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Is being conservative at home whilst taking risks abroad a suitable competitive strategy? The case of Spanish Family Firms internationalizing to Mexico

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Abstract Family firms' (FFs) importance for industrialized and developing countries and the growing competition has led to an increased interest in knowing how FFs develop their competitive strategies. Since FFs usually have a long-term vision when deciding how to compete, analyzing competitive strategies –usually linked with the long-term– makes even more sense. Furthermore, FFs' behavior is especially interesting when they have been internationalized. Thus, the purpose of our study is to improve the understanding of the competitive strategies of FFs' internationalizing to Mexico, namely exploitation (at a national level) and exploration (at international level). Briefly, a firm's exploitation strategy is characterized by better-using firms' existing resources and knowledge, whereas a firm's exploration strategy involves exploring new ways of doing. Based on data collected from 81 CEOs of Spanish firms that have been internationalized to Mexico, we use partial least squares structural equation modeling (PLS-SEM) technique. We conclude that FFs' exploitation strategy (at a national level) has a positive impact on firms' exploration strategy (at international level). In other words, being more efficient and leveraging current knowledge at a national level helps to pursue opportunities internationally actively.

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1 Introduction

Due to increased international competitive pressures, firms need to decide the most effective strategy to allocate their resources (Battaglia, Neirrotti, & Paolucci, 2018). In this sense, a central topic in corporate strategy has analyzed the appropriateness of the exploitation strategy and the exploration strategy (Arzubiaga, Maseda, & Iturralde, 2017). Since family firms' (FFs) resources are limited and there is usually –at least to some extent– a tension between exploitation and exploration, FFs need to think strategically about how resources are employed (Benner & Tushman, 2003; Calabrò et al., 2018; De Massis, Audretsch, Uhlaner, & Kammerlander, 2018), being the link between FFs and performance an interesting topic (Mazzi, 2011; Randerson, Bettinelli, & Fayolle, 2015; Zellweger, 2007). In this context, there is a relevant line of research which tries to shed some light on the exploitation-exploration balance and the ability some firms are developing to explore and exploit *simultaneously*, i.e., ambidexterity (Zimmermann, Raisch, & Cardinal, 2018). Nevertheless, only a few firms have the ability to pursue both strategies simultaneously, since both logics require different strategies and structures (He & Wong, 2004). Hence, how to manage the tension between exploitation and exploration is still a recurrent topic (Lin & Si, 2018).

On the one hand, exploitation refers to actions that entail refinement, choice, production, efficiency, selection, implementation and execution (March, 1991). In this sense, an exploitation strategy enhances the refinement of existing knowledge and is related to convergent thinking and focus (Bierly, Damanpour, & Santoro, 2009; Smith & Tushman, 2005). Lin and Si (2018) point out that exploitation may be deemed as the development of new knowledge pertaining to existing markets, products, technology and capabilities. On the other hand, exploration strategy is considered as a shift away from a firm's current knowledge base and skills, directed at new opportunities in (geographical) new markets (Alexiev, Jansen, Van den Bosch, & Volberda, 2010). This type of organization comprises the knowledge search for new organizational norms, routines, structures and systems (Mom, Van Den Bosch, & Volberda, 2007).

Prior research has regarded exploitative and explorative innovations as complementary strategies (Kammerlander, Burger, Fust, & Fueglistaller, 2015). Nevertheless, there is still much room to investigate how these strategies are related among FFs, especially when they are involved in internationalization strategies. As such, this study pursues to illuminate how exploitative innovations influence exploratory innovations in FFs that are involved in an internationalization process; specifically investigating: 1) How does the national exploitative innovation strategy impact on the international exploratory innovation strategy in internationalized FFs?

The authors believe this study brings a new perspective with important implications for future ambidexterity research in FF. Therefore, this chapter contributes in two important ways. First, it provides a review of what is known about

ambidexterity in family firms. Second, it investigates the use of exploration and exploitation strategies in FF. To this end, an empirical study is conducted considering a sample of 81 Spanish FFs internationalized to Mexico as the setting for investigating the research question.

The rest of this chapter is organized as follows. After the introduction, we provide the theoretical background of both national exploitative innovation strategy and international exploratory innovation strategy in the context of FFs that have been engaged in internationalization processes. We also explain the influence of national exploitative innovation strategy on international exploratory innovation strategy by proposing a specific model and testing it. Finally, we enunciate some remarks about this work and its limitations and then propose avenues for future research.

2 Theoretical background

Ambidexterity, defined in a broad sense as the ability to both use and refine existing knowledge (exploitation) while also creating new knowledge to overcome knowledge deficiencies or absences identified within the execution of the work (exploration) (Turner, Swart, & Maylor, 2013) has been a subject of enduring interest to management scholars (Koryak, Lockett, Hayton, Nicolau, & Mole, 2018). Exploitation is typically considered to be concerned with refinement and incremental change, efficiency, whereas searching, experimentation, radical change, risk-taking, and discovery are exploration-oriented activities (Cheng & Van de Ven, 1996). Therefore, ambidextrous organizations are defined as those capable of both exploiting existing competencies as well as exploring new opportunities, while managing an equilibrium between these two (Cao, Gedajlovic, & Zhang, 2009; O'Reilly & Tushman, 2008; Raisch & Birkinshaw, 2008).

By recognizing that firms should "engage in enough exploitation to ensure the organization's current viability and engage in enough exploration to ensure its future viability" (Levinthal & March, 1993, p. 105), studies analyzing ambidexterity at the organizational level have entered multiple areas of research (Simsek, 2009). They come from the organizational learning literature in which the concept began (Levinthal & March, 1993) to the strategic management (Jansen, George, Van den Bosch & Volverda, 2008; Wassmer, Li & Madhok, 2017), innovation and technology management (Chang & Hughes, 2012; Kortmann, 2015; Lin & McDonough III, 2014) organization theory and behaviour (Raisch & Birkinshaw, 2008; Uotila, 2018), or operations management (Adler et al, 2009) areas. Some scholars suggest that exploration and exploitation compete with each other for scarce resources (March, 1991). Yet, a more contemporary view has been presented in the literature suggesting both dimensions are complementary forces which tend to be mutually reinforcing when they co-occur over time (Raisch,

Birkinshaw, Probst & Tushman, 2009; Veider & Matzler, 2016), and stating that ambidexterity is a source of competitive advantage (Raisch & Birkinshaw, 2008) and a necessary prerequisite for prosperity, higher growth, and superior firm performance (Gupta, Smith & Shalley, 2006; He & Wong, 2004; Lubatkin, Simsek, Ling, & Veiga, 2006, O'Reilly & Tushman, 2013), regardless of sector, size or type of property. However, authors have recognized the difficulties in operationalizing ambidexterity as to the extent and magnitude to engage in exploration and exploitation strategies simultaneously, so have begun to characterize these strategies as independent (Gupta, Smith, & Shalley, 2006), or as initially conceived as two ends of a single continuum (March, 1991).

Family firms are widely recognized as essential contributors to both employment and wealth creation for economies around the world (IEF, 2015; Botero, Cruz, De Massis, & Nordqvist, 2015; Memili, Fang, Chrisman, & De Massis, 2015). Given its economic and social relevance, and the role of the ambidexterity as a potential source of competitive advantages, the achievement of organizational ambidexterity is as important for the FFs as it is for non-family businesses (Veider & Matzler, 2016). However, the existing literature on ambidexterity in the context of the FF offers conflicting arguments about its achievement in this type of companies. Thus, while on the one hand some studies seem to confirm that FFs could be less willing to engage in risky endeavors (Bammens, Notelaers, & Van Gils, 2014; König, Kammerlander, & Enders, 2013), thus diminishing the achievement of organizational ambidexterity in the form of low exploration activities, other works suggest that the unique attributes of FFs also foster ambidexterity ability (Le Breton-Miller & Miller, 2006) via traits such as long-term orientation of goals and investments (Cassia, De Massis & Pizzurno, 2012), personalized control, low levels of formalization (Sirmon & Hitt, 2003) and alignment of interests between owners and managers (Carney, 2005).

Top management is responsible for designing and executing the company's overall strategy, thus dealing with the exploration and exploitation dilemma (Gibson & Birkinshaw, 2004). In addition, there's further evidence that links the involvement of frontline managers in initiating ambidextrous strategies (Zimmermann, Raisch, & Cardinal, 2017). However, little is known about ambidexterity strategies in family business and the involvement of family members in senior and frontline management in developing such strategies.

Internationalization processes play a crucial role in FFs because it facilitates setting in different markets and increasing sales. Accordingly, these processes allow FFs to increase their growth potential by operating on bigger markets with primary targets (Booltink & Saka-Helmhout, 2018). However, internationalization is not only beneficial in terms of direct sales but also because of the direct effect it has on innovation processes (Battaglia et al., 2018), being innovation critical for FFs (Cassia, De Massis, & Pizzurno, 2012; Casprini, et al., 2017; Classen, Carree, Van Gils, & Peters, 2014; De Massis, Frattini, Pizzurno, & Cassia, 2015; Feranita, Kotlar, & De Massis, 2017). At this regard, Love and Roper (2015) suggest that there is a

great complementarity between internationalization and innovation. More specifically, with the aim of competing in foreign markets firms need to innovate by introducing important changes in organizational norms, routines, structures, and systems (Raisch, Birkinshaw, Probst, & Tushman, 2009). These improvements are usually based on the actions of search, variation, risk-taking, experimentation, play, flexibility, and discovery (Kortmann, Gelhard, Zimmermann, & Piller, 2014; March, 1991). In other words, exploratory innovations challenge institutionalized learning and offer major transformations of existing technologies that often render the prevailing product designs and technologies obsolete (Stadler, Rajwani, & Karaba, 2014). Based on the long-term orientation (Stubner, Blarr, Brands, & Wulf, 2012), the focus of exploratory innovations is on the ability to reorient organizational competencies toward new opportunities as a source of competitive advantage (Goel & Jones, 2016). These new opportunities, however, need to be complemented with exploitation to improve existing competencies and obtain better results (Shane & Venkataraman, 2000).

The competitive strategy based on exploitative innovations focuses on the refinement of products to address customers' needs. The primary goals of these exploitative innovations are closely related to refinement, choice, production, efficiency, selection, implementation and execution (March, 1991; Stubner et al., 2012). In other words, exploitative innovations are about efficiency, increasing productivity, control, certainty, and variance reduction (O'Reilly & Tushman, 2008). This type of innovation improves existing competencies, technologies, paradigms, and extensions and brings efficiency when applied to organizational elements such as existing products and process capability (Ghemawat & Ricart Costa, 1993).

The competitive strategy based on exploratory innovations usually requires high availability of resources and long-term orientation (Moss, Payne, & Moore, 2014). However, as we say, FFs usually suffer from resource and financial constraints, which directly impact on their capacity to develop this competitive strategy. These difficulties are even higher when these exploratory innovation strategies are set in foreign countries or are an essential part of these organizations' internationalization processes. Thus, FFs may need an important capacity to create own resources through their incomes and revenues. These new cash flows, if sustainable, may need to emerge from the core and usual markets of businesses. As such, the returns emerged from exploitative innovations set in well-known national markets seems to play an important role when maintaining a good level of own finance. These resources may allow developing exploratory strategies in other countries. Based on the above, we posit that exploitative innovation strategies (at a national level) have positive effects on the exploratory innovation strategies (at international level).

Hypothesis 1: The exploitation strategy (at a national level) has a positive impact on the exploration strategy (at international level).

3 Methodology

3.1 Sample

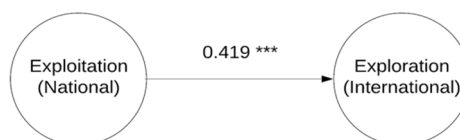
Our population comprises Spanish FFs that have been internationalized to Mexico. This data was obtained from the Spanish External Commerce Institute (ICEX, in Spanish) in 2018. We chose FFs because of their importance for both industrialized and developing countries regarding their contribution to the gross domestic product (Cowling, Liu, Ledger & Zhang, 2015).

Specifically, we focused on Spanish FFs that have been internationalized to Mexico, since we wanted to investigate how FFs behave when there is a high level of host-home country similarity (as it is the case here) and countries are geographically far away from each other. Both Spain and Mexico have a considerable power distance (Hofstede, 1991), which is not surprising due to their shared cultural roots. Cultural similarities between Mexico and Spain are also shown in the results of the GLOBE project (House et al., 2004). We obtained 81 valid responses from Spanish family firms' CEOs who answered a short questionnaire via e-mail.

3.2 Data Analysis

The model presented in Figure 1 was tested using partial least squares structural equation modeling (PLS-SEM) technique, which is useful method in management and marketing (Hair, Hult, Ringle, & Sarstedt, 2017; Hair, Ringle, & Sarstedt, 2011; Hair, Ringle, & Sarstedt, 2012; Hair, Sarstedt, Pieper, & Ringle, 2012; Hair, Sarstedt, Ringle, & Mena, 2012). Recent studies emphasize the usefulness of this model as a research tool in the field of FFs (Binz, Patel, & Wanzelried, 2014; Sarstedt, Ringle, Smith, Reams, & Hair Jr, 2014). PLS-SEM is especially appropriate for our study. First, this technique allows us to include latent variables with reflective indicators (Henseler, Ringle, & Sinkovics, 2009). Second, PLS-SEM can establish assumptions of normality in the data (Chin, 1998) and can be used on small samples (Kyu Kim, Yul Ryoo, & Dug Jung, 2011). Finally, it is especially appropriate due to the early phase of theorizing within the field (Richter, Cepeda, Roldán, & Ringle, 2016; Rigdon, 2016). Concretely, we used the SmartPLS 3 (Ringle et al., 2014) software.

Fig. 1. Path loading and hypothesized structural model



Note: *** p<0.01

3.3 Measurement of the Model Variables

Since researchers agree that multiple measures offer a rich perspective, we based our research on well-known scales on measuring our constructs. Concretely, consistent with prior research, the measurement scale for exploitation (at a national level) and exploration (at international level) were based on that used by He and Wong (2004) and Cui, Walsh, and Zou (2014), respectively. Both variables are measured utilizing multiple items on 7-point Likert scales.

4 Results

4.1 Validity of the Scales

We first assessed the measurement model. Factor loadings ranged from 0.669 to 0.950. Hence, latent variables explain a substantial part of each indicator's variance (Hair et al., 2019; Henseler, 2009). The assessment of internal consistency showed that all the composite reliability (CR) values are well above 0.7 (Hair et al., 2019). Since all the Average Variance Extracted (AVE) values are above 0.5, there is no evidence of a lack of convergent validity (Hair et al., 2019). We assessed the discriminant validity using the Heterotrait-monotrait (HTMT) ratio (Hair et al., 2019; Henseler, Ringle, & Sarstedt, 2015; Voorhees, Brady, Calantone, & Ramirez, 2016), which is 0.511. The HTMT value is below the threshold of 85% (Hair et al., 2019; Kline, 2011). Hence, discriminant validity has been established. Table 1 provides an overview of the results for the measurement model.

Table 1. Evaluation results: Measurement model

Constructs/items	Loading	Composite reliability (Cronbach's α)	AVE
Exploitation strategy (national)		0.904 (0.861)	0.702
- Improve existing product quality	0.840		
- Improve production flexibility	0.888		
- Reduce production cost	0.832		
- Improve yield or reduce material consumption	0.788		

Exploration strategy (international)	0.801 (0.574)	0.675
- New approaches to developing products and processes	0.950	
- Engage in developing new products	0.669	

Note: AVE = Average variance extracted

Table 2 provides an overview of the results for the inner model. Besides the path coefficients, it provides the R^2 value, the variance inflation factor (VIF) and the effect size.

Table 2. PLS-SEM analysis

Relationship	Path coefficient	p-value	VIF	f^2	Bias-corrected 95% CI
Exploitation (national)→ Exploration (international)	0.419***	0.009	1.000	0.213	[-0.424;0.552]
R^2	0.176				

Note: *** $p < 0.01$. VIF = Variance inflation factor. CI= Confidence interval

4.2 Estimation of the Causal Model

To test the proposed model (Figure 1), we ran SmartPLS 3 and concluded that exploitation strategy (at a national level) has a positive impact on firms' exploration strategy (at international level), i.e., the hypothesis is supported.

5 Discussion, Conclusions, and Implications

The study aims to explain the relationship between exploitation strategy (at a national level) and exploration strategy (at international level) in FFs. Precisely, we investigate how FFs involved in international processes compete when there is a high level of host-home country similarity (as it is the case here) and countries are geographically far away from each other.

Our findings reveal that exploitation strategy (at a national level) has a positive impact on firms' exploration strategy (at international level). That is, by generating more stable performance nationally, family firms can gain returns (yet often more variable) with an international exploration strategy. Thus, generating value nationally, where the context is usually more stable and less risky, and hence pursuing opportunities internationally is an appropriate competitive strategy for

Spanish FFs, which is the dominant business model in Europe (Björnberg, Elstrodt, & Pandit, 2015).

This study opens interesting new paths for further research. First, even when it seems accurate that thanks to the exploitation strategy (nationally) firms can gain the necessary resources to follow an exploration strategy when accomplishing internationalization processes which are usually costly (Richter, 2014; Richter et al., 2016), further research could include other countries in the analysis to analyze how the host-home country similarity affects the exploitation (national)-exploration (international) relationship. Second, new studies could include additional variables into the analysis (e.g., mediating effects such as training of personnel, see Castillo-Apraiz & Matey de Antonio, 2018). Third, further research could join the balance mentioned above and the ambidexterity lines of research.

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