Diverse Boards Help Family Businesses Expand Internationally

Claudia Pongelli (European University of Rome)
Antonio Majocchi (Luiss)
Jonathan Bauweraerts (University of Mons)
Salvatore Sciascia (Cattaneo University - LIUC)
Matteo Giuliano Caroli (Luiss University)
Alain Verbeke (University of Calgary)

KEYWORDS: Family Business, Board of directors, Governance, Growth.

Expanding into other countries can open up new opportunities and revenue streams for all kinds of businesses around the world. This is especially true within the European Union, where products can flow relatively easily across borders.

While many small and medium-sized family businesses have successfully become international, others have long-engrained habits and mindsets that can hold them back. Family members involved in the business can be prone to a condition called “bifurcation bias,” which makes them favor any resource, activity or market closely related to the family and forego other alternatives only because they are out out of this heritage domain. Consequently, the family's biased decisions can ignore the benefits of internationalization and often result in the loss of good international business opportunities.

Pushing into new markets across geographic borders requires a family business to be more focused on actual possibilities...and this is where boards can make the difference. Boards traditionally serve as an efficient counterweight to the narrower instincts and interests of the senior, executive leaders; provide a non-biased outside perspective; and are hardheaded about putting the needs of the business first.

While some researchers have studied how boards of directors can help a family become more openminded, we wanted to develop a more complete picture of how the board can influence the specific decision to expand the firm’s markets. Our research, based on studies of 328 family-run businesses, showed that family firms are more likely to overcome entrenched ways of thinking and to spread into new countries if their boards have four qualities:

- *Open* towards non-family members
- *Inclusive* and welcoming to women
- *Experienced* in international markets
- *Active,* meaning meeting frequently

Our Research

We studied 328 small to medium-sized family firms in Belgium, where more than 80% of companies are family-owned and where foreign trade is important to the economy. Belgium is the sixth-largest exporter in Europe, according to the World Bank in 2020. We focused on firms with at least 50% family ownership, and with between 10 and 250 employees and annual revenues of no more than 50 million euros.

Through a mail survey, we asked the CEOs a series of questions about their international strategies and the makeup of their boards. We asked them whether their boards included non-family members, women, diverse ages, and people who had international experience. Other questions asked about their commitment to keeping the business in the family for future generations. We also asked whether the CEO was a member of the owning family or an outsider.

What We Found

Based on the responses from the CEOs we surveyed, we learned that boards can play a key role in getting family firms to reduce rigidity in their thinking and to be more open to opportunities across geographic borders. We found that family firms with open, inclusive, experienced and active boards were more likely to expand to other countries.

Including women on the board had the greatest impact. Women have been found to be more tolerant and collaborative, and help make the board more open to new ideas – all important for businesses that want to expand both their thinking and their markets.

We also saw that having knowledgeable and competent *non-family* board members – especially those with international experience -- helped the companies overcome any reticence they had to expand beyond their national border and be more fearless in pursuing those opportunities. People who are not part of the family are far less tied to the firm's heritage, traditions and its longtime geographic location. And while we presumed that the presence of younger-generation family members on the board would also help the firms go international, our research showed that age did not matter.

In addition, when boards meet frequently to discuss the challenges facing the firm, they are more likely to question family-driven decisions and possibly improve them. A more active board will be more aware of the presence and salience of family-related goals, and better understand when and how a dysfunctional emphasis on family-related resources and activities might be driving important decisions -- then provide unbiased counsel.

Interestingly, we saw that these findings are particularly relevant when the CEO is a family member. Boards that increased meeting frequency and diversity in terms of family affiliation, gender and international experience were able to make up for leaders from the family, whose thinking may be more entrenched.

The takeaways for family business leaders, board members and senior executives:

- Do not hesitate to give family members leading roles, to the extent that the family firm also has a competent and professional board. By so doing, family firms can achieve the best of both worlds: the strengths of family control, but also the competence and broader vision of professionals.
- Increase the board's diversity in competences, gender, and international experience, to make it more resource-rich.
- Actively leverage the board's reservoir of resources by encouraging more frequent meetings, thereby allowing board members not only to get to know the family and to understand better its logic and perspective, but also to provide wise counsel and to broaden the family's horizon.

Explore the Research

The impact of board of directors' characteristics on the internationalization of family SMEs (https://www.sciencedirect.com/science/article/abs/pii/S1090951622001031) , Journal of World Business, November 2022.