European Management Journal xxx (2016) 1–11

Contents lists available at ScienceDirect

European Management Journal

journal homepage: www.elsevier.com/locate/emj

Governance structure and internationalization of family-controlled firms: The mediating role of international entrepreneurial orientation

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A R T I C L E I N F O

Article history:
Received 3 March 2015
Received in revised form
25 February 2016
Accepted 25 April 2016
Available online xxx

Keywords:
Family business
Internationalization
Governance structure
International entrepreneurial orientation
PLS-SEM

A B S T R A C T

Stemming from resource dependence theory this article investigates the mediating role of international entrepreneurial orientation on the relationship between the involvement of non-family members in the firms' governance structure and both pace of internationalization and international performance of family firms. Relying on a sample of 113 German family firms, the theoretical model proposed in the study is tested via structural equation modeling techniques. Our findings suggest that a high involvement of non-family members in governance structure has a positive impact on family firms' pace of internationalization, and that this relationship is mediated by the international entrepreneurial orientation of the firm. The discussion section offers implications for family business and international entrepreneurship literature, as well as practical implications.

1. Introduction

The extent to which a family controls and affects its firm has been recently acknowledged as a significant element to explain some of the inconclusive findings in the literature about internationalization of family firms (Calabrò, Torchia, Pukall, & Mussolino, 2013; Pukall & Calabrò, 2014). For instance, the level of sales internationalization in family firms is affected by external influences in the board of directors (Sciascia, Mazzola, Astrachan, & Pieper, 2013). Thus, beyond the difference between family and non-family firms, family firms' idiosyncrasies may differently affect the strategic behaviors and their consequences in terms of internationalization outcomes (Miller, Minichilli, & Corbetta, 2012). In particular, the degree of family involvement in ownership and management is acknowledged as a discriminating factor, so that any external influences on these systems in the family firm may have an impact on the strategic attitudes towards internationalization (Holt, 2012).

This study aims, in particular, at investigating the effect of the presence of non-family members in the family firm's governance structure on its internationalization outcomes, meant in terms of both pace and performance (He & Wei, 2011; Vermeulen & Barkema, 2002), hypothesizing and testing the mediating effect of international entrepreneurial orientation (hereafter IEO). Internationalization is considered an entrepreneurial activity (Oviatt & McDougall, 2005), and international entrepreneurship – recognized as a stand-alone research field – is defined as "a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations" (McDougall & Oviatt, 2000, p. 903). This definition suggests that it is important to focus on the entrepreneurial qualities of firms and to investigate how firms compete after internationalization, more than understanding whether and how they enter global markets (Zahra, 2005). Nevertheless, scant literature has considered strategic orientations (Keupp & Gassmann, 2009) as antecedents of internationalization (Dess, Pinkham, & Yang, 2011); and, in particular, IEO at the firm level (Liu, Li, & Xue, 2011) may play a significant role, as it regards value-creation behaviors that, through proactive and innovative methods, make firms engage in risk-taking activities aimed at identifying and leveraging international opportunities (Sundqvist, Kylaheiko, & Kuivalainen, 2012) and in turn affect pace and performance (Etemad, 2015). Consistently with a call for further research on the role of board composition in ventures engaging in international entrepreneurship (Zahra, Filatotchev, & Wright, 2009), this study investigates to what extent IEO does

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http://dx.doi.org/10.1016/j.emj.2016.04.007
0263-2373/

Please cite this article in press as: Calabrò, A., et al., Governance structure and internationalization of family-controlled firms: The mediating role of international entrepreneurial orientation, European Management Journal (2016), http://dx.doi.org/10.1016/j.emj.2016.04.007

mediate the relationship between the involvement of non-family members in governance and the pace of internationalization and international performance.

For this purpose, we rely on resource dependence theory (Pfeffer, 1972; Pfeffer & Salancik, 2003) as a leading theoretical framework to analyze the influence of members from outside the owner-family, sitting in various governance bodies, as antecedent to firm internationalization. According to this theoretical perspective, we focus on board resource provision, which encompasses a variety of specific activities, including: (i) providing expertise and advice, (ii) linking the firm to important stakeholders, (iii) facilitating access to resources such as capital, (iv) building external relations, and (v) helping in strategy formulation (Hillman & Dalziel, 2003). Access to resources is, indeed, vital for successful firm internationalization, as venturing into foreign markets may pose specific resource challenges for family firms (Naldi, Nordqvist, Sjoberg, & Wiklund, 2007). While some family firms' attributes can drive internationalization, e.g. commitment, long-term orientation and unique capabilities (Zahra, 2003), the dearth of resources can instead hinder the orientation of family firms towards international markets, due to the lack of either opportunity recognition or the capabilities to engage in internationalization efforts, that are acknowledged as relevant underpinnings for international entrepreneurship (Calabrò, Brogi, & Torchia, 2015; Muzychenko, 2008). Few managerial resources (Fernández & Nieto, 2006), scarce financial resources (Okoroafo, 1999), and especially lack of knowledge concerning international markets (Pukall & Calabrò, 2014) are instances of factors hindering internationalization. Resource dependence theory suggests that connections with members from outside the organization are of paramount importance in order to gain access to those critical resources (Pfeffer & Salancik, 2003). This study relies on the assumption that the firm's governance structure is acting as the main bridge to external resources (Hillman & Dalziel, 2003; Hillman, Cannella, & Paetzold, 2000). The access to resources, that the owner-family sometimes cannot provide, is fundamental for business internationalization, and limits the dependency from national markets by opening the business to new opportunities abroad. The hypothesized model is tested via partial least squares (PLS) structural equation modeling on a sample of 113 German family firms (i.e., firms where one owner-family holds more than 50.1% of the firms' shares, and the CEO perceives the firm as a family firm), collected in the summer of 2012. Our results indicate that high involvement of non-family members in governance positively affects family firms' pace of internationalization; and that this relationship is mediated by the international entrepreneurial orientation of the firm. Overall, the results stress the importance of the involvement of non-family members in the governance of family firms, as their influence brings resources which limit dependencies and open the firm to new opportunities abroad.

This study contributes to the research stream of family firms' internationalization, providing insights also to entrepreneurship and governance research. First, the findings suggest that non-family members in governance serve as promoters of family firms' internationalization thus explaining some of the variance in family firms' international behaviors. Second, by considering the family firm's proclivity to engage in corporate entrepreneurship and their propensity towards internationalization endeavors as important mediators between the involvement of non-family members in governance and internationalization outcomes, we extend research on strategic orientations and corporate entrepreneurship in family firms. Third, by examining the pace of internationalization and international performance, two conceptually different facets of internationalization, we provide a more fine-grained understanding of the involvement of non-family members in governance and its effects on internationalization outcomes (Pukall & Calabrò, 2014).

2. Theoretical model development

A firm is equipped with a number of governing bodies (e.g., the board of directors, the management board and the advisory board) to ease and manage its decision-making processes and survival (Steier, Chrisman, & Chua, 2004). Each group serves different functions; in this study we mainly focus on their common function as providers of the necessary resources to successfully internationalize the family firm, according to the resource dependence theoretical perspective adopted to consider broad governance decisions, in charge of both directors and managers (Brunninge, Nordqvist, & Wiklund, 2007). The governance structure of a firm is, indeed, considered to be a central determinant of its capacity to access the needed resources for international activities (Tihanyi, Johnson, Hoskisson, & Hitt, 2003). The choice of the owning family to open the firm's governance to non-family members is, hence, expected to strongly influence its internationalization process and outcomes (Pukall & Calabrò, 2014). In fact, the openness of family firms' governance structures denotes the degree to which the boards embrace non-family members in addition to family ones. This study exclusively focuses on the inclusion of non-family members in the different boards (management, supervisory and/or advisory board), while ownership structure is not considered, as family firms are extremely reluctant to share their equity with potential external owners just for the purpose of strategic firm growth (Chua, Chrisman, & Sharma, 1999).

2.1. Resource dependence theory

Previous research on the effects of the openness of family firms' governance structure and subsequent internationalization outcomes is still limited, although recent scholarly efforts overall show a positive influence of external parties in the governance of family firms on internationalization (Pukall & Calabrò, 2014). Indeed, family firm heterogeneity in the governance structure emerges as an important element to be taken into account when analyzing family firms' internationalization (Sciascia et al., 2013). In this study, resource dependence theory (hereafter RDT) is chosen as the most appropriate, first of all, because we focus on the board that is acknowledged as one of the main actors allowing firms to minimize dependencies and access new resources (Pfeffer, 1972). According to this theoretical perspective, these different governing bodies pursue the same function: provide resources which are necessary for the firm (Brunninge et al., 2007). Hence, RDT (Pfeffer, 1972) will be the guiding theoretical lens to investigate the way through which (e.g., by hiring non-family board members) those governing bodies provide and access resources to internationalize the family firm.

The acquisition of knowledge about foreign markets through market research, the customization of products for international customers and the logistical handling of these products across multiple borders are just some of the challenges that internationalizing firms face (Johanson & Vahlne, 1993). In international management research, it is, therefore, commonly agreed that access to resources improves the success of internationalization endeavors facilitating those international challenges. The emphasis lies on the role of resource providers to reduce uncertainty and interdependence (Hillman, Withers, & Collins, 2009). The benefits for the firm can be, indeed, described in terms of information spread as advice, access to preferential channels of resources and information, and legitimacy (Hillman et al., 2009). Moreover, considering in particular the case of established companies, new units are usually dedicated to international business activities, leveraging their sponsors' reputations, established domestic market positions, connections, expertise, and deep pockets (Zahra, 2014). Acknowledged that the potential mismatch between the resources a firm owns and the ones it needs to compete in international markets is significant (Cumming, Sapienza, Siegel, & Wright, 2009), the access to resources via the main decision-makers' network of relationships is considered to be one of the drivers of internationalization, and the case of family business offers a context to further this stream of investigation (Pukall & Calabrò, 2014). In particular, family businesses represent an interesting object of analysis when dealing with a change to the composition of the firm's governance structure. Firms are acknowledged to modify governance structure in response to changes in their environment (Boeker & Goodstein, 1991), thus supporting the view that RDT is the most appropriate theoretical lens to predict that opening family firms' boards to external non-family members may further foster their internationalization.

2.2. Non-family members in governance and internationalization of family firms

As predicted by RDT, board members provide important connections between the firm and its environment, as a means to access resources (Pfeffer, 1972). Appointing board members from outside the owner-family's circle is, indeed, a way to reduce resource dependencies (Hillman et al., 2000) allowing faster and more profitable internationalization processes. Similarly to relying on professional advisors (Cumming, Fischer, & Peridis, 2014), the positive influence of those "*external voices*" has an impact on all firm's governance levels, i.e. the supervisory board, the advisory board and the management board. In fact, non-family board members provide advice (know-how), reputation, as well as connections with external organizations and/or individuals (Pfeffer & Salancik, 2003); therefore, at supervisory, advisory, and management levels, they can be considered as "business experts", "support specialists", and "community influentials" (Hillman et al., 2000).

All board members, serving either in a management, supervisory or advisory role, may be responsible for the strategic development of the firm, including its internationalization. Non-family board members can leverage on their network ties to access external resources and benefit the focal firm, as these network ties are often built upon previous experiences made before entering the firm, or from engagements in other organizations (Sanders & Carpenter, 1998). As family members sitting in different governing bodies often have not collected experiences outside their own firm (Kuo, Kao, Chang, & Chiu, 2012), the knowledge/resources coming from non-family board members are central for the firm. Despite family board members may also bring important resources to support complex strategic challenges, like extensive tacit knowledge about the firm and its employees, a combination of knowledge/resources from family and non-family board members is necessary to create and bring enough heterogeneity and variety of views in order to successfully deal with complex internationalization processes (Holt, 2012). Furthermore, an increase in knowledge, especially knowledge based on experience, tends to lead to an acceleration of internationalization efforts, as the perceived uncertainties concerning international markets are reduced (Johanson & Vahlne, 1977, 2009). Hence, the influence of non-family board members' knowledge/resources can also be considered as an accelerator for family firms' internationalization. In light of the foregoing, we can formulate the direct relationship between the degree of external influences in boards of family firms and internationalization outcomes:

Hypothesis 1. The higher the degree of openness of a family firm's governance structure, the higher the pace of internationalization of the firm.

Hypothesis 2. The higher the degree of openness of a family firm's governance structure, the higher the international performance of the firm.

It is worth noting that knowledge of foreign markets is considered not as a regulator of commitment of resources on international activities, but instead as an enabling factor for international expansion, so that the entrepreneurial aspect of internationalization (instead of the managerial role) is emphasized (Yli-Renko, Autio, & Tontti, 2002). This argument further supports the need to investigate the role of IEO as a mediator, as in-depth shown in the next section.

2.3. The mediating role of international entrepreneurial orientation

Research on family firms' internationalization has recognized the firm's governance structure, and its openness, as an important explanatory factor for internationalization outcomes (Calabrò & Mussolino, 2013; Calabrò, Mussolino, & Huse, 2009; Calabrò et al., 2013; Sciascia et al., 2013; Zahra, 2003). This study argues that the strategic orientation of family firms is a spuriously omitted mediator for the relationship between the governance structure and internationalization outcomes. In fact, the way in which firms approach and manage their internationalization efforts is, to a substantial extent, determined by the organization's dominant strategic orientation, which embodies wide-ranging strategic choices and directions executed by firms "to create the proper behaviors for the continuous superior performance" (Gatignon & Xuereb, 1997). Notwithstanding the existence of a considerable body of research on entrepreneurial, innovation, learning, and market orientations in family firms, the relationship between this strategic orientation and internationalization outcomes remains under-explored (e.g., Liu et al., 2011).

This study acknowledges internationalization as an instance of corporate entrepreneurship, which may entail high degrees of uncertainty (Johanson & Vahlne, 1993; 2009), and which recognizes that entrepreneurs take considerable risks as they pursue opportunities in international markets (Zahra, Korri, & Yu, 2005). In the international entrepreneurship literature, it is common to adopt the main elements of strategic orientations, e.g. innovativeness, proactiveness and aggressiveness, in relationship with international activities (Dimitratos, Voudouris, Plakoyiannaki, & Nakos, 2012; McDougall & Oviatt, 2000; Mostafa, Wheeler, & Jones, 2005). Indeed, increasing attention has been paid to a firm's proclivity to engage in innovative and risk-taking behaviors to promote corporate competitiveness in international markets (Swoboda & Olejnik, 2016). This study focuses on IEO defined as "a set of behaviors associated with the potential creation of value, which manifest themselves as proactive and innovative methods, risk-taking activity, autonomous actions, and an emphasis on outperforming rivals, all variously aimed at discovering, enacting, evaluating, and exploiting opportunities across national borders" (Sundqvist et al., 2012, p. 205). Therefore, following Baron and Kenny (1986), we theoretically build the mediation hypotheses accordingly: first, we argue for the significant relationship between the influences of external members (non-family board members) into the governing boards of family firms and IEO; and second, for the significant mediation of IEO on the relationships developed in Hypotheses 1 and 2, presented above.

Non-family board members can bring the missing capabilities and resources (Hillman et al., 2000), as they are hired with the purpose to reduce and manage the firms' diverse resource dependencies in their environment. Most notably the influence of non-family board members' knowledge/resources can positively affect the levels of innovativeness, proactiveness and competitive aggressiveness (Naldi et al., 2007). Especially when a firm deals with internationalization strategies, the uncertainties towards new international markets are highly specific and differ from the uncertainties that the firm faces when venturing into domestic markets (McDougall, 1989). These uncertainties include, among others, different legal systems, cultural barriers and geographical distance (Johanson & Vahlne, 1977). Beyond proactiveness, innovativeness, and competitive aggressiveness, the strategic orientation towards international markets (Kuivalainen, Sundqvist, & Servais, 2007), namely IEO, can therefore be viewed as a distinct orientation (Covin & Miller, 2014) that encompasses the openness of key decision-makers towards the exploration of international opportunities and the use of resources in order to ensure international market penetration (Knight & Cavusgil, 2004). Indeed, non-family board members potentially bring knowledge, advice, and professional reputation; furthermore, they might act as intermediaries towards external organizations, ensuring support from them (Pfeffer & Salancik, 2003). All these resources provided by non-family board members are thus strategic for enterprising successful firm internationalization (Sirmon & Hitt, 2003). Furthermore, by opening-up their personal networks, non-family board members provide the family firm with important connections to professional and social systems (Calabrò et al., 2009), thus reducing the dependencies from the external environment. Through these connections/linkages, issues of path dependence and inward-focused networks can be mitigated (Stewart, 2003), leading to higher levels of IEO. Finally, the involvement of non-family board members in the governance and management of the family firm ought to increase the variety of capabilities and knowledge in the respective board (Bammens, Voordeckers, & Van Gils, 2011), subsequently leading to better attitudes towards international markets, as well as to a higher propensity to engage in those markets. Argued that high involvement of non-family board members in governance positively relates to IEO, this study aims at identifying to what extent IEO mediates the relationship of the presence of these non-family members and, respectively, pace of internationalization and international performance.

We first focus on family firms' pace of internationalization, which entails the general speed of market entries and the simultaneity of several markets entries, as well as the assessment whether the firm has gone through epochs of internationalization or rather if it has steadily internationalized (Wagner, 2004). Extant research indicates that family firms tend to internationalize slower than non-family firms (Thomas & Graves, 2005), supporting the rationale that external influences in governance could allow faster internationalization, as argued in building Hypothesis 1. Furthermore, IEO plays a relevant role in accelerating internationalization, as it leads to various expansion activities abroad (Kuivalainen et al., 2007, p. 258), even at the expense of short-term profitability (Barkema & Vermeulen, 1998). Non-family members' involvement in governance allows the family firm to become more proactive and aggressive, affecting the beliefs, preferences and behaviors to entry in new international markets (Covin & Miller, 2014), in order to compete through a rapid market penetration and promote fast internationalization.

Hypothesis 3. International Entrepreneurial Orientation mediates the relationship between the degree of openness of a family firm's governance structure and the pace of internationalization of the firm.

As regards family firms' internationalization performance, in this study it is accounted in terms of profitability, sales growth and subjective general export performance for the most important foreign market (He & Wei, 2011). Strong IEO can be viewed as a key antecedent for international performance, as it enables the discovery, assessment and exploitation of fruitful international opportunities (Kylaheiko, Jantunen, Puumalainen, Saarenketo, & Tuppura, 2011). IEO entails a certain open mindedness towards different ways of conducting business (Lumpkin & Dess, 1996), which ought to facilitate the recognition and evaluation of alternative international business options, leading to superior performance. When venturing abroad, the amount of knowledge that is required to support international activities is considerably high, as much more uncertainty needs to be managed (Johanson & Vahlne, 1990). The governance structure plays a significant role, as for instance, international venturing is proved to be affected by firm-specific ownership advantages in terms of home country network ties, mediated by the extent to which firms engage in corporate entrepreneurial initiatives, in terms of innovation, new business creation, and strategic renewal (Yiu, Lau, & Bruton, 2007). Indeed, external influences in governance would allow easier availability of resources such as international connections, alliances with distributors, foreign licenses, and other assets that can foster internationalization, so that only fostering IEO the governance structure of the family firm may be expected to be conducive to successful internationalization. Overall, these considerations suggest that:

Hypothesis 4. International Entrepreneurial Orientation mediates the relationship between the degree of openness of a family firm's governance structure and the international performance of the firm.

3. Research methods

3.1. Data collection and sample

The proposed model is tested by means of quantitative methods, using survey data. In this particular case the German context was used for testing the main hypotheses because of the specificities with regards to the two-tier corporate governance system and the level of internationalization of German firms. The data collection process started with the scanning of the Bureau van Dijk *Amadeus* database, with the following search criteria: German–based firms with at least €50 million in annual turnover, owned with at least 50.1% ownership by one family. To collect this information, we used the “hyper ownership viewer” in order to quickly identify firms with concentrated ownership. Moreover, sampled firms had to be the global ultimate owner (GUO) (parent company with no other holding above them).

The aforementioned process yielded a first sample of 781 firms, which were contacted via corporate email addresses and asked to participate in an online survey, with the requirement that the CEO ought to be the respondent. Consistent with past research (Machold, Huse, Minichilli, & Nordqvist, 2011), the CEO is expected to be the best key informant because of his/her knowledge on different firm-level orientations and attitudes. The data collection period was the summer of 2012. All respondents had to indicate whether they perceived the firm to be a family firm. In order to confirm the self-perception as a family firm, we checked the website and press releases for further information for each firm.

We reached a usable final sample of 113 firms. An analysis of variance (ANOVA) between firms that responded before and after the follow-up mailing yield no significant differences on the variables of interest, controlling for a potential non-response bias (Armstrong & Overton, 1977). The final sample is composed of medium and large-sized firms (20% with 250 or less employees, 25% between 251 and 500 employees, 55% with more than 500

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employees), which are on average 75 years old. About 34% of all firms are first generation family firms, 20% are in the hands of the second generation, and 46% are owned by the third or a higher generation.

3.2. Measures

3.2.1. Dependent variables

Both constructs *pace of internationalization* and *international performance* were measured by means of multiple items and relied on existing measurement scales that have been validated in extant literature (for pace of internationalization see Lin, 2012; Vermeulen & Barkema, 2002; and for international performance see Cavusgil & Zou, 1994). Table 1 presents in detail the scales used in the study.

Regarding pace of internationalization, the respondents were asked (on a Likert scale ranging from 1 to 5) to indicate their level of agreement concerning the speed of internationalization, the number of countries simultaneously targeted, and whether the internationalization process is continuous instead of characterized by epochs of internationalization.

As regards *international performance*, we used three items to measure it (on a Likert scale ranging from 1 = strongly disagree to 5 = strongly agree), in terms of profitability, sales growth and export performance of the most important foreign market.

3.2.2. Mediating variables

The construct *international entrepreneurial orientation* (IEO) is based on 5 items (Likert scale ranging from 1 = strongly disagree to 5 = strongly agree for each item) stemming from Knight and Cavusgil (2004), and consistent with the definition provided by Sundqvist et al. (2012) of IEO (Covin & Miller, 2014). In the survey, respondents were asked to report their level of agreement about the top management's view of the market, organizational culture, human resources development, experience, and risk-attitude.

3.2.3. Independent variable

The variable *openness of governance structure* was calculated out of 5 other variables. The German system of corporate governance (two-tier model) requires a strict separation between the management board and the supervisory board. However, depending on the firm organizational form and its size (measured as the number of employees), a supervisory board might not be mandatory by law. Indeed, family firms in Germany often install voluntary supervisory boards and/or advisory boards, so called “Beiräte” (Stamm, 2011). Thus, mid-sized family firms might have a governance structure characterized by (i) only a management board, (ii) a management board and a mandatory or voluntary supervisory board, (iii) a management board and a mandatory or voluntary supervisory board, plus an additional optional advisory board. In this study, we aggregate the influences of external non-family members on the different types of boards into one variable, as the aim of the study relates to a broad conceptualization of the influence of family versus non-family members in the top decision-making levels of the firm.

In the survey, respondents were asked to what extent non-family members are present within the management board, the supervisory board (if present) and the advisory board (if present). The four point scale ranges from “the management/supervisory/advisory board is fully filled with *family* members”, equal to 1, to “the management/supervisory/advisory board is completely filled with members from *outside* the owner-family”, equal to 4, with two intermediate steps. Since these different boards, as whole groups, can have different degrees of influence on strategic decision-making processes, two more questions have been included in the questionnaire,[1] asking how strong the influence of the supervisory board and/or the advisory board is on the firm's strategic decision-making processes, measured with a five point scale ranging from “No influence”, equal to 1, to “Very strong influence”, equal to 5, with three intermediate steps (weak, moderate and strong). Afterwards, the degree of the presence of non-family members on each governing body was multiplied by the degree of influence of the respective board, and then the three obtained scores summed over.

Consequently, via the aforementioned scoring procedure, a final score ranging from 7 (complete family dominance in governance, with minimum influence in supervisory and advisory boards) to 60 (complete non-family dominance in governance, with maximum influence in supervisory and advisory boards) was assigned to each case. If a specific type of board was not available, the scores from the available boards (at least the management board is always available) were extrapolated in order to create comparability concerning the openness of the governance structure.[2] These scores then were split-up into five intervals according to the respective quantiles, leading to a final five point Likert scale of non-family members' influence in governance, which is used as a single formative indicator for our *Openness of the governance structure* construct.

Overall, this approach is conceptually close to the SFI (Substantial Family Influence)-Index, which is part of the F-PEC scale from Astrachan, Klein, and Smyrnios (2002) study, with the major difference that ownership is not continuously measured in our scale (as we are only concerned with influence and not control), but we assess the perceived influence of the different governing bodies on strategic decision-making, which can be viewed as a further development of the SFI-Index (Astrachan et al., 2002). Moreover, the advisory board is additionally included in our calculation, as this can also have substantial influence on family firms' decision-making processes (Calabrò & Mussolino, 2013).

3.2.4. Control variables

Firm size and firm age were included as main control variables. *Firm size* is measured as number of full time equivalent employees (Dass, 2000). *Firm age* is measured as number of years since incorporation (Carr, Haggard, Hmieleski, & Zahra, 2010).

3.3. Method

The research model was tested through partial least squares structural equation modeling (PLS-SEM), a variance-based method selected as an appropriate method to estimate structural equation models (Hair, Sarstedt, Pieper, & Ringle, 2012), and particularly suitable for this research for the following reasons. First, PLS-SEM allows us to model and test complex relationships with empirical data in order to develop theories in exploratory research. Second, the advantage of adopting this method lies on the possibility to consider in a more flexible way different model elements such as

[1] There was no question assessing the strategic decision-making influence of the management board, as this can be assumed to be very high in the German two-tier setting. For the purpose of this analysis, we set the influence of the management board equal to 5.

[2] The minimum score equals 7 when all the governing bodies are available, completely filled with family members, with the management board's influence set at five by default. The maximum score equals 60 when all governing bodies are completely filled with non-family members and the degree of influence of all the boards equals 5, or when there is only the management board completely filled with non-family members.

Table 1
Measurement model evaluation results.

Construct labels	Items and scale	Loading	(t-value[a])
International EO	**To which extend do you agree or disagree with the following statements? (5-point scale, 1 = strongly disagree, 5 = strongly agree)**		
CR: 0.893	Top management tends to see the world, instead of just Germany, as our firm's marketplace	0.858	(35.534)
AVE: 0.630	The prevailing organizational culture at our firm (management's collective value system) is conducive to active exploration of new business opportunities abroad	0.836	(26.901)
	Management develops human and other resources for achieving our goals in international markets	0.777	(16.363)
	Our top management is experienced in international business	0.861	(35.411)
	In international markets, our top managers have a proclivity for high-risk projects (with chances for high returns)	0.608	(9.730)
Pace of Internationalization	**Please indicate your level of agreement concerning the following statements related to the internationalization processes within your firm.**		
CR: 0.819	In the past, our firm has rather slowly and stepwise penetrated international markets (left anchor, coded 1). In the past, our firm has very rapidly penetrated international markets (right anchor, coded 5)	0.980	(39.381)
AVE: 0.607			
	Usually, our firm enters one country after another (left anchor, coded 1). Internationalization steps of our firm usually are performed in multiple countries at once (right anchor, coded 5)	0.790	(11.688)
	The internationalization of our firm is a continuous, steady, evolutionary process (left anchor, coded 1). The internationalization of our firm is marked by epochs of rapid internationalization (right anchor, coded 5)	0.625	(6.640)
International Performance	**To which extend to you agree or disagree with the following statements?(5-point scale, 1 = strongly disagree, 5 = strongly agree)**		
CR: 0.799	Our most important foreign market has been profitable during the past three years	0.640	(6.154)
AVE: 0.574	Our most important foreign market has achieved rapid sales growth during the past three years	0.868	(20.440)
	Our most important foreign market had satisfactory export performance during the past three years	0.749	(8.638)

[a] 5000 Bootstraps.

mediating dimensions (Sarstedt, Ringle, Smith, Reams, & Hair, 2014), as "PLS is primarily intended for causal predictive analysis in situations of high complexity but low theoretical information" (Jöreskog & Wold, 1982, p. 270). Finally, it has been found that PLS has larger statistical power compared to common maximum-likelihood covariance-based structural equation modeling methods (Reinartz, Haenlein, & Henseler, 2009), as it is less demanding regarding the minimum sample size (Henseler, Ringle, & Sinkovics, 2009), thus appropriate in this study.

We utilized the SmartPLS 2.0 software by using the path weighting scheme and a maximum number of iterations of 300 (Henseler, 2010). The abort criterion, which measures the changes in the outer weights between two interactions, was set at $<10^{-5}$ (Jöreskog & Wold, 1982). The settings for the non-parametric bootstrapping procedure were the following: 1) the sign change option was set to individual sign changes (Henseler et al., 2009), 2) 5.000 bootstrap samples were used (Hair, Ringle, & Sarstedt, 2011), and 3) the total of bootstrap cases was similar to the amount of valid observations ($n = 113$).

4. Results

In evaluating and reporting results we followed the guidelines to assess the measurement model before evaluating the structural model.

4.1. Measurement model

The measurement model assessment is based on reliability of items, internal consistency reliability and construct validity (convergent validity and discriminant validity). Table 1 discloses the composite reliability (hereafter CR) of all constructs, their average variance extracted (hereafter AVE), item loadings and t-values (two-tail test) of the respective loadings.

As shown in Table 1, all multiple item constructs have significant item loadings above 0.50 (Hulland, 1999). All constructs internal consistency reliability (Fornell & Larcker, 1981), measured with the composite reliability, is above the threshold of 0.70 (Nunnally & Bernstein, 1994). The AVE is greater than 0.50 (Chin, 1998) for all first order constructs. To test the discriminant validity, the square root of the AVE ought to be greater than all corresponding correlations, which is the case in our sample (see Table 2).

Table 3 shows the correlation matrix for our constructs.

Furthermore, we tested for a potential common method bias, as the predictor and dependent variables are obtained from the same respondents (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). We computed a factorial analysis (Harman's single-factor test) including all variables, which suggests that common method bias is not an issue within our model, as no single factor accounts for the most part of the variance among the items. Additionally, we conducted a test with an unmeasured latent methods factor where items are allowed to load on their theoretical constructs as well as on a latent common methods variance factor.

4.2. Structural model — hypotheses testing

We used a step-by-step procedure to analyze our structural model and to test our hypotheses. The first step focused on the main relationships between external influence and, respectively, pace of internationalization (hypothesis 1) and international performance (hypothesis 2). Subsequently, in step 2 we introduced the mediator variable (IEO) to test the mediation hypotheses 3 and 4.

Table 4 shows the results of the structural model estimation and

Table 2
Construct correlations and square root of average variance extracted.

		1.	2.	3.	4.
Full sample (n = 113)					
1.	External influences	**0**[a]			
2.	Int. entrepreneurial orientation	0.293	**0.793**		
3.	Pace of internationalization	0.238	0.429	**0.779**	
4.	International performance	0.161	0.485	0.376	**0.757**

Numbers in boldface indicate the square root of the AVE. No correlation is greater than the corresponding $\sqrt{\text{AVE}}$.
[a] Single indicator construct.

Table 3
Correlations, means and standard deviations.

	Mean	Std. dev.	1	2	3	4	5	6	8	9	10	11	12	13	14
1. External influences	2.59	1.01													
2. IEO 1	3.97	1.19	0.318**												
3. IEO 2	3.83	0.89	0.120	0.642**											
4. IEO 3	3.68	1.01	0.289**	0.597**	0.635**										
5. IEO 4	3.81	1.02	0.263**	0.682**	0.606**	0.647**									
6. IEO 5	2.54	1.04	0.012	0.453**	0.410**	0.335**	0.475**								
7. PI 1	3.11	1.10	0.270**	0.431**	0.454**	0.324**	0.535**	0.309**							
8. PI 2	3.02	1.23	0.134	0.364**	0.374**	0.186	0.333**	0.188	0.559**						
9. PI 3	2.59	1.19	0.105	0.185	0.206*	0.107	0.255**	0.163	0.392**	0.488**					
10. IP 1	4.17	0.68	0.036	0.243*	0.202*	0.202*	0.228*	−0.112	0.221*	0.135	0.119				
11. IP 2	3.63	0.86	0.171	0.415**	0.423**	0.498**	0.519**	0.382**	0.304**	0.181	0.106	0.293**			
12. IP 3	3.68	0.72	0.096	0.195*	0.203*	0.273**	0.319**	0.147	0.235*	0.121	0.094	0.427**	0.360**		
13. Firm age	75.30	85.12	0.210*	0.221*	0.083	0.062	0.108	0.084	0.208*	0.165	0.109	0.148	−0.055	0.102	
14. Firm size	1674	3149	0.177	0.060	0.012	0.037	0.004	−0.042	0.086	0.090	0.152	−0.160	−0.109	0.031	0.033

IEO = International Entrepreneurship Orientation; PI = Pace of Internationalization; IP = International Performance.
*p ≤ 0.05; **p ≤ 0.01.

evaluation of the relationship between *external influence* and both dependent variables *pace of internationalization* and *international performance*. When estimating the structural model without the mediator construct, the direct effect of external influence on *pace of internationalization* has a significant value of 0.201 ($p < 0.05$), and the direct effect of *external influence* on *international performance* has no significant value. Thus, we found support for hypothesis 1 but not for hypothesis 2.

Afterwards we analyzed the mediating role of *IEO*. Fig. 1 shows the estimates. After including the mediator construct, *IEO*, we found that *external influence* have a high significant effect on *IEO* (0.293, $p < 0.05$), which in turn has strong and significant relationship with *pace of internationalization* (0.452, $p < 0.05$) and *international performance* (0.481, $p < 0.05$). The indirect effect of external influences via the mediator *IEO* on *pace of internationalization* is 0.132 ($p < 0.05$). At the same time, the relationship between *external influence* and *pace of internationalization* is not any longer significant. Hence, *IEO* fully mediates the relationship between *external influence* and *pace of internationalization*. Since, the direct relationship between *external influence* and *international performance* is not significant, we cannot test mediation effect and, therefore, hypothesis 4 is rejected.

The R^2 values for both dependent constructs in the mediation model are relatively low, 0.266 for *pace of internationalization* and 0.249 for *international performance* respectively. Even though these results indicate that our values are not very strong this does not invalidate our model and future research should consider that new variables have to be theoretically incorporated into the model in order to better capture the drivers of both pace of internationalization and international performance.

5. Discussion and conclusions

This study has shown how the openness of family firms' governance structures (measured through the influence of non-family board members in the different governing bodies) impacts family firms' pace of internationalization and international performance, through the mediation of IEO. By sharpening the investigation of the antecedents of family firms' international outcomes, we have further addressed the issue of family firm heterogeneity (Chua, Chrisman, Steier, & Rau, 2012) with a specific focus on different and varying international attitudes of family firms depending on their governance structures and international entrepreneurial orientation.

The main findings reveal that the involvement of non-family members in the management, supervisory and/or advisory boards helps family-controlled firms to overcome strategic stagnation and embrace firm internationalization. Specifically, by differentiating between pace of internationalization and international performance, we also address the questions of how and how successful family firms internationalize. Interestingly, the analyses suggest that IEO plays a significant role in explaining the pace of

Table 4
Path Coefficients and t-values.

Path (model without IEO as mediator variable)	β	(t-value)
Firm age/pace of internationalization	−0.148	(1.343)
Firm age/international performance	−0.032	(0.0261)
Firm size/pace of internationalization	0.066	(0.5390)
Firm size/international performance	−0.032	(1.006)
External influence/pace of internationalization	0.201*	(1.992)
External influence/international performance	0.171	(1.489)
Path (model with IEO as mediator variable)	β	(t-value)
Firm age/pace of internationalization	−0.112	(0.096)
Firm age/international performance	0.039	(0.649)
Firm size/pace of internationalization	0.082*	(0.989)
Firm size/international performance	−0.105	(0.649)
External influences/international entrepreneurial orientation	0.293**	(4.212)
External influences/pace of internationalization	0.066	(0.798)
External influences/international performance	0.047	(0.549)
International entrepreneurial orient./pace of internationalization	0.452**	(6.348)
International entrepreneurial orient./international performance	0.481**	(6.521)

*p ≤ 0.05; **p ≤ 0.01 - Two-tail test.

Please cite this article in press as: Calabrò, A., et al., Governance structure and internationalization of family-controlled firms: The mediating role of international entrepreneurial orientation, European Management Journal (2016), http://dx.doi.org/10.1016/j.emj.2016.04.007

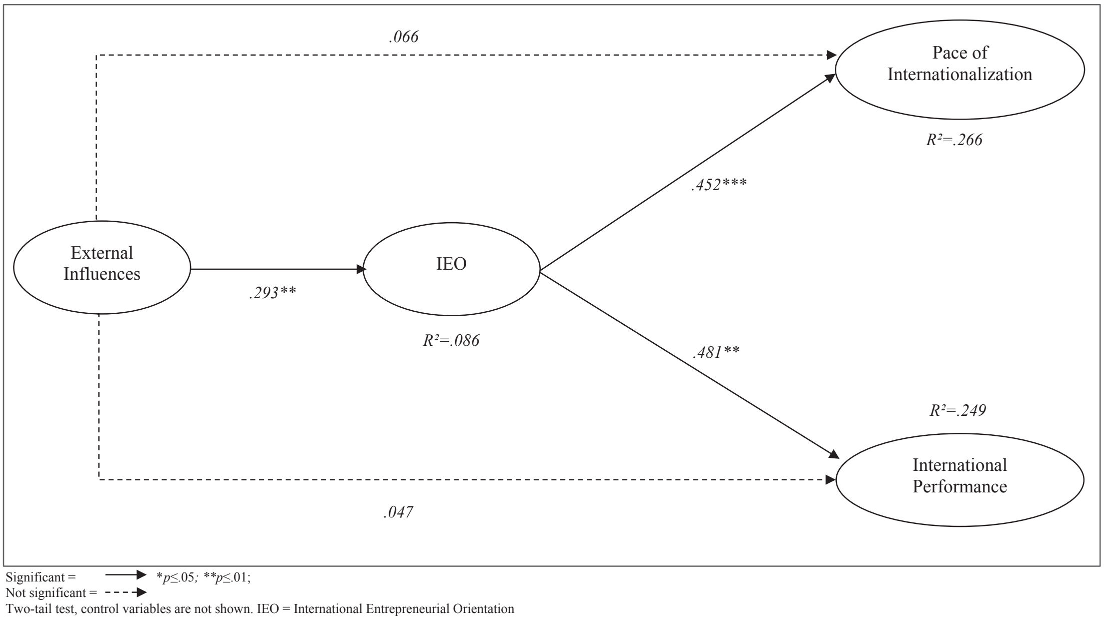

Fig. 1. Structural model with *International Entrepreneurship Orientation* as a mediating variable.

internationalization, thus suggesting that it is not enough to increase the presence of non-family members in the governance structure of family firms, but that it is also important to foster the attitudes, behaviors and beliefs, at the firm level, necessary to broaden and improve the activities in foreign markets, in order to finally accelerate internationalization. An international entrepreneurial orientation may thus allow firms to leverage the differences in their governance structure, making effective the potential positive effects of the reduction of dependencies from external environment in terms of resources and knowledge, in order to increase the pace of internationalization. In this way, an entrepreneurial mindset revolved toward international activities may become a common characteristic of individuals that come from different background and experience, but work together leveraging their diverse connections and networks to advise on internationalization.

Thus, these findings stress the importance of opening-up the discussion about IEO as an additional distinct strategic orientation (Covin & Miller, 2014). Turning the lens towards family firms, this study also suggests how relevant is to include non-family "voices" in the governing bodies in order to successfully accelerate internationalization by reducing dependencies from the external environment, so that family firms can effectively become the arena to engender the set of beliefs, preferences, and behaviors that foster internationalization (Covin & Miller, 2014). This study contributes to the previous findings on the relationship between the firm's governance structure and internationalization outcomes (Pukall & Calabrò, 2014; Sciascia et al., 2013) in several ways. First, considering pace and performance as internationalization outcomes offers a more nuanced measurement of family firms' internationalization beyond the traditional one-way measure usually based on the percentage of sales from foreign markets (export intensity). This study, in particular, shows that it is important to distinguish and analyze these different outcomes, as among the firms sampled in this study the effect of the openness of the governance structure and IEO is completely different between the two different outcomes considered, and while the effect on pace of internationalization is significant, this is not supported in case of international performance. Second, the role of IEO as a mediator offers interesting insights to further explore the intersection between governance studies and international entrepreneurship. Indeed, our main findings may contribute to theory development, suggesting that what RDT predicts is valid in the context of internationalization studies. The presence of non-family members in the governing bodies of family firms fosters an attitude towards international markets, as it likely brings different experiences, resources, and network ties that strongly affect IEO. Family business literature and practitioners can also benefit from our findings, as the influence of non-family members in governance may affect internationalization outcomes, only if they affect the set of attitudes, behaviors and beliefs, namely IEO (Sundqvist et al., 2012), thus suggesting the relevance of a proper governing structure to successfully advise and guide family firms in their internationalization processes with a proper degree of external non-family board members.

6. Limitations and future research directions

Our research is not free from limitations, that future studies are called to address. First, as only cross-sectional data were used, it was not possible to infer for direct causality considerations. Furthermore, the CEOs were the only respondents, while a multi-respondent survey may strengthen and corroborate our findings. Nevertheless, although this study relies on variables based on self-reported data, we acknowledge that perception-based measures often relate well with objective data and may be preferable, equally in family and non-family business research (Eddleston & Kellermanns, 2007). As we focus exclusively on German firms, the generalizability concerning other countries can be questioned, as Germany has some idiosyncratic characteristics concerning its legal system in relation to firm governance (Stamm, 2011). One important element of this legal system is the co-determination law, which takes effect when the firm has more than 500 employees or is a public firm, which is the case for 49% of the firms in our sample. In these firms, one third of the supervisory board is filled with employee representatives, mandatorily. The openness of the governance structure variable has been created distinguishing between family and non-family board members; therefore effects of different groups of non-family members are not considered. Especially the employee participation and its effect in German family firms could be an important explanatory factor in our setting.

Another aspect that should be considered, as the study is based on German firms, relates to the relevance of international markets for a country that is geographically located in a strategic position with respect to several other countries. This characteristic is not globally valid, as for example North America and Asia are set in a completely different economic landscape. Comparative cross-national research can address this issue and show whether the propensity to internationalize is dependent also on the region of the world in which the firm competes, as also other institutional and legal aspects may be considered in future research, like the presence of a venture capitalist who invests in the family firm to make it grow international (Cumming, Johan, & Zhang, 2014). The R^2 values for both dependent constructs in the mediation model are relatively low suggesting that future research should consider new variables into the model in order to better capture the drivers of both pace of internationalization and international performance. For example, it would be interesting to get precise information on the timing of internationalization, and whether external board members have been hired before or after the first international activities take place. Furthermore, information on human capital of these board members, like their previous experience, and whether this is developed in international endeavors may be extremely relevant to further contribute to this stream of literature.

Although we reduced the heterogeneity within our sample by focusing on family-controlled firms (the family holds more than 50.1% of the firm's equity), there is much more complexity to be considered when studying family firms, as discussed in the stream of literature debating about the concept of socioemotional wealth (Berrone, Cruz, & Gomez-Mejia, 2012; Chua et al., 2012). Future research could leverage on this concept to theoretically advance our findings by considering for example changes in socioemotional wealth endowment in relation to the influence of non-family members and its effect on IEO. Furthermore, the behavioral agency model inherent in the socioemotional wealth concept could be used to investigate the risk propensities towards internationalization (Minichilli, Brogi, & Calabrò, 2015; Pukall & Calabrò, 2014), especially considering that different non-family members involved in the firms' governance may trigger changes in risk attitudes and in the goals pursued by family firms. Additionally, our focus on the pace of internationalization is of exploratory nature, but could be further developed by developing a more comprehensive measure. Ultimately, also the IEO construct could be further sharpened, maybe by decomposing it into different sub-dimensions, measuring it as a second order latent variable.

In conclusion, there are several avenues for future research that can be explored in order to shed light on the complex dynamics of family firms' internationalization processes and outcomes by further investigating useful and yet under-explored antecedents such as family firms' governance structures and entrepreneurial behaviors.

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Please cite this article in press as: Calabrò, A., et al., Governance structure and internationalization of family-controlled firms: The mediating role of international entrepreneurial orientation, European Management Journal (2016), http://dx.doi.org/10.1016/j.emj.2016.04.007