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RESEARCH LETTER #5

FAMILY BUSINESSES AND INTERNATIONALIZATION

In their research, Andrieu, Toubal, and Villanueva (2024) introduce a novel dataset that merges administrative and commercial data to examine the economic behavior of family-owned groups in France. This comprehensive dataset covers a diverse range of both listed and privately held firms, providing a distinctive view into their trade activities and international strategies.

In this study, a key contribution is the development of an algorithm to construct business groups in France, distinguishing them across dimensions such as size categories and the classification of listed versus unlisted firms. To ensure comparability, we exclude foreign-owned and very small groups from the sample due to differences in governance, financing, and data limitations. The final sample includes 95,055 groups, of which 0.48% are publicly listed. We match the dataset to custom data to analyze how family firms engage in trade and establish a presence in foreign markets. The data concerns only the direct exports and imports of firms located in France. There is no information on indirect trade or whether firms export from entities based in foreign countries.

The findings reveal that, while family firms make substantial contributions to the French economy, their approach to internationalization is often marked by caution. However, our findings contrast with previous literature: the effects vary depending on the category and size of the family business group. While non-listed and large family groups face some disadvantages in international trade and foreign affiliates, these patterns are not consistent across all groups.

The study examines the underlying mechanisms that shape these firms' trade activities and strategic decisions related to exports, imports, and the establishment of foreign affiliates.

Drivers of Strategic Trade Choices in Family Firms

Research has consistently shown that family businesses tend to be less involved in international trade compared to non-family firms, with several factors contributing to this trend. Fernández and Nieto (2005) cite risk aversion, strategic choices, and limited resources as key factors. Gomez-Mejia et al. (2010) note that the added cost and complexity of managing geographically dispersed operations often push family firms to prioritize domestic markets. Arregle et al. (2017) emphasize the influence of family control and institutional context, where factors like minority shareholder protection and societal trust are critical. Additionally, socio-emotional wealth (SEW), which includes non-financial priorities like reputation and emotional ties, often diminishes in foreign markets, leading to a more cautious approach to global expansion.

Trade Patterns in Family Firms

Figures 1 and 2 illustrate the distinct trade engagement patterns of family firms compared to non-family firms. The data reveals among business groups with more than 50 employees, 35% engage in exporting activities.

Specifically, 33% of family-owned firms export, compared to 39% of non-family firms.

The data indicate a higher proportion of importers, with 48% of business groups involved in importing goods in the overall sample.

Within family businesses 47% of groups are importers, and this share is close for non-family businesses with 53% importing.

Family groups generally exhibit trade performance comparable to that of average firms in the economy.

Figure 1. Share of exporters

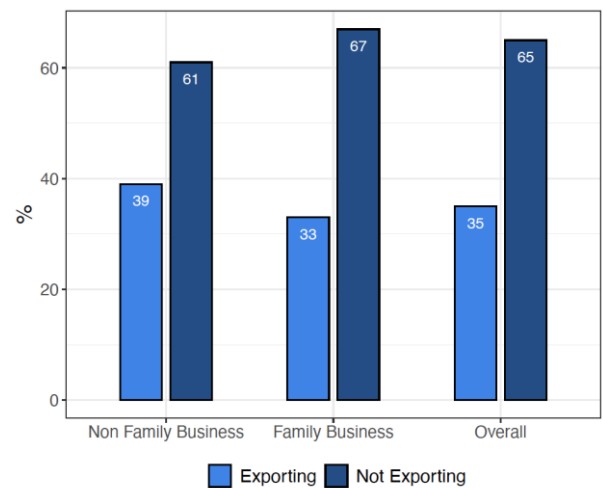
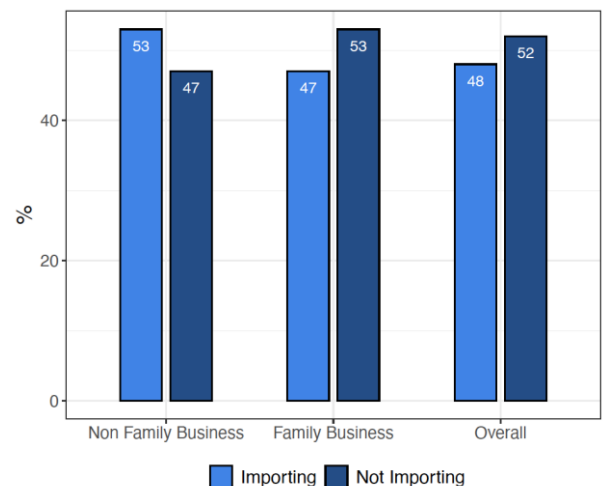


Figure 2. Share of importers



Sources: Andrieu et al. 2024.

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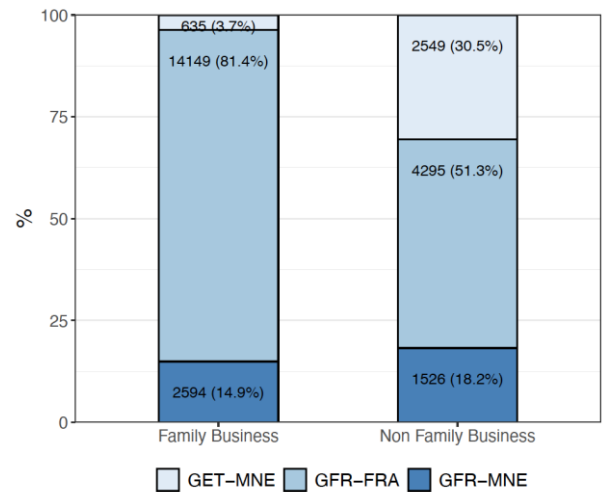
Corporate Control and Global Reach of Family Firms

Figure 3 show the distribution of family and non-family business groups with more than 50 employees, categorized by their engagement in multinational enterprise (MNE) activities. Among the family businesses, 81% are classified as French groups only operating in France (GFR-FRA), 15% are French groups owning a foreign subsidiary (GFR-MNE), and less than 4% are foreign-owned (GET-MNE). This distribution highlights the significant difference in international engagement between family and non-family businesses. Non-family businesses are considerably more likely to have a multinational presence compared to family businesses. Conversely, family businesses are more inclined to operate solely within France or have limited international activities.

The graph underscores the importance of considering the role of family ownership in shaping international business strategies, as trade can significantly impact firm performance, innovation, and economic spillovers.

Family businesses tend to maintain closer ties to their domestic market, which may influence their strategic decisions and competitive advantages differently from non-family businesses that pursue broader international engagements. These observations align with the findings of Fonseca et al. (2023), who demonstrate a strong home bias in the market for corporate control, largely due to deeply-rooted informational frictions and behavioral/cultural barriers. Their detailed study further shows that cultural barriers, particularly linguistic differences, play a crucial role in explaining these patterns. These barriers are especially evident among family businesses.

Figure 3. Foreign ownership and presence abroad



Notes: Sample of business groups with more than 50 employees. GET-MNE are groups with a foreign head of group and foreign affiliates, GFR-FRA are French groups operating only in France and GFR-MNE are groups with a French head of group and foreign affiliates.

Sources: Andrieu et al. 2024.

Family businesses are more inclined to operate solely within France or have limited international activities.

Trade Gaps and Foreign Presence: A Comparison Between Family and Non-Family Firms

Table 1 presents the percentage penalties faced by family groups compared to non-family groups across several internationalization outcomes

Table 1. Trade Gaps and Foreign Presence (in percentage)

	Whole	Sample of				
		Listed groups	Non-listed groups	Small groups	Medium-sized groups	Large groups
Prob. to export	-1	n.s	0,54	n.s	n.s	-3.5
Export value	n.s	n.s	-34.2	n.s	-31.5	-64.1
Prob. to imports	-1.1	n.s	-1.1	n.s	-1.5	-4.0
Import value	n.s	n.s	-19.9	n.s	n.s	n.s
Foreign Affiliate Presence	-3.4	n.s	-3.4	-0.7	-1.9	-9.6
# of foreign affiliates	n.s	n.s	-17.7	-56.2	-45.0	-38.1

Notes: Results are from penalties regression, including 2-digit industry fixed effects and deciles of asset class dummy variables. "n.s." indicates no statistically significant difference between family and non-family groups in terms of outcomes. Reported penalties statistically significant at 1% level of significance. How to read? In the 'Whole' column, family business groups are, on average, 1% less likely to export compared to non-family business groups.

Source: Andrieu et al. 2024.

Our findings reveal that the effects of family ownership on internationalization vary by category and size. Non-listed and large family groups face disadvantages in international trade and foreign affiliates, but these patterns do not hold consistently. For listed, small, and medium-sized family groups, there are often no significant differences compared to non-family groups. This finding suggests that the influence of family ownership is more nuanced, with risk aversion and financial strategies shaped by specific group characteristics.

Regarding the presence and number of foreign affiliates, the limited international presence of family business groups is also evident in their reduced involvement with foreign affiliates. Establishing foreign subsidiaries requires substantial investment and navigating complex regulatory environments, which can be particularly challenging for family groups accustomed to operating within familiar domestic markets. The data suggests that this challenge is a significant barrier, especially for non-listed family groups, where the negative effects are even more pronounced.

Family firms show a cautious approach to international trade and foreign expansion, prioritizing control and stability within domestic markets.

References

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CHAIR

FAMILY BUSINESS AND LONG-TERM INVESTMENT

Developing research on family-owned companies and their dynamics

Family businesses at all levels - global, European, and French - represent a significant portion of the economy in terms of numbers and business share.

What are these companies' performance, strategies, economic and social models? Are they equipped to meet the challenges of ongoing digital and environmental transitions? These are the questions that the new "Family Businesses and Long-Term Investment" Chair at the University Paris Dauphine - PSL aims to address.

This Chair is affiliated with the Dauphine Research in Management Laboratory (DRM) and the Dauphine Research in Economics Laboratory (LEDA).



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