Family firms in the maelstrom of international market entry and innovation – Can socio-emotional wealth (SEW) and entrepreneurial orientation (EO) be reconciled?

GYULA MÁRTON SZABÓ*

Department of Management and Organization, Corvinus University of Budapest, Budapest, Hungary

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ABSTRACT

I examine the relationship between the internationalisation of family firms and innovation. After the review of the relevant literature, I group together the narrow research topics addressed in the literature, which largely confirm the positive relationship between the two categories. Moreover, I demonstrate a theoretical framework which, according to the literature, can be implemented to put socio-emotional welfare and entrepreneurial orientation, which are restraining the internationalisation of family firms, on a common path, so that they can contribute to enhancing the innovative and international performance of family firms in a mutually supportive way.

KEYWORDS

family business, innovation, internationalization, socio-emotional wealth, entrepreneurial orientation

1. INTRODUCTION

Family firms are a dominant part of the economy both nationally and internationally in terms of the output they generate and the number of employees they employ (Wieszt – Vajda 2020;
Kárpáti 2021a, 2021b), yet their operations are specific in many respects and their decision-making mechanisms are different from those of non-family firms (Kárpáti – Drótos 2023). Although their activities and areas of operation are very diverse, there are some characteristics that are true for all of them. These include a long-term approach, which seeks to ensure business continuity and the possibility of intergenerational transmission (Wieszt et al. 2021), and risk aversion (Singh – Kota 2017; Ratten – Tajeddini 2017), which is precisely what they seek to achieve. Their decisions are also influenced by a number of factors that are not based on economic rationality. For instance, socio-emotional wealth that largely differentiates family firms from non-family firms (Lin – Wang 2021). However, in addition to its beneficial effects, these emotional aspects also constrain them and keep them from taking advantage of higher-risk opportunities that promise to be financially enriching relative to existing performance (Lohe et al. 2021). Socio-Economic Wealth (SEW) as an influencing factor is of course only one side of the coin, as organisations that are rather Janus-faced in this respect tend to be less formalised and significantly more flexible and resilient than non-family firms. These characteristics are precisely conducive to the so-called entrepreneurial orientation (EO) and innovation, which many researchers have found to influence the internationalisation of the firm (Denicolai 2015; Ratten et al. 2017; Modgil et al. 2022).

The aim of my research is to find a balance in this two-way situation, a path along which family firms do not have to give up any of their specific characteristics or capabilities, but can channel them in one direction to enhance their effectiveness and thus the long-term sustainability of their operations. This way innovation and internationalisation are not a threat but an opportunity for development in enhancing the strength of family firms, reinforcing and transmitting their values and ensuring their long-term sustainability.

My research question is: “Can the emergence of an entrepreneurial orientation support the socio-emotional wealth and well-being of family firms, thus providing opportunities for further development of the family firms?”

In order to answer this question, I will present the relationship between innovation and internationalisation, its nature and the additional factors that the literature identifies, and the criteria according to which they are analysed. The review is based on articles extracted in the manner indicated in the research methodology. I will then attempt to construct a model that allows SEW and entrepreneurial orientation to be channeled in the service of corporate interests in such a way that one does not cancel out but supports and reinforces the other. Throughout the chapter, I demonstrate the relationship between SEW and EO through two case studies. Finally, I summarise the results of this work and discuss the limitations of the research and the scope for further research.

2. RESEARCH METHODS

As a first step, the paper defines the concepts of family firms, innovation and internationalisation, and presents the most relevant theoretical approaches for further reading. Then, in the context of a literature review, it examines the relationship between internationalisation and innovation, the nature of the relationship between the two concepts, and whether or not, according to the authors examined, a link can be established. In addition, it looks at the role of the EO in all this.
The articles under study were selected by searching Scopus with the following search criteria:

(TITLE-ABS-KEY (internationali* OR FDI OR “foreign direct investment”)) AND (TITLE-ABS-KEY (innovati*)) AND (TITLE-ABS-KEY (“family business”* OR “family firm”* OR “small business”* OR “family enterprise”*)) AND (“entrepreneurial orientation”) AND (LIMIT-TO (SUBJAREA, “BUSI”) OR LIMIT-TO (SUBJAREA, “ECON”) OR LIMIT-TO (SUBJAREA, “SOCI“)) AND (LIMIT-TO (LANGUAGE, “English”))

This yielded 39 papers, that I processed and divided into four large groups according to their topic:

1. The relationship between internationalisation and innovation – papers that examine the relationship between the two variables and their impact on each other from different perspectives.
2. Comparing family firms and non-family firms, or family management and non-family management – these papers mainly describe the differences between family and non-family firms in the context of internationalisation and innovation.
3. Other papers not related to the categories above but relevant to my work.
4. Works excluded from the analysis – either because they were not relevant in terms of content or because their nature was not valuable from the point of view of the thesis (e.g. summaries, recommendations, case studies to be solved).

After grouping, the results in Table 1 were obtained.

Where possible, the content of the articles has been refined by further subcategorizing them by topic for ease of reference, but in the case of several papers, their findings are not simply placed in a subcategory.

Based on the picture emerging from the above, I attempted to create a theoretical framework that can resolve the contradiction formulated in the introduction, and I will explain its structure through two case studies, which I have chosen based on the study by Miles and Huberman (1994). In this study they describe, among other things, that when choosing case studies, one should aim for the principle of maximum diversity, that can help identify common patterns; it is worth choosing very unusual cases, as it helps understanding due to the unexpected context; and that the case studies chosen this way provide an opportunity for logical generalisation and for identifying examples of the theoretical model. It is also suggested that the cases should have both confirming and disconfirming examples, i.e. they should not only be able to prove the theory put

<table>
<thead>
<tr>
<th>Group</th>
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<tbody>
<tr>
<td>1. Link between internationalisation and innovation</td>
<td>17 items</td>
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<tr>
<td>2. Family vs. non-family firms</td>
<td>8 items</td>
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<td>3. Other</td>
<td>7 items</td>
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<td>4. Excluded jobs</td>
<td>7 items</td>
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</table>

Source: author.
forward if it is implemented, but also to show the negative effects of the model if its elements are not fulfilled. I will then justify and conclude the work by summarising the results of the paper and the limitations of the research.

3. CONCEPTUAL DEFINITIONS

3.1. Family firms

There is no universally accepted, definitive definition of the organisations we study, so in the following I will list only those criteria that appear in most analyses that come close to describing the family firm (Asrachan et al. 2002; Handler 1989; Laczkó 1997). A family business is defined as a firm controlled by one or more families with one or more controlling or at least an equity stake (Csákné Filep 2012). When the top managers of a firm are from the same family, they are expected to share the same traditions, social values, common vision and practical priorities. Loyalty is an important component among different types of top managers and is an invaluable intangible asset (Meneses et al. 2014), which usually includes long-term thinking, guaranteeing the operational sustainability of the firm (Wieszt et al. 2021), responsibility towards successors, and therefore a sense of progress, risk aversion and conservative management (Singh – Kota 2017; Ratten – Tajeddini 2017). For family managers, it is important to maintain control within the family, so they are reluctant to allow non-family managers into top management. This is one of the most significant differences with non-family firms, namely that family firms take a number of non-economic factors into account in their decision-making (Lin – Wang 2021).

3.2. Socio-emotional wealth (SEW)

SEW is one of the most dynamic new areas of family business research. Its object of study is complex, a combination of family control, influence and identity (Gomez-Mejia et al. 2007), but in a broader sense it is everything that cannot be defined in economic terms, or in other words, that cannot be explained in economic terms: family values, the intimate culture of the family business, long-term commitment, the intention of dynastic succession, the key role of sustainability (Zellweger – Astrachan 2008). According to Berrone (2012) describes complex behavioural characteristics and creates the FIBER scale, thus providing a measure of the socio-emotional wealth of firms. Its five measurement domains are listed in Table 2.

After examining his model, Hauck (2016) proposes a simplified scale (the REI scale), which looks at aspects such as intergenerational vision and dynastic ownership, family retention, the retention and transmission of traditions and values within the family, the close emotional ties between family members and the close relationship between family and business, security and its impact on identity.

Both scales allow very similar areas to be observed, with Hauck proposing a simplification, while retaining the aspects he considers most relevant, due to the large amount of data and the difficulty of accessing it. For example, the role of family corporate identity is also transformed in his model, and is reduced, in line with the results of Wieszt (2020), who found that the effect of family corporate identity on performance is not detectable, and that good performance does not affect or reinforce identity. However, it links identity to the transgenerational perspective of the family.
3.3. Innovation

Innovation is the ability to meet new, higher quality consumer needs (Chikán 2008), but innovation can be expressed in processes, organisational solutions or even marketing solutions in addition to better products and services (Czákó – Reszegi 2010), so we distinguish between product and process innovation. The main objective of family businesses is to ensure intergenerational business continuity, thus innovation becomes very important to survive, grow and remain competitive. Therefore, the integration of local markets with global markets and the continuous pursuit of sustainable growth drives family firms to innovate (Aronoff 1998; Zahra 2005; Naldi et al. 2007). Smaller family firms tend to be more flexible and use innovation as a differentiating strategy (McGrath 2011), which can also be a growth and hence survival strategy. In internationalising companies, the location and implementation of innovation, in

<table>
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<th>Categories of the FIBER scale</th>
<th>Explanation</th>
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<tr>
<td>1. Family influence and control</td>
<td>Primarily involves control over strategic decisions by the original founder or a dominant family coalition. As a consequence, family firms are more likely to remain under the direct or indirect control of the owners, regardless of financial considerations.</td>
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<tr>
<td>2. Family corporate identity</td>
<td>Or otherwise the identification of family members with the firm, an interpretation that differs in part from the definition of family corporate identity. But the term used in the model suggests that the external and internal stakeholders in the firm’s operations are seen as an extension of the family, which has implications for the treatment of employees, the quality of products and services, and the corporate image they convey.</td>
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<td>3. Social bond</td>
<td>A reciprocal bond within the family, not only between family members, but also extending to old suppliers and customers, thus fostering loyalty and stability (e.g. a financial service provider is not necessarily chosen on the basis of the remuneration or quality of the services it offers, but on the basis of recommendations or their network of contacts).</td>
</tr>
<tr>
<td>4. Emotional attachment</td>
<td>Refers to a non-static state and the role of emotions in the context of the family business. As the boundaries between the family and the company become blurred, emotions influence the decision-making mechanism of the family firm.</td>
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<td>5. The renewal of the family link to the firm through dynastic succession</td>
<td>Family members see the company as a long-term investment to be passed on to future generations. The result is a transgenerational approach to sustainability and &quot;patient capital&quot;.</td>
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other words the R&D department, in the organisation may also be (1) **geocentric centralised**, combining the strengths of the centralised model with the multicultural nature of the R&D organisation; (2) **ethnocentric centralised**, where R&D is carried out exclusively in the home country; (3) **polycentric decentralised**, characterised mainly by companies with a strong focus on regional market needs; (4) **network**, where the home country research centre is only one of a number of research centres throughout the organisation, not coordinated but linked through various collaborations; (5) a ‘**hub**’ model, where the R&D centre is the leader in all R&D activities, with foreign laboratories covering only a few well-defined areas (based on Czakó – Reszegi 2010).

Many researchers agree that family firms that innovate more are significantly more profitable (McCann 2011; Vila 2010).

### 3.4. Internationalisation

The literature on internationalisation and the models that deal with it can be broadly divided into two broad categories, according to whether their authors are looking for answers to the question (I) why these firms internationalise or (II) how they do so. In other words, approaches that focus on the motives and drivers of internationalisation and models that examine how it takes place (Ince 2010). The first big circle can be further broken down into, among others, the (I/1) market power approach, pioneered by Hymer (1960), who writes in his work that a company entering an international market or markets must necessarily possess some unique, exclusive value that can offset the costs of foreign entry; and Vernon (1966), who identifies different internationalising motivations and drivers, and the associated directions and choices, at different stages of the product life cycle. These include the transaction costs or internalisation models (I/2), which justify the existence of international firms by explaining their creation by the fact that they can carry out their activities more economically by keeping as much of them within the firm as possible rather than by conducting them through external market transactions (Hennart 1982; Buckley – Casson 1976; Rugman – Alain 1998). Thirdly, the approach of the eclectic or OLI paradigm (I/3), in which the author attempts to develop a successful synthesis of three previous approaches (ownership-specific advantages, location-specific advantages, internalization advantages) (Dunning 1980). Finally, the knowledge-based approach (I/4), according to which the most important success factors in international competition are to be found in the basic capabilities of firms (Prahalad – Hamel 1990). The second group (which I will nuance in some details, as the two models that fall into this category are the two most commonly used in the articles under review) includes (II/1) models focusing on knowledge accumulation. These assume that the internationalisation of firms takes place in the context of, or in parallel with, a learning process, and conclude that the more experience firms gain in this respect, the more confident they will be in moving outside their national markets and the more capital they will be able to deploy there. They tend to look at internationalisation in stages, which may include becoming a supplier to an international firm, continuing and sustained importing, then exporting and finally foreign direct investment. Some theories identify exporting as the first step, others point to the interchangeability of the steps, even if the process is inward rather than outward. However this group also includes the born global theory (II/2), which highlights the shortcomings of process models, namely that there are firms that operate globally, or at least internationally, from the moment they are founded, or exit to foreign markets within a year of

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their creation. An interesting addition to the category is the BAG phenomenon (Born Again Global), which refers to a segment of firms that first stabilise their position in their national market but then are quickly swept into international waters by a sudden shock. Then, after a while, they scale down their international activities and suddenly a very rapid process of internationalisation is triggered, which means an international rebirth. The above shock may be a change of ownership, an acquisition of a firm with international links, or an acquisition by an international firm, or a change of technology. Proponents of the (II/3) business network model assume that companies operate as members of formal and informal networks and that companies with international elements in their network are more likely to internationalise. This applies not only to their formal networks but also to their personal relationships. The authors of the holistic models (II/4) take the diversity of SMEs as their starting point and focus on their motivations and entrepreneurial spirit.

Perhaps the best-known theory of category II/1 is the Uppsala or IPM model, which is also a description of the most common internationalisation process affecting family firms (Pukall – Calabro 2014). The Internationalization Process Model defines four steps, starting from ad hoc export activity, through the use of intermediaries or commercial agents and the establishment of an independent distribution network, to the creation of local production capacity, in other words foreign capital investment (Johanson – Vahl 1977). The authors identified and then studied two mechanisms that influence the internationalization process of a firm. On the one hand, they found that internationalising firms continuously increase their knowledge through internationalisation and use the knowledge acquired to improve their organisational functioning. On the other hand, it was also found that the managers of the firms studied were able and willing to change their level of internationalisation over time in order to strengthen their own position. The authors have continued to develop their study and updated it in 2009: they see business networks as a kind of market structure in which the internationalising firm is embedded, and the process of internationalisation should be seen as the result of actions to strengthen the network position. However, the internationalisation of family firms is different from that of non-family firms, as many researchers point out that they are risk-averse by nature, and their decisions are driven by long-term thinking and sustainability, as well as by a number of non-economic considerations. There is a broad consensus that high levels of family ownership (especially first generation) are a barrier to internationalisation. This calls for a specific approach, including family business aspects.

Lohe et al. (2021) use an earlier (Eternad 2004; Patel et al. 2012) model as a baseline when identifying push and pull effects on the internationalisation of family firms. The push factors include strategic incentives (such as (1) access to critical resources at lower costs, achieving synergies with international partners when launching products or services internationally; (2) competitive forces, such as the formation of alliances with competitors to avoid direct competition or to create synergies; and (3) family needs, such as the contradiction that family control or the retention of family employees sometimes conflicts with financial needs, so that family firms are often forced to choose between SEW and financial needs in their decisions.

The pull factors are (1) desirable (attractive) locations (since the firm can benefit from cost advantages in emerging markets and reach new consumers, thus diversifying its risk, and global operations create the need to further expand the organisational structure, thus creating positions that can also be filled by relatives who find it attractive to live and work in the target countries); (2) networks and alliances, i.e. the developing of business relationships with new partners or
relatives in the target country, which are rooted in mutual trust or even blood ties and can mitigate threats arising from cultural or legal differences; and (3) pre-emptive positions, which usually exist when a country’s markets are opened up and are favourable to first movers because there is no real competition and therefore lower risk.

Lohe et al. (2021) also examine what characteristics of the family firm can be identified as supporting and hindering internalisation. Supportive features include a simple decision-making mechanism, a flexible and adaptable organisation, extra workloads that can be taken on at any time as required, a character that serves the direct interests of shareholders from the first step to the next generation, and a long-term approach both within the company and in business relations. However, the lack of external resources and international experience due to a strong attachment to control, the SEW as a limiting factor in decisions, often in opposition to economic rationality, and the fact that many family businesses reject the uncertainty of entering the international market because of financial-asset security are also limiting characteristics.

The added value of their work, compared to previous model variants, is that they have created a two-dimensional system of supporting and inhibiting characteristics, which classifies the firms they have studied into three clusters. Furthermore, they examined the clusters by risk-taking and added a non-family member’s managerial position and process linkage to the system. An important finding is the conflict between the socio-emotional wealth guaranteed by the domestic market and the financial development opportunities offered by the international market.

4. THE RELATIONSHIP BETWEEN INNOVATION AND INTERNATIONALISATION

A significant number of the articles in the analysis seek to answer two questions: first, whether there is a link between innovation and internationalisation and, second, if there is a link, what is its nature. That this link exists and is detectable is confirmed in the vast majority of cases, starting with the exceptions, which partly explain the lack of a link on the basis of localisation, as in the case of Italian companies, where internationalising family firms are often artisanal manufactures where innovation is not the added value, but, on the contrary, the traditional character (Cerrato – Piva 2012). The link is not strong in the case of Chinese family firms, where, as internationalisation usually occurs in the early life stage of firms, when the (non-) availability of resources does not yet allow for innovation activity with character (Islam et al. 2022). This differs from the work of Alos-Simo and his co-authors (2023), whose first finding is similar to the theory of the historical fertile crescent, since, as it states, the prehistoric development of production technology does not occur in crescent-shaped regions with favourable production conditions, but in peripheral regions with harsher conditions. The authors also write in their article that, in the case of the almost eight hundred firms studied, it is not from stable, predictable markets but from recessionary, unstable markets that family firms with more successful export performance come in higher proportions. In their work, they examine process and product innovation separately, but while they find that process innovation is more prevalent than product innovation in their sample, neither type of innovation is associated with export performance.

Except for the three papers mentioned above, the papers in this group see a clear and positive link between innovation and internationalisation, with Orr and co-authors (2017) finding a clear...
link between innovation and internationalization. Antal et al. (2012) confirm this relationship, but in an earlier study they describe innovation as a condition for higher export activity. However, the nature of the innovation is not the same: any type of innovation can lead to different outcomes, as incremental innovation can ensure more deliberate progress and reduce risks, while radical innovation can backfire if it is not well received by the target market. The authors have established a circular model assuming reciprocal relationships between innovation, internationalisation and organisational learning (Freixanet et al. 2020). This relationship is confirmed by Freixanet and Federo (2022) when they suggest complementarity between high process innovation, export speed and high organisational learning capacity, adding that their results suggest that both R&D and employee training can improve it. Ratten and Tajeddini (2017) decompose innovation in family firms into two parts: discovery and exploitation. In discovery, the firm explores its potential, acquires new contacts and knowledge, which it then internalises in its operations. Exploitation begins when discovery validates the economics and viability of the opportunity. Goel and Jones (2016) suggest that this should be directed towards increasing knowledge, skills and technology.

We can further chisel the picture as follows.

4.1. Entrepreneurial orientation (EO)

The concept can be defined as a combination of autonomy, innovativeness, risk-taking, proactivity and a well-meaning aggressive competitive spirit (Lumpkin – Dess 1996). In his study, Hadryś-Nowak (2018) specifically examines entrepreneurial orientation and its elements, and in his conclusions, he attaches particular importance to proactivity and strategic planning to reduce risks. Ratten et al. (2017) argue that in family firms the first entrepreneur is the founder, as he starts the business, but in their view, this entrepreneurial spirit usually declines thereafter due to long-term sustainability and only becomes part of the entrepreneurial strategy again when a new generation enters the firm. EO shows a positive relationship with the internationalisation of family firms (Modgil et al. 2022), but does not influence the outcomes of internationalisation (Torkkelli et al. 2021), it rather has only an indirect effect on internationalisation, supporting its step-by-step unfolding and broadening (Ou-Yang et al. 2015). Denicolai et al. (2015) also put emphasis on the entrepreneur’s personality in their study and found that those whose parents had worked in, or managed family businesses were less risk averse than those who had not, but their findings and experience showed that family businesses that had undergone successful generational change were generally better managed than those managed by the founders (first generation). It is precisely the moment of successful succession that can give the company new momentum, often resulting in a more innovative spirit, successor proactivity and international vision, which together lead to internationalisation (Meneses et al. 2014). Linked to the above, the presence of a second generation in the family business, the creation of alliances with other firms, and certain intangible resources (in particular product innovation and human resources) all have a positive impact on the degree of internationalisation. The results also indicate that the size and age of family firms are important factors for their international expansion (Fernandes – Olmos 2020).

4.2. Learning by exporting

Several authors agree that it is not only improvements and an increase in the level of organisational knowledge that can lead a firm to foreign markets, but also the other way round: in particular, firms
entering international markets can enrich their knowledge with experience gained there (learning by exporting - LBE). Handoyo et al. (2021) identify product innovation and international market knowledge as critical success factors for a firm’s internationalisation, as well as institutional networking, and see the first area as developing organically from the moment a firm starts to cooperate with international partners. Freixanet et al. (2021), however, argue that family firms are more likely to convert new knowledge from exports into product innovation because of their innovation strategies and capabilities, and are more efficient in this endeavour than non-family firms. This diverts the typically limited resources of family firms away from process innovation.

### 4.3. Primary target areas for internationalization

As discussed above, the generally accepted thesis is that family firms are essentially risk averse for reasons of long-term sustainability, and this attitude is reflected in their decisions to internationalise and innovate. According to Braga et al. (2017), family firms innovate in particular when they see it as a means to access new distribution channels, to enter new markets geographically, or to reduce their production or commercial costs. These factors, both individually and in combination, contribute to the operational risk of companies. This is confirmed by the work of Ratten and Tajeddini (2017), who add that risk avoidance is not a passive but an active process for family firms, in other words the need to minimise risk leads them to take steps to explore identified opportunities until they are comfortable with the option under consideration (one of the means of doing this is innovation, which thus helps them, albeit indirectly, to enter international markets). If they then decide to expand their area of operation, they often do so towards markets that are considered safer. The term ‘psychic distance’ (Graves – Thomas 2008) is used to refer to markets that are closest to the firm’s own market, irrespective of geographical distance, primarily in linguistic-cultural or legal terms. In other words, it refers to factors that impede the flow of information between the firm and the target market, such as differences in industrial development, educational standards, political systems, corporate practices and national cultures. Although psychological distance is often correlated with geographical distance, the link is not entirely clear. It may be the case that there is a large psychological distance between geographically close markets, i.e. strong differences in corporate practices and institutional environments. Furthermore, the psychological distance may change over time. As the diversity of foreign markets (presence in different markets) increases, firms gradually increase their organisational routines and the importance of psychic distance decreases. (Incze et al. 2010)

It can be observed that family firms’ internationalisation processes also include this decision-making aspect, as well as their preference for countries where they have relatives or close friends living in the diaspora and through whom they enter the less unknown territory with their products or services, thus in most cases keeping personal control within the family (Ratten et al. 2017; Ratten – Tajeddini 2017).

### 4.4. Family versus non-family businesses

A number of the articles, when looking at innovation and internationalisation, put a different perspective on these two factors: namely, whether they are different for family and non-family firms.

The focus of the research is different. For family firms, the link between internationalisation and innovation is stronger than for non-family firms, which is even more so when the firm is
run by a family member and not a non-family member (Lin – Wang 2021; Alayo et al., 2022). The converse is argued by Samsami and Schøtt (2021), who find evidence that innovation induces firms to increase their export performance, but that this relationship is weaker for family than for non-family firms. Somewhat against the international experience, the results of Singh and Kota (2017) suggest that family firms are more innovative and more likely to internationalise than non-family firms, especially younger family firms compared to older ones.

Islam and colleagues (2022) find that family ownership has a negative effect on technical innovation, while family management has a positive effect, but both are supportively related to international strategies. However, if foreign shareholders are present in the ownership structure, this can specifically catalyse internationalisation (Ou-Yang et al. 2015). Cerrato and Piva (2012), they identify the negative effect of family management on internationalisation, adding that it can be stimulated by a more qualified pool of professionals and top management, as well as the possible presence of foreign shareholders. Herrera and de las Rosas (2020) examine innovation and internationalisation from the perspective of the sustainability of family firms. Both are cited as important factors for survival, but they also find that family firms differ from non-family firms in terms of innovation, as they also pursue a variety of non-economic objectives. They argue that internationalisation strategies are more cautious and deliberate in the case of family firms, which is why they can be sustainable in the long term. However, the innovation activities that drive internationalisation differ somewhat between sub-periods for family and non-family firms, as family firms follow more stable innovation paths during internationalisation (Espesche et al. 2022). It is also observed that family firms achieve a lower LBE effect from internationalisation in terms of process innovation than non-family firms (Freixanet et al. 2021).

5. BUILDING A THEORETICAL MODEL

5.1. Captured by the SEW

As we can be seen from the review above, there is a significant consensus that the socio-emotional wealth and welfare of family firms limit or hinder their innovation and internationalisation activities (Lohe et al. 2021). However, we have also seen that according to research, risk management in family firms is not a passive but an active process, whereby they seek to develop their knowledge and thus diffuse their risk in relation to certain decisions until they are comfortable with the possibility (Ratten – Tejeddi 2017), and in particular, they support innovation when they know that it leads to access to new distribution channels, to geographic market entry and to cost reductions (Braga et al. 2017). In the following, I present an alternative approach that could show a way out of this situation, able to balance entrepreneurial orientation and socio-emotional wealth. To this end, by adopting the FIBER model’s scale validating SEW and then the REI scale derived along it, I will nuance how innovation and internationalisation can have a positive and acceptable impact on SEW by touching on the aspects presented earlier.

5.2. Middle East success, Carpathian Basin failure

In 331 BC, on the battlefield of Gaugamela, the mostly Macedonian armies led by Alexander the Great won a brilliant victory over the Persian armies of Darius, which resulted in Babylon opening its gates unopposed to the victors and Alexandros being recognised as the new Persian...
Great King. This was not only a milestone in the centuries-long rivalry between Greece and Persia, but also the beginning of Hellenism, the process by which the civilisational achievements and cultural knowledge of the Hellenic world spread throughout the Persian Empire, from India to Egypt, as a result of the conquest. How does this relate to our topic?

Alexander the Great’s father, Philip II, a strongman of the Macedonian dynasty, an innovative leader in his own right, reformed the Macedonian army, quadrupled the territory under his people’s rule, and in the Battle of Khaironeia, where leadership of the Greek world was at stake, won a brilliant victory over the Athenian-Theban coalition and formed the Corinthian League, which his son Alexander inherited. in 336 BC. The future king, groomed by Aristotle, immediately after confirming himself in his father’s succession, came up with a revolutionary idea: instead of waiting for the city-states of the Hellenic world to see when another Persian attack would come against them, they should launch pre-emptive strikes against the Persians, the pre-Gaugamela stage of which was the battle of Granicus and Issus. Alexandrian innovation thus led to internationalisation. Phillipus II had (1) an intergenerational vision, and although he had seven wives, he sired only two sons, of whom the inheritance of power was clear to Alexander, and thus the retention in the family of the sons who, through their upbringing, guaranteed the preservation and transmission of the family’s Phillipian traditions and values. The close emotional bond between the (2) members of the family could not be realised, since Alexander the Great acquired the supreme power after the death of his father, and he himself died young, without an heir, in 323 BC.

The above example demonstrates how the SEW aspects prevailed despite the fact that both the innovation and the subsequent international expansion involved many risks, and the entrepreneur behind them, who made a series of decisions that carried considerable risk. The categories of EO as defined are all present: the willingness to innovate is undoubted, the proactivity took the Persian side by surprise, the risk-taking is absolutely evident, and the aggressive competitive spirit can be seen in the consolidation of the power inherited from his father and the deposition of Darius III from the Persian throne.

More than 2,300 years later, a company established in Hungary decided to internationalise. The company operated counters in metropolitan shopping centres, offering customers hand-care services. The business grew rapidly and, with no direct competitor, practically doubled its turnover, its customers and the number of service points it operated every year. After three years, building on their success in Hungary, they expanded to three neighbouring countries, offering a service similar to the one in Hungary, copying the initial model almost perfectly. However, the expected success did not materialize. A series of unforeseen difficulties arose, and within about five years all the foreign outlets had to be closed. This in itself would have been a problem, but it was as if this failure had dragged the domestic business down with it: in parallel with the closure of shops in the three countries, almost 40% of Hungarian shops closed. But what could have led to this?

In the case of our second example, the innovation was the business model, which, in line with the literature, once proven to work in the domestic market, opened up the possibility of entering cross-border markets. However, according to the manager, the biggest mistake was the inability to exercise effective and lasting control over the foreign units, effectively monitoring their operations, which led to a lot of abuse, and there were examples of an entire business closing down with all employees at once (which was more unusual than harmful), however setting up their own salon, taking all the company’s stock and even the chairs with them, in
addition to the customers (this was later followed by a denunciation, but the business never reopened). According to them, things were only going well as long as someone from the senior management team from Hungary was involved in the day-to-day work on the ground, but the long distance and the growing number of service points meant that this could not be sustained in the long term. As, step by step, the good farmer’s fattening view of cattle almost disappeared, the values espoused by the company and the level of service required became increasingly distant from what was actually being delivered, and locally appointed middle managers were not representing the interests of headquarters but were playing games with the staff they were entrusted with. Under these circumstances, the turnover was quite high, so that emotional ties and strong social relationships with staff in the foreign units could not be established. As a side effect, the relationship and cohesion between staff in the Budapest centre was strengthened by the many disappointments and problems. Although in all three cases market entry was made within a psychological distance, and in almost all cases they could count on a significant Hungarian community locally, it was a significant problem that cultural similarities and possibly fewer language barriers did not automatically mean knowledge of a different legal environment, which created a number of inconveniences that were not anticipated even in the pessimistic scenarios when the first plans were made. As the company did not have a long history of its own and its management was young, the succession was not yet on the agenda, but the manager said that expansion abroad would strengthen the company and increase its long-term sustainable profitability, despite the negative outcome.

5.3. SEW versus EO instead of SEW+EO

With regard to the above examples, it is important to note that they are not quoted in my paper with the intention of validating my statements or justifying my argument, but only to illustrate it in a practical context. I will now show how, in my view, the scope of the socio-emotional wealth requirements of family businesses and the economic and financial benefits of internationalisation and innovation can be reconciled, and how the entrepreneurial orientation can be enforced.

1. Family influence and control: one of the most important objectives of family management is to retain strategic decision-making, but this, if not given the authority that, for example, in a geographically structured divisional organisation, the head of the divisions might have, reduces the scope of local decisions to the operational level, so that SEW is not compromised. Another possible solution is to give partial strategic decision-making powers to the head of the organisation resulting from the foreign expansion, but to give the position to a family member, so that, although some of the strategic decisions are taken away from the headquarters, they remain within the family, which is also in line with one of the key SEW principles.

2. Family corporate identity/identification of family members with the company: the great distance and the intensity of the usual organisational functioning, with daily family interactions, will certainly diminish in this respect if the role of the headquarters is ’diluted’ by the expansion abroad. In addition, or perhaps because of this, it is more difficult for family members working at headquarters to develop the same intense attachment to subsidiaries and staff. Of course, this can be helped by delegating one or more family members to the management of the subsidiary, but even in the absence of this, strengthening the organisational culture, even by physical means, and consciously building a sense of belonging can be a supportive solution.
3. *Social ties:* since the boundaries of the family approach are generally not defined within the family firm but beyond, with old customers and suppliers, this projection of a family atmosphere and approach provides stability and strengthens the bond with the firm. This can be compromised by entering foreign markets, but if this is done through network membership and taking advantage of its benefits, not only are the overall risks reduced, but many existing partners can be retained in international operations for foreign affiliates or sites. If this is not possible, the parent company may also benefit from the market-based development of new relationships from other perspectives, if this is replicated as good practice. This can be an important step towards professionalisation, as changing norms and values within the family firm is one of the drivers of this (based on Dyer 1989; Kárpáti 2021a, 2021b).

4. *Emotional attachment:* the emotional bond will also surely dissolve, but if we look at this in a complex way, not only positive, supportive and loving moments will occur during the close daily cooperation, but also arguments and quarrels, which will also become less frequent, so that the negative emotional waves and tensions they generate can be eliminated from the life of the company.

5. *Renewal of the family ties with the firm through dynastic succession:* the stability provided by the transgenerational approach can also be experienced by the firm as a kind of risk-taking of the innovation-generation process, which usually overrides the principle of “patient capital”. I suggest that, if it is possible to delegate a family member as the responsible manager of the foreign company, this could be a rather important act of reinforcing the transgenerational approach, since, as a very important milestone in the succession process, taking responsibility becomes one of the most important tasks of the chosen and appointed successor once the predecessor retires. In this way, the potential successor will be involved from preparation to operation, but the power conferred on him will not be unlimited and the effects of his decisions will be partly separable from the operation of the parent company. Of course, this is only true if the successor candidate otherwise has the necessary knowledge and competence. On the other hand, the company’s performance can also benefit if the principle of “patient capital” is replaced by a spirit of dynamic market development backed up by good experience.

These points are summarized in Table A1 in Appendix. In addition to this, the many opportunities for organisational learning can be important, which, armed with the experience of innovation and internationalisation, can make the company less vulnerable. The traditional cautiousness of family businesses about risk seems manageable, in other words if strategic planning becomes more sophisticated and detailed in the life of the company, the effectiveness of decision-making is likely to increase.

6. **SUMMARY**

In my work, I have examined a specific segment of family business operations. After a literature review on the nature of the relationship between international market entry and innovation, I identified the main directions and results of research on this topic, and then attempted to resolve a controversy that has been repeatedly cited in the literature, namely the retreat of the socio-emotional wealth and well-being of family firms, which is a constraint on the development of the firm and its global (or at least international) role, and the socio-emotional wealth of the family firm.
Since the logic of market evolution implies that innovation is also a necessity because, over time, market concentration selects out weak and uncompetitive firms and only those that are able to innovate continuously are allowed to survive, family firms can only achieve their long-term strategic goals of sustainability if they are able to innovate while maintaining the family firm character, even along the lines of the proposals made in this study.

The usefulness of this paper also lies in its exposure of the dichotomy among family business managers, which I have indicated following a review of the literature, and in offering practical solutions to overcome these problems. If family businesses successfully internalise the benefits of innovation and internationalisation in their operations, they can, in addition to and in parallel with solving the apparent problem, take significant steps towards professionalising their business, which will further enhance their operational efficiency.

My work has several limitations, the hypothesised solutions need to be validated quantitatively in the future, and a questionnaire survey may be useful to assess the usefulness of the proposals, the results of which may also point to further possibilities. The proposals made do not take into account possible national, geographical or sectoral differences. The proposals are most feasible if a sufficient number of potential heirs and, in general, a large number of family members are involved in the operation of the company. The work also assumes that there is a real market opportunity behind internationalisation and does not take into account misallocated opportunities and their impact on continued operation.

REFERENCES


### Table A1. Managing and unifying the effects of SEW and EO to enhance corporate performance

<table>
<thead>
<tr>
<th>Sew categories (FIBRE scale)</th>
<th>Possible change due to innovation and internationalisation</th>
<th>Proposed solution</th>
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| Familiar involvement and control             | weakening personal control                                                                    | - as owners are primarily attached to strategic decisions, their retention is not affected by internationalisation  
|                                               |                                                                                                  | - delegating a family member to head foreign organisations                         |
| Family identity / association of family with company | as the company grows and differentiates itself, family, caring nature becomes harder to sustain, values cannot be communicated directly / emotional absorption of the foreign company by the parent company is also harder | - delegation of family member and close contact may help with these  
|                                               |                                                                                                  | - reinforcing organisational culture, even through tangible means, functions held at headquarters (e.g. central HR aligned with organisational values) |
| Social relationships                          | if internationalisation is not part of a network, some of the old supplier relationships cannot be passed on to the subsidiaries, creating unusual uncertainty | - internationalisation using existing relationships  
|                                               |                                                                                                  | - the selection of new contacts on a market basis can increase the efficiency of the company, especially if it is leaking back to the parent company |
| Emotional connections                         | are weakened as the whole entrepreneurial family is most certainly not physically following the expansion of the company, so daily interactions and the emotional ripples they create are reduced | - this can filter out the negative effects of anything negative from day-to-day company operations, such as tension generated by disputes |
| Dynastic growth continuation and extension    | the stability and object of the transgenerational approach may be jeopardised, the principle of "patient capital" is eclipsed | - delegation of a family member, which may be a stage in the process of raising a successor close to handover, thus giving a big boost to the process through empowerment  
|                                               |                                                                                                  | - dynamic development instead of 'patient capital'                                  |

*Source: author.*

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