Teaching and Learning Guide

Network Mechanisms in the Entry and Post-Entry Phases of Internationalisation: Evidence from Finnish Family Firms

This guide accompanies the following article: Tanja Leppäaho, Sarah Jack and Emmanuella Plakoyiannaki. 2021. Network Mechanisms in the Entry and Post-Entry Phases of Internationalisation: Evidence from Finnish Family Firms. *British Journal of Management* DOI: https://doi.org/10.1111/1467-8551.12564.

Read the original article at **here**.

Authors' Introduction

Family firms (FFs) comprise the majority (about 80%) of all firms around the world, are a dominant economic force on a global scale, and some are major international players. They are also very important on a local scale, accounting for an enormous percentage of the employment, revenues, and GDP of national economies (European Commission, 2019; Hennart et al., 2019). FFs are a distinctive firm type owed to the involvement of family members in both their ownership and management, influencing on their strategic decision-making, for instance in relation to their economic and non-economic decision-making. However, FFs are heterogeneous amongst themselves (see Arregle et al., 2017; Hennart et al., 2019; Metsola et al., 2020). A family firm can also be defined in different ways as regards the share of ownership, need for family managers and continuity. Leppäaho et al. (2021) studied firms in which the family (i) controlled more than 50% of the shares or votes in the firms

(ownership), (ii) had one or more of its members in key management positions (management), and (iii) had members of more than one generation actively involved with the business (continuity).

The co-existence of economic and social gains is related to the emerging concept of *bifurcation bias* (see Kano & Verbeke, 2018; Verbeke & Kano, 2012) which refers to the tendency of FFs to favour family vs. nonfamily assets. This bias is a unique, affect-based phenomenon influencing the decisions taken by FFs. It manifests itself in two simultaneous, diverging patterns of behaviour towards the family, involving assets of heritage, uniqueness, and nurture vs. nonfamily (commodity type) assets, and it is applied systemically and by default (Kano & Verbeke, 2018). There is a view that FFs are inherently prone towards bifurcation bias even when they undertake critical decisions such as internationalisation, albeit among some FFs more than others over time (Kano & Verbeke, 2018). With their being prone towards bifurcation bias, we see that social networks may well play an important role in how FFs extend themselves beyond their home market and internationalise their activities (Ellis, 2011; Sun, Mellahi & Thun, 2010; Zhang, Tan & Tan, 2016; Zhou, Wu & Luo, 2007).

Existing studies illustrate conflicting insights on the use of social networks and network mechanisms (Elfring et al, 2021; Zhou, et al., 2007) in business overall and internationalization especially. Two most widely reference network are *network closure* and *structural holes (SHs)* (Burt, 2005; Coleman, 1988). The network closure mechanism describes the positive effects of cohesive, strongly embedded social ties within social networks (e.g. Coleman, 1988). The structural holes mechanism, in contrast, illustrates the existence and circulation of flows of information when holes (gaps) in a social structure exist (Burt, 2005). Within their social networks, FFs tend to look for international co-operators who offer close, trustworthy, longstanding network ties (Zellweger et al., 2018). Since within FFs both economic and social gains (Roessl, 2005) co-exist, their social network mechanisms might also be somewhat distinctive (Kontinen & Ojala, 2012; Ciravegna et al., 2019). Viewed in this light, in the study at hand, we pose the following questions: *i) What network*

mechanisms do FFs use at entry and post entry? (ii) How do they use these network mechanisms? and *(iii) Why do they use these mechanisms?* We employ a multiple case study design of 15 Finnish FFs operating in the manufacturing sector.

We advance *a typology* that captures the use of network mechanisms in the entry and post-entry phases of FFs internationalisation. The typology explains *what* mechanisms FFs use, and *how* and *why* they use them heterogeneously. Our analysis provided four distinct types of FFs, labelled *trotter, preserver, explorer*, and *conqueror*.

Our evidence points out that the mechanisms of network closure and structural holes *did not sufficiently describe* how the investigated FFs networked for internationalisation and we, hence, introduce a new network mechanism, namely *network termination*, conceptualised as *a process for the ending of a network tie, either by choice or force of circumstance, leading to the breaking of a business relationship*.

Our evidence shows that for FFs, as opposed to small and medium-sized enterprises (SMEs), social network ties and the network closure mechanism were significant not only in the entry phase, but also in the post-entry phases of FF internationalisation. Interestingly, in our data, the FFs who overcame bifurcation bias behaved in a rather similar way to the SME patterns illustrated in the IB and IE literatures.

Our evidence points out that for different types of FFs, network termination came about for different reasons: bifurcation-biased firms (Verbeke et al., 2018) focused on social networks and on the network closure mechanism at both the entry and post-entry phases of internationalisation and used the mechanisms of SH and network termination only when necessary, specifically to support the survival of the firm. On the contrary, FFs which had overcome bifurcation bias applied network closure at the entry stage, but used network termination and SHs strategically post entry.

This teaching guide is suitable as part of courses for *Master-level classes in International Business/Strategy, International Entrepreneurship/Growth and Family Business (Strategy)*. The article serves as a pre-reading to be carried out before the lecture. The questions presented below offer the opportunity for discussion in the classroom. This discussion will require 60-90 minutes depending on the size of the group, their background knowledge and understanding of the subject area.

The objective of the current teaching guide is:

1. To provide students with an overview and understanding of the key characteristics of FFs, their heterogeneity, bifurcation bias and social network mechanisms in the internationalization of the firm but especially in relation to FFs.

2. To offer through 15 Finnish business cases a typology of FFs (*trotter, preserver, explorer*, and *conqueror*) that applied network mechanisms within their internationalization process

3. To give the opportunity for students to discuss the reasons behind FF heterogeneity and come up with relevant managerial recommendations for FF managers/leaders.

4. To demonstrate the effective use of qualitative case study research in FF internationalisation research. This article serves as a potential exemplar for Master's students wishing to write a qualitative thesis.

Teaching Plan, For a Classroom Discussion of 60 to 90 minutes

1. As a starting point, students are invited to read the article before the class.

2. Before the class, the students should also form groups of 3-5 members and study a family firm with international presence (through newspapers, webpages and some other material available) and study its internationalization history (development of foreign markets (entries, exits), operation modes, foreign sales to total sales through its history) to assess in the

classroom which FF type it might represent in relation to its international networking (if there have been changes in the markets, operation modes, etc. indicating changes in their networks etc.)

3. For the classroom, the following questions are offered for discussion. It is suggested that these questions are dealt in small groups of 3-5 members for about 40 minutes and that following on from these group discussions a broader discussion takes place with the whole class for 20-40 minutes to summarize the main take-aways of the small-group discussions.

The classroom discussion questions for the small group discussion part (40 minutes):

1. How is bifurcation bias defined? According to the Leppäaho, Jack & Plakoyiannaki (2021) study, how is bifurcation bias manifested in the case of different types (*trotter, preserver, explorer*, and *conqueror*) of Finish FFs when they network to internationalize? Have a look at Table 2 and Appendix 1 and also use Table 1 to help to see some background features of the case FFs to explain their heterogeneity and the types they represent in the typology.

2. How was the role of network mechanisms (network closure, structural holes, network termination) in the internationalization of the different types of FFs (*trotter, preserver, explorer*, and *conqueror*)? How should each type of FF in the typology be advised / consulted for an even more profitable internationalization strategy?

3. How would you categorize the family firm case you studied in the small group? Does it fall into one of these types or does it form a new type? Please present the main milestones of its international networking strategy and give justification for the type it represents.

4. Overall, how does the international networking of FFs differ from the networking of SME firms? See the discussion and conclusion sections of the paper and offer insights from your own case.

The classroom discussion questions for the teacher-driven, concluding discussion (20-40 minutes):

1. What are the key research questions of the authors? Why are these questions worth considering?

2. Why are networks important when FFs are internationalising?

3. What features are related to the heterogeneity in the international networking of FFs?

4. How is the role of network mechanisms in the internationalization of the types of FFs emerging from the typology around Finnish FFs? How does bifurcation bias explain these differences?

5. How might family business owners deal with bifurcation bias?

6. What are the main pieces of advice you would give to a family business manager or leader taking care of the international strategy of the firm?

7. How was qualitative case study research used in this study? What are the features and advantages of qualitative case study research?

References

Arregle, J. L., Duran, P., Hitt, M. A. and M. Van Essen (2017). ´Why is family firms' internationalization unique? A meta–analysis´, *Entrepreneurship Theory and Practice*, **41**, pp. 801-831.

Burt, R. S. (2005). *Brokerage and closure: An introduction to social capital*. Oxford University Press, Oxford.

Ciravegna, L., L. Kano, F. Rattalino and A. Verbeke (2019). 'Corporate diplomacy and family firm longevity', *Entrepreneurship Theory and Practice*, **44**, pp. 109-133.

Coleman, J. S. (1988). 'Social capital in the creation of human capital', *American Journal of Sociology*, **94**, S95-S120, supplement.

Elfring, T., K. Klyver and E. Van Burg (2021). *Entrepreneurship as Networking: Mechanisms, practices and Strategies*. Oxford University Press. ISBN 0190076895.

Ellis, P. D. (2011). 'Social ties and international entrepreneurship: Opportunities and constraints affecting firm internationalization', *Journal of International business studies*, **42**, pp. 99-127.

European Commission (2019). Family Business. [online document]. Available at:

https://ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/family-business_en

Hennart, J. F., A. Majocchi and E. Forlani (2019). 'The myth of the stay-at-home family firm: How family-managed SMEs can overcome their internationalization limitations', *Journal of International Business Studies,* **50**, pp. 758-782.

Kontinen, T. and A. Ojala (2012). 'Social capital in the international operations of family SMEs', *Journal of Small Business and Enterprise Development*, **19**.

Metsola, J., T. Leppäaho, E. Paavilainen-Mäntymäki and E. Plakoyiannaki (2020). 'Process in family business internationalization: The state of the art and ways forward', *International Business Review,* **29.**

Kano, L. and A. Verbeke (2018). 'Family firm internationalization: Heritage assets and the impact of bifurcation bias', *Global Strategy Journal,* **8**, pp. 158-183.

Roessl, D. (2005). 'Family businesses and interfirm cooperation', *Family Business Review*, **18**, pp. 203-214.

Sun, P., K. Mellahi and E. Thun (2010). 'The dynamic value of MNE political embeddedness: The case of the Chinese automobile industry'. *Journal of International Business Studies*, **41**, pp. 1161-1182.

Verbeke, A. and L. Kano (2012). 'The transaction cost economics theory of the family firm: Family–based human asset specificity and the bifurcation bias', *Entrepreneurship Theory and Practice,* **36**, pp. 1183-1205.

Verbeke, A., W. Yuan and L. Kano (2018). 'A values-based analysis of bifurcation bias and its impact on family firm internationalization', *Asia Pacific Journal of Management*, pp. 1-29.

Zellweger, T. M., J. Chrisman, J. Chua and L. Steier (2018). 'Social structures, social relationships, and family firms', *Entrepreneurship theory and practice,* **33**.

Zhang, C., J. Tan and D. Tan (2016). 'Fit by adaptation or fit by founding? A comparative study of existing and new entrepreneurial cohorts in China', *Strategic Management Journal*, **37**, pp. 911-931.

Zhou, L., W. P. Wu and X. Luo (2007). 'Internationalization and the performance of born-global SMEs: the mediating role of social networks,' *Journal of international business studies*, **38**, pp. 673-69.

Further Reading

Debellis, F., Rondi, E., Plakoyiannaki, E., and De Massis, A., 2020. "Riding the waves of family firm internationalization: A systematic review, integrative framework and research agenda". *Journal of World Business*, **56**, pp. 101-144.

Leppäaho, T., Plakoyiannaki, E., and Dimitratos, P., 2016. "The case study in family business: An analysis of current research practices and recommendations", *Family Business Review*, **29**, pp. 159-173.