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FAMILY MATTERS: ARE FAMILY FIRMS DISTINGUISHED IN ENVIRONMENTS WITH RESOURCE CONSTRAINTS?

LA FAMILIA IMPORTA: ¿SE DISTINGUEN LAS EMPRESAS FAMILIARES EN ENTORNOS CON RECURSOS LIMITADOS?

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ABSTRACT

Family Firms (FF) have received significant attention as organizations that distinguish themselves due to the overlap between ownership, operation and family aspects that determine strategy. While it is established that FF are more conservative with risk, and concentrate ownership within trusted circles; they remain interesting for more risky activities such as International Entrepreneurship (IE). With island environments often being overlooked, they offer distinguishing environments that can further inform the academic community as to how FF behave with regards to opportunities beyond domestic markets. Island markets are, due to small size, on the receiving end of global developments, and have alternative priorities. This study examines 250 firms located in ten islands, Bahamas, Bahrain, Barbados, Cyprus, Iceland, Fiji, Jamaica, Malta, Mauritius, and Trinidad/Tobago over the 2009-2020 period, and addresses how the island FF performs vis a vis Non-Family Firms (NFF). The study finds evidence in support of FF balancing financial and non-financial indicators.

KEYWORDS

Family Business, International Entrepreneurship (IE), Island-based firms (IBFs)

RESUMEN

Las Empresas Familiares (EF) han recibido una atención significativa como organizaciones que se distinguen por la superposición entre propiedad, operación y aspectos familiares que determinan la estrategia. Aunque está establecido que las EF son más conservadoras en cuanto al riesgo y concentran la propiedad en círculos de confianza, siguen siendo interesantes para actividades más arriesgadas como el Emprendimiento Internacional (EI). Dado que los entornos insulares suelen pasarse por alto, ofrecen entornos distintivos que pueden proporcionar más información a la comunidad académica sobre cómo se comportan las EF en relación con las oportunidades más allá de los mercados nacionales. Los mercados insulares, debido a su pequeño tamaño, están en el extremo receptor de los desarrollos globales y tienen prioridades alternativas. Este estudio examina 250 empresas ubicadas en diez islas: Bahamas, Baréin, Barbados, Chipre, Islandia, Fiyi, Jamaica, Malta, Mauricio y Trinidad y Tobago, en el período de 2009 a 2020, y aborda cómo se desempeñan las EF insulares en comparación con las Empresas No Familiares (ENF). El estudio encuentra evidencia que respalda que las EF equilibran indicadores financieros y no financieros.

PALABRAS CLAVE

Empresa Familiar, Emprendimiento Internacional (EI), Empresas basadas en islas (EBI).

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INTRODUCTION

Family Firms (FF) have received significant attention as organizations distinguish themselves due to the overlap between ownership, operation and family aspects that determine strategy. The identified overlaps have been known to be determining for firm strategy, as FF balance financial and non-financial aspects in decision making. FF tend to consider matters like family legacy and reputation which render different strategic outlooks. Firm resources are thus allocated differently, which set FF apart in decisions like Innovation and Internationalization. FF represent a dominant force in the economies of small islands (particularly in the Caribbean), and there is a general need to understand how these firms strategically position themselves to deliver performance (Minto-Coy et al., 2016). Small Island context are often misunderstood as smaller versions of larger countries, however boast characteristics of their own. Quite specifically, their geographic character provides for a metaphysical relationship with "the outside world" which induces islanders to approach new problems by reconfiguring existing solutions (Vannini & Taggart, 2013).

Firm resources are pivotal in firm decision trajectories as they are positively related to FF outcomes like innovation (Calabrò et al., 2021). The resources identified in Calabrò et al (2021) are products of networks and ecosystems, present mainly in major (regional) clusters. Performance of firms outside these conditions have not yet been observed. Environments of firms have been determining in outcomes delivered, revealing a gap considering Resource Constraints (RC), a characteristic of small islands. Particularly, islanders face RC that prompt them to think and act in ways that may influence differences between firms. RC is a given factor (Briguglio, 1995), due to matters of size, and isolation. While many islands boast plentiful maritime resources, long trajectories have gone without the effective and sustainable utilization of this resource (Hume et al., 2021). As such, RC prevail in the decision framework of both FF and Non-Family Firms (NFF).

Furthermore, recent research by Arikan and Shenkar (2022) has emphasized the importance of diversifying research sites beyond conventional locations. Their review highlights "neglected elements," with location being a prominent factor. Just as emerging markets have informed scholarship on new aspects of international expansion, exploring research sites beyond the commonly studied areas holds the promise of providing novel insights. Accordingly, this paper zooms in on small islands, where resource constraints are a prevalent challenge. Islands, with their small populations and heightened vulnerability to exogenous economic, environmental, and natural shocks, present a unique opportunity to examine the role of resource constraints in FF outcomes.

To achieve this objective, the study examines a sample of 253 firms located in ten islands: Bahamas, Bahrain, Barbados, Cyprus, Iceland, Fiji, Jamaica, Malta, Mauritius, and Trinidad/Tobago. The analysis covers the period from 2009 to 2020 and focuses on several key factors, including international expansion, firm age, family executives, and CEO gender, in relation to performance. The subsequent sections of this paper

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review the relevant literature, present the data and methods employed, outline the findings, and conclude with the contributions of this study.

LITERATURE REVIEW

Family Firms

FF has been the subject of many studies, and new studies continue to find new angles that promise to contribute to scholarship. FF dispose of a characteristic of ownership concentration that overlaps with strategy that remains understudied still (Poza Valle, 2021). The author confirms that ownership concentration is more determining to firm outcomes than strategy or organizational culture. In the case ownership is concentrated in a family, it is the family agency that drives matters such as strategy, leadership, compensation, and even sustainability (Belén Villalonga & Amit, 2020). FF know multiple forms of involvement, ranging from ownership, management and stewardship, and these structures influence strategy in terms of exploration and exploitation (D'Este & Carabelli, 2022; Scholes et al., 2021). Earlier findings confirmed that an overlap between Family and Firm promotes complexity in determining strategy, and the subsequent decision making on allocation of resources (Villalonga & Amit, 2006). More contemporary studies posit that FF see risk differently, based on both financial and non-financial indicators (Santos et al., 2022). FF may also engage in succession planning earlier than other firms, so as to continue family legacy and tradition (Bloemen-Bekx et al., 2021). These family priorities may influence financial objectives and set FF apart from others. As such, FF have been examined routinely to determine to what extent these conflicts determine performance.

FF have a concentrated ownership, and Demsetz & Villalonga (2001) have found that ownership structure does not relate to corporate performance, and were successful in identifying that ownership diffusion contributed to balancing the agency issues related to concentration. FF, however, have been linked to both under and outperformance given certain conditions. On the one hand FF underperform due to longer planning horizons (Jin et al., 2021). FF value tradition, stability and reputation, and may forego short term gains especially when Family is involved in management. Feldman et al (Feldman, Amit, & Villalonga, 2019) found evidence of FF creating more value when acquiring NFF, which is attributed in part to the non-financial priorities FF exert in decision making. On the other hand, not surprisingly, FF seem to be more resilient in weathering economic downturns. One study points this out in light of the recent COVID-19 Pandemic (González & Pérez-Uribe, 2021), and another for the Financial Crisis (Amato et al., 2023). FF long horizon allows for more calculated decisions that enable them to turn downturns into opportunities. As Amato et al (2023) discuss: while layoffs are common in downturns, FF are less likely to resort to dismissals and therefore retain capabilities to scale up when downturns begin to fade. It seems that FF success depends on the balance between financial and non-financial indicators. Positioning the firm according to non-financial priorities allows FF to sustain returns over longer periods of time and continue to distinguish themselves from others.

Islandness & Resource Constraints

James et al (James, Hadjielias, Guerrero, Discua Cruz, & Basco, 2020) proposed a conceptual model underscoring the role of context when studying FF. Specifically they discuss how macro, meso and family factors can influence the performance of FF. They propose an interesting RQ in this study, namely: *How do formal and informal environmental conditions foster the creation and survival of the family business?* Having understood the non-financial resources are important elements to sustain FF performance, this study sought to innovate by looking at environments where RC are determining factors. This quest rendered islands as understudied spaces boasting a unique feature, that of having hard borders due to isolation, and boast RC (Briguglio, 1995). Islands are often small, boasting limited to no traditional natural resources, which ring fence firms that call them home. They are additionally taxed with recuperating from natural disasters and are exposed to issues of climate change (Minto-Coy et al., 2022).

While islands are vulnerable, they are also resilient, bouncing back from setbacks relatively quickly (Hall, 2012). Islanders make their way solving new problems, by assembling and recombining existing solutions (Vannini & Taggart, 2013). Islanders are by nature respondents to developments from outside and perform effectuation as a means to solve for the gap of lack of resources. This approach is due to the metaphysical feeling brought about by being surrounded by large bodies of water (Conkling, 2007). Islanders experience isolation and as a consequence face elevated challenges when engaging with foreign markets. This characteristic leads the thought that it is difficult for islanders to dedicate time to optimize within the parameters of RC.

Evidence from the Caribbean shows that there are many efforts to diversify their economies, which have not translated to economic growth (Mohan, 2016). It is quite difficult to translate skills from industries such as tourism to trade, especially when often interrupted by exogenous forces, like Natural Disasters. Exposure to these forces may deem virtually impossible to institutionalize sustained growth, given the many interventions that Natural Disasters bring about (Otker, Inci; Loyola, 2017). A study by Mohan, Stobl, and Watson (2018) found that activating innovation through in firm training would also not generate the desired outcome of innovation. More recent studies have indicated that firms on islands grapple with the issue of managing RC because of a typical island constraint, human capital (Hearn et al., 2023). In both of these studies FF have not been pronounced in the analysis leaving a gap that merits the present study. It appears, however, that the central characteristic is not only Caribbean Context, rather the Island environment which dictates RC, as such the study expands to other islands around the world.

Islandness appears to influence all agents in island markets, as their firms are a result of domestic dynamics. They also strategically position themselves to respond accordingly to the changing forces that make up their reality (Baldacchino & Bertram, 2009). In a later study Baldacchino (2013) posits that islands are often disregarded as

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simple and small editions, not boasting their own complexities. While FF on islands may not feel they are distinguishable from other firms (Baldacchino et al., 2019), they still dispose of risk attitudes due to FF overlap. As such they are expected to behave differently from NFF in the RC context of islands, which would result in differences in performance. Findings from Mauritius Textile Industry reiterate the role of resources as discouraging for strategic decisions like internationalization (Sannegadu et al., 2021). The authors explain that in the case of islands, firms do not set out to exploit opportunities abroad, but engage with foreign markets as a response rather than a strategic action. An earlier publication by Martina et al (Martina, Wakkee, & Mauer, 2019) supports these findings in Mauritius. The study proposes that *"non embedded entrepreneurs use causation"* to cross borders. This avenue is uncanny, since it would be expected that IBF would seek opportunities abroad as a means to scale operations.

In the case of islands, it appears that, embeddedness is a *boundary condition* of effectuation, given the present RC of the domestic market. While said network embeddedness (International Exposure) is theoretically linked to IE of firms, a study of Island Executives carried out by Rojer et al (Rojer, Watkins-Fassler, de Juan Diaz, & Rai, 2022) finds a negative association. Networks are not by definition the motive to seek opportunities abroad. In the case of family firms, the same study finds family allegiance to be negatively associated with IE. Islandness thus influences the firms headquartered on islands substantially. The fact alone that domestic market size is capped, and ring-fenced renders firms' decisions limited. As it appears Islandness also shapes how firms behave in general, and especially with regards to IE. While boasting RC they additionally tax firms to consider multiple decisions that influence their performance differently from firms featured in previous work.

The doctoral work of Martina (Martina, 2016) zooms in on the Software industry on islands, which can be scaled abroad with more ease. He notes that RC influence the heuristics involved with the decision making to engage in IE, and finds that embeddedness in international networks facilitate bricolage as a strategy to expand beyond borders. There is evidence that firms in small island economies can perform well if they are able to leverage their *unique* characteristics and resources (Baldacchino & Milne, 2019). Unique resources like fisheries in Iceland, Hospitality Services in Cyprus, and Oil in Trinidad & Tobago may be scalable to the extent

Taken together it becomes apparent that there is considerable space to redeploy a hypothesis to test differences in performance between FF and NFF, as families draw socioemotional wealth from their firms (Kalm & Gomez-Mejia, 2016). These non-financial rewards may also translate into performance of firms that are scaling abroad, since they seem to control key resources, as we draw from Baldacchino & Milne (2019). These research suggestions, evidence, and findings taken together stack up to argue why studying FF on islands is unique and innovative to address some the remaining unanswered questions in FF research. Having established that island environments stand out, it is also noteworthy to cite the broader body of work that discusses how FF internationalize given the specific environment of RC. From these follow the following hypotheses:

H1: There is a significant difference in performance between FF and NFF
H2: There is a significant difference in performance between IFF and FF

DATA & METHODS

DATA

Small Islands are those having a population of less than 5 million (UNCTAD, 2004). From these nations it was found that only 10 had a Securities Exchange with substantial domestic firms, which indicate a more active capital market, where reliable data could be drawn from. The Bahamas, Bahrain, Barbados, Cyprus, Fiji, Iceland, Jamaica, Malta, Mauritius and Trinidad and Tobago all showed a healthy variety of firms headquartered in the same jurisdiction with data spanning 2009-2020. In this process Cape Verde and the Seychelles were dropped, since a minimal number of firms were listed, or none at all.

Financial data for individual companies were drawn from/verified with DataStream and annual reports were revised manually. The final sample composed of 253 firms rendering 2600 observations after dropping firms with less than 6 years of data and delistings, a total of 35. Table 1 provides data on the firms in the sample.

Variables

The dependent performance variable is Return on Assets (ROA) and Return on Equity (ROE). It is calculated as net income over total assets, so it reflects book value.

The following variables are collected from the data:

1. Ownership. Most FF identified as such in annual reports, and ambiguous firms were captured by closely studying the last names of board members. Data on family ownership was determined as a dichotomous variable since it was not ownership concentration was not consistently recorded. Requests were made, but not reverted, to which dependent variable takes the value of 1 if the firm is a family firm, and 0 otherwise.
2. Internationalization. In order to measure companies´ internationalization, a dummy variable is employed to capture operation of a subsidiary abroad. These were collected by manual review of annual reports, and takes the value 1 when firms have a subsidiary, and 0 otherwise.

   The following control variables are collected from the data:
3. Firm size. It is expressed as the natural logarithm of total assets.
4. Company´s age. It refers to the number of years since the company has been established.

METHODS

The relationship between Returns (Ret) and the determinants. A significant and positive (negative) coefficient of the determinants will indicate it relates to the performance.

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The full equation is specified below where Ret represents both ROA and ROE:

$$Ret_{it} = \alpha + \beta_1 FF_{it} + \beta_2 FI_{it} + \beta_3 Age_{it} + \beta_4 FS_{it} + \beta_5 Age_{it} + \beta_6 IE_{it} + \mu_{it}, \quad (1)$$

where i refers to the company and t is time, measured in years.

Table 1 Descriptives

	ROA	ROE	FF	IE	FIN	FS	AGE
Valid	2599	2599	2599	2599	2599	2599	2599
Missing	0	0	0	0	0	0	0
Mean	12.19	0.12	0.21	0.39	0.32	0.04	50.27
SD	2.49	1.17	0.40	0.49	0.47	0.70	40.61
Min	0.00	-12.58	0.00	0.00	0.00	-14.600	1.00
Max	21.31	30.89	1.00	1.00	1.00	26.91	197

Whereas FF stands for Family Firms a dichotomous variable taking the value of 1 when it regards a FF, or 0 otherwise;

IE represents International Entrepreneurship taking the value 1 if the firm operates a subsidiary abroad, or 0 otherwise;

FIN represents the firm being in the Financial Industry taking the value 1 if the firm operates a subsidiary abroad, or 0 otherwise;

FS represents Firm Size taking the Natural Logarith of Total Assets;

AGE represents the age of the firm since its founding;

FINDINGS

The comprehensive dataset of IBF's observed in this study has been subjected to the methods with the intention to find evidence of difference in performance between FF and NFF, operating locally and domestically. Table 2 exposes the results for both the ROA and the ROE.

Table 2 ROA

		Unstandardized	S.E.	Standardized	t	p
H0		12.86	0.05		249.51	<.001
H1		10.11	0.08		131.00	<.001
	FF	0.093	0.25	0.02	0.38	0.71
	FIN	1.314	0.09	0.25	15.10	<.001
	FS	0.004	0.06	0.00	0.07	0.94
	Age	0.017	9.920×10^{-4}	0.27	16.92	<.001
	IE	2.006	0.08		24.21	<.001

The evidence fails to accept the H1 for ROA at the accepted significance levels, indicating that FF do not differ from NFF. On the other hand, findings accept H1 for ROE at the .05 significance holding that NFF outperform FF in terms of ROE. Given the literature observed in the study this finding contributes to the discussion by providing more evidence that the complex nature of FF's operates with more care in environments of RC. Small communities may also enhance the priority of non-financial indicators for families, and possibly explain why NFF outperform FF.

Table 2 ROE

		Unstandardized	S.E.	Standardized	t	p
H0		0.12	0.02		5.36	<.001
H1		0.07	0.04		1.54	0.125
	FF	-0.06	0.137	-0.02	-0.39	0.69
	FIN	-0.01	0.05	-0.004	-0.21	0.83
	FS	0.46	0.03	0.27	14.52	<.001
	Age	0.002	5.473×10^{-4}	0.07	3.88	<.001
	IE	-0.11	0.05		-2.31	0.021

The findings accept H2 for both ROA and ROE, for operating internationally does contribute significantly to determine if there is a difference between IFF and INFF. Surprisingly the performance difference is in opposite directions, as IFF underperform INFF for ROA, and outperform for ROE. This finding supports the thought that FF are more aligned with producing outcomes to sustain non-financial priorities.

With regards to control variables the findings indicate FS not significant in terms of firm performance, further assisting the thought that performance may be linked to control of resources as indicated by Baldacchino & Milne (2019). It is expected that FS growth is linked to performance, however environments of RC may deem firms of all sizes capable of capturing and exploiting value in their own way. Hotels with favorable real estate, (air)ports with monopoly positions, financial institutions with legacy and national brand image, may explain the ability of firms to command presence and determine outcomes.

On legacy, controlling for Firm Age is found to be significant pointing at a first mover advantage. Firms on islands may be single or dominant players. As such, with increasing age comes increasing abilities to exploit these positions. Controlling for industry the findings indicate surprisingly that the financial industry underperforms for ROE, and outperforms for ROA. Given that these firms often operate in a ring-fenced market, the strategy well determined by authorities through policy, could shorten the horizon for these firms. From the manual revision of the annual report follows also that many of these firms are also set up to exploit one specific resource, and may thus explain outperformance utilizing ROA.

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Having studied only listed firms these findings support previous studies that the family nucleus is indeed determining in firm performance, even when facing RC. FF balance financial indicators vs non-financial indicators which give way to NFF outperforming in terms of ROE, consistent with previous studies (Jin et al., 2021). When faced with riskier undertakings, operating abroad, FF underperform in terms of RA and outperform FF in terms of ROE. This finding supports the notion that ownership concentration, especially with FF, provide for distinct outcomes (Poza Valle, 2021).

CONTRIBUTION

This study innovates by shedding light on a neglected environment that influences FF outcomes. With a substantial dataset of environments of RC there are some informing outcomes on the performance of FF vis a vis NFF. The study finds indication that RC environments condition firms' performance, where FF underperform on ROE, and is inconclusive on ROA. IFF on the other hand outperform on ROA and underperform on ROE. These results open the way to consider how determining RC can be on outcomes for all firms.

Small societies often boast novel findings due to this stark characteristic and informs how isolation and RC can condition firm's ability to perform, but also how outcomes of International Activity may contribute to results. Many are the firms that have access to a critical resource that enable a certain business such as a beach location for a hospitality outlet. Overall IBF ambiguity in performance (ROE vs ROA) may be explained through the control of valuable resources that may assist firm's existence. Families emerge as natural networks that can overcome the challenge of RC, and explain why these firms are dominant in Small Island Economies. Understanding these factors can help policy promote drivers that help FF outperform.

The study is limited in that the data gathered needs to be reworked manually to allow for more critical and elevated statistical testing, such as how regional differences account for outcomes. These should not be limited to dummy variables based on region, which this study could have employed, but should rather find more theoretical grounding. Application of Hofstede's theorem can assist in this. It is also necessary to explore to what extent family is involved in ownership, as having a numeric participation in the firm will help expand the statistical analysis of the sample.

Primarily this study shows that efforts to collect and centralize data can open up new avenues and provide for valuable contributions. A mixed research method interviewing FF board members and executives can complement these results. Future research should expand on data elements like concentration of ownership in FF that can sharpen research outcomes and provide for. It is also necessary to trace back firm ownership and the involvement of shareholders through the appointment of independent directors, as well as the role of non-family executives. Likewise, future research is welcome to observe other novel spaces such as firms from landlocked countries, or those from specific regions such as Central America, which may also experience RC.

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