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The Impact of Ownership Structure on Internationalization: An Empirical Study of Korean SMEs

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ABSTRACT

Family ownership has emerged as one of the most crucial determinants of corporate strategy in small and medium-sized enterprises (SMEs). Nevertheless, few studies examine the impact of family ownership and corporate governance on the internationalization of SMEs. We apply the resource dependency theory and agency theory to investigate the impact of family ownership and the moderating impact of institutional ownership on SME internationalization. Using 232 samples of Korean internationalizing SMEs from 2003 to 2013, we find a positive relationship between family ownership and internationalization indicating that the latter may be encouraged by family ownership. Institutional ownership acts as a moderator in the relationship between family ownership and internationalization, implying that internationalizing SMEs with high family ownership tend to internationalize as institutional ownership rises. An important implication for SMEs that depend on international expansion to remain competitive is the crucial need to establish long-lasting relationships with institutional investors, especially in South Korea.

Key words: Family Ownership; Institutional Ownership; Internationalization; Korean Internationalizing SMEs

I. Introduction

Ever since the global economy emphasized the importance of an international strategy for small and medium-sized enterprises (SMEs), expansion to global markets has been an important pursuit for internationalizing SMEs to survive and remain

competitive (Fernandez and Niewto, 2005; Lee et al., 2012). Internationalizing SMEs are seeking international markets to achieve economies of scale, for higher growth and profitability (Zahra and Garvis, 2000). Failing at internationalization, internationalizing SMEs would be prone to performance fluctuations with no access to resources to advance their competitiveness (Chen, Hsu, and Chang, 2014). Even so, while international expansion is both complex and uncertain and requires a variety of resources (Lee et al., 2012) Internationalizing SMEs are generally short on resources, international networks, and global experience. The related resource restrictions and risks may deter risk-averse managers from international

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expansion.

Family ownership has emerged as one of the most crucial determinants of corporate strategic choices (Chang, 2003; Choi et al., 2015) and, especially, of corporate decision-making for internationalization (Chen, Hsu, and Chang, 2014; Zahra, 2003). Some scholars argue that ownership type may affect the corporate strategy since it is related to corporate resource endowments and different levels of risk aversion (Fernandez and Nieto, 2006). Family ownership may encourage family managers to act as stewards of resources and to align their objectives with those of the enterprise (Chen, Hsu, and Chang, 2014; Schulze, Lubatkin, and Dino, 2003), which may reduce the risk of internationalization (Chen, Hsu, and Chang, 2014). On the other hand, family ownership could instigate family managers to preserve their own welfare and guarantee corporate longevity by avoiding international expansion that may endanger corporate viability. In addition, they may easily divert resources away from worthwhile activities to fulfill their non-pecuniary compensation of family members (Demsetz, 1983), thereby reducing the resources available for international expansion.

Family ownership incorporating specific characteristics may influence not only corporate resource endowments, external networks, and risk preferences, but also strategic decisions. Nonetheless, its role in decision-making for the internationalization of SMEs has been overlooked (Chen, Hsu, and Chang, 2014). Only four studies explore the impact of family ownership on SME internationalization. However, most studies disagree with the positive impact of family ownership (Fernandez and Nieto, 2005, 2006; Sciascia et al., 2012). Some scholars verify a nonlinear relationship using a sample of the U.S. family SMEs (Sciascia et al., 2012), while Fernandez and Nieto (2005, 2006) find a negative impact in the case of Spanish SMEs. Although Chen, Hsu, and Chang (2014) support a positive relationship, they were unable to provide reliable results due to a small research sample size and short examination timeframe. Given the significance of an international strategy for internationalizing SMEs, the potential

family effect on strategic decisions, and the inconclusive findings of limited studies on the relationship between family ownership and SME internationalization, this paper explores whether family ownership enhances or hinders SME internationalization.

Shortage of resources combined with external networks, cultural, political, and psychosociological concerns are factors that may hinder internationalization of SMEs (Chen, Hsu, and Chang, 2014; Lee et al., 2012). Institutional investors, such as pension funds, insurance companies, banks, and investment funds may affect the strategy of enterprises (Miller et al., 2009) for internationalization by offering important resources and monitoring management decisions (George, Wiklund, and Zahra, 2005). Institutional investors are likely to actively monitor the decision-making for corporate internationalization and pursue long-term objectives (Tihanyi et al., 2003). However, a majority of the research on ownership structure overlooks the key point that external shareholders may influence internal owners' strategic decisions (Chaganti and Damanpour, 1991). Particularly, despite the crucial role of institutional investors (external shareholders), few studies examine their impact on the decision-making for internationalization by SMEs' family shareholders (internal shareholders). Following Zahra (2005), this research is cognizant of the complicated relationships prevalent in family-controlled enterprises. Thus, we consider governance features that would affect resource dependence and agency influences. Exploring the role of institutional ownership may provide a fuller explanation of the relationship between SME internationalization and family ownership.

Fernandez and Nieto (2006) state that decision-making for internationalization reflects resource dependence and risk-taking propensities, which may be affected by ownership type. Consequently, we explore the impact of family ownership and the moderating impact of institutional ownership on SME internationalization using resource dependency theory and agency theory. We

utilize a panel data set of Korean internationalizing SMEs, having less than 500 employees by definition (Lee et al., 2012), that were listed on the Korean Stock Exchange between 2003 and 2013. Results show that SMEs tend to internationalize when family ownership is high. Moreover, institutional ownership has a positive moderating effect such that the relationship between family ownership and internationalization is much stronger when institutional ownership is high than when it is low.

This paper makes the following contributions. First, we employ a multi-theoretical lens to explore the impact of ownership on corporate strategic decisions for internationalization. While most previous studies rely only on agency theory to examine the relationship between internationalization and ownership, we utilize both resource dependency theory and agency theory to offer a fuller explanation of this relationship. Second, this paper contributes to literature on small business management, internationalization, and family business by exploring Korean internationalizing SMEs, especially in the strategic management sector. The results show that family ownership is characterized by unique resources and capabilities and by necessary agency benefits to enhance internationalization without additional agency costs. It further extends the recent explanation of the internationalization-ownership relationship. Moreover, it is crucial to investigate whether other types of ownership exhibit similar results. Considering the statements advanced in existing research that lone founder ownership would significantly affect the risk preferences of executives thereby influencing their corporate strategic choices (Miller and Breton-Miller, 2010; Musteen, Datta, and Herrmann, 2009), we include lone founder ownership as a control variable to explore family ownership in comparison to other SME ownership models. Moreover, we provide results that are more reliable by extending the research over a longer period and using a larger sample size as compared with previous studies. Third, we include institutional ownership to examine its interaction impact with family ownership on SME internationalization and find positive

moderating effects. This indicates that external investors could influence internal shareholders on corporate strategic decisions and that the decision-making for international expansion by internationalizing SMEs with family ownership largely depends on the share of institutional ownership. We expand our understanding of how external shareholders of SMEs may influence internal shareholders' strategic decisions considering that SMEs have a shortage of capabilities and resources compared with big enterprises.

II. Theoretical Background and Hypotheses

A. Resource Dependency Theory & Agency Theory

Owing to the uncertainty and complexity associated with foreign market operations, internationalization is significantly risky (Tihanyi et al., 2003). Internationalization also requires diverse types of capabilities and resources including external networks, technology, managerial capabilities, financial capital, and information on both global markets and global management (Fernandez and Nieto, 2005). A shortage of the required capabilities and resources would increase the risks of internationalization (Chen, Hsu, and Chang, 2014). Moreover, internationalization needs to ensure returns from the substantive capital outlays arising from these investments and such capital outlays are unpredictable (Chen, Hsu, and Chang, 2014; George, Wiklund, and Zahra, 2005). Considering these problems, decision making for internationalization reflects resource dependence and risk-taking propensity. Thus, this paper utilizes resource dependency theory and agency theory to examine the possible effect of family ownership and institutional ownership on SME internationalization.

According to resource dependency theory, while enterprises cannot internally create resources they

should be able to acquire the resources required to operate, such as information and knowledge on trends, from external sources (Pfeffer and Salancik, 2003). External networks are key enablers to obtain these resources from external sources (Pfeffer and Salancik, 2003; Zhou, Wu, and Luo, 2007). Such corporate capabilities and resources may influence the ability of enterprises to internationalize. Some scholars suggest that enterprises with valuable resources have an advantage over their competitors in foreign markets (Lee et al., 2012). Fernandez and Nieto (2006) state that ownership type is associated with corporate resource endowments and external resources. Scholars note that family ownership may significantly encourage and, conversely, discourage the accumulation of precious resources (Simon and Hitt, 2003). Additionally, George, Wiklund, and Zahra (2005) posit that enterprises are provided access to unique, competitiveness-enhancing resources including financial capital, managerial capabilities, and information by institutional investors. Overall, for the enterprises' international expansion, resource dependency theory is a crucial perspective that considers the capabilities and resources of both institutional and family ownership.

Agency theory emphasizes the relationship between employed agents (i.e., managers) who are in charge of corporate administration (Jensen and Meckling, 1976) and principals (i.e., owners). Agency concerns occur when principals and managers have different risk preferences and divergent goals resulting in conflicts of interest in strategic decision-making (Chen, Hsu, and Chang, 2014). Based on the agency theory, managerial behaviors and strategic decisions may be affected by ownership structure (Chen, Hsu, and Chang, 2014). Shleifer and Vishny (1997) and Villalonga and Amit (2006) highlight the significance of family ownership in business, arguing that agency costs between managerial agents and owners would be advantageously low if their interests were perfectly aligned. Nonetheless, other types of agency costs would be lower between majority owners and minority owners who are not potentially exploitative agents

(Villalonga and Amit, 2006). Additionally, institutional investors with a significant share in enterprises may regard agents as a crucial mechanism of governance to assess management attitude (Musteen, Datta, and Herrmann, 2009; Tihanyi et al., 2003). Given this, agency theory offers a useful perspective to consider the governance role of institutional ownership, costs of family ownership, and agency benefits in an enterprises' decision-making for internationalization.

B. Family Ownership and Internationalization of SMEs

Family ownership offers specific competitive advantages (Choi et al., 2015) that would positively influence international expansion (Chen, Hsu, and Chang, 2014). As per resource dependency theory, family ownership may enhance unique and intangible resources such as human and social capital. Generally, family owned enterprises are bequeathed from generation to generation. To aid this transition, owners aspire to cultivate a loyal team of trained and professional staff by offering satisfactory working conditions, excellent benefits, and high salaries (Miller and Le Breton-Miller, 2005). Additionally, Miller et al. (2009) argue that owners may actively establish and maintain long-lasting relationships with external networks, including capital providers, suppliers, and buyers, which provide access to plentiful resources. For example, forging connections with social network members such as social capital encourages information and knowledge acquisition (Zhou, Wu, and Luo, 2007). Moreover, family owned SMEs could improve their access to bank capital by establishing close relationships with banks (Miller et al., 2009; Miller and Le Breton-Miller, 2006). Some scholars note that nurturing external relationships and linking social capital are crucial for international expansion (Zhou, Wu, and Luo, 2007). Thus, investments in social and human capital could accumulate capabilities and resources that may promote the international expansion of SMEs.

In addition, family ownership may encourage speedy decision-making and flexibility, which illustrates the specific capability of the enterprise (Chen, Hsu, and Chang, 2014). Due to informal controls, unclear layers of authority, and little horizontal differentiation and structure, decision-making of family enterprises is speedy and flexible (Chang, 2003; Chen, Hsu, and Chang, 2014; Miller and Le Breton-Miller, 2005). Internationalization involves responding to foreign markets at a constantly rapid pace (Zhou, Wu, and Luo, 2007). The speedy decision-making and flexibility of family owned enterprises enables them to react to the numerous, dynamic events in the global market and thereby boosts internationalization.

According to agency theory, family ownership promotes an organizational culture of loyalty, altruism, family, and commitment (Chen, Hsu, and Chang, 2014; Miller and Le Breton-Miller, 2005), which reduces the share of benefits of family agents and encourages an opportunistic attitude towards investments (Chang, 2003). Family managers have a tendency to emphasize the sustainability of benefits for their shareholders and business and to make long-term investments (Miller et al., 2009; Miller and Le Breton-Miller, 2005). As internationalization may improve corporate competitiveness and provide long-term success and profitability, family managers may pursue internationalization despite its risks. Additionally, family ownership may promote reciprocal sharing of knowledge, experience, and information through dynamic interactions between family members. Thus, family members have great information advantages (Chen, Hsu, and Chang, 2014; Chu, 2009). International expansion involves risks that need support, loyalty, understanding, and trust between family members (Zahra, 2003). The benefits of useful information make family members acquire fruitful knowledge and information related to the enterprise's aims, which further inspires confidence and trust, and results in a greater willingness to undertake long-term, risk-taking activities. Family loyalty and support consequently encourages family managers to pursue not only profitable, but also risky

internationalization (Zahra, 2003).

Family ownership may also align the interests of the enterprise and corporate management due to the existence of manager-owners. The combination of management and ownership encourages managers to combine their aims with those of the enterprise (Chen, Hsu, and Chang, 2014). For instance, family managers have a tendency to be profit-oriented in order to promote family welfare, which is closely linked with corporate performance (Anderson and Reeb, 2003). In addition, family managers have a tendency to preserve the enterprise longer as compared to managers of non-family enterprises (Chen, Hsu, and Chang, 2014). This indicates that family managers act as stewards of plentiful corporate resources and are more predisposed to invest for the long run (Chu, 2009), thereby decreasing the possibility of internationalization failure. The reduced risk encourages managers to seek long-lasting internationalization (Chen, Hsu, and Chang, 2014; Zahra, 2003).

Nonetheless, an alternative opinion states that family ownership may hinder internationalization of SMEs (Fernandez and Nieto, 2005, 2006). It encourages conflicts between business and family issues that may decrease the availability of valuable resources such as external resources, financial capital, capable personnel, and managerial capabilities (Fernandez and Nieto, 2005, 2006). While international expansion demands various resources and skills, SMEs have a shortage of the managerial capabilities, finances, and internationalization experience (Clarysse, Knockaert, and Lockett, 2007; Lee et al., 2012) required to handle the process of internationalization efficiently (Graves and Thomas, 2008). Moreover, family managers of SMEs may be more risk-reverse and unwilling to decentralize the decision-making process, thereby hindering access to capabilities and resources that are needed to remain competitive, and which can be exploited for internationalization (Tihanyi et al., 2003). This may indicate that the limited access to tangible and intangible resources and the risk-averse tendency would be worse in SMEs with high family ownership, thereby hindering internationalization.

In this study, we expect a positive relationship between family ownership and internationalization. Since the potential advantages of family ownership are clear in the case of Korean internationalizing SMEs (Lee and Chang, 2007). The advantages of information sharing, speedy decisions, and long investment horizon mostly depend on the quality of interaction between family and business. Poza (2007) argues that this interaction quality may be further influenced by enterprise size. Some scholars argue that family SMEs could maintain the connection between family and business (Chu, 2009, 2011). Accordingly, the benefits of family ownership are clearly capitalized in SMEs. Additionally, family members make long-term, interpersonal connections that would translate into resources, as clearly evident in Korean enterprises (Miller et al., 2009). Silva, Majluf, and Paredes (2006) argue that these interpersonal ties could generate social networks, and both of these could improve SME competitiveness. Social networks provide access to various resources that are critical for international business, thereby positively influencing the internationalization of SMEs (Zhou, Wu, and Luo, 2007). Thus, having strong relationships and ties with external parties that provide fundamental resources is advantageous, since enterprises can have access to some key resources more easily. In turn, this implies that enterprises with higher resources are most likely willing to bear higher costs related to international expansion, suggesting that these enterprises are expected to have a higher level of internationalization. This leads us to the following hypothesis:

Hypothesis 1. Family ownership is positively associated with internationalization of SMEs.

C. The Interaction Impact of Institutional Ownership and Family Ownership

Institutional investors possess plentiful resources and important shareholdings, and hence, would have the ability and power to affect corporate strategic

decisions such as internationalization (George, Wiklund, and Zahra, 2005). According to resource dependency theory, external relationships including those with institutional investors could assist SMEs with relevant knowledge for internationalization. Shortage of knowledge on the internationalization process and foreign markets is a key obstacle to international expansion (Lee et al., 2012). By investing in diverse enterprises, institutional investors participate in multiple industries. Hence, they are exposed to the international experiences of other successful SMEs that enable them to offer knowledge on global markets and market management to family managers of SMEs (George, Wiklund, and Zahra, 2005; Tihanyi et al., 2003). Some scholars argue that international experience is useful for enterprises to rapidly familiarize themselves with the environment and to overcome obstacles (George, Wiklund, and Zahra, 2005; Lee et al., 2012). Therefore, institutional investors could reduce the unpredictability associated with the process of internationalization resulting from a shortage of international market knowledge and information asymmetry (George, Wiklund, and Zahra, 2005), which in turn, would encourage SME internationalization.

Moreover, commercial and technological resources, distribution channels, customer networks, and human capabilities and resources are crucial to remain competitive in foreign markets (Chen, Hsu, and Chang, 2014; Lee et al., 2012). Institutional investors could offer SMEs access to these related resources. For example, the involvement of institutional investors in SMEs provides an influential, positive signal to banks, as it assures effective control. This may enhance the bank resources available to SMEs thereby reducing their cost of capital (Tihanyi et al., 2003). Additionally, institutional investors could offer the required capital for SMEs to internationalize (George, Wiklund, and Zahra, 2005; Tihanyi et al., 2003). With these essential resources, SMEs would be in a better position to internationalize, with less uncertainty and perceived risks, and would be favorably disposed towards international

expansion. In addition, Institutional investors could influence family managers of SMEs to make the necessary changes in the organizational systems and structures for successful internationalization. Institutional investors would require official control systems that not only separate business and family, but also systematic management systems and structures that are well suited to implement enterprise strategy (Fernandez and Nieto, 2005). Moreover, to improve management quality, family SMEs would be compelled to hire more capable and trained managers (Fernandez and Nieto, 2006). All these effects promote the willingness to internationalize.

According to agency theory, institutional investors are considered massive external shareholders that observe family managers of SMEs (Chu, 2009). Thomsen and Pedersen (2000) and Davila, Foster, and Gupta (2003) note that their varied investment portfolios tend to be highly risk-neutral, and consequently, they are more willing than SMEs' family managers are to undertake risky investments. Moreover, institutional investors have highly long-term investment views, indicating a tendency to invest for the long run (George, Wiklund, and Zahra, 2005). Therefore, they are willing to behave as active observers with long-term interests (George, Wiklund, and Zahra, 2005). Even if the strategy for internationalization is subject to income stream uncertainty, high costs, and risks in the shorter-term, it would be considered worthwhile for the long run (Chen, Hsu, and Chang, 2014; Lee et al., 2012). Thus, institutional investors would encourage family managers to undertake internationalization activities for long-term profits. Researchers validate that institutional investors with high ownership shares have an incentive to monitor managers and the authority to guide corporate decision-making (Chung et al., 2005).

Nonetheless, Chaganti and Damanpour (1991) and Graves (1988) present the alternate opinion that institutions are unlikely to have a long-term view or to influence positively corporate decisions for international expansion. When institutional fund managers are involved in investment decisions, they

may have a myopic perspective (Graves, 1988). If the portfolio outcome were insufficient, the fund manager responsible may be replaced. Since fund managers are usually remunerated based on short-term performance measures (Tihanyi et al., 2003), they have a tendency to invest for the short-term and be risk-averse for career advancement and job security (Tihanyi et al., 2003; Hansen and Hill, 1991), indicating that they may be unwilling to support long-term internationalization.

From a theoretical perspective, this paper proposes that institutional ownership exhibits positive moderating impact with family ownership on SME internationalization in order to obtain long-term returns from investments. Institutional investors may promote and, if needed, publicly or privately compel family members of SMEs to invest in internationalization (George, Wiklund, and Zahra, 2005) given that risky strategies, such as international expansion, lead to income uncertainty in the short-term but may be highly profitable in the long-term (Bhide, 2000). Considering that institutional investors generally invest in corporate portfolios, they tend to be more open to accepting higher risks in each, individual investment than SME family managers are (George, Wiklund, and Zahra, 2005). Therefore, they may have an aggressive view of foreign market entry as an important enabler for SMEs to obtain legitimacy in international markets. This may lead institutional investors to be positively associated with internationalization of SMEs. Additionally, Webb, Beck, and McKinnon (2003) explain that owing to the potentially negative impact of a high selling price and resulting capital gains, their big investments limit institutional investors' capability to trade their numerous investments actively. Hence, the viewpoint and interests of institutional investors make them appropriate shareholders (Chung et al., 2005). They may also be inclined to implement strategies that advance long-term corporate value (Musteen, Datta, and Herrmann, 2009). Consequently, institutional investors improve enterprise resources and monitor family agents, thereby encouraging SME

internationalization, which is more likely to promote sustainable profits. Thus:

Hypothesis 2. The interaction of institutional ownership and family ownership will be positively associated with internationalization of SMEs.

III. Methods

A. Sample

South Korea is well suited to provide an ideal context for testing these hypotheses, as SMEs constitute over 99 percent of total Korean enterprises (Lee, 2010: 19). Family ownership is prevalent and substantial in a majority of Korean internationalizing SMEs with approximately 85.4% enterprises managed by families in South Korea (Lee and Chang, 2007). Since Korea is a huge, open economy with a shortage of natural resources and with small domestic markets, SMEs have been regarded as the

core driving force behind Korean economic development by virtue of their international expansion (Lee, 2010: 23). Hence, we believe that family ownership would be a crucial determinant of internationalization for Korean internationalizing SMEs. Moreover, the increasing ownership of institutional investors in the Korean economy would play a significant role in internationalization decision-making (Tihanyi et al., 2003). This study utilizes internationalizing SMEs listed on the Korean Stock Exchange (KSE) as samples. Secondary data is obtained from the TS2000, which contains company profiles, ownership information, and financial data for all publicly listed Korean firms.

An initial sample consists of 681 manufacturing enterprises continuously listed on the KSE from 2003 to 2013. This study uses panel data since the results take into account both structural changes and cyclical fluctuations (Chen, Hsu, and Chang, 2014). We define an internationalizing SME as a firm with less than 500 employees (Lee et al., 2012) and include SMEs continuously have international sales between that periods because the main concentration of our study

Table 1. Industrial Classification and Characteristics of Sample SMEs

No.	Industry	No. of Firms	%	FSTS	Lone Founder Ownership	Management Ownership	Size	Debt	Age	ROA	Family Ownership	Institutional Ownership
1	Construction	4	1.72	0.28	0.13	0.28	5.15	2.49	1.41	-0.02	0.46	0.11
2	Machinery	23	9.91	0.35	0.14	0.30	4.93	0.86	1.36	0.02	0.46	0.07
3	Nonmetal	4	1.72	0.08	0.06	0.27	5.50	0.64	1.65	0.02	0.44	0.08
4	Publishing	6	2.59	0.42	0.30	0.30	4.81	0.81	1.16	0.03	0.56	0.03
5	Textile	7	3.02	0.37	0.23	0.34	4.85	0.93	1.48	0.02	0.41	0.10
6	Transportation	16	6.9	0.39	0.10	0.19	4.97	1.23	1.45	0.04	0.41	0.08
7	Distribution	11	4.74	0.37	0.19	0.25	5.20	1.23	1.52	0.01	0.40	0.05
8	Foods	5	2.16	0.11	0.18	0.32	5.09	1.29	1.61	0.01	0.52	0.03
9	Medical	2	0.86	0.50	0.09	0.10	5.15	0.70	1.65	-0.03	0.48	0.05
10	Medicine	15	6.47	0.08	0.07	0.24	4.86	0.58	1.44	0.04	0.44	0.06
11	Electric	58	25.00	0.48	0.16	0.27	4.84	1.04	1.29	0.02	0.38	0.07
12	Paper	14	6.03	0.13	0.10	0.25	5.24	1.14	1.49	0.01	0.48	0.04
13	Iron and Steel	25	10.78	0.33	0.10	0.26	5.11	1.15	1.36	0.02	0.46	0.09
14	Chemistry	32	13.79	0.36	0.14	0.29	5.01	0.80	1.46	0.04	0.42	0.07
15	Others	10	4.31	0.31	0.13	0.24	4.94	1.01	1.49	0.01	0.39	0.07
Total		232	100.00									

is internationalization. The dependent variable (from 2004 to 2013) is regressed against the control and independent variables (from 2003 to 2012) to ensure that the causality direction is between family ownership and internationalization and not the reverse (Chen, Hsu, and Chang, 2014), and to verify the effects of governance features and ownership on decisions. To fulfill the SME criteria, this study lags each independent variable by one year; the final sample comprises 2,320 observations (232 enterprises over 10 years). Table 1 summarizes the industrial classification and characteristics of the sample SMEs.

B. Analyses

Ordinary Least Squares (OLS) provide biased estimates for such panel data due to highly unobservable heterogeneity in enterprise features. Fixed-effects analyses address unobserved enterprise heterogeneity as long as the errors are homoscedastic and independent (Choi et al., 2015). However, panel data rarely meets these conditions. To overcome these issues, the generalized estimating equations (GEE) model is employed to test the hypotheses. This method accounts for any within-subject correlations and avoids spurious results arising from first-order autoregressive correlations (Choi et al., 2015). Additionally, the GEE model is well known to offer robust variance estimates that account for heteroscedasticity and unobserved differences among enterprises (Choi et al., 2015). OLS and fixed-effects estimation analyses were also utilized for the robustness checks.

C. Measures

The following measures were used as the study's dependent, independent, and control variables.

1. Internationalization

I use the ratio of foreign sales to total sales (FSTS) to represent the enterprise's degree of internationalization

as it is probably the most common and primary internationalization measure used by firms (Capar and Kotabe, 2003; Chen, Hsu, and Chang, 2014; Lee et al., 2012; Zahra, 2003). There have been some statements in the literature regarding this measure (Sullivan, 1994; Gomes and Ramaswamy, 1999). For instance, Sullivan (1994) has noted that the utilization of a multidimensional measure and Ramaswamy, Kroeck, and Renforth (1996) have cast doubts on this measure on the basis of problems with reliability, criterion validity, and content validity. Eventually, previous researchers have argued for the utilization of single-item measures (Capar and Kotabe, 2003; Ramaswamy, Kroeck, and Renforth, 1996). Another measures utilized in previous researches include the ratio of foreign assets to total assets (Gomes and Ramaswamy, 1999) and the number of nations in which the enterprise operates (Tallman and Li, 1996). Nonetheless, the ratio of FSTS has been utilized in this study owing to data availability constraints and for the purposes of comparison.

2. Family Ownership

Consistent with prior research, family ownership is measured as the percentage of the common shares of a family firm owned by the largest shareholder and other entities that enjoy special shareholder relationships (Chang, 2003; Choi et al., 2015).

3. Institutional Ownership

This is measured by the share of ownership by institutions including pension funds, insurance enterprises, investment funds, and banks (George, Wiklund, and Zahra, 2005).

4. Control Variables

The analysis also incorporates several control variables related to firm-specific factors that may affect internationalization. Given the statements in previous studies that ownership type might significantly affect executives' risk preferences and consequentially, influence their decisions (Miller and

Le Breton-Miller, 2010), it is crucial to ensure that our results are not caused by the other types of ownership. First, we control both lone founder ownership and management ownership, measured by the share of ownership by lone founders and by managers, respectively (Miller and Le Breton-Miller, 2010). Second, firm size, measured by the logarithm of total assets, is included as a control variable following the arguments of advanced studies that big enterprises possess the resources and personnel that are conducive to international expansion (Chen, Hsu, and Chang, 2014). Third, debt is represented by the debt to equity ratio and is included in response to arguments advanced in existing literature that internationalization needs financial support (Chen, Hsu, and Chang, 2014). Fourth, we control firm age, measured as the logarithm of the number of years a firm has been in existence. The age of a firm would influence its ability to collect information about internationalization and build the necessary infrastructure for international expansion (Zahra, 2003). Fifth, we control for profitability measured by return on assets (ROA) as this may affect a firm's ability to cover the costs of conducting business internationally (Chen, Hsu, and Chang, 2014). Sixth, industry dummies are also included to control any industry-specify effects.

IV. Results

Table 2 lists descriptive statistics and correlations computed based on the total sample consisting of 2,320 observations. The average FSTS (internationalization), family ownership, and institutional ownership are 35.1%, 43.2%, and 7.3%, respectively. Variance inflation factors (VIFs) are used to test for such multicollinearity. All of the variables are found to have acceptable VIFs; the mean VIF values of the variables range from 1.07 to 2.24, indicating that multicollinearity is not a serious concern.

To control for ownership and enterprise impact on internationalization, the generalized estimating equations (GEEs) are employed in a step-wise manner as depicted in Table 3. Model 1 explores ownership and enterprise impact and shows that these factors explain about 103.07 of the variability in the sample enterprises' relative FSTS. Specifically, FSTS is autocorrelated and correlated with size ($p < 0.01$), debt ($p < 0.1$), age ($p < 0.01$), and ROA ($p < 0.01$). Bigger companies were significantly correlated with increased FSTS, representing that bigger enterprises are more likely to internationalize. Debt and ROA are also negatively related to FSTS, suggesting that enterprises with lower percentage of debt and return of assets are more likely to internationalize. In addition, older enterprises are associated with increased FSTS, representing that older enterprises are more likely to expand to international markets.

Table 2. Means, Standard Deviations, and Correlations

Variable	Mean	SD	1	2	3	4	5	6	7	8	9
FSTS	0.35	0.28	1								
Lone Founder Ownership	0.14	0.13	0.13**	1							
Management Ownership	0.27	0.13	-0.03	0.27**	1						
Size	4.98	0.39	-0.03	-0.15**	-0.01	1					
Debt	1.01	1.46	0.05**	0.02	-0.05*	0.09**	1				
Age	1.40	0.26	-0.11**	-0.22**	-0.10**	0.35**	0.03	1			
ROA	0.02	0.08	-0.02	0.05*	0.12**	0.09**	-0.36**	0.03	1		
Family Ownership	0.43	0.19	-0.04*	0.08**	0.21**	-0.04*	-0.08*	0.04	0.15**	1	
Institutional Ownership	0.07	0.14	0.07**	-0.09**	0.00	0.00	-0.02	0.07**	0.05*	-0.41**	1

Number of observations = 2,320, ** $p < 0.01$, * $p < 0.05$, † $p < 0.1$

Table 3. Coefficients of the Model Estimates for Predicting Internationalization

Dependent variable: FSTS	Model 1 GEE	Model 2	Model 3	Model 4	Model 5 OLS	Model 6 Fixed-effects
Lone Founder Ownership	0.073 (0.042)	0.068 (0.042)	0.068 (0.042)	0.060 (0.042)	0.313** (0.043)	0.040 (0.044)
Management Ownership	-0.007 (0.031)	-0.014 (0.031)	-0.019 (0.031)	-0.019 (0.031)	-0.184** (0.046)	-0.009 (0.032)
Size	0.109** (0.017)	0.112** (0.017)	0.111** (0.017)	0.107** (0.017)	0.059** (0.016)	0.103** (0.018)
Debt	-0.003† (0.001)	-0.003 (0.001)	-0.003 (0.001)	-0.003 (0.001)	0.009* (0.004)	-0.003† (0.002)
Age	0.088** (0.031)	0.084** (0.031)	0.078** (0.031)	0.079** (0.031)	-0.134** (0.024)	0.125** (0.034)
ROA	-0.086** (0.032)	-0.092** (0.032)	-0.091** (0.032)	-0.094** (0.032)	-0.000 (0.000)	-0.093** (0.032)
Family Ownership (H1)		0.040* (0.018)	0.057** (0.020)	0.060** (0.020)	0.021 (0.034)	0.062** (0.021)
Institutional Ownership			0.045† (0.023)	0.121** (0.034)	0.303** (0.068)	0.114** (0.035)
Family Ownership* Institutional Ownership (H2)				0.298** (0.099)	0.434* (0.195)	0.299** (0.100)
Industry dummy	Incl.	Incl.	Incl.	Incl.	Incl.	Incl.
Constant	-0.323** (0.078)	-0.329** (0.078)	-0.312** (0.078)	-0.292** (0.078)	0.245** (0.077)	-0.366** (0.080)
Observations	2,320	2,320	2,320	2,320	2,320	2,320
Wald's Chi-squared (F)	103.07**	108.02**	111.70**	121.20**	14.28**	14.81**
Number of firms	232	232	232	232	232	232

Number of observations = 2,320, ** p < 0.01, * p < 0.05, † p < 0.1, () = standard errors

Family ownership is added to the generalized estimating equations (GEEs) in Model 2. The results illustrate that FSTS is positively associated with family ownership (0.040, $p < 0.05$). This result supports H1, which states that higher shares of family ownership of SMEs have higher FSTS suggesting that family ownership may promote internationalization of SMEs.

To explore the moderating effect of institutional ownership, we include a moderated multiple regression whereby institutional ownership and family ownership are centered by their means. Model 4 shows the interaction of institutional ownership with family ownership to be significantly positive (0.298, $p < 0.01$). This result supports H2, indicating that the interaction of institutional ownership and family ownership is positively associated with international expansion. This shows that the positive, interactive relationship of institutional ownership and family ownership with SME internationalization is

much stronger when institutional ownership is higher than when it is lower.

To understand this moderating impact better, interaction plots were prepared using the procedure recommended by Cohen et al. (2013), with the two variables plotted one standard deviation below and above their means while other variables were held at their mean values. Figure 1 depicts that the positive joint relationship of family ownership and institutional ownership with internationalization is much stronger when institutional ownership is high, which confirms its hypothesized moderating effect and supports H2.

Furthermore, this study explores several additional analyses to evaluate the results' robustness. The findings appear to be insensitive to the estimation method employed, to alternative measures, and to add additional control variables. The OLS (Model 5) and fixed-effects (Model 6) model estimations

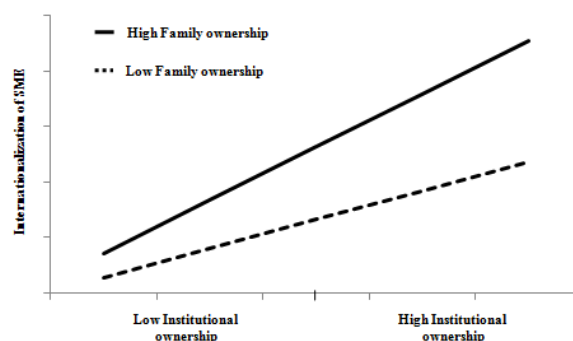


Figure 1. Interaction Effect of Family Ownership and Institutional Ownership

return similar results. Moreover, the sensitivity of the control variables is tested for different measurement methods. Firm size is measured as the logarithm of the number of employees, profitability as return on equity (Chen, Hsu, and Chang, 2014; Zahra, 2003), and debt as $\log [\text{Leverage} / (1 - \text{Leverage})]$. Leverage is the ratio of the book value of total debt to the sum of the market value of equity and the book value of debt (Chen, Hsu, and Chang, 2014). We also include additional control variables such as sales growth (measured as the annual growth of sales) and research and development (R&D) intensity because it might be determinants for internationalization (Chen, Hsu, and Chang, 2014). The analyses using these alternate measures and additional control variables yield similar results. These results are not shown, but are available from the authors on request.

V. Discussion and Conclusion

We utilize the resource dependency theory and agency theory to explore the link between family ownership, institutional ownership, and internationalization of Korean internationalizing SMEs. Family ownership presents both unique advantages and disadvantages for enterprises. Results show that family ownership may positively affect

internationalization of Korean SMEs, indicating that family ownership is more advantageous than disadvantageous. Internationalizing Korean SMEs with high family ownership tend to accumulate a portfolio of strategic capabilities and resources that promote international expansion. In addition, the potential agency benefits of family ownership, such as alignment of interest, information advantage, and altruism, are more likely to aid international expansion. These special resources, external networks, and agency benefits are crucial factors to increase SME's willingness to expand internationally.

Moreover, the positive moderating impact of institutional ownership on the relationship between family ownership and internationalization of Korean SMEs are significantly positive. This indicates that the share of institutional ownership could moderate the impact of family ownership on the international expansion of Korean SMEs. Institutional investment could be considered an efficient mechanism of governance to monitor managers and provide enterprises with access to crucial resources that encourage international expansion. Consequently, they reduce the likelihood of investment risks, thereby assisting SMEs' international expansion efforts. In summary, the results show that both the perspectives of resource dependency theory and agency theory offer useful explanations of the effects of family ownership and institutional ownership.

This study makes the following contributions. First, we utilize a multi-theoretical lens to explore the

ownership impact on corporate strategic decision-making for international expansion. Pertinent literature warrants an examination of governance that combines different theoretical perspectives (Jackling and Johl, 2009). By using both resource dependency theory and agency theory to examine the relationship between SME internationalization and family ownership, this study offers a richer explanation. Some scholars only concentrate on agency theory to explore this relationship (George, Wiklund, and Zahra, 2005; Musteen, Datta, and Herrmann 2009) and, as a result, are limited in terms of capturing the willingness and risk preference of owners to presume risks related to international expansion. Additionally, the decision-making for internationalization and the risk-taking propensity also reflect resource endowments and external resources. An enterprise's special capabilities and resources may influence its ability to internationalize (Bloodgood, Sapienza, and Almeida, 1996). Consequently, this paper illuminates the impact of family ownership on internationalization in terms of resource endowments and external resources by utilizing the resource dependency theory. To summarize, we provide a richer explanation of the internationalization-family ownership relationship by employing both the resource dependency theory and agency theory.

Second, this research contributes to the literature on small and medium business management, internationalization, and family business by studying Korean internationalizing SMEs, especially in the strategic management sector. The results show that family ownership may promote internationalization of SMEs, indicating that family ownership contains both the unique resources and capabilities and the necessary agency benefits to enhance internationalization without some of the costs generally associated with this activity. Hence, this research further extends the current explanation of the relationship between internationalization and family ownership.

Third, we suggest that external investors influence internal shareholders' strategic choices for internationalization. Given that the share of

institutional investor ownership is increasing significantly, they would play a progressively active role in enterprise governance (George, Wiklund, and Zahra, 2005), especially in South Korea. We analyze institutional ownership to examine its moderating impact on internationalization of SMEs. The results show that increased institutional ownership may effectively enhance the family ownership-internationalization relationship of SMEs. This implies that institutional investors' long-term focus is conducive to the internationalization of SMEs. Moreover, institutional investors would increase the resource base and efficiently monitor SME family agents thereby decreasing the likelihood of failure in international expansion, which in turn raises their willingness to internationalize. We suggest that SME's decision to internationalize may depend on the degree of institutional ownership. This result extends our understanding of the impact of external shareholders on internal owners' strategic choices in the context of SMEs, which have a shortage of capabilities and resources as compared with big enterprises.

We believe that these results have two practical implications. First, the findings indicate that institutional ownership could enhance the relationship between SME internationalization and family ownership. This implies that CEOs or senior executives of internationalizing SMEs must seek to establish long-lasting relationships with external networks including institutional investors, and allow them to hold equity positions in their enterprises. Since institutional investors participate and invest in various enterprises, they could obtain information on international markets and key learning points from the international management experiences of other successful enterprises. Thus, institutional investors are beneficial as SME shareholders by offering valuable resources including relevant knowledge, information, and experience, and by monitoring managerial strategic behaviors. This further reduces uncertainty and risks related to internationalization. Moreover, internationalizing SMEs may obtain financial assistance from institutional investors when

expanding to international markets, which could significantly affect the success of their international strategy. Consequently, CEOs and senior executives of internationalizing SMEs should establish long-lasting relationships with institutional investors and ensure their support in order to improve their chances of success in international expansion.

Second, CEOs and senior executives of internationalizing SMEs should be able to effectively communicate their mission and goals and be aware of the preference of the SME owners in order to secure their support. Hence, they need to maintain healthy dialogue with the SME owners in order to ensure high quality strategic choices for internationalization. The findings indicate that there is a positive relationship between family ownership and SME internationalization. Moreover, the positive joint relationship of institutional ownership and family ownership with internationalization is much stronger when institutional ownership is high, indicating that CEOs and senior executives of internationalizing SMEs would need to gain support from institutional investors and family shareholders in order to pursue a long-term strategy for internationalization.

Despite its contributions, this study has several limitations that warrant follow-on studies. First, the sample of SMEs is limited to Korea and hence, the findings may not be generalized to all SMEs. Future studies could cover SMEs in other countries to contrast the findings with those presented in this study. In addition, future investigations could also examine the hypotheses presented in this study in the context of countries with large domestic markets and countries with different cultures to explore cross-cultural impact. Second, cultural differences would considerably influence ownership effect and business activities (Gatfield and Youseff, 2001). The results of this study imply that the Korean culture may enhance corporate resources and reduce agency costs, therefore promoting internationalization of SMEs. Confucianism significantly influences Korean corporate culture, in contrast with western enterprises. This encourages collectivism and paternalism, which

in turn contributes to business networks. Such networks and culture are crucial for Korean SMEs to maintain their competitive advantage (Miller et al., 2009). Following the social capital perspective, social networks would reinforce the competitive advantages of SMEs by offering the means to resources and information (Zhou, Wu, and Luo, 2007) that promote internationalization. Hence, future research may use the perspective of social capital theory to examine the impact of cultural differences on the relationship between internationalization and ownership. Scholars may also explore the impact of cultural values like individualism on the relationship between family ownership and internationalization. Enterprises in individualistic cultures would be unwilling to solicit cooperation from those who have the resources and expertise for entrepreneurial activities (Chen, Hsu, and Chang, 2014). Consequently, individualism may affect the willingness of SMEs to internationalize.

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