteristic of **family businesses**. \_\_\_\_\_

**■ FUTURE DIRECTIONS & WAY FORWARD**

How do you see your **industry** changing / evolving over the **next 10 years**?  
... Why? ... What are the trends?

How do you see your **customers' tastes & needs** changing / evolving over the **next 10 years**? ... Why? ... What are the trends?

What will be **critical for success** in **tomorrow's** competitive market?  
[Internationalisation feature into this? Do not prompt the question initially]

What are key **future opportunities** for your business? \_\_\_\_\_  
Why? ... How might you be able to **take advantage** of such **opportunities**?

What are key **future threats** or **challenges** to your business? \_\_\_\_\_  
Why? ... How might you be able to **safeguard against** such **threats**?

How do you envisage the **domestic market in the future**? (E.g. saturated? etc...)

Do you feel there is **scope for further growth locally**? \_\_\_\_\_

How **strategically important** is your company's **international activity** to your business' future, growth and survival? \_\_\_\_\_

What is your **grand plan / vision** for your company's **international activity**?  
E.g. 10 years from now (20\_\_\_\_) [Growth / status quo / retrench / stop ops ... ?]  
[Increase exports... / FDI / 'mode' change ...etc...?]

Will this be **relatively easy / difficult** to achieve? \_\_\_\_\_ Why? ... How?

What do you perceive as the **key challenges** to achieving this? \_\_\_\_\_  
(E.g. Infrastructure / red tape / organisational issues / market issues / etc...)

Do your **international future plans** build upon **previous international experience** and **international contacts from earlier international activity**? ... How? ... Why?

Do you intend to seek **assistance** in this from **Govt / ME / EU**? (fin / non-fin)  
Why? ... What? ... How will you gain access?

Is it **relatively easy** to access any such assistance? \_\_\_\_\_  
Any comments about such forms of assistance and its availability? \_\_\_\_\_

**■ GENERAL PERFORMANCE**

- Non-financial:**

Domestic objectives, performance?

Internationalisation objectives, performance?

Product quality? Product development? Market share? ... etc ...

[What do they consider good performance? What are their interpretations of success?]

- Financial:** (indicative)

Sales?	(since 2000 – past x yrs)	(overall / local / foreign)	- Stable
Profits?	(since 2000 – past x yrs)	(overall / local / foreign)	- Growing
Costs of production?	(since 2000 – past x yrs)		- Declining
Other and admin. costs?	(since 2000 – past x yrs)		

[Try to push 'delicately' for specific financial figures and indicators]



## Appendix 2d – Update enquiry correspondence

Mr Xxxx Xxxx  
Managing Director  
Address Xxxx [SunDeli]  
Address Xxxx  
Gozo, Malta

PERSONAL

29 October 2008

Dear Xxxx,

### RE: Research update, my family developments! ... and a brief questionnaire (circa 10 minutes)

As usual, I am dropping you a few lines to touch base and keep you updated on how my research is progressing.

Meantime, I trust my communication finds you and your dear ones well, and that the hot summer months offered you some relaxation from a hectic schedule – although I guess it is also coincides with the all important tomato harvest ... so that must have kept you somewhat busy!

#### 1) – Research progress (on Maltese family businesses)

Since we last met I have been pushing forward with my PhD research on *internationally active, established Maltese family businesses*. The fact that I'm researching part-time means that it takes its time – Nonetheless all is progressing well, and I shall be keeping you posted from time to time.

#### 2) – My family business!



On a more personal note ... since we last met, Teresa and I have been blessed with a baby boy! Aimee, our elder daughter is thrilled with our new addition – as are we of course. Eli, has happily provided our household with a constant supply of smiles, cooing, wet gargles and the mandatory endless supply of soggy nappies.

Now 7 months old, Eli has settled down nicely. My wife, Teresa is just as wonderful as ever, and I ... well, let's just say I've aged somewhat. I'm fine really – doing my best to juggle family commitments, a full-time job and my PhD research as best I can: sporting a smile, a greater collection of white hairs and the odd bag under my eyes! As they say, "there's no free bus ride"!

I thought I'd share this with you, given our now established, ongoing rapport!

**3) – Brief update on [SunDeli's] international business activity**

Xxxx, in connection with this research, I would greatly appreciate it if you would kindly take 5 minutes of your time to complete the attached *brief* questionnaire in order to very quickly update me on any general changes in your *international* business activity or strategies since our last meeting, back in September 2007.

For your convenience I am enclosing a stamped and self-addressed envelope to facilitate your returning the completed questionnaire. Alternatively, you might prefer to return the questionnaire via email, or you might even find it more convenient for me to contact you personally to discuss this briefly over the phone or in person – if so, kindly let me know in order to get in touch with you accordingly.

Meantime, should you require any clarification or wish to talk further about anything, kindly do not hesitate to contact me on my mobile phone on 79203018 or my University office on 23402706, or alternatively via email at [nathaniel.massa@um.edu.mt](mailto:nathaniel.massa@um.edu.mt).

It is expected that completion of this *brief* questionnaire should in all take circa **10 minutes** of your time – for which I'd be eternally grateful (*additionally, your kind reply would surely help lessen the rate at which my white hairs are sprouting!*).

Should this work for you, I would look forward to kindly receiving this completed questionnaire by **Thursday 13 November 2008.**

Xxxx, as always I thank you for your continued and valued participation in this important international research on *established, internationally-active family businesses.*

While I look forward to hearing from you, in the meantime, I sincerely wish you and yours, health and success – on all fronts!

Kindest regards,

Nathaniel (Massa)  
*Department of Management*  
University of Malta



*Doctoral Researcher*  
School of Business and Management  
University of Glasgow

Research update letter\_umb\_10\_2008

**Brief update on [SunDeli's] recent international business activity**

**Xxxx**, since our last meeting back in **September 2007**, what recent changes or developments have there been in your *international* business activity or strategy?

In this regard, kindly proceed to review the questions set out below:

**1) Generally, have there been any changes in your overall export or international business activity?**

What? \_\_\_\_\_; Date circa? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**2) Since then, was there any change in the volume of exports (increase or decline) or any new (international) contracts or clients?**

What? \_\_\_\_\_; Date circa? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**3) Since then, did you establish any new important (international?) relationships or contacts – that you consider valuable for your *current* or *future* international business activity?**

What, Who and Why are they important? \_\_\_\_\_  
\_\_\_\_\_

Where did you meet or how did you establish contact? \_\_\_\_\_  
\_\_\_\_\_

Was this rapport est. through some other contact / existing relationship? \_\_\_\_\_

**4) Since then, did you start exporting to any new countries? (... Or have you maybe acquired new clients in countries that you already export to?)**

Which, What? \_\_\_\_\_; Date circa? \_\_\_\_\_  
\_\_\_\_\_

**5) Since then, did you stop exporting or cut down your exports to any country that you were already exporting to?**

Which, Why? \_\_\_\_\_; Date circa? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**6) Did you set-up shop or invest in any sort of physical presence (e.g. showroom, retail outlet, production or processing facilities etc...) in any foreign country?**

What? \_\_\_\_\_; Date circa? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**7) Did you maybe strike any strategically important collaborative ventures or alliances (e.g. with foreign companies, agencies, suppliers, manufacturers, distributors, sources of knowledge or expertise etc...) in order to spur your international business activity?**

What? \_\_\_\_\_; Date circa? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**8) Is there any other information related to your *current* international business activity or *future* international prospects that you'd like to comment further about and share?**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**NOTE:** It would be greatly appreciated if you would kindly return this completed questionnaire by DATE.

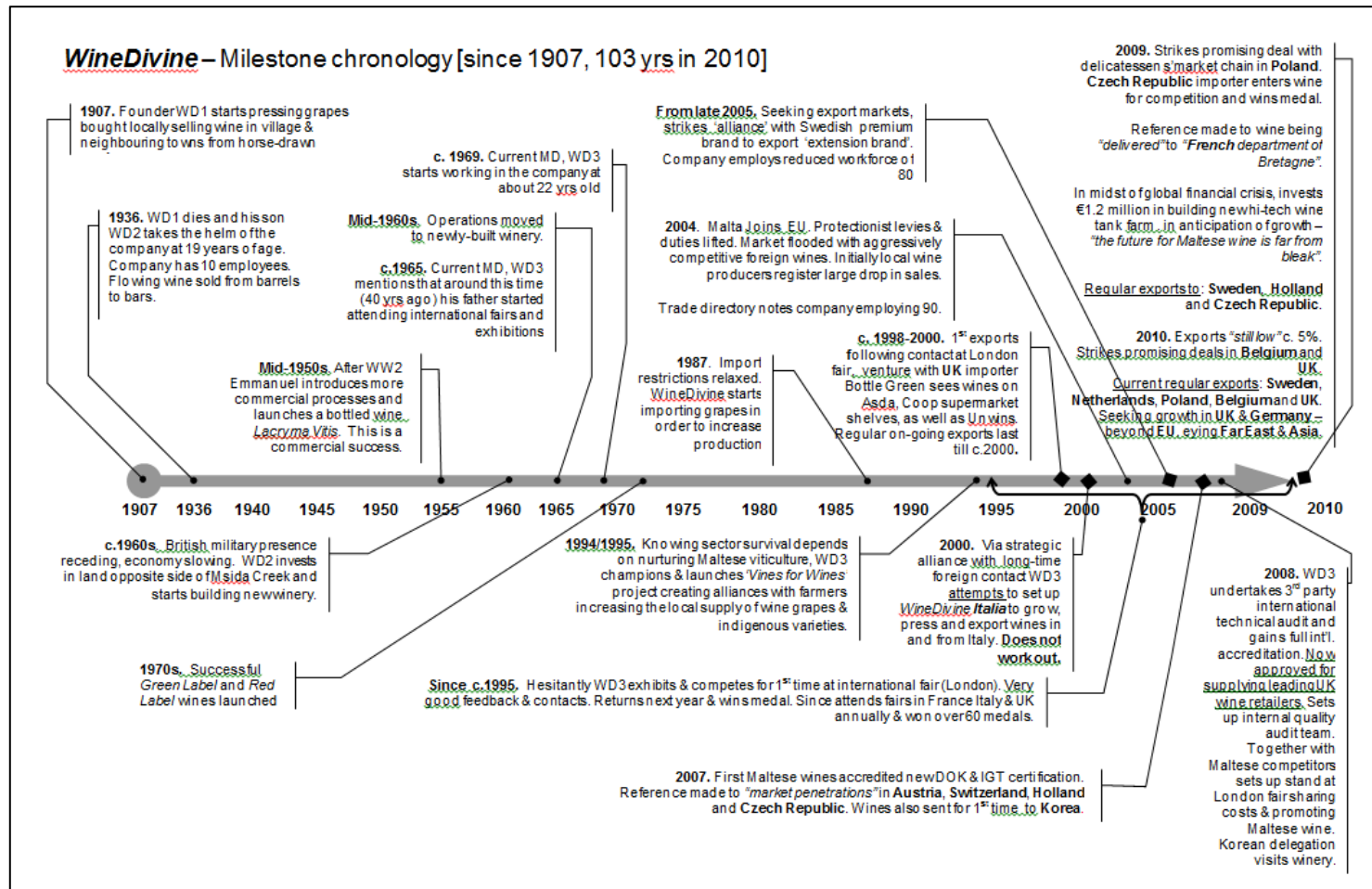
A stamped and self-addressed envelope is provided for this purpose [Addressed: 33 Ċettina, Triq in-Nafra, San Pawl tat-Tarġa, Naxxar, NXR 1211]. Alternatively, you may wish to send the questionnaire via email at [nathaniel.massa@um.edu.mt](mailto:nathaniel.massa@um.edu.mt). Should you on the other hand prefer me to contact you in order to *briefly* discuss these questions over the phone or personally – kindly let me know that I may be able to contact you accordingly.

I can be contacted directly, on my mobile phone on 7995 0202 or at my University office on: 2340 2706.

Kindest regards.

Followed by further clarification and probing enquiries, face-to-face or via phone.

## Appendix 3 – Case timeline (sample: WineDivine)





# Appendix 4 – Case internationalisation ACAP analytic table (sample excerpt: SunDeli)

ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
<p>→ Early, isolated indirect exporting stint - British Merchant Navy</p> <p>Isolated regular activity sustained for c. 12-16 yrs. Subsequent int'l activity c.40 yrs later)</p> <p><b>Ext situation &amp; contextual conditions</b> Malta is a British colony. Malta's Grand Harbour is <i>British Navy's</i> base. Much military and <i>Merchant Navy</i> activity in Malta. Essentially substantial part Malta's economic activity related to <i>British</i> military presence on island. Generally, domestic manufacturing activity small scale.</p> <p><b>Mobilised prior knowledge and decision-making dynamics</b> Relationships with distributors and established network distributing <i>Kunserve</i> to grocers for sale throughout Malta and Gozo. Also contacts with <i>British</i> forces and <i>Merchant Navy</i> stationed in Malta.</p> <p><b>Organisational processes and mgt structure &amp; HR:</b> Organisational processes and structure organic and rudimentary. Centrally and directly managed.</p>	<p>Always alert and wheeling and dealing as an "akkompratur" – trading across Malta and Gozo, SD's father was in the know – with many contacts.</p> <p>While his grandfather (essentially the founder of the family business' operations) had been conducting similar operations, SD's father and his brothers had set up themselves as an entity in order to also exploit potential opportunities arising from <i>British</i> military presence and the <i>Merchant Navy</i> for export [Int 1, 2007].</p> <p>Established contacts with the <i>British</i> forces and the <i>Merchant Navy</i> stationed in Malta were very important.</p> <p>In those days no government agency support <i>per se</i> existed directly promoting export initiatives.</p>	<p>Assimilation of accumulated information and knowledge on the potential opportunity was 'organically' assimilated by JM's father and brothers.</p> <p>Deliberation and transformation of this potential opportunity into their first doable substantial business venture involving exports, occurred through direct communication and negotiation between both parties.</p>	<p>☞ → In 1955, family firm was 39 yrs old*</p> <p>-----</p> <p>[1955] Founder* (and SD's father) invests in machine and production line that packs tomato concentrate paste ('<i>kunserve</i>') in aluminium tubes. Exports of <i>kunserve</i> in aluminium tubes to <i>Britain</i> start (supplying <i>British Merchant Navy</i>). [Int 1, 2007; Co. site / TOM SC 2008].</p> <p>(lasts some 12-16 years till early 1970s when UK's joining the EEC renders SunDeli's exports to the UK uncompetitive. Also due to rapid dismantling of <i>British</i> military presence following independence [The Age 1972; TOM SC 2008; Orizzont 2009; TOM 2009].</p> <p>-----</p> <p>→ Role &amp; importance of founder (and MD) in seeking, recognising, orchestrating and exploiting international opportunity and orchestrating int'l business:</p> <p>●●●●● [○]</p> <p>EXCEEDINGLY IMPORTANT</p>	<p>- Performance: (gen / int'l). Family business outwardly internationalised via substantial exports for the 1st time. Increase in sales and revenues. Better utilisation of investment and manufacturing capacity.</p> <p>- Newly established or reinforced social contacts and links: ● Europe: <i>Britain</i></p> <p>- Experience, knowledge and internationalisation conduciveness: Experience and an extent of confidence gained from exporting their products to <i>Britain</i>. Also experience in higher capacity manufacturing.</p> <p><b>related and ensuing investments and innovation</b> [1950s] Investment and process</p>

ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
<p>hands-on by founder* (mainly SD's father) - no professionalisation in management roles.</p> <p>-----</p> <p><b>Motivations:</b> Once embarked upon tomato processing (<i>Kunserve</i>), beyond the domestic market the family business was intent of targeting export opportunities - exports to the UK. Manwel (SD's father) and his brothers' "target was not [solely] domestic - because practically all houses had a garden in which tomatoes were grown, most people made their own <i>kunserve</i>. The brothers produced <i>kunserve</i> for the <i>British</i> Services' personnel and the <i>Merchant Navy</i> - the Mediterranean was hub of activity and the <i>British</i> Empire was at its peak." [TOM 2009].</p>			<p>→ Role &amp; importance of contacts &amp; relationships in international opportunities and facilitating int'l business:</p> <p>●●●●● [○]</p> <p>EXCEEDINGLY IMPORTANT</p>	<p>innovation: Investment in new equipment that packaged <i>kunserve</i> in aluminium tubes. Increases higher capacity production [Co. site, TOM SC 2008].</p> <p>Product innovation: Especially for this export business, modifies its product offering and starts producing <i>kunserve</i> in aluminium tubes. Enabling their product to travel and preserve better.</p> <p>[1960s] Process and product innovation: Starts packaging and selling <i>kunserve</i> in individual tins. Great boon to housewives who used to have it dispensed by weight at their grocer [TOM SC 2008].</p>
<p>→ Any preliminary tentative early int'l dabbling</p>				
<p><b>Ext situation &amp; contextual conditions</b> The general sentiment was that the Maltese economy had to open itself more - early days in the liberalisation drive, heralding increasing foreign competition on domestic soil in the years to come. Indeed Malta had already applied to join the EU in the early 1990s. While the EU application was temporarily suspended for 2 years from 1996, when the opposition briefly returned to government, policy and business sentiment at the time</p>	<p>Anticipating future liberalisation as well as having just invested in a new factory and capacity, SD* was seeking contacts and business opportunities to go international.</p> <p>Information and knowledge on such potential opportunities were also coming from links and contacts with government agencies promoting business and trade with the <i>Maghreb</i> and the <i>Middle East</i> – as well as the odd trade delegation. Other information was also gained from membership to the <i>Malta Chamber of Commerce</i>.</p>	<p>Again, information and knowledge pertaining to prospective, potential international business opportunities, was generally 'organically' assimilated by SD* himself in entrepreneurially making sense on the potential value and viability of these business opportunities.</p> <p>Internally, SD* had recourse to further advise from his e.g. accountant and lawyer.</p> <p>Again SD* was central in all aspects of eventually dealing with and negotiating – sealing and ad hoc export deals with these clients –</p>	<p>☞ → In 1996, family firm was 80 yrs old.</p> <p>-----</p> <p>[1996] First international export client in <i>Saudi Arabia</i> [MBW 2001].</p> <p>[1997] Exports 3.5 million bottles of ketchup to <i>Kuwait, Dubai, Saudi Arabia, Tunisia</i> ... as well as <i>Russia</i> and <i>Ukraine</i> [DOI 1998].</p>	<p>- Performance: (gen / int'l). First inroads into internationalisation for family business' recent history and for this generation. Boost in sales and revenue performance. 3.5 million bottles of ketchup exported [DOI 1998].</p> <p>- Newly established or reinforced social contacts and links: ● Africa: <i>Tunisia</i> ● Mid East &amp; Asia: <i>Kuwait, Dubai,</i></p>



ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
<p>were nonetheless geared towards restructuring and bracing for future competition in the face of increasing liberalisation.</p> <p>Government was also promoting export activity to 'non-traditional' export markets such as <b>Northern Africa</b> and the <b>Arab Gulf</b> (i.e. Egypt, Israel, Jordan, Saudi Arabia, Kuwait, Dubai and the Emirates) [DOI 1998].</p> <p><b>Mobilised prior knowledge and decision-making dynamics</b></p> <p>Eying international growth opportunities (in knowledge that gradually small protected domestic market will be fully liberalised and protectionism non-existent) - decided to focus limited resources and drawing on their competences, specialise in tomato ketchup.</p> <p><b>Organisational processes and mgmt structure &amp; HR:</b></p> <p>Just reallocated to a new, modern purpose built factory. Management direction and strategy reside centrally with SD<sup>3</sup>. Owner-MD. With growth in sights, production capacity now available.</p> <p>Family business employs 102 FT employees [DOI 1998].</p> <p>-----</p>	<p>It is mainly SD<sup>3</sup> that is directly involved in such prospecting information and knowledge acquisition.</p>	<p>transforming the information and knowledge into viable business propositions eventually taken up.</p>	<p>-----</p> <p>→ Role &amp; importance of <b>owner / MD</b> in seeking, recognising, orchestrating and exploiting international opportunity and orchestrating intl business:</p> <p>●●●●● [○]</p> <p><b>EXCEEDINGLY IMPORTANT</b></p> <p>→ Role &amp; importance of <b>contacts &amp; relationships</b> in international opportunities and facilitating intl business:</p> <p>●●●●● [○]</p> <p><b>EXCEEDINGLY IMPORTANT</b></p>	<p><b>Saudi Arabia, Russia and Ukraine.</b></p> <p>- <b>Experience, knowledge and internationalisation conduciveness:</b></p> <p>Accumulates experience in exporting and familiarity with cultural implications on conducting international business (extent of cultural similarity among initial export destination countries).</p> <p>Also boosts confidence. Indeed, by <b>1998</b>, SD<sup>3</sup> was "aiming to be exporting around 1ml, 000, 000 (circa €2,330,000) worth of ketchup products a year" [DOI 1998; EMCS 1998].</p> <p>At this stage, SD<sup>3</sup>, now cognisant of the competition and international growth opportunities, considers his family business "one of five European manufacturers specializing in ketchup production", as being "among the world's most competitive in the tomato ketchup manufacturing sector" [DOI 1998].</p> <p><b>1998</b> Wins award for <i>Achievement in Industry</i>. This further boosts confidence in prospecting international export activity.</p> <p><b>related and ensuing investments and innovation</b></p> <p><b>[c.1998] Process Innovation:</b> Continues drive seeking quality improvements and related</p>

ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
<p><b>Motivations:</b></p> <p>New factory &amp; investment in equipment - capacity for production growth coupled with expected future competition in small saturated domestic market.</p> <p>Immediately upon moving set up export department and proactive stance adopted. "we started seeking overseas markets for our products in 1995". [SC 2008; TOM 2009].</p> <p>→ 1<sup>st</sup> regular, sustained internationalisation venture</p>				<p>investments specifically to strengthen its presence in international markets, competitiveness and eligibility for intl opportunity exploitation [DOI 1998].</p>
<p><b>Ext situation &amp; contextual conditions</b></p> <p>At the time, given that a domestic ketchup manufacturer existed, local ketchup was to an extent protected through the levying of import duties on imports.</p> <p>Yet progressive liberalisation in anticipation of possible EU accession was already mooted.</p> <p><b>Mobilised prior knowledge and decision-making dynamics</b></p> <p>An extent of prior experience conducting international business / exporting had already been gained through previous, recent exporting activity – especially with respect to procedures as well as dealing with foreign clients.</p>	<p>Information about this international business opportunity <i>per se</i> arose from a combination of public knowledge and contacts – in the context of a relatively protectionist environment conducive to this venture.</p> <p>News of <i>McDonald's</i> starting operations in Malta, common knowledge on such a small island. As expected, the franchisee was a well-known entrepreneur and industrialist – invariable contacts among the small business community existed.</p> <p>The Malta context at the time 'protected' ketchup from foreign imports – making it more cost effective for the franchisee to source the product locally.</p> <p>Information access and further knowledge on this lucrative potential deal relied on contacts. "contacts were very important in securing this</p>	<p>Prior to sealing the international business deal much interaction and collaboration with <i>McDonald's</i> was required. New information on processes and technical product requirements were acquired and assimilated, integrated into a new proposed product at a given cost - which given acceptance by all parties led towards the realisation and exploitation of this international business opportunity. <i>McDonald's</i> regularly sent people over from abroad to conduct "regular audits and checks" [ph int 2, 2010].</p> <p>The initial idea was to supply the domestic <i>McDonald's</i> franchisee with ketchup ... "yet we persisted in not wanting to supply only the domestic franchisee ... <i>McDonald's</i> have stringent procedures, audits etc ... we became certified, official <i>McDonald's</i> suppliers for ketchup ... and we started exporting our ketchup internationally ... this opportunity opened the door ... " to</p>	<p>☞ In c.1997<sup>+</sup>, family business was 81 yrs old. GAP: 2 yrs since preliminary, tentative 1<sup>st</sup> dabbling in intl business.</p> <p>-----</p> <p>[c.1997:] "... and we started exporting our ketchup internationally ... this opportunity opened the door ... we started supplying ... <i>McDonald's</i> have a strange regional market structure ... we started supplying the Southern Europe region with <i>McDonald's</i> ketchup ... this included the Mediterranean ... " [ph int 2, 2010].</p> <p>"<i>Magro Brothers</i> have already discovered that to continue to develop their markets they must export, which means competing with the 'big boys.' [SunDal] is a worldwide supplier for <i>McDonald's</i> ketchup. The company's competitors are major companies in Spain, Germany and the United Kingdom. [SD<sup>3</sup>], managing director, finds that working with a large,</p>	<p>- <b>Performance:</b> (gen / intl).</p> <p>International business growth and increase in sales revenues – sustained over a period of some 10 years [Ph int 2, 2010].</p> <p>- <b>Newly established or reinforced social contacts and links:</b></p> <ul style="list-style-type: none"> <li>• <b>Europe:</b> "Southern Europe" region</li> <li>• <b>Africa:</b> <i>McDonald's</i> 'S. Europe' region includes <b>North African</b> countries bordering Mediterranean – yet not dealt with directly.</li> </ul> <p>- <b>Experience, knowledge and internationalisation conduciveness:</b></p> <p>This venture resulted in <b>important</b> learning experience – as well as directly "opening the door" to</p>



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<p><b>Organisational processes and mtg structure &amp; HR:</b></p> <p>SD<sup>3</sup> had just moved to a new, large, purpose-built factory – a huge investment. Making new production capability and capacity available.</p> <p>-----</p> <p><b>Motivations:</b></p> <p>SD<sup>3</sup> had long been projecting taking his family business up to new competitive levels and preparing for liberalisation and further EU integration. His huge investment in a brand new factory and facilities was the result. SD<sup>4</sup> had also repeatedly acknowledged that in the face of new (foreign) competition, given his scale of operations, growth would primarily need to come from beyond Malta's shores.</p> <p>This was also coupled with the newly available "state of the art" manufacturing technology and excess capacity (at that stage, SD<sup>3</sup> had commented: "we started seeking overseas markets for our products" [SC 2008]) – as well as an extent of protectionism that resulted in the local franchisee entertaining the potential business opportunity in the first place. [various sources inc. ph int 2, 2010].</p> <p>→ 2<sup>nd</sup> regular, sustained internationalisation venture</p>	<p>International business opportunity" [ph int 2, 2010].</p>	<p>international exports [ph int 2, 2010].</p>	<p>international firm such as McDonald's, which has helped [SunDai] become more quality oriented, benefit the company's long-term success ... " [Washington Post 2000].</p> <p>SD<sup>4</sup> stresses that "contacts were very important in securing this international business opportunity" [ph int 2, 2010].</p> <p>-----</p> <p>→ Role &amp; importance of founder (and MD) in seeking, recognising, orchestrating and exploiting international opportunity and orchestrating int'l business:</p> <p>●●●●● [O]</p> <p>EXCEEDINGLY IMPORTANT</p> <p>-----</p> <p>→ Role &amp; importance of contacts &amp; relationships in international opportunities and facilitating int'l business:</p> <p>●●●●● [O]</p> <p>EXCEEDINGLY IMPORTANT</p>	<p>subsequent lucrative export contracts with large supermarkets [ph int 2, 2010].</p> <p>"The production for McDonald's has brought with it quality standards which are expected by this chain. It has built a new culture within our company" [MBW 2001].</p> <p>"working with a large, international firm such as McDonald's, which has helped [SunDai] become more quality oriented, benefit the company's long-term success ... " [WP 2000].</p> <p><b>related and ensuing investments and innovation</b></p> <p>[c. 1997:] Process Innovation: new developments relating to manufacturing procedures and quality levels – in line with enforced McDonald's technical requirements.</p> <p>[c.1997:] Product Innovation: Development on ketchup to new exacting technical specifications (as required by McDonald's).</p> <p>[c.1996/1997] Human Capital &amp; organisational / strategic innovation: Strategically starts targeting international markets and sets up Export Department.</p>
<p><b>Ext situation &amp; contextual conditions</b></p>	<p>While an element of luck or circumstance played a part in securing this deal, SD<sup>3</sup>'s stance was</p>	<p>Past experience, especially with McDonald's, as a big player, played a very important role in SD<sup>3</sup>'s sizing out</p>	<p>☞ → In 1999, family business was 83 yrs old.</p>	<p>- Performance: (gen / int'l). Fast growth in exports, resulting in</p>

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<p>Now local manufacturing in general ramping up for onslaught on competition anticipated from upcoming EU accession in 2004. Following brief stall, national drive towards EU accession in full swing again.</p> <p>Incidentally, Asda bought by US Wal-Mart, who have a particular head office in the same location as another McDonald's office: "we were suppliers to McDonald's with an established relationship ... meantime, Asda was bought by Wal-Mart who had their head offices in the same location as McDonald's ... it think it was Pittsburgh ... contacts were very important, always ... and trust ... " [ph int 2, 2010].</p> <p>From an international sector perspective, ketchup is "a club product", controlled by few large players – and hard to get into [ph int 2, 2010].</p> <p><b>Mobilised prior knowledge and decision-making dynamics</b></p> <p>In case of Asda, experience from McDonald's was a very big and "important learning opportunity" – gaining experience &amp; know-how on stringent manufacturing &amp; quality requirements.</p> <p>From the foreign client (Asda) perspective, decision making dynamics involved SunDell's raised profile and 'legitimacy' as a certified international supplier to McDonald's – knowledge gained through contacts and links between individuals at both</p>	<p>proactive – continuously seeking international growth opportunities: "We aimed for the largest retail chains and have been able to persuade these large companies to buy from us" [MBW 2001].</p> <p>Coincidentally, "Asda was bought by Wal-Mart who had their head offices in the same location as McDonald's ... it think it was Pittsburgh ... contacts were very important, always ... and trust ... as a certified McDonald's supplier I had the credentials ... they talked together ... they are not direct competitors ... " [ph int 2, 2010].</p> <p>Information and knowledge acquisition of this lucrative potential international opportunity also importantly depended on contacts – and linkages established through their established relationship with McDonald's: "definitely contacts were very important ... it was our business with McDonald's that opened the door to this opportunity ... contacts were very important, always ... and trust" [ph int 2, 2010].</p> <p>"... through McDonald's they knew where [little] Malta was on the map, and they got to know about us - better ... they could look at us with credibility ... " [ph int 2, 2010].</p>	<p>the potential business opportunity, and negotiations with Asda. This experiential know-how that was absorbed by SD<sup>4</sup> and his family business was vital.</p> <p>Also, the ensuing, newly formed and established links and contacts with Asda, per force led to collaboration and interaction prior to sealing the deal. Although McDonald's international supplier status gave SD<sup>3</sup>'s family business "eligibility and recognition, it opened the door ... Wal-Mart still had to do their own homework ... coming over to check things etc ... " and discuss exacting product and technical requirements [ph int 2, 2010].</p> <p>Also, it was necessary to conform to "British Retail Consortium standards" to supply big UK operators: "To do this we have had to improve our quality standards and conform to the British Retail Consortium (BRC) technical standards." [MBW 2001]. This resulted in the family business assimilating more knowledge – critical to conducting more lucrative international business in the UK and opening the door to additional opportunities.</p>	<p>-----</p> <p>[1999 -] Seals lucrative export deal supplying UK supermarket giant Asda with own-label ketchup.</p> <p>-----</p> <p>→ Role &amp; importance of founder (and MD) in seeking, recognising, orchestrating and exploiting international opportunity and orchestrating int'l business:</p> <p>●●●●○ [O]</p> <p>VERY IMPORTANT</p> <p>-----</p> <p>→ Role &amp; importance of contacts &amp; relationships in international opportunities and facilitating int'l business:</p> <p>●●●●● [O]</p> <p>EXCEEDINGLY IMPORTANT</p>	<p>substantial sales and revenue increases:</p> <p>SD<sup>4</sup>: "Over the past five years [i.e. since 1st exports in 1996] the company has managed to double the value of its exports each year" [MBW 2001].</p> <p>UK - Largest export market.</p> <p>Holland - second largest market [MBW 2001].</p> <p>2001. Wins the METCO 'Most Consistent Exporter' award [TBT 2001].</p> <p>- Newly established or reinforced social contacts and links:</p> <p>Relationship with Asda strong resulting in SD<sup>4</sup> supplying the company with further products. More than 10 years later, in 2010, export business to Asda still strong and on-going.</p> <p>Working relationships, now based on trust and legitimacy and track record lead to further international business with existing supermarket corporate clients e.g. see below Asda (UK).</p> <p>Also, contacts and linkages established with other important entities such as the "British Retailer Consortium" etc...</p> <p>• Europe: UK (EU)</p>

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<p>companies [phint2, 2010].</p> <p><b>Organisational processes and mgt structure &amp; HR:</b> Even more that the physical and processual upgrades brought about by the <i>McDonald's</i> business venture – the 'credibility', "credentials" and 'legitimacy' brought about by <i>McDonald's</i> international supplier status resulted in an instantly raised profile and eligibility as a potential supplier to the other "big boys" – a "reputation" placing them on the radar of other large international supermarkets [ph int2, 2010].</p> <p>"... definitely my status as an international supplier to <i>McDonald's</i> gave me eligibility and recognition, it opened the door ..." [phint2, 2010].</p> <p>-----</p> <p><b>Motivations:</b></p> <p>"We have been preparing for this day [EU accession] for 15 years. We built a new plant in Xevkija because we realised that we could not play it safe and that we had to venture into the big world outside Malta if we wanted to succeed. We had to invest and expand significantly because we knew that one day we would lose our little market in Malta, no matter how dear it remains to us. Our little market in Malta has sustained us for years, but we knew this would change and so in the late 1980s we decided to invest in a new factory. We began operations in 1995 and</p>				<p>• <b>Africa: North Africa</b></p> <p>- Experience, knowledge and internationalisation conduciveness:</p> <p>Confidence boosted by successive lucrative international business deals – starting with <i>McDonald's</i> and then striking success with large UK supermarkets (requiring BRC certification etc...). SD<sup>2</sup> proactively and continually seeking potential international business opportunities. Enterprising SD<sup>2</sup> sets high aims for international growth: "the company exports to 20 different countries on a regular basis but there is room for enormous growth" [MBW 2001].</p> <p><b>related and ensuing investments and innovation</b></p> <p><b>Process Innovation:</b> "To enter the UK market we needed certification for our factory because we are producing sauces under their own label. British Retail Consortium standards required to supply big UK operators. To do this we have had to improve our quality standards and conform to the British Retail Consortium (BRC) technical standards".</p> <p>Importantly this opened the door to new subsequent international business opportunities with large UK-based supermarket chains.</p>

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<p>started exporting" [MBW 2004].</p> <p><i>McDonald's</i> international supplier status buoyed SD<sup>2</sup>'s confidence in pursuing further large international opportunities – and their capabilities in "competing with the big boys" [Washington Times 2000].</p> <p>Now with knowledge, experience and processes in place, the family business proactively sought further international growth by targeting large, established supermarkets as potential own label clients - given the mature and established European market for ketchups: "We aimed for the largest retail chains and have been able to persuade these large companies to buy from us" [MBW 2001].</p>				<p>[2005] Process innovation and product development: Develops and starts producing ready-to-eat jellies for Asda (UK) [MSA 2007].</p>
→ Subsequent int'l ventures & other related				
<p><b>Ext situation &amp; contextual conditions</b></p> <p>In the international markets SunDeli competes in:</p> <p>"... everybody is trying to compete with the whole world ... and the pressures are ... phenomenal ... Globalization means it's the survival of the fittest – that's what it is. And really we are struggling – because ... our wages [costs] are going up, up, up, up, up, costs of production are going up, ... and ... we have to compete – and our clients are very demanding clients, very demanding – they are by choice like that ... because we could have gone into other sectors..."</p>	<p>Information and knowledge acquisition gained proactively by seeking opportunities – SD<sup>2</sup>: was clear in communicating that in this sector you have to do the chasing (i.e. You have to be proactive) ... "no, no ... you keep knocking and knocking ... knocking on doors ... then when an opportunity arises you have to be ready ... wherever it comes from ... to jump on it ... yes ... you need to be vigilant ... to seize it ..." ["tahtala"] ... half the game is being prepared ... [ph int2, 2010]</p> <p>Vigilant and proactive in approach always actively seeking international opportunities. Important information and knowledge on market trends, and</p>	<p>Experience, and contacts were very important in business facilitation. Experience and knowledge assimilation concentrated on owner-Managing Director.</p> <p>Especially in the case of the UK supermarket deals, <i>McDonald's</i>'s and Asda international business generated 'legitimacy' and opened the door to subsequent deals with giant supermarkets <i>Morrisons</i> and <i>Sainsbury's</i>.</p> <p>Also conformance to BRC standards rendered family business 'eligible' as a supplier to these big lucrative UK</p>	<p>☞ → In 2001, family business was 85 yrs old.</p> <p>-----</p> <p>[c.2001] Secures lucrative international business deal with large supermarket <i>Morrisons</i>, 4<sup>th</sup> largest UK supermarket chain – commissioned for the manufacture and export of own-brand ketchup.</p> <p>----- = -----</p> <p>[c.2001] "also managed to penetrate the EU market. SD<sup>2</sup>: "We are now exporting</p>	<p>- Performance: (gen / int'l).</p> <p>Continued growth in international scope and exports.</p> <p>... "We are in three of the top five supermarkets in the UK including Asda (now under Wal-Mart) and Sainsbury. He said the company has proved it can be a trustworthy and reliable partner" [MBW 2001].</p> <p>2006. Present in 4 EU markets. UK largest market, supplying 3 of largest 5 chains:</p> <p>- Sainsbury's, - Asda and - Morrisons. [SBS Radio, Australia 2006].</p>

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<p><b>Mobilised prior knowledge and decision-making dynamics</b></p> <p>SD* specifically underlined that the number 1 requirement in order to succeed and win such new international business is: "experience" (know-how; technical knowledge / relational social knowledge / and internationalisation knowledge) [ph int 2, 2010]</p> <p>Experience from previous large international business deals with large corporate clients namely <i>McDonalds</i> and <i>Asda</i> etc....</p> <p>Also know-how and processes in place including BRC and ISO standards and procedures.</p> <p><b>Organisational processes and mgt structure &amp; HR:</b></p> <p>2007. Currently employs c.170 – 180 FT employees and operates from 3 factories [Int 1, 2007; ME 2007; MSA 2007; CSR speech 2007].</p> <p>Management now more formalised greater emphasis given to human capital, and professionalisation. Some management training organised e.g. Management team flown to <i>Germany</i> for customised training and strategy formulation sessions. Nonetheless SD* centrally in charge of strategic vision and direction - personally driving internationalisation initiative</p>	<p>opportunities derived from contacts and established relationships</p> <p><b>Attending various fairs:</b></p> <p>Fairs and exhibitions are considered very important for acquiring market and competitor intelligence and learning of new potential international opportunities: "we attend international fairs, attendance at these fairs is very important [for new international business opportunities and growth]..." [ph int 2, 2010].</p> <p>E.g. in just one year:</p> <p>2007. Exhibits at PLMA's 2007 "World of Private Label" International Trade Show in Chicago (USA) presenting its pasta sauces. This fair attracts thousands of buyers, representing the world's supermarkets, wholesalers, importers and exporters. [Co. site].</p> <p>2007. Attends IFE 2007 (International Food &amp; Drink Event), London (UK). Fair focussing on innovation [Co. site; ife.co.uk].</p> <p>2007. Participates at ANUGA international fair in Cologne (Germany). A key trade / export fair [Co. site; ife.co.uk].</p> <p><b>Additional contacts established and exposure:</b> E.g.:</p>	<p>opportunities.</p> <p>Also in the case of <i>Savina</i> brand franchising in e.g. <i>Germany</i>, role of contacts and trust very important. Contacts and eventual relationship established with Maltese lady living in <i>Germany</i> crucial for further expansion there [Int 1, 2007; TOM 2007 (1); TOM 2007 (2); ME 2007].</p> <p>For UK franchise, relationship with UK distributor <i>Clark Foods</i> important.</p> <p>Essentially SD* insists secret of success "adapting to circumstances" [TOM 2009].</p>	<p>to <i>Greece, Italy, the Netherlands, the UK and Ireland on a regular basis</i>" [MBW 2001].</p> <p>At same time (2001) family business exporting to several Gulf States (e.g. <i>Dubai, Saudi Arabia, Kuwait</i> etc...) and <i>North Africa</i> [MBW 2001].</p> <p>----- = -----</p> <p>[c.2002] Secures lucrative international business deal with large supermarket <i>Sainsbury's</i>, 3<sup>rd</sup> largest UK supermarket chain – commissioned for the manufacture and export of own-brand ketchup.</p> <p>----- = -----</p> <p>[2007] Sets up premium gastronomic brand <i>Savina</i> (2006) – their own brand for delicatessen premium products. Targeted at airports &amp; export. In 2007 establishes its first international franchise in <i>Germany</i>.</p> <p>Eventually, franchised shops and outlets present in <i>UK and Germany: Frankfurt</i> – doing well &amp; 2nd <i>German</i> outlet [Int 1; see also* also ME 2007].</p> <p>----- = -----</p> <p>[2010]. Opened second <i>Savina</i> (franchised) outlet in <i>Germany</i> in <i>Bad Momburg</i> close to <i>Frankfurt</i> and</p>	<p>-----</p> <p>2007. At interview date:</p> <ul style="list-style-type: none"> <li>Employs c.160 FTE [Int 1, p. 21].</li> <li>About 65% of production is exported.</li> <li>"18% of the market for UK table sauces".</li> <li>"48% of the table sauces* market in <i>Ireland</i>".</li> <li>"3<sup>rd</sup> largest in <i>Italy</i> – for table sauces".</li> </ul> <p>[* Ketchup, brown sauce, bbq sauce etc...]</p> <ul style="list-style-type: none"> <li>UK biggest market (60%), followed by <i>Ireland</i> (18%), <i>Italy</i>, ... <i>Tunisia, Libya</i> etc... [Int 1, p. 38-39].</li> <li>Export sales growth circa avg 25% p.a. [Int 1, p. 40].</li> </ul> <p>"[SunDeli] export strategy resulted in a 25 per cent year-on-year increase since 1996" [TOM – Business 2007].</p> <p>Exports 4 million pots of ready jelly to UK market p.a. [Int 1, 2007].</p> <p>Exports "about 65%" or "two thirds of production" [Int 1, 2007; TOM Bus 2007, CSR Speech 2007, MSA 2007].</p> <p>-----</p> <p>2008. Company exported 8,000 tons of ketchup to <i>Ireland</i> and UK market... also exports to <i>Italy, Germany, Cyprus, Tunisia, Libya</i> and <i>Morocco</i>. [TOM 2009]</p> <p>-----</p> <p>2009. "The company, which boasts more</p>

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<p>hands-on.</p> <p>Since 2005/2006 employs 5 FT employees engaged in R&amp;D [Int 1 2007].</p> <p>-----</p> <p><b>Motivations:</b> Apart from SD*'s entrepreneurial nature, confidence boosted by previous successes and founded on experience drive a proactive internationalisation initiative rooted in potential growth beyond Malta's shores.</p>	<p>2008. Participates at <i>BBC Good Food Show</i> in both London and Birmingham (UK) [Co. site].</p>	<p><i>Germany, Cyprus, Tunisia, Libya</i> and <i>Morocco</i>. It is considering the <i>Scandinavian</i> market, particularly <i>Sweden</i> and <i>Denmark</i>, and will also be diversifying into retail packaging for the catering sector". [TOM 2009].</p> <p>"Illum [SunDeli] jespportav 60% ta' dak kollu li jipproducu (l-akar ketchup u table sauces), prinzipalment lejn <i>I-Ilanda, l-Ingilterra, l-Italia, Cipro, il-Grecja u l-Afrika ta' Fuq</i>. Il-kompanija ttradem 1.40 mil u topera minn fabbrika fit-<i>Levinkja skoni l-oghla livelli Ewropej</i>" [Orizzont 2009].</p> <p>-----</p> <p>2010. New lucrative deal with UK <i>Red Lion Foods</i> – who supply major UK supermarkets. Still supplying <i>Asda</i>. Not supplying <i>Sainsbury's</i> and <i>Morrisons</i> any more (yet indirectly via <i>Red Lion</i>).</p> <p>Exports still constitute more than 60%. Major countries regularly exported to in rank order:</p> <p>1: <i>Ireland</i>, 2: <i>UK</i>, 3: <i>Italy</i>, 4: <i>Greece</i>, 5: <i>Belgium</i>, 6: <i>Cyprus</i>. [ph int 2, 2010].</p> <p>-----</p> <p>- Newly established or reinforced social contacts and links:</p> <ul style="list-style-type: none"> <li>Europe: <i>Ireland (EU), UK (EU), Italy (EU), Greece (EU), Belgium (EU), Cyprus (EU), Holland (EU), Germany (EU), Sweden (EU), Denmark (EU)</i>.</li> <li>Africa: <i>Tunisia, Libya, Morocco</i></li> </ul>	<p><i>Oberusel</i>. Outlet is dedicated to <i>Savina</i>. <i>German</i> couple is supported by <i>Maria Galea</i>, <i>SunDeli</i> franchise master for the <i>German</i> territory. [Co site 2010].</p> <p>----- = -----</p> <p>[2010] October. <i>Red Lion Foods</i>, UK food brand retailing its products through large supermarkets (e.g. <i>Tesco, Coop</i> and <i>Sainsbury</i>) in support of British military related charities, appointed <i>SunDeli</i> to produce its mainstream ketchup product. <i>Red Lion</i> mentioned "Hundreds of different ketchup bottles were tried and tested and the [SunDeli] product was, according to <i>Mr Gidden</i>, undoubtedly the best one can find in <i>Europe</i>".</p> <p>Thanking <i>Mr Gidden</i> for his confidence in <i>Malta</i> and praise for his ketchup, SD* admitted that this new venture was of utmost importance to his company, as well as for <i>Malta</i> and <i>Gozo</i> [TOM 2010].</p> <p>-----</p> <p>→ Role &amp; importance of founder (and MD) in seeking, recognising, orchestrating and exploiting international opportunity and orchestrating int'l business:</p> <p>●●●●● [O]</p>	<p>than 70 products, also exports to <i>Italy, Germany, Cyprus, Tunisia, Libya</i> and <i>Morocco</i>. It is considering the <i>Scandinavian</i> market, particularly <i>Sweden</i> and <i>Denmark</i>, and will also be diversifying into retail packaging for the catering sector". [TOM 2009].</p> <p>"Illum [SunDeli] jespportav 60% ta' dak kollu li jipproducu (l-akar ketchup u table sauces), prinzipalment lejn <i>I-Ilanda, l-Ingilterra, l-Italia, Cipro, il-Grecja u l-Afrika ta' Fuq</i>. Il-kompanija ttradem 1.40 mil u topera minn fabbrika fit-<i>Levinkja skoni l-oghla livelli Ewropej</i>" [Orizzont 2009].</p> <p>-----</p> <p>2010. New lucrative deal with UK <i>Red Lion Foods</i> – who supply major UK supermarkets. Still supplying <i>Asda</i>. Not supplying <i>Sainsbury's</i> and <i>Morrisons</i> any more (yet indirectly via <i>Red Lion</i>).</p> <p>Exports still constitute more than 60%. Major countries regularly exported to in rank order:</p> <p>1: <i>Ireland</i>, 2: <i>UK</i>, 3: <i>Italy</i>, 4: <i>Greece</i>, 5: <i>Belgium</i>, 6: <i>Cyprus</i>. [ph int 2, 2010].</p> <p>-----</p> <p>- Newly established or reinforced social contacts and links:</p> <ul style="list-style-type: none"> <li>Europe: <i>Ireland (EU), UK (EU), Italy (EU), Greece (EU), Belgium (EU), Cyprus (EU), Holland (EU), Germany (EU), Sweden (EU), Denmark (EU)</i>.</li> <li>Africa: <i>Tunisia, Libya, Morocco</i></li> </ul>

ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
			<p>EXCEEDINGLY IMPORTANT</p> <p>→ Role &amp; importance of contacts &amp; relationships in international opportunities and facilitating intl business:</p> <p>●●●●● [○]</p> <p>EXCEEDINGLY IMPORTANT</p>	<p>• <b>Mid East &amp; Asia: Dubai, Saudi Arabia, Kuwait, Taiwan</b></p> <p>- <b>Experience, knowledge and internationalisation conduciveness:</b></p> <p>Now, beyond initial confidence boosts, family business has gained experience as well as visibility and legitimacy as a supplier to demanding, large private label multinationals. Now looking further afield to international markets that are beyond the traditionally 'closer' or familiar markets. "<i>The latest acquisition is Taiwan</i>" [MBW 2001].</p> <p>Great wealth of accumulated experience and know-how, as well as contacts and know-who. Confidence keeps proactive and innovative stance seeking international growth in new markets and also developing new products.</p> <p><b>Contacts</b> deemed to be of crucial importance to international business opportunities [p int 2, 2010].</p> <p>Also, "<i>experience</i>" deemed No. 1 in importance for international business growth and opportunities [p int 2, 2010].</p> <p><u>related and ensuing investments and innovation</u></p> <p>[2001] Product and business</p>

ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
				<p><b>innovation:</b> New intl opportunity identified: UK market for pasta sauces. SD<sup>4</sup> willing to invest in new production facility if pre-EU accession govt assistance is forthcoming [MBW 2001]</p> <p>[2005]. Investment in Aseptic filling machinery enabling the export of c. 2,000 tons of tomato products in winter. These exports mainly to UK, French and Italian markets. Substantial financial assistance for this investment was made available from EU funds [MRAE 2005].</p> <p>[c.2005/2006] <b>Human capital, innovation:</b> Since 2005/2006 has 5 FT employees engaged in R&amp;D.</p> <p>[2006]. Launches the premium <i>Ta Savina</i> delicatessen brand (also diversifying into liqueurs, scented candles etc...) with the intention for high-end segment own brand exports [Co. site].</p> <p>[c. 2006]. Initiates strategic plan intended to gradually start transferring day-to-day management of company away from family to engaged professionals over a 3 yr period (2006-2009). This is a quest for more aggressive growth – while family still oversees overall direction and strategy (indicates the big challenges presented here and as yet unsure on whether it'll work or not) [int 1, pp. 13-14].</p> <p>[NOTE: Yet family still central in taking strategic decisions – esp internationalisation ... also starts</p>

ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
				<p>groomings on for eventual succession in long-term future).</p> <p><b>[2007] Process Innovation &amp; product development:</b> Receives EU certificate for the production of organic products [Co. site 2007].</p> <p><b>[2007]</b> Opens 1<sup>st</sup> Savina international franchisee (Maltese woman) in Frankfurt <b>Germany</b> ... followed soon after by another: Savina, <b>UK</b> (teaming up with their <b>UK</b> distributor <b>Clark Foods</b>) targeting exclusive shops [TOM 2007(1); TOM 2007(2); ME 2007].</p> <p><b>[2007]. Process and product innovation:</b> Receives EU certificate for the production of organic products [Co. site 2007].</p> <p><b>[2008] Process Innovation &amp; standard certification:</b> Qualified and is awarded ISO 22000 Quality certification for 'Food Safety Management Systems' by Moody International. "follows a total quality management system" [Co. site].</p> <p><b>[2009] International growth &amp; market development:</b> "considering the Scandinavian market, particularly <b>Sweden and Denmark</b>" [TOM 2009]</p> <p><b>[2010]. Diversification / product development:</b> In Sept. launched new EU-certified dairy project <i>Farm Fresh Ltd.</i>, investing €2m in equipment. Premium traditional products researched and developed. Innovative opportunity into niche, traditional quality products seized –</p>

ANTECEDENTS	ACQUISITION [Potential ACAP]	ASSIMILATION	EXPLOITATION [Realised ACAP] INT'L EVENT / VENTURE	OUTCOMES
				global economy barely out of recession [TOM 2010 (1) & (2); Co. site 2010.; MBW 2010].





## Appendix 5 – Importance attributed to key sources of knowledge (sample: StarSnack)

StarSnack: Importance attributed to key ‘internal’ sources and resources for acquiring new information / knowledge, esp. that associated with internationalisation

StarSnack Managing Director – <i>Founder's son</i> – 2 <sup>nd</sup> generation (SS <sup>2</sup> )		
Key source / resource	Attributed imp. for int'l. (1-5)	Related notes, additional supporting and generic qualitative data
Formal education / training	(4) ●●●●○ VERY IMPORTANT	"Quite important" (In conversation, comparatively ranked <u>very, very important</u> , a very close #2 together with 'contacts', when compared to 'experience' and 'contacts').
Experience	(5) ●●●●● EXCEEDINGLY IMPORTANT	"Very important... very important" – (In conversation, comparatively ranked <u>most important</u> #1, when compared to 'formal educ.' and 'contacts').
Contacts & relationships with others outside org.	(4) ●●●●○ VERY IMPORTANT	<p>"I think they are important ... yes, important ... quite important" – (In conversation named #3, yet ranked <u>very, very important</u>, at same level with 'formal educ.', when compared to 'experience' and 'formal educ.'). Throughout given very high importance.</p> <p>"Contacts ... are priceless" for gaining knowledge, recognising opportunities – facilitating business and outward internationalisation ...</p> <p>Contacts provide "a wealth of information".</p> <p>"At the end, every contact can lead to something or some opportunity".</p> <p>"A contact is a contact ... I mean [it should be] exploited, and see where it leads to. Understand? I mean, don't get carried away ... exploit it and see where it leads to ..."</p> <p>"I mean it's [establishing personal relationships based on trust etc...] a selling point from our point of view! Now whether the company [potential client] appreciates it or not, is a different issue. But it is definitely a selling point from [our perspective] – we're a smaller business, we act faster ... mmm ... and it's a plus for us."</p> <p>"like [in the case of] Greece we actually for the first time sent someone in the market – without having been in the market – so you know, you get a contact, you establish your contact, you do your analysis of the market ..."</p>
Any R&D / in-house experimentation (int)	(3) ●●●○○ IMPORTANT	<p>"Aha, it's important ... quite important"</p> <p>Much of SS' (esp. int'l) business depends on 'slightly off-mainstream' products, often with an innovative twist. Yet this 'R&amp;D' activity is generally conducted in an informal, mostly non-scientific way in the absence of any proper lab facilities etc... His father, SS1 often occupies himself with 'dabbling' and coming up with new recipes and 'twists' to existing products – 'experimenting'. In other instances, direct collaboration with product development teams from large supermarkets.</p>
Any other notes:	Commenting on how information and knowledge is shared within organisation: "... easily ... informal".	

**StarSnack: Importance attributed to key 'external' sources and resources for acquiring new information / knowledge, esp. that associated with internationalisation**

StarSnack Managing Director – Founder's son – 2 <sup>nd</sup> generation (SS <sup>2</sup> )		
Key source / resource	Attributed imp. for int'l. (1-5)	Related notes, additional supporting and generic qualitative data
Govt agency support, Industry associations, chambers of commerce	(3) ●●●○○ IMPORTANT	"Quite important", Govt agency: "access to data" on foreign market. "they try to build a list of potential clients ... subsidise fair participation ... trade delegations". "Our first international breakthrough came through them".  "My expectations of them is not very high ... I consider them like a government department [beyond general basic requirements]"
International fairs and exhibitions	(5) ●●●●● EXCEEDINGLY IMPORTANT	"very important" – throughout prominence given to importance of international fairs, <u>see</u> note below.
Internet	(5) ●●●●● EXCEEDINGLY IMPORTANT	"Very important". The internet offers "a lot" of value in gaining new information on new markets, e.g. "who are the players, who are the key supermarkets, who are the right contacts, how big is the market for biscuits there, what is it we're talking about ..." ... "the Internet is the first stop".
Recruiting graduates, engaging ext. professionals, consultants & ext. training programmes	(4) ●●●●○ VERY IMPORTANT	"Quite important, yes ... I mean I have consultants yes, quite important. The truth is, when you have a company this size ... sometimes it's a better option to have a consultant whom you'd pay 'x' ... you'd engage him on something where you need "expert advice" ... [e.g.] you need an opinion on an ingredient ... you need something ... I mean I have engaged consultants in a management ... task force" or for instance on a particular project, where you'd have external consultants. .... then when the project is ready ... you keep the consultancy "at the side, and if you need him again, for whatever reason, he's there ..."
Any other notes:	<p>How do you learn about several of these things that are important for your business?;</p> <p>"Ok, let's start from the aspect of manufacturing, in the manufacturing field there are loads of books, loads of magazines from A to Z ... you read, and you evaluate ... and then if there is something you like, you might bring, or talk to a foreign "technologist" to explore further etc ... Fairs [are another source of learning], you'd go and see what others in the industry are doing. So I mean with respect to manufacturing, that's where most of it [learning / knowledge] comes. Now with regards to information on trends and so on in the market, basically when you're with somebody who is knowledgeable, you shut up and listen ... you'll learn ... ask, and you'd be surprised at how people [contacts] will come and share their information and experiences with you"</p> <p>Commenting which external source of information would you consider as most important for learning on new business opportunities and innovation? :</p> <p>"Mmm, I would probably say fairs. Let me tell you ... fairs ... you start making a face for yourself" ... are you understanding me? ... I mean ... "You're there where it's happening? .... That's one thing ... and you'd be saying, 'listen I'm here', now you'd attend one year, return the following year, come again the next year and the following ... and after the fourth year, they'd say, 'I've had enough of this guy in my face let's stop and talk to him' ... [laughs] ... they'd say, 'he must have something good if he's been here for the past 4 years! ... [laughs] ... He hasn't gone bankrupt yet!" [laughs]. That is the idea ... really ... That's right [laughs] ... yes "persistence" ...</p>	



## Appendix 6 – Ethical Research Committee approval

**Nathaniel P Massa**

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**Ethical review approval**

**From:** James Wilson [j.wilson@mgt.gla.ac.uk]  
**Sent:** 12 July 2007 12:48  
**To:** Nathaniel P Massa  
**Cc:** m.jones@mgt.gla.ac.uk  
**Subject:** Nathaniel Massa

**Attachments:** Nathaniel Massa.doc

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Dear ~~Mr.~~ Massa:

Please find attached an approved copy of your request for Ethical review. Good luck with your research.

James.

Dr James M. Wilson  
 Chair of Departmental Ethical Research Committee  
 University of Glasgow  
 Department of Business and Management  
 West Quadrangle, Gilbert Scott Building  
 GLASGOW G12 8QQ  
 Tel: 0141 330 3668  
 Email: [j.wilson@mgt.gla.ac.uk](mailto:j.wilson@mgt.gla.ac.uk)

Required Data							Dept Use Only							
Researcher Name	U/G	PhD	Staff	Funded	Super	Date Submitted	DEC Reviewed	D1	D2	D3	D4	Refer To FEC	FEC Decision	Appeal Date
Massa, N		X				3/7/2007	12/7/2007	X						