



# **The World's Top Family Firms: Just How Distinctive Are Their International Strategies And How Well Do They Perform?**

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## Literature on Effect of Family Involvement

Family involvement's controversial influence on success in international markets. (Dyer & Handler 1994; Brockaus 1994; McConaughy 1994; Story;1998)

But is relationship non-monotonic: performance first increasing, then decreasing with level of family ownership? (Anderson & Reeb 2003)

**Hypothesis 1:** *Family firms perform at least as well as non-family firms on both financial measures and in terms of sales growth in the marketplace.*

**Hypothesis 2:** *The relationship between founding-family holdings and firm performance is non-monotonic in relation to family ownership level.*



# International Strategy Choices & Outcomes

Family firms late responders (Gallo and Garcia Pont, 1988 & 1996), so less aggressive on internationalisation configurations such as Calori et al (2000)?

**Hypothesis 3:** *Family firms (depending on the level of control) are more 'inward' orientated than non-family firms.*

**Hypothesis 4:** *Family firms are less likely to perform well internationally, when pursuing more aggressive international options.*

# Calori et al (2000) configurations as extended by Leknes and Carr (2004)

	Country Centred player	Geographic Niche players	Opportunistic International Challengers	Continental leaders	World-wide specialist	Global Luxury player	Quasi-Global players	Transnational Restructurers	Global Shaper
<b>Geographic scope</b>	Home country, gain market share	Set of countries forming homogenous territory. Gain market share	Home country and few key countries. Market share or market coverage	All key countries in a continent. Gain market share	All key countries. Wide coverage	All key countries	All key countries. Gain market share	All key countries. Wide coverage and market share	All key countries, wide coverage
<b>Segment scope</b>	Narrow	Relatively narrow	Few segments	Relatively large	Narrow segment	Narrow, high priced	Narrow, but concerns mass market	Large, most business segments	Narrow, but concern mass market
<b>FDI policy</b>	Variable	Mainly organic growth	Variable	Mainly organic	Franchising	Licensing and franchising	Mainly organic growth	Most entry modes, frequent m&a	Organic or franchising
<b>International integration of value chain activities</b>	Depending on sector, domestic focus	Depending on sector, global sourcing	Variable	Global sourcing	Often vertical integration	Often manufacturer controlled. Production in home country	Global supply chain management	Global sourcing, vertical integration	Global supply chain management
<b>Standardisation</b>	Homogeneous	Homogeneous	Variable	Relatively homogeneous	Homogeneous	Homogeneous	Homogeneous	Heterogeneous	Heavy standardisation

## Family Firms by Ownership Levels (Matched against 65 Public Cos)

	Publicly Traded		Private
<i>Less than 30% ownership</i>	<i>Between 30 and 50% ownership</i>	<i>Above 50% ownership</i>	<i>Completely private</i>
Ito-Yokado Motorola Novartis Bougyues Gap Inc Groupe Danone Anheuser-Busch Marriott Int Dollar General Nordstorm Pernod-Ricard Masco Grupo Financiero Cemex	J.Sainsbury Karstadt Quelle Wal-Mart Ford BMW LVMH Comcast Corp Sodexho Alliance Winn-Dixie Stores SAP FEMSA McGraw Hill Carnival Swatch Albert-Culver Fiat	Molson Carrefour Group Pinault-Printemps Viacom Roche Weyerhaeuser Bombardier L'Oreal Lagardere Group General Dynamics Magna Heineken Henkel group Illinois Tool Works Dillards Thomson Corp Interbrew Ass' British Foods Estee Lauder Cos Bollore Porsche Wm. Wrigley Jr Hyundai Motor Co Tyson Food Clear Channel Comm ERG	Robert Bosch Bertelsmann Publix Supermarkets Otto Group Boehringer -Ingelheim Heraeus Holding H&M Levi Strauss

# Final Categorisation of all Family and Non-family Firms

	Country-centred players	Geographic niche players	Opportunistic international challengers	Continental leaders	Global luxury niche players	World-wide specialists	Quasi-global players	Transnational restructurers	Global shapers
<b>Family</b>	Publix Supermarkets, Winn-Dixie Stores, Dillard's, Dollar General Corp, Nordstorm, FEMSA	Sainsbury's, Karstadt Quelle, Molson, Comcast	Fiat, Hyundai, Tyson, Masco, Clear Channel Comms, Grupo Financiero, Cemex, ERG	Pinault-Printemps, Bollore	BMW, LVMH, Porsche, Carnival, Levi Strauss	Michelin, Bombardier, General Dynamics, SAP, Estee Lauder, Swatch	Ito Yokado, Motorola, GAP, Magna, Otto Group, Sodexo Alliance, Thomson Corp, Pernod Ricard, H&M, Albert-Culver	Ford, Carrefour, Viacom, Novartis, Bouygues, Roche, Bertelsmann, Weyerhaeuser, Lagardere, Danone, Heineken, Henkel, Illinois Tool Works, Marriott, Boehringer Ingelheim, Interbrew, Ass British Foods, Heraeus GmbH, McGraw Hill	Walmart, Robert Bosch GmbH, L'Oreal, Anheuser-Busch, Wm Wrigley Jr
<b>Non-family</b>	Aeon, Albertson, Conagra, Daiei, Loblaw, Echostar, Great A&P, Family Dollar Stores, Ross Stores, S-oil Corp, Kohl's	Safeway, Kawasaki Kisen, VF Corp, Companhia De Bebidas das	Koninklijke, Mitsubishi, Gus Plc, Asahi Breweries, Kao, JS Group, Allied Irish Banks, CSM NV, Daihatsu, Meiji Seika Kaisha	Renault, Kirin, Merck Kgaa, S&N Plc, Carlsberg	Christian Dior, Compagnie Financiere	Textron, BAE Systems, Apple Computers, Royal Caribbean	Ericsson, Pearson Plc, TJX, compass, Mitsukoshi, Quebecor World, Heidelbergcement AC, Avon, Allied Domecq, Revlon	Metro, Daimlerchrysler, Nissan, Delphi Automotive, Time Warner, Bristol Myers Squibb, Vinci, Wolter Klumer NV, Georgia Pacific Corp, Goodyear, General Mills, Denso, Ingersoll-Rand, RTL Group, Citizen Watch Co	Astrazenca Plc, Hilton Hotel



## Family and Non-family Performance & Benchmarks

<b>Company</b>	<b>Avg RoCE 1999-2003 %</b>	<b>Sales Growth (simple % p.a.) 1999-'03</b>	<b>Avg Profit margin '99-'03 (%)</b>
<b>Family</b>	*11.1	14.0	*8.0
<b>Non-Family</b>	8.0	11.3	7.4

Source: Thomson One Banker.

\* Mean differences for RoCE tested statistically significant, based on SPSS, significance level 0.005, based on 2-tailed test, equal variances not assumed (t=2.84). Similarly for Profit / Sales margins at significance level of 0.001, equal variances not assumed (t=3.32). N=340 for non-family and 325 for family companies.

## Family and Non-family Performance & Benchmarks

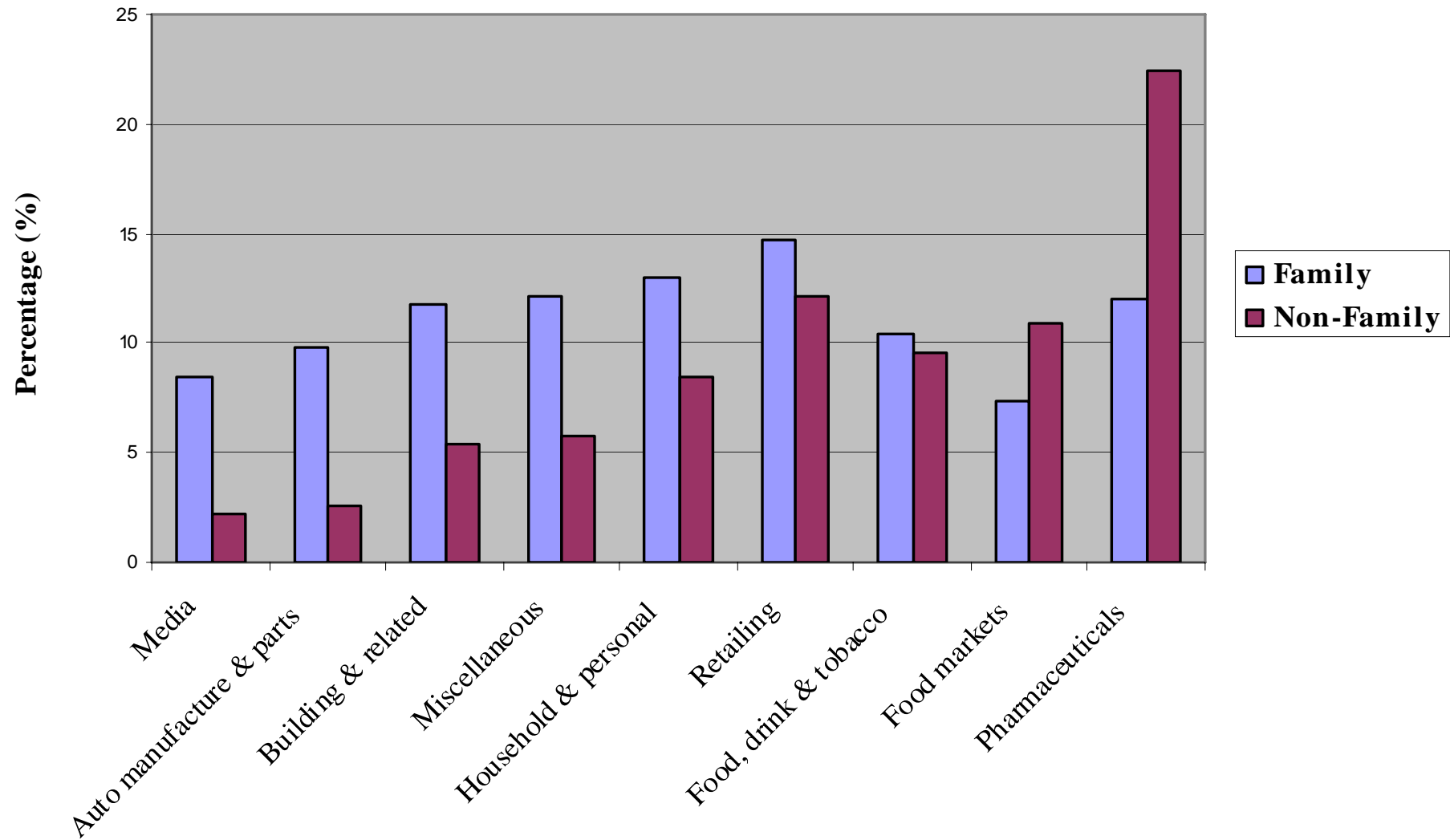
<b>Company</b>	<b>Avg RoCE 1999- 2003 %</b>	<b>Sales Growth (simple % p.a.) 1999- '03</b>	<b>Avg Profit margin '99-'03 (%)</b>	<b>Avg R&amp;D /Sales Y2003 (%)</b>	<b>Capex/ Sales Y2003 (%)</b>	<b>Sales &amp; Gen' Admin/ Sales % Y2003</b>
<b>Family</b>	*11.1	14.0	*8.0	4.3	5.9	22.2
<b>Non- Family</b>	8.0	11.3	7.4	4.7	4.7	22.1

Source: Thomson One Banker.

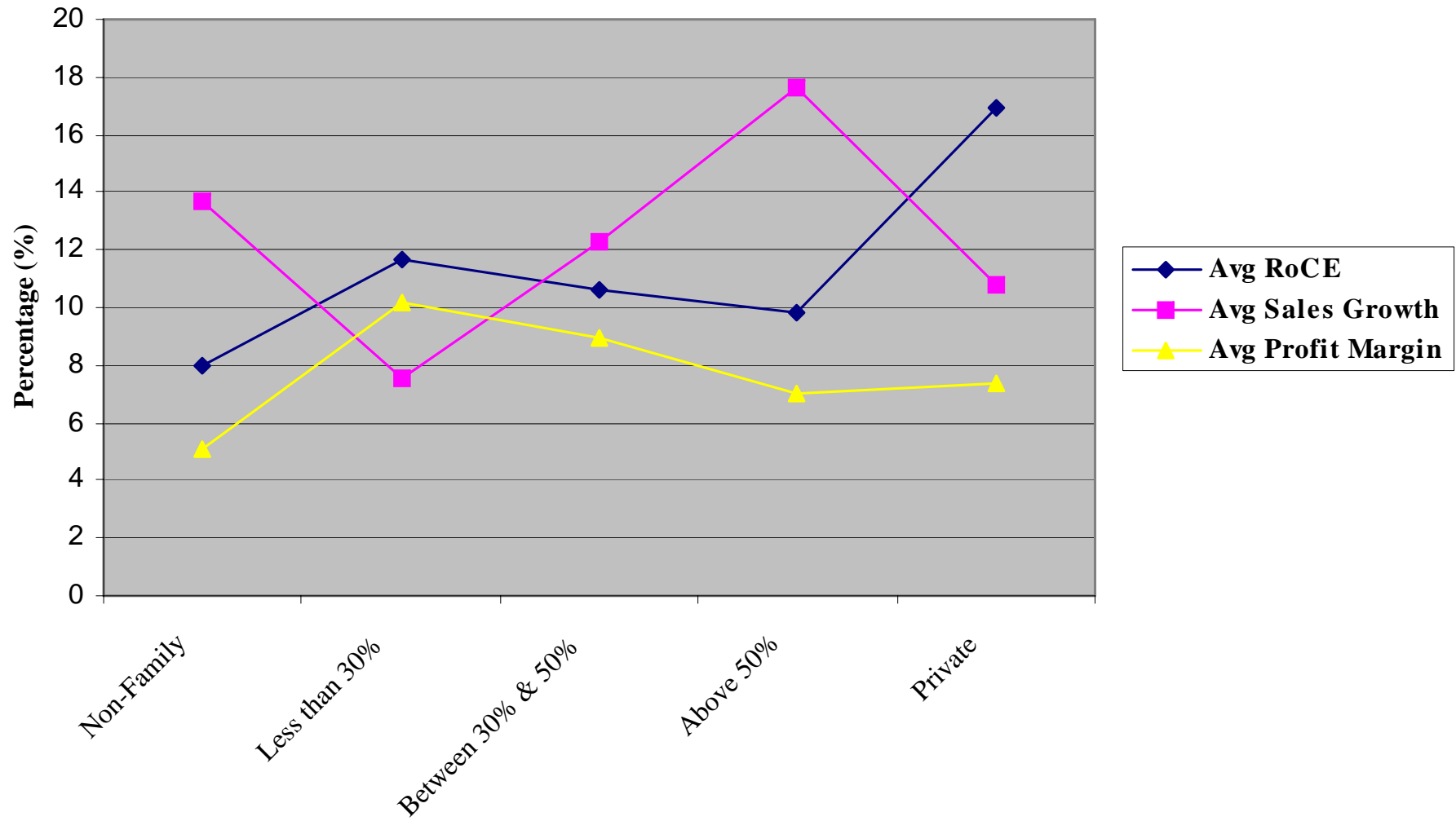
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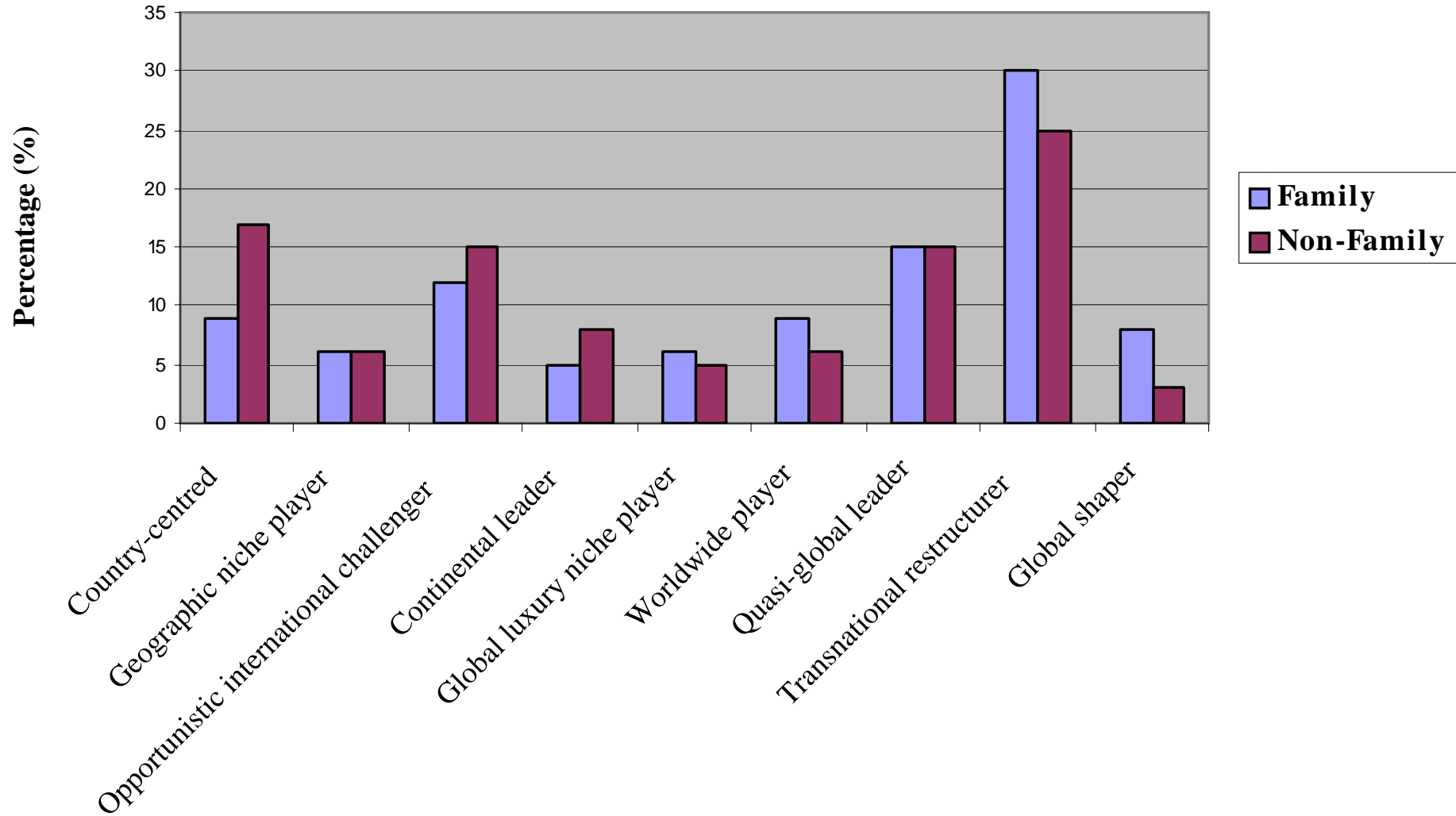
# Industry Analysis – Average RoCE ('03-'99)



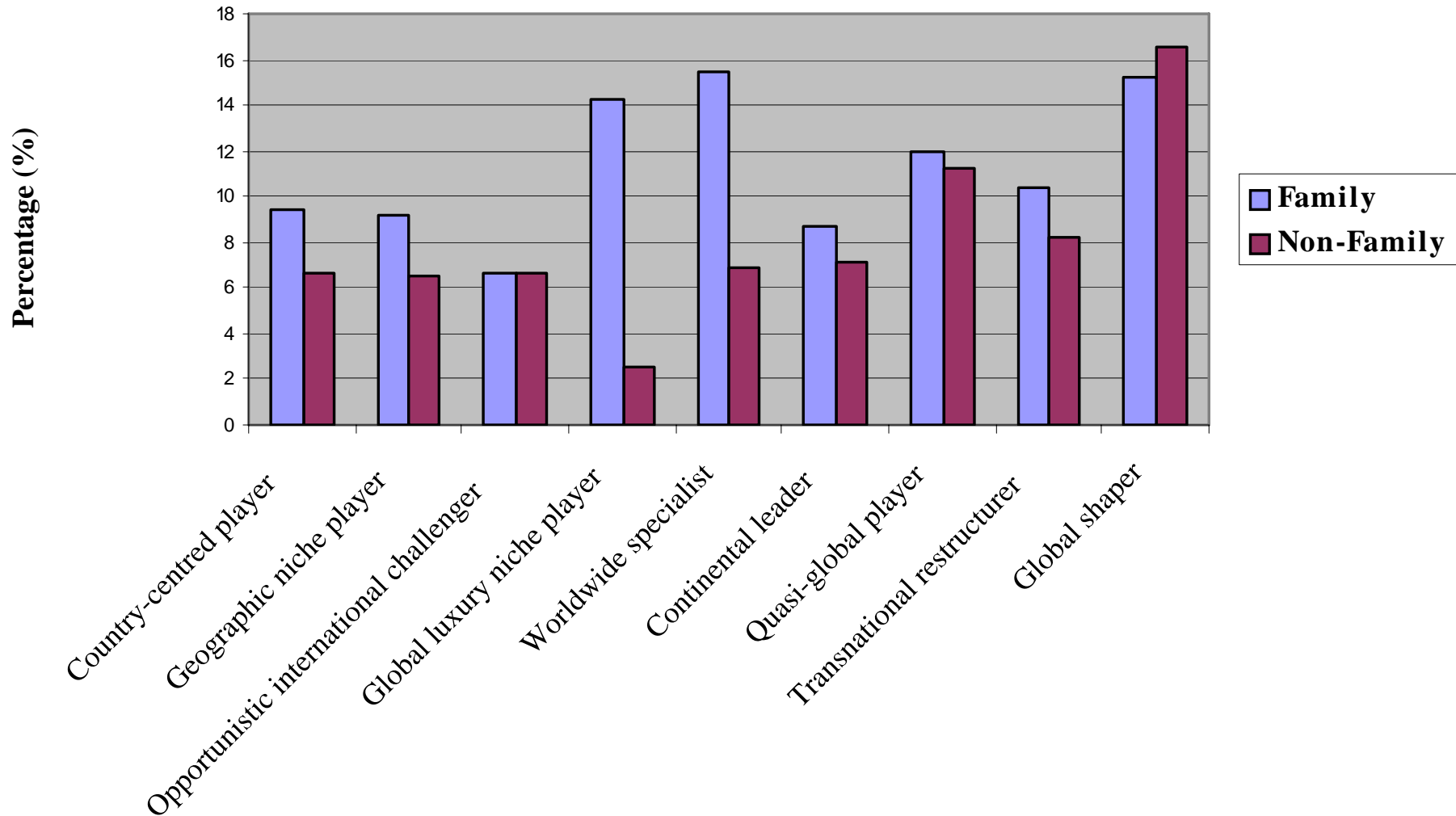
# Ownership and Performance ('99-'03)



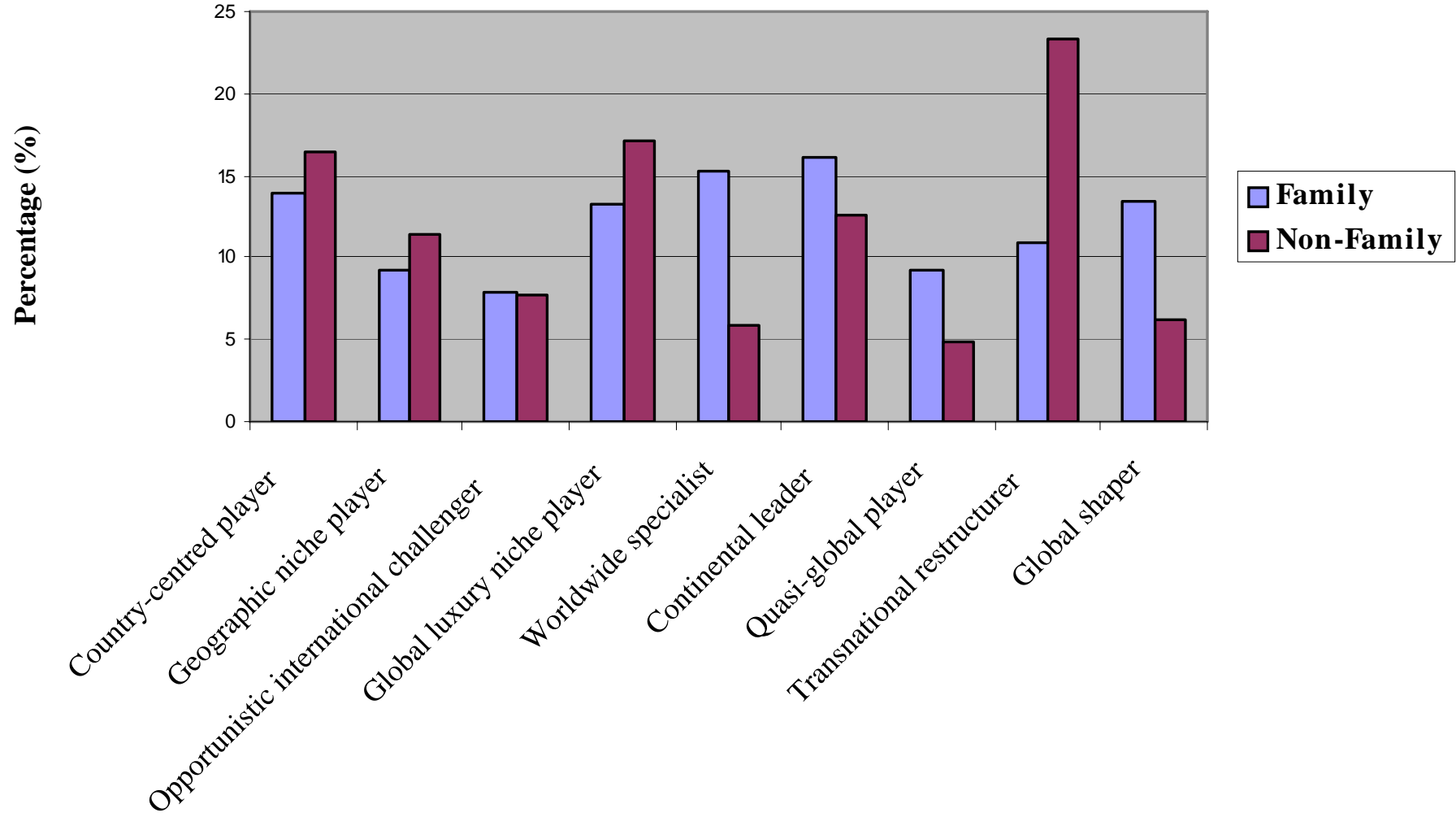
# Family and Non-family Internationalisation



# Average RoCE '03-'99

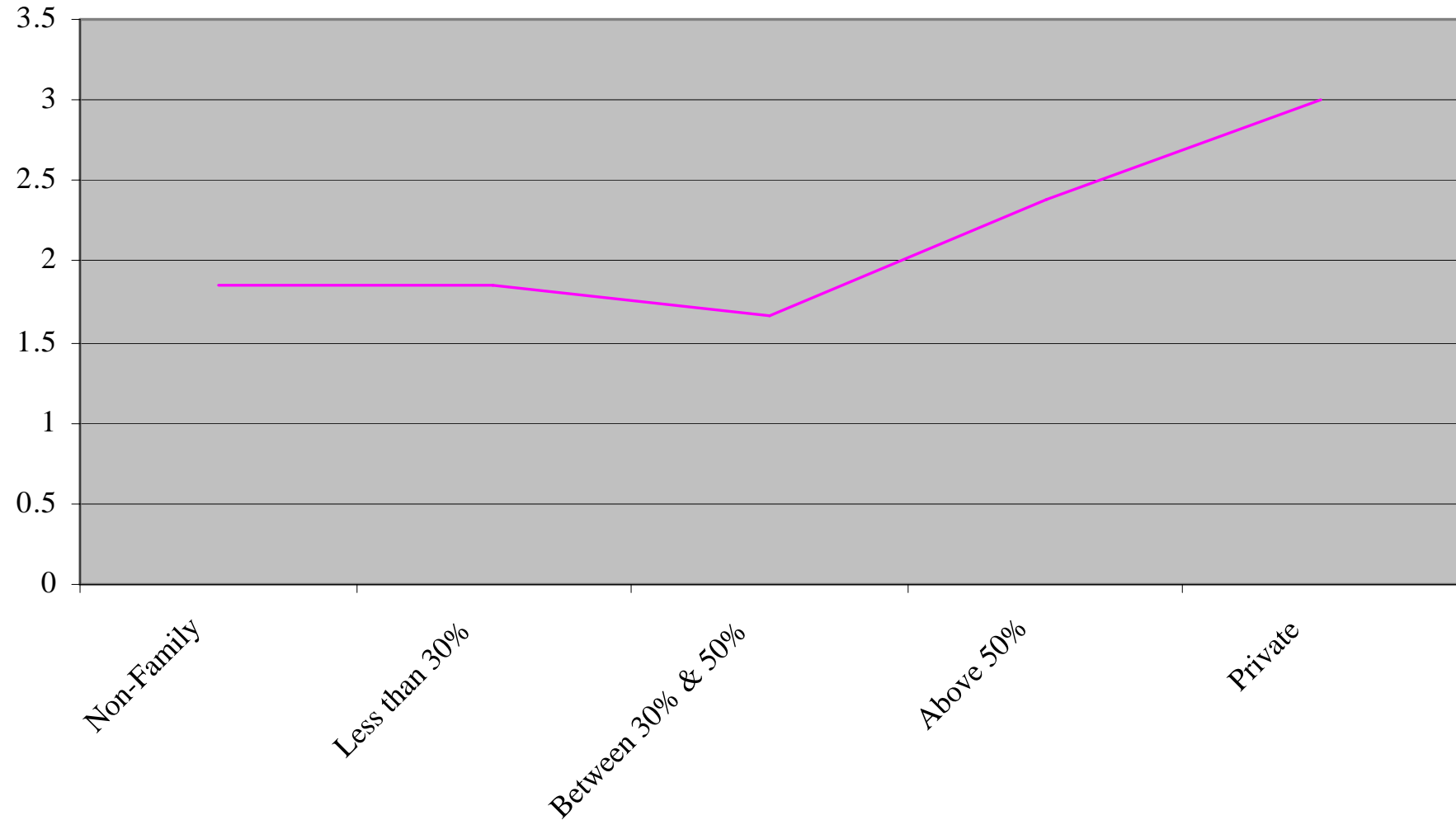


# Average Sales Growth





## Ratio of Global Players to International Challengers for Different Levels of Ownership



## Features of 10 Yr Top RoCE Quartile Performers

Averages	Top Decile		Top Quartile		Average all 56	
	Family	Non-famil y	Family	Non-famil y	Family	Non-famil y
<b>RoCEs 1998-2003</b>	27	31	21	19	11	8
<b>R&amp;D/Sales % 2003</b>	14	3	6	6	4	5
<b>CapExp/Sales % 2003</b>	6.8	7.2	7.1	5.5	4.9	4.7
<b>SGA/Sales % 2003</b>	29	14	23	17	17	22
<b>Sales/Empl \$K 2003</b>	265	705	260	470	265	410
<b>Sales \$bn 2003</b>	8	82	26	47	25	20

Source: Thomson One Banker processed utilising CIMacro

## All Variables Against RoCE 1999-2003 for 65 Non-family Firms

Variables correlated with RoCE	Unstandardized Coefficients		Standardized Coeffs	T Score	Sig level
	B	Std.Err	Beta		
Constant	4.67	1.02	.23	4.60	.000*
Pharmaceutical	16.43	3.7	.187	4.44	.000*
USA	5.66	1.57	.166	3.62	.000*
Retailing	6.88	2.15		3.20	.001**

Adjusted R Squared = 0.150.



# Multilinear Regression Analysis. All Variables Against RoCE 1999-2003 for 65 Family Firms.

Variables correlated with RoCE	Unstandardized Coefficients		Standardized Coeffs	t Score	Sig level
	B	Std.Err	Beta		
Constant	10.45	.71	-.118	14.67	.000*
Opportunistic Int' Challenger	-3.60	1.64	.247	-2.10	.029****
Global Shaper	8.93	2.34	-.207	4.39	.000*
Revenue	-5.78E-05	0.00	.193	-3.65	.000*
Retailing	5.07	1.43	.161	-3.65	.000*
Worldwide Specialist	5.09	1.70	.127	2.99	.003**
Global Luxury Niche	4.51	1.89		2.39	.018***

Adjusted R Squared = 0.133.

\*denotes significance level at 99.9%

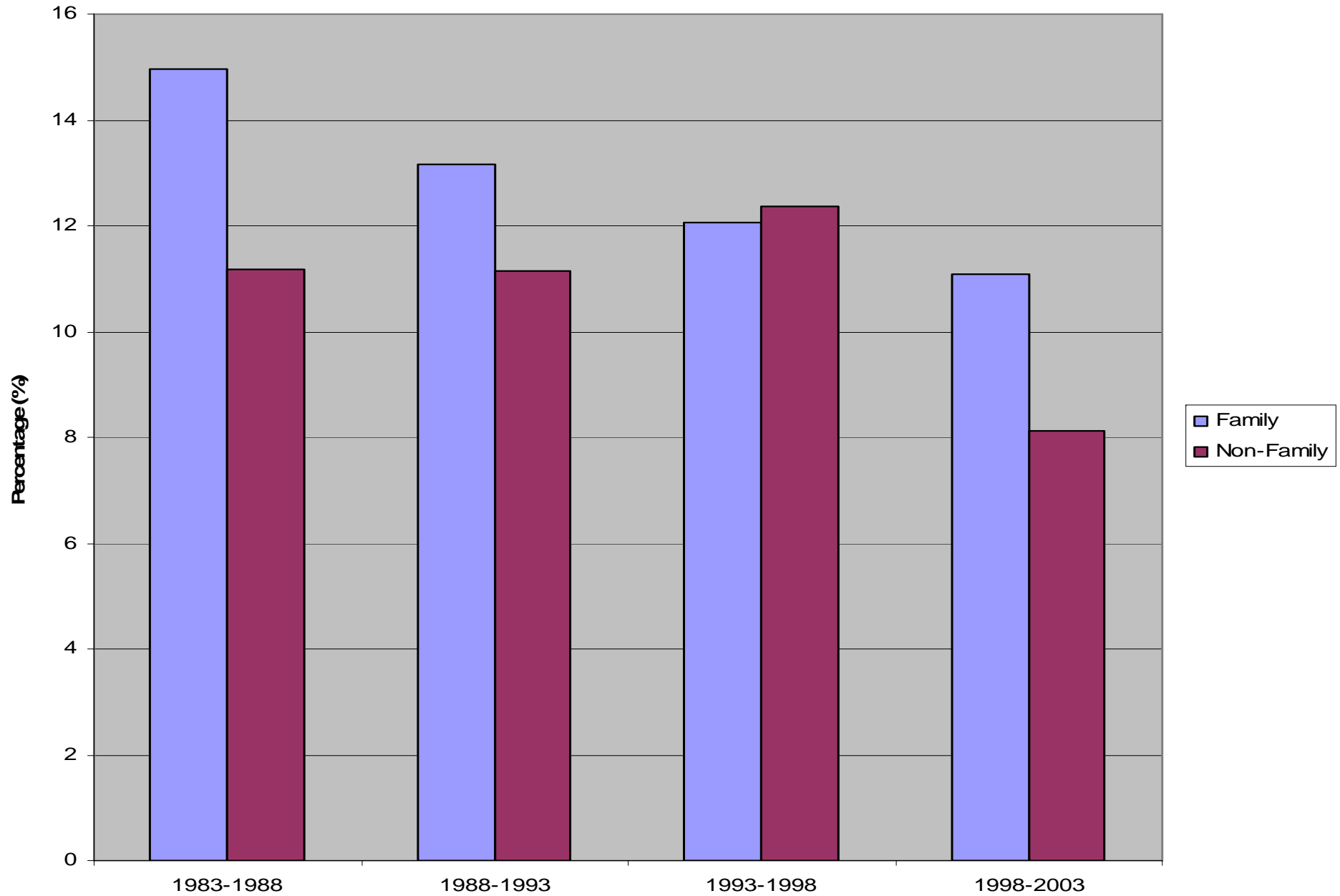
\*\*denotes significance level above 99%

\*\*\*denotes significance level above 98%

\*\*\*\*denotes significance level above 96%



## Five Year RoCE Averages (%)





# Conclusions

Our evidence supports *Hypothesis 1*. Family firms exhibited higher capital expenditure/sales ratios and more profitable, even over the longer term.

Contrary to *Hypothesis 2* that performance first increases as family ownership increases but then decreases, we found an ultimately positive (albeit inconsistent) performance relationship at the higher levels of family ownership.

Contrary to *Hypothesis 3*, we found family firms adopted disproportionately more aggressive worldwide options, as compared to non-family firms. And even more so, at higher levels of family control.

Contrary to *Hypothesis 4* family firms were not less likely to perform well internationally, when pursuing more international options.