Internationalization of Family Business: The Prosecco Family Firms Case

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The aim of this paper is to understand how family firms react to foreign markets and opportunities. The main issue of the topic is to figure out if the family firms internationalize more or less respect to the other business models, and consequently if the presence of the family represents an added value or a restraint to the firm’s growth. An empirical research has been done on the family firms belonging to the Prosecco District. A qualitative research has been done investigating the role of the family, the role of the Consortium for the Prosecco wine, the entry mode to foreign markets, the country of origin and territorial denomination importance in the international markets, and the role of the family in managing the internationalization of the business.

Keywords: family business, SMEs internalization, wine market

INTRODUCTION

The internationalization of firms is one of the most important topics of the current global economic scenario, because it has deeply changed the dynamics and the strategies adopted by the firms and, in a broad sense, it has influenced also the consumers’ behavior and the daily lifestyle of billions of people, giving them access to infinite new possibilities and opportunities. An event with such a magnitude did not involve only the bigger companies, on the contrary it has become a priority for the greatest part of the enterprises, including also the small and medium ones. Of course, it was not an immediate change: at the beginning, only the companies with strong market power had the resources necessary for enlarge their scope, but today the international opportunities are open to all the firms. Between them, also the family firms started to rethink their strategies and positioning for remaining competitive in the global market. The case of the family businesses is particular important both for their fundamental role in the national economies, both for their typical tendency to be close to external realities and opportunities, due to the higher risk-aversion (Ray et al., 2018).

The aim of this paper is to understand how family firms react to foreign markets and opportunities. The main issue of the topic is to figure out if the family firms internationalize more or less respect to the other business models, and consequently if the presence of the family represents an added value or a restraint to the firm’s growth. An empirical research has been done on the family firms belonging to the Prosecco District and, in particular, to the Consortium of Conegliano Valdobbiadene. The reasons that corroborate this choice are related to the great importance and success of the prosecco in the foreign markets, where it
is spreading with a high growth rate, and to the huge number of family firms that are part of the District. The case gives also the opportunity to verify if the presence of the Consortium somehow influences the strategies adopted by the enterprises.

METHODOLOGY

Giving a practical example of family business behavior, the case of the prosecco sector has been studied. In particular, the focus has been on the family firms of the District of Conegliano Valdobbiadene. The choice is justified by the high presence of small family-operated businesses within the district. Moreover, the case results interesting from the theoretical point of view for the presence of the Consortium, that may support the international activities of the firms, influencing their strategies and their choices.

The choice of the prosecco is motivated also by the importance of its market, whose value is around 2.5 billion euros and its production reaches more than 500 million bottles, involving more than 13,500 producers. It represents the 50% of the whole market of sparkling wines abroad and in the last years it has been the driving force in the export activities of Italian wines.

Once the framework has been developed, it is possible to introduce the research itself. The main purpose of the research is to understand how the family firms belonging to the District of Conegliano Valdobbiadene behave in the international markets, if they follow the general pathway defined by the theories developed about the internationalization of family firms or if some particular features, such as the presence of the Consortium or the specificity of the product, allow them to adopt different approaches and strategies. To sum up, the main questions of the research are:

RQ1: How do family firms of the Conegliano Valdobbiadene district behave in the international market?

RQ2: Do they follow the theoretical guidelines designed for the internationalization of family firms?

RQ3: Does the Consortium influence or not their activities?

In order to answer these questions, a qualitative research has been done. The choice of adopting the qualitative method rather than the quantitative one is due to the different purposes of the former respect to the latter. The qualitative approach allows to represent the view and perspective of study’s participants, capturing their perspectives. As stated by Yin (2015) “the events and ideas emerging from qualitative research can represent the meanings given to real-world events by the people who live them, not the values, preconceptions, or meanings held by researchers”. Moreover, qualitative research explicitly takes into consideration the contextual conditions - that is, the social, institutional, cultural, and environmental conditions – within which people’s activities take place.

The case study, according to Yin (2009), is the preferable method when the object is to study contemporary events, but in the cases when the relevant behaviors of the actors cannot be manipulated by the researchers. The case is suitable when the aim is to understand a real-life phenomenon in depth, but “such understanding encompassed important contextual conditions, because they were highly pertinent to the phenomenon of study” (Yin, 2009, p. 29). There are different applications of study cases, the most important is to explain the connections in real-life interventions that result to be too complex for the survey.

Multiple-cases are powerful tools to create theory because they permit replication and extension among than individual cases. Replication means that individual cases can be used for independent corroboration of specific proposition. This corroboration helps researchers to perceive patters in an easier way (Eisenhardt, 1991). The evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust (Herriott & Firestone, 1983). The case study method, both single and multiple cases, can be used for testing hypothesis or building theory. In addition to this, there is also another valid argument for preferring such approach: small firms are usually more reluctant to complete questionnaires and publicly share information that can be sensitive, so the direct interview may be the only
way of obtaining information from the key figure inside the firm, while the other forms of enquiry might result more problematic (Carson et al., 1995).

This empirical research is based upon the application of the multiple-cases study approach to the investigation of internationalization patterns of family firms in the District of Conegliano Valdobbiadene.

The single firm was taken as unit of analysis; the research requirements have been firstly (i) the identification of firms who consider themselves as “family firms” and secondly, (ii) the identification of firms that have already undertaken international business activities. The units of analysis were chosen among the list of firms belonging to the Conegliano Valdobbiadene District, present in the website. In the first selection, only the firms that define themselves as family firms have been taken into consideration; this first step enabled the collection of 113 contacts. The first criterium of selection was deliberately not-objective and based on the firm’s self-perception because the focus is not on a particular type of family firm (e.g. wholly family owned businesses or only managed by external figures). As it has already been explained in the literature review, there may be different forms of family business, where the members of the family are present in the ownership, in the management or in both. The choice was to consider all the types of family business. After the first step, the units have been contacted by mail and by phone. Between them only 10 were completely available for participating to the enquiry and being included in the theoretical sample.

Case study data were collected through one-to-one interviews. For logistic reasons, the interviews were conducted by phone. The interviews were conducted in Italian. All the interviews were semi-structured, with an interview protocol being used to facilitate some level of standardization and cross-case analysis.

In all the cases the person interviewed held a top-level management position in the company (managing director, general manager, manager of international operations etc.). The interviewees were first asked to talk generally about their firm, thereafter their operations in international markets, focusing on the entry mode adopted and the opportunities recognition and finally their opinion about the role of the Consortium and of the Made in Italy label in the foreign activities. Seventeen items were used for the interview, as following (in Italian)

1. Vi considerate un’azienda familiare?
2. Età dell’impresa?
3. Quali dimensioni ha l’azienda?
4. Numero di dipendenti?
5. Quale generazione sta attualmente lavorando nell’azienda?
6. Sono presenti membri della famiglia che ricoprono ruoli amministrativi?
7. Sono presenti membri della famiglia che sono proprietari dell’azienda?
8. Sono presenti manager o figure esterne?
9. L’impresa ha intrapreso attività commerciali all’estero?
10. Quali paesi sono stati coinvolti nelle attività?
11. Come siete venuti a contatto con queste opportunità?
12. Quale modalità di ingresso nei mercati esteri è stata adottata?
13. La presenza di figure esterne ha influenzato le attività internazionali? Come?
14. Qual è il ruolo del Consorzio nelle attività internazionali?
15. Come considerate il ruolo del Consorzio nelle attività internazionali?
16. C’è collaborazione tra le varie imprese del consorzio?
17. Come considerate il ruolo dell’etichetta Made in Italy nelle attività internazionali?

The 10 cases analyzed in this research regard firms belonging to the Consortium of Conegliano Valdobbiadene. Some general information about the firms were collected at the beginning of the interviews and from the website of the firms. In order to have a general view of the firms interviewed, a table has been created.
FINDINGS

The firms that have participated to the research have already undertaken international trades and all of them, to a greater or lesser extent, had to change their inner structure or their strategies in order to be competitive abroad, exploit the growth chances and the new markets available.

What generally emerged from the interviews is that the firms belonging to the Consortium of Conegliano Valdobbiadene are likely to follow the theoretical path line defined for the internationalization of family firms. Like all the family businesses, these firms present some of the characteristics of the genre: the familiness, the importance of the identity and of the status, the identification and the emotional attachment of family members to the firm (Berrone et al., 2012 in Sciascia et al., 2014). The firms take advantage of some of the typical benefits, such as the longevity of the company, thanks to the long-run orientation, higher level of cohesion and lower need to control behaviors that means also lower costs for internationalizing. There are also some negative aspects: the excess of safeguard or internal orientation that can lead to stagnation, the capital and managerial constraints, which are sources of competitive disadvantage (Carney, 2005) or the uncertainty due to the generational changeover that can undermine the resources of the firm and affect its competitiveness (Claver et al., 2009). The balance between positive and negative aspects changes from case to case and leads to different solutions and realities.

Comparing the results obtained from the research and the findings of the literature review, it is possible to state that generally there is coherence between the two parts. What has shown some discrepancies is the effect of the family within the management and the ownership.

The Role of the Family

Most importantly, in all the cases analyzed the family is still covering important roles within the business, carrying out different activities that concern the strategic choices, the management and the communication channels of the firm. The firms stated that at the beginning of the internationalization process the activities were wholly managed by the family members but that then, when the volumes started to grow and the activities got more complexed, they had to introduce external figures with particular experiences and skills. Basing on these statements, it is possible to formulate a proposition:

Proposition #1: When the internationalization activities grow and the complexity raises, the family members’ management is not sufficient any longer and the introduction of external managers with specific skills and experiences is needed.

<table>
<thead>
<tr>
<th>FIRM</th>
<th>FOUNDRING YEAR</th>
<th>GENERATION(S)</th>
<th>SIZE (ON SALES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1981</td>
<td>1st and 2nd</td>
<td>Very Big</td>
</tr>
<tr>
<td>B</td>
<td>1985</td>
<td>2nd</td>
<td>Very Big</td>
</tr>
<tr>
<td>C</td>
<td>1892</td>
<td>4th</td>
<td>Medium</td>
</tr>
<tr>
<td>D</td>
<td>1542</td>
<td>21st</td>
<td>Very Big</td>
</tr>
<tr>
<td>E</td>
<td>1868</td>
<td>4th and 5th</td>
<td>Very Big</td>
</tr>
<tr>
<td>F</td>
<td>1960</td>
<td>2nd and 3rd</td>
<td>Medium</td>
</tr>
<tr>
<td>G</td>
<td>1947</td>
<td>2nd and 3rd</td>
<td>Big</td>
</tr>
<tr>
<td>H</td>
<td>1975</td>
<td>2nd and 3rd</td>
<td>Very Big</td>
</tr>
<tr>
<td>I</td>
<td>2010</td>
<td>1st</td>
<td>Small</td>
</tr>
<tr>
<td>J</td>
<td>1968</td>
<td>3rd</td>
<td>Medium</td>
</tr>
</tbody>
</table>

The presence of the family members in the firm’s management is optimized only at medium level, confirming the inverse U-shaped relationship found between these two elements (Mitter et al., 2014). This
equilibrium aims at integrating the benefits given by the presence of the family, such as the reduction of agency costs and the long-term orientation, with the contribute given by the external managers.

According to the theories the strong presence of the family members in the ownership should negatively affects the internationalization path of the firm (Fernández and Nieto, 2005; Majocchi and Strange, 2012; Sanchez-Bueno and Usero, 2014; Herrera-Echeverri et al., 2016), but in these cases this presence does not seem to curtail the international opportunities of the enterprises. How can it be explained? As already said before, the family presence within the firm does not present per se a constrain to the international expansion of the business, it mostly depends on the approach adopted. Adopting the SEW perspective family members can also decide to get international to reach their aspiration levels if they perceive that their family wealth is at risk (Pukall and Calabrò, 2014). In the case of a distinctive familiness, it is a source of competence (Habbershon and Williams, 1999) because it can be related to greater level of trusts (Zaeefarian et al., 2016), transfer of tacit knowledge and long-term orientation. These resources and skills that cannot be easily imitated by the other players help the firm to outperform competitors (Mitter et al., 2014) but they in themselves cannot guarantee the creation of value, instead they need to be properly managed. This means that family businesses can internationalize without the initial support of external figures because they have specific resources that contribute to create competitive advantage; what might happen is that they reach a suboptimal level of performance that can be enhance with the introduction of external resources. This interpretation is also sustained by the fact that all the firms of the sample have small sizes, basing on the number of workers, and limited size is often recognized as a constraint for international growth (Claver et al., 2008; Majocchi and Strange, 2012). Another plausible answer can be found in the role of the Consortium.

The Role of the Consortium

The discrepancy between the study research and the theories can be explained by the presence of the Consortium, which could influence the internationalization propensity of family firms. In fact, all the interviewees recognized the importance of the Consortium’s role as stepping stone for starting the activities abroad: the entity gives psychological support to the firms and helps them to participate to international fairs and find new consumers and new opportunities. In this case the role of the Consortium is mainly coordinative: it does not substitute the firms in carrying out part of the activities and the central power is not strong enough for making decisions and avoiding competitive behaviors between the participating firms (Depperu, 1996). The consortium somehow supports the firms so that they can adopt and develop a wider international entrepreneurial orientation, fostering those attitudes, behaviors and values that can make effective the entry to international markets. In other words, the Consortium substitutes the role of non-family shareholders as external voice that can successfully accelerate the internationalization path. In addition to this, the Consortium can sustain the small firms’ growth by letting them access to new resources and overcome the restrictions due to the limited size: this factor, together with the resource constraints have been often recognized as the real causes of the lower international growth of family firms (Carney, 2005; Claver et al., 2008; Majocchi and Strange, 2012, Wach, 2014). Consequently, in the second proposition it is possible to state:

**Proposition #2:** The presence of the Consortium allows to mitigate the closeness of family firms, reduces their constraints and supports them in the initial steps of the internationalization path.

A greater cooperation between the firms, with the adoption of a unique strategy and a unique communication channel guaranteed by a new stronger role assumed by the consortium, would boost their returns and their economic development significantly.

**Entry Mode**

In all the cases studied two main strategies were principally adopted: the participation to international fairs and the use of relationship networks. The adoption of these strategies is in accordance with what has been stated for the internationalization of family firms, namely that networks of the owner-managers can
help entry in to foreign markets in the first steps of internationalization (Rutashoby and Jaensson, 2004) and that informal ties can bring several benefits including access to foreign market information, access to information about foreign trade fairs, access to foreign market and access to supplied credit and training opportunities.

The opportunities found through these tools were situated, most of the time, in European countries where the prosecco market was already developed, such as UK, Switzerland and Germany. This trend is in line with the theory developed by the Uppsala school and adopted by several scholars (Zaniewska, 2012; Cesinger et al., 2013; Pukall and Calabrò, 2014), according to which, when it comes to internationalize, firms will first establish agency relations in neighboring and similar countries and that the process of internationalization will be gradual and it will depend on the progressive accumulation of knowledge of foreign markets and it will be also influenced by the size of the foreign market (Johanson and Wiedersheim-Paul, 1975). Of course, there are also cases in which the family firms were “pioneers” and contributed to developed new markets in foreign countries, but also in this case the firm decided to target “psychologically” closer markets (Gallo and Estapé, 1992). This tendency is just a witness of the family firms’ aversion to risk, that is softened by choosing countries that can reduce the cultural and social obstacles. As far as the distribution strategies, the firms adopted principally the exportation, both directly and indirectly, through importers and local distributors.

**Proposition #3:** As far as the entry mode and the distribution strategies, the firms follow the Uppsala school’s theory and undertake export activities basing on their personal social networks, following the general path line defined by the theories.

**Origin and Denomination**

When it has been asked to the interviewees to talk about the role of the Made in Italy label in the international markets, the general opinion was that it plays a fundamental role for the creation of added value and for guaranteeing the quality and the prestige of the product. As argued by the theories, the positive perception of the territory and the country confers positive attributes to the product, strengthening the brand equity. In this particular case, considering that the wine is identified as an “hedonic” product, the COO plays a fundamental role because the consumers can assess the quality only after the purchase, and they base on extrinsic cues, including COO, for judging the products. The Made in Italy label can leverage on different aspects of the COO effects identified by Verleghe and Steekamp (1999): the cognitive one, because of the role of Italy as one of the greatest exporting countries at global level and the quality recognized and guaranteed by the COO, and the affective one, considering that the prosecco is the symbol of simple, refined drinking, intrinsically tied to the unmistakable Made in Italy lifestyle.

**Proposition #4:** The country of origin effect plays a fundamental role for ensuring the competitiveness of the product abroad.

**RESEARCH LIMITS**

This research makes different contributions to the academic debate on the internationalization process of family firms. The main contribution has been to apply the theories and the studies developed for the family firms’ behavior abroad in the contest of the Consortium of Conegliano Valdobbiadene. The case studied allowed to verify if the presence of the consortium has concrete effects or consequences on the strategies and decisions made by the firms. The results showed that this presence concretely affects the strategies adopted by the firms, helping them to be more open to external realities and opportunities and supporting them in the first steps of the internationalization process. The research also allowed to know better the characteristics and the peculiarities of the Prosecco District, that represents a specific case in the wider wine markets, which has already been studied in other papers. Differently from the wine, that is generally widespread in all the Italian territory and abroad as well, the prosecco is peculiar of the Northeast area, so it has deeper ties with the territory and the Italian origins. Notwithstanding this, the research
is not without limitations. In facts, this study represents just a first attempt to study the families’ behavior and the dynamics of internationalization in the Prosecco District. First of all, the sample used is relatively limited, considering the number of the enterprises belonging to the Consortium: further studies might involve a bigger number of firms in order to verify the reliability of the findings abovementioned, adopting also different types of research. The data collected in this research were not sufficient to properly observe the intra-generational dynamics, but it is supposed to be a fundamental aspect for understanding the strategies and the behavior of the firms. Apart from that, also other variables such as the manager’s characteristics and the cultural influences were not included in this research, but they might be taken into consideration for studying these realities by adopting different perspectives and valuating different variables.

PRACTICAL IMPLICATION

As showed, some scholars found that the presence of family members can give positive contributes to the firm’s growth thanks to the know-how, the intrinsic value system or the long-term orientation (Zahra, 2003; Carr and Bateman, 2008). Other stated that the family represents a constraint to firm’s development abroad because of its tendency to ignore external opportunities and inputs and because of their high risk-avoidance (Gallo and Estapé, 1992; Carney, 2005). The difficulties in finding a unique solution led the scholars to identify an inverse U-shaped relationship between the family presence and the firm’s performances abroad, meaning that the best way to make the firm efficient is to limit the presence of the family members, without totally dismissing them (Sciascia et al., 2013). Other important elements identified in the literature review regard the presence of subsequent generations, which can help to be less risk-adverse and to open the firm to new opportunities, the entry mode adopted by the family business and the cultural influence (Vescovi 2018); the choices taken regarding these last two aspects reflect the family’s tendency to be more cautious, by opting for the owner’s relationships network as a means for discovering new opportunities (Kontinen and Ojala, 2010) and by choosing countries that are geographically and culturally closer to the domestic markets (Johanson and Wiedersheim-Paul, 1975). Nevertheless, the absence of “absolute truths”, some generic path lines have been identified for defining the family firms’ behavior abroad. The cases chosen, related to the family firms belonging to the Consortium of Conegliano Valdobbiadene producing prosecco, allowed to observe and study the role played by the Consortium. It helps to make the family members less risk-adverse and to make the firms more open to external opportunities, substituting de facto the external ownerships in their role as mediators. As far as the management, the results were in line with what has been already stated: the presence of external (non-family) managers becomes fundamental for optimizing the international activities because they introduce some specific knowledge and experiences that are necessary for being competing in the global market.

The Consortium is playing an important role for the internationalization of firms, allowing them to participate to international fairs and to find new consumers, but its supportive role can be even bigger. The activities of the Consortium are mainly focused on the protection of the product and its denomination; these activities are fundamental, but a more proactive role of this entity could really make a difference for the district’s performances. According to the responses given by the interviewees, the whole prosecco district would need to be re-organized for enhancing the growth of the product; the current situation, with three different consortia, contributes to create confusion and ambiguity in the consumers, especially for the foreigners. A solution might be the institution of a unique consortium, whose role should shift from the mere protection and promotion to a real support to export activities and distribution, with the definition of specific communication and distribution strategies adopted by all the participants. In addition to this, the creation of a real Made in Italy label that could guarantee the quality of the origin of the products would protect them from the international competition with the counterfeiting products, without disorienting the consumers and helping them in the purchasing choices.
ORIGINALITY OF THE STUDY

The aim of this thesis was to present the state of the studies on the internationalization process of the family firms and to understand how these behave in foreign markets. First, it has been done a deep review of the literature regarding this issue, resuming great part of the papers that have been published in the last 30 years. The literature review allowed to identify and define the main topics discussed and the relative theories developed. What has been found in the review is that still today it is not easy to find a theory that can generalize the approach of family businesses to international trades. This ambiguity is mostly due to the uncountable variables that contribute to determine the firm’s behavior and choices for what concerns the internationalization process, such as the local culture, the business culture, the owner/manager’s characteristics, the presence of subsequent generations, the peculiarities of the product and the market and so on. Several aspects have been analyzed, both internal and external. One of the topics most discussed and conflicting is related to the role and the influence of family members: this aspect has been studied deeply and it has led to different and opposite findings.

ENDNOTE


REFERENCES


