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# INTERNATIONALIZATION OF FAMILY FIRMS-CHALLENGES AND OPPORTUNITIES IN RUSSIA

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## Abstract

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The family firms (FFs), especially the small and medium-sized enterprises (SMEs), play an instrumental role in the economic spectrum of the Russian economy with respect to their contribution to income, output, and employment, *ceteris paribus*. The FFs not only contribute the domestic business activities but also make a significant contribution to international business. Ever since the launch of the mass privatization program (MPP) in Russia during 1992–1994 numerous disruptions on the business and economic landscape of Russia have emerged, and as a result, the FFs in Russia have been experiencing several new opportunities and challenges in the international market. However, it is noticeable that corporate regulatory, and corporate governance systems do not even clearly define the FFs. The current study explores the following research objectives. First, the motivation of internationalization of FFs in Russia; second, their process of internationalization, and third, the problems and challenges faced by the FFs. Different theoretical perspectives have been discussed to problematize and analyze the research objectives of the study. The current qualitative study is based on the semi-structured interview method. As many as ten FF entrepreneurs, representing five different industries, have been analyzed. The findings show that there is neither clarity nor unanimity of the very meaning and understanding of FFs in Russia. The lack of regulated bank credit and the existence of a complex taxation system dissuade the FFs from investing in new ventures and undertaking innovative activities. Similarly, the government's directives to set up business operations at certain specified business facilities, at the exorbitant costs though, has created downward pressure on the profitability of FFs. Many FFs have initiated their international business activities owing to their growing linkages with the external contingencies, developed over time. Similarly, internationalization has increased the competitiveness of the FFs in the Russian domestic market too.

**Keywords:** Family Firms (FFs), Small And Medium Enterprise (SME), Internationalization, Privatization, Stage Approach, Network Approach, International Entrepreneurship Approach, Russia

**Authors' individual contribution:** Conceptualization — S.H.; Methodology — S.H. and T.K.; Formal Analysis — S.H. and T.K.; Investigation — S.H.; Resources — S.H. and T.K.; Data Curation — S.H. and T.K.; Writing — Original Draft — S.H. and T.K.; Writing — Review & Editing — T.K.; Supervision — S.H.

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## 1. INTRODUCTION

The family businesses play an instrumental role in the economic spectrum of an economy with respect to their contribution to income, output, and employment, *ceteris paribus*. The family firms (FFs) not only contribute the domestic business activities but also make a significant contribution to international business (OECD, 2017).

Many scholars have defined FFs from different perspectives. Miller, Le Breton-Miller, Lester, and Cannella (2007) and Sciascia, Mazzola, and Chirico (2013) underline the active involvement of multiple family members in the ownership and/or management (control) of the enterprise either at a given point of time or over a period. The FF can be defined as a business entity that is run and/or governed on the premise of pursuing the utility function, including vision, mission, and objectives among other things, of the dominant coalition led by members of the same family or a small number of families; and such dominance has the potential to remain sustainable across generations of the family or families. A discernible feature of FFs is that their ownership and control reins are transferred from one generation to another, therefore, FFs reflect temporality of the past, the present, and the future (Kaplan & Orlikowski, 2013; Metsola, Leppäaho, Paavilainen-Mäntymäki, & Plakoyiannaki, 2020).

The interest of scholars researching in the field of internationalization of FFs, especially the SMEs, has grown manifolds owing to the ever-increasing role of FFs and their unique characteristics with respect to the ownership, and control, and importance of family interactions in such enterprises. Welch and Luostarinen (1988) define internationalization as “the process of increasing involvement in international operations” (p. 36). The sequential process of internationalization involves commencing (first entry), intensifying (investing more resources), and broadening (types of operation modes and their applications) phases. The internationalization of FFs has several other peculiar characteristics-cumulative, evolutionary, historic, and progressive (Metsola et al., 2020; Langley, Smallman, Tsoukas, & Van de Ven, 2013).

The mass privatization program (MPP) carried out in Russia during 1992-1994 created several upheavals on the business and economic front in the country (Ellerman, 2001; Mejstrik, 1997). These upheavals on the one hand exposed the FFs in Russia to a plethora of uncertainties and challenges, however, at the same time created several potential opportunities for such enterprises in the field of international business (Mejstrik, 1997; Brown, Earle, & Telegdy, 2006). However, corporate regulatory, and corporate governance systems do not even provide any clear definition of FFs in Russia<sup>1</sup>. The current study, therefore, explores the following research objectives. First, the motivation of internationalization of FFs in Russia; second, the process of internationalization of FFs in Russia; and last, the problems and challenges faced by the FFs in Russia. The current study is based on ten semi-structured interviews of entrepreneurs, each of them is representing a specific FF. The findings disclose that many FFs have initiated their international business activities due to constant and

steady growth in their linkages with the external contingencies developed over time, and the diverse business networks have played a crucial role in this respect. Similarly, internationalization has increased the competitiveness of the FFs even in the Russian domestic market. Regarding the problems faced by FFs in their pursuit of internationalization, the findings show the Russian government’s directives to set up operations in the specified business parks/premises/facilities, albeit at the exorbitant rents, have created downward pressure on the profitability of such enterprises. The current study makes various contributions to the extant literature. The contributions of the current study are the following. First, it elucidates the imperatives/motivations of internationalization among the FFs in Russia; second, it underscores the issues and challenges that the Russian FFs, representing diverse sectors, have encountered within their process of internationalization. There is a general paucity of literature related to the internationalization of FFs in the context of Russian corporate settings and the current study is an effort to fill this void.

The remainder of the paper is structured as follows. Section 2 is the theoretical literature review followed by the research methodology in Section 3 and empirical findings in Section 4. Section 5 highlights the main conclusions.

## 2. LITERATURE REVIEW

The following theoretical approaches have been studied to explain the internationalization process of FFs in Russia.

### 2.1. The stage approach

According to the stage approach, internationalization follows an incremental and sequential process, comprising of factors including perceptions, expectations, experiences on the one hand and managerial capabilities, organizational structure, and linkages to external contingencies on the other hand (Coviello & McAuley, 1999; Melin, 1992). The Uppsala model (U-model) highlights the stage approach by underscoring two important drivers of internationalization of enterprises — *the learning process* and *the psychic distance* (Johanson & Vahlne, 1977). About the first driver, the U-model states that managerial and organizational experiences can be important contributors to the learning process of an enterprise. For example, when an enterprise has some previous experience of international businesses and markets, even at the bare minimum level, it is better equipped to launch itself in the internationalization process in a step-by-step, relatively organized, sequential, and incremental manner than its counterparts having no such experience. The knowledge and experience acquired through such processes of internationalization can enable enterprises to do better decision-making.

Johanson and Vahlne (1977, 1992) integrate two core elements in their model of internationalization — the amount of resources committed and the degree of commitment. In other words, market knowledge, skills, and commitment facilitate an enterprise to do better decision-making and make improvements in the efficacy of its ongoing business activities pertaining to

<sup>1</sup> Retrieved on May 8, 2020 from <http://kremlin.ru/events/president/news/60995>

internationalization. Furthermore, experiences of previous business decision-making and running the business activities in relation to internationalization can enhance the knowledge, experience, and skills of enterprises that catalyze their commitment to strive for further activities of internationalization in the future. Therefore, the phenomenon of mutual causation is observed — two sets of actions mutually and iteratively interact and complement each other (Hutchinson, Quinn, & Alexander, 2006).

The second driver of the U-model is known as *the psychic distance*, which implies the sum of cultural, political, economic, and even linguistic differences, among others, which can inhibit the free flow of information, understanding of the business environment, and the decision-making process in the internationalization activities based thereon (Hutchinson et al., 2006). It can be argued that minimization of the psychic distance enables the enterprise to understand the market and institutional dynamics in the international business spectrum. The FF, which overcomes such psychic distance through the accumulation of international experiences and knowledge, can provide impetus to its chances to succeed in the internationalization process.

According to the innovation-related internationalization model (I-model) internationalization is similar to any other innovation activity of an enterprise (Bilkey & Tesar, 1977; Cavusgil, 1980; Czinkota, 1982; Reid, 1981). A FF can innovate its internationalization activities in many ways, for example, in the first stage it can seek information of global markets and make an assessment of its business prospects to initiate export activities, despite being only engaged in the domestic market with minimal experience of global markets hitherto; in the second stage, it can start exporting though sporadically, more like on trial basis; and in the third stage, it can begin its full-fledged and regular export activities supported by constantly acquired and accumulated experiences, consequently, it can expand its portfolio of activities exploring more foreign markets and more complex international business activities. The usual internationalization path followed by the FFs is to capitalize their uniqueness with respect to, for example, products, services, and operations, which is accumulated through their knowledge and experiences over time. Noticeably, the uniqueness generally emanates from the local base of the enterprises. Arguably, export is often considered to be *the steppingstone* market entry mode considering lower risks, and capital requirements attached to it (Graves & Thomas, 2006; Leonidou & Katsikeas, 1996).

The I-model explains how the process of internationalization begins, the role of the decision-makers, and the factors influencing the decisions (Collinson & Houlden, 2005). Among several other determinants, attitude, experiences, motivation, and expectations of decision-makers influence the internationalization process to a marked extent (Reid, 1981).

However, many researchers have raised doubts on the generalizability of the stage approach (Gankema, Snuif, & Zwart, 2000; Axinn & Matthyssens, 2002). For example, Julien, Andriambelolon, and Ramangalahy (2004) question

the linearity of the internationalization process by arguing that enterprises can enter the foreign markets directly without following any stage-by-stage process. Similarly, Oviatt and McDougall (1994) underline that the stage approach may not be applicable to those FFs which are formed exclusively as international business entities right from their inception.

The entry of the FFs in the international market, according to the traditional pathway of stage approach, is triggered by some random events, for example, an unexpected export order; and such trigger is motivated by the fact that the FFs want to capitalize on such windfall scenario for their growth and survival. According to the traditional pathway of stage approach of internationalization, expansion patterns of FFs are contrived, incremental, step-by-step, even *ad-hoc*, and limited to those global markets, which are geographically located in the nearby countries. Furthermore, the pace of internationalization is relatively slow and the FFs experiencing such a pathway pay attention to one market at a time and that too after they experience stagnation of growth opportunities for further expansion in the domestic market. The internationalization ventures are usually financed by accumulated retained earnings, bootstrapping, and government grants. The FFs often follow the conventional foreign market entry strategies such as direct sales by availing the services of agents and distributors (Bell, McNaughton, Young, & Crick, 2003).

However, two variants of the abovementioned traditional pathway of stage approach of internationalization have been developed, namely: *the born global* (Knight & Cavusgil, 1996) and *the born again global* (Bell, McNaughton, & Young, 2001). On the other hand, *the born global* enterprises get triggered to the internationalization pathway by a more proactive approach, whereby the FFs actively search for global business opportunities in a pre-planned manner, and the management of FFs are committed to becoming global from its very inception. The FFs get motivated to the internationalization pathway by several strengths that they possess, for example, competitive advantages, strong customer base, intellectual property rights, and capacity to enter global markets. Furthermore, the expansion pattern of the FFs is characterized by the near simultaneity between domestic and export expansion, non-deterrence by psychic proximity or even distance of markets, and participation in relevant networks. Similarly, the pace of internationalization of FFs is relatively fast, not merely in one but several markets or sub-markets. The internationalization projects are financed by savings, venture capital, initial public offerings (IPOs). The role of active, well-regulated, and transparent capital markets is vital. The foreign market entry strategies are mainly business networks, agents, distributors, licensing, joint ventures, and overseas production.

Similarly, *the born again global* pathway of internationalization is triggered by some critical event(s), for example, major regulatory change, corporate restructuring such as management buyout (MBO), takeover, acquisition that breaks the traditional focus of the enterprise from domestic market and it shifts towards internationalization. The FF can be motivated by the opportunity to

explore new business networks and the possibility to access newly mobilized resources as an outcome of the critical event(s). Furthermore, the expansion pattern of the FF is characterized by a full-fledged, all-around, and rapid internationalization. The enterprise obviates its internationalization intentions/preparedness/activities by participating in various business networks. Such business networks may be owned by the parent company and/or related to customers, suppliers, human resources, financial resources, and technical know-how. Similarly, the pace of internationalization is such that it spreads to several markets/sub-markets at the same time. The internationalization projects are generally financed by capital infusion by the parent company. The key foreign market entry strategies are existing business networks, agents, distributors, licensing, and joint ventures.

Several researchers argue that the stage approach is often supplemented by the international entrepreneurship approach. According to the international entrepreneurship approach, a new enterprise starts an international activity by combining innovativeness, proactiveness, and risk-seeking behavior in the international markets with a clear motive to add value to it (McDougall & Oviatt, 2000). This approach is characterized by several factors including pursuing an iterative learning path of internationalization by the enterprise motivated by its proactive role in the ever dynamic process of resource mobilization as well as allocation, and continuous creation of competencies to succeed in the international markets. Many researchers, including Fletcher (2004), hold that the international entrepreneurship approach reflects the future opportunities available to an enterprise in terms of products, services, and organizational transformation and such opportunities get available to FFs through the networks promoting international business activities.

## 2.2. The network approach

According to the network approach, the incentives and the mechanism of internationalization of FFs can be explained by the resource mobilization process including knowledge, commitment, ongoing activities, and decision-making characteristics of enterprises in both intra-, and inter-organizational settings in a multilateral framework. A network is comprised of a nexus of relationships, for example, those related to financial, technological, personnel, market, and business environment among enterprises, and such relationships can be both cooperative and competitive. The FFs can form their business networks and/or strengthen their associations and collaborations with other members of the existing business networks (Leppäaho & Pajunen, 2018). The scope of activities of such business networks can be within the national boundaries initially and subsequently grow internationally. A successful network represents the continuous accumulation of establishing, developing, and maintaining relationships with other partners to fulfill the international development of the FFs. The efficacy of networks promoting internationalization depends on self-assessment of resource mobilization and resource endowments by a certain FF as well as a similar assessment of other

enterprises when two or more enterprises forms their relationships in the existing networks and/or form the new networks altogether (Ray, Mondal, & Ramachandran, 2018). The FFs can initiate their internationalization process, including a selection of the market and the mode of entry, by capitalizing on their network relations. Arguably, an FF can speed up its internationalization process through the international networks as the latter can not only influence the initiation of the internationalization process of an FF but also influence the nature and types of investments made by an FF in international markets (Patowary, Javaid, Quynh, & Thiru, 2020).

According to Johanson and Mattson (1988), the FFs can pursue internationalization within an existing network by carrying out business activities and forming relationships with counterparties in a three-step process: *extension*, *penetration*, and *integration*. *Extension* refers to the first step initiated by the FF to form the network. The FF can either form an altogether new network(s) or join the existing one(s). The second step is known as *penetration*, implying the upscaling of the FFs relative position, relevance, and resource commitment in the network. *Integration*, the third step, refers to initiatives which the FFs launch to connect themselves to several networks and getting involved in the coordination of such networks.

The FFs, especially at the early stage of their internationalization, often take off their international operations via export route as they may have inadequate relations with their foreign counterparts and limited knowledge about international markets. The FFs are often facilitated by local agents and distributors, however, as their experiences and exposures grow over time, the FFs can enter a relatively complex and wider range of international operations (Hohenthal, Johanson, & Johanson, 2014). One of the major challenges that FFs can confront with is the re-assessment of their resource allocation as they are required to enhance their production capacities in the wake of new market demand and at the same time to minimize psychic distance and improve knowledge of new markets.

The network approach and international entrepreneurship approach can also be explained vis-a-vis resource-dependence theory. According to resource-dependence theory the entrepreneurs often bring two important resources to the enterprise through international activities, human capital (experience, expertise, skills) and relational capital (network of ties to other firms, external environment, and external contingencies) (Hillman & Dalziel, 2003; Berezinets, Garanina, & Iliina, 2016). The combination of human capital and relational capital can be referred to as reputational capital (Hundal, 2017). The underlying argument here is that the entrepreneurs can acquire higher levels of reputational capital through their exposure to international markets and activities (Felicio, Couto, & Caiado, 2014; Ferris & Jagannathan, 2001). For example, the executives of an FF having increased exposure to the international business-related activities come across opportunities when they can learn several skills related to business negotiation, and streamlining of business processes, and at the same time develop a business network through regular interactions.

It can be argued that FFs with high reputational capital can contribute to their enterprise's value in several ways. First, FFs often have a dearth of core skills and knowledge related to accounting, law, taxation, and technology, for example, and FFs having a higher degree of reputational capital can fill such void (Pfeffer & Salancik, 1978). Second, FFs having more reputational capital are expected to do better decision-making, therefore, bringing "legitimacy" to the enterprise's actions (Hundal, 2016, 2017). Third, FFs often struggle with the information asymmetries disadvantage and consequently sub-optimal business decisions based thereon, and as a result higher transaction costs are frequently observed in such enterprises, however, FFs possessing a high level of reputational capital often have well established "communication channels" with the outside world, which helps them to obtain relevant information at the minimum costs and thus take better business decisions (Daily & Dalton, 1994a, 1994b; Ferris & Jagannathan, 2001). Lastly, the reputational capital of FFs helps them in marshaling both physical and non-physical resources on competitive terms (Berezinets et al., 2016; Pearce & Zahra, 1992).

Several researchers, for example, Daily and Dalton (1994a) and Ferris and Jagannathan (2001) lay emphasis on the strategic contingencies, which are extremely important to FFs. The essence of strategic contingencies or factors affecting operations, planning, and decision-making of FFs is uncertainty (Pearce & Zahra, 1992). A high degree of reputational capital of FFs can help them earn the legitimacy of their investors and other stakeholders since these enterprises often have disproportionate exposure to the uncertain business environment. The empirical evidence shows that the high-level reputational capital of entrepreneurs helps enterprises to face rough times, for example, impending bankruptcy, successfully (Campa & Camacho-Miñano, 2015). Several studies find that entrepreneurs with high reputational capital are more successful in ensuring cordial relationships within the enterprise as well as across the enterprises, which promotes corporate collaborations and performance (Westphal, 1999). A question ensues whether the entrepreneurs of some FFs can use internationalization as a ploy to maximize their personal utility function, which can harm these enterprises. To an FF, internationalization is a strategic business decision, and owing to the significance of the role of entrepreneurs in such an important decision-making process, critics can become skeptical whether internationalization is imperative for the enterprise or it is used by the entrepreneurs as a tool to extract undeserving rewards and perks and develop their own personal network (Liao & Hsu, 2013; Adams & Ferreira, 2007).

### 3. RESEARCH METHODOLOGY

#### 3.1. Research method

The research approach applied in the current study is interpretivism. The selection of this research approach is based on the premise that the current study neither tests any hypotheses nor makes any generalizations based on econometric models (Schostak, 2006). Instead, the findings of the study

can be interpreted theoretically or contextually (Lämsiluoto & Järvenpää, 2010). The findings of the current study can also be used to build up new hypotheses which can be tested by collecting quantitative data both secondary or primary (for example, by survey method) and applying econometric models (Woodside & Wilson, 2003).

For the current study, empirical data have been collected through the ten semi-structured interviews of FFs (Ribeiro & Scapens, 2006; Hair, Bush, & Ortinau, 2006). Only CEOs of case enterprises have been interviewed. The interviews have been conducted during the time period February–April 2021. As many as seven CEOs are serving as CFOs of their enterprises. All the respondent CEOs are directly responsible for the international business activities of their respective enterprises. The sample FFs are taken from different industries: education and training (3), automotive industry (2), textile (2), heavy industry (2), and natural resources (1). The number of total employees working in each enterprise, including family members, has been between six to thirteen. It is noteworthy that there is no official status and definition of FFs in Russia.

**Table 1.** Background of interviewee CEOs

CEO	Age (Years)	Gender	Education	Experience (Years)
A	53	Male	Ph.D (Sociology)	27
B	49	Male	M.B.A. (Marketing)	25
C	32	Female	Bachelor (Fine Arts)	8
D	41	Female	Bachelor (Accounting)	19
E	37	Male	Master (History)	18
F	29	Male	Bachelor (Automobile)	5
G	34	Male	Bachelor (Electronics)	8
H	30	Male	Master (Engineering)	7
I	26	Female	Bachelor (Finance)	4
J	32	Female	Master (English literature)	7

In the current study, semi-structured interviews have been conducted to collect data, which is qualitative in nature (Lee & Humphrey, 2006; Lukka, 2007). The rationale of interviewing only CEOs is, first, to standardize the interviewees, and second, CEOs perform a majority of the executive tasks and expectedly they are the only ones who have the maximum information about the relatively smaller size of the enterprises.

The case FFs are based in Moscow, St. Petersburg, and the periphery of both cities. The researchers have very good access to the case enterprises, however, the principal language of all the interviewee CEOs is Russian and their knowledge of the English language has been very limited. Therefore, all the interviews were conducted in Russian by the second author, who is a native Russian speaker. As many six interviews have been recorded face-to-face and the remaining four via zoom, subsequently all interviews have been transcribed first in Russian and later translated in English. The researchers have taken utmost care while translating the transcribed interviews lest the relevant narratives and their multiple interpretations should be lost in translation. The researchers have studied the transcribed/translated interviews on several occasions individually and together to comprehend the phenomena in the light of research questions. The time range has been 50 to 80 minutes per interview.

Two techniques of triangulation have been applied to increase the credibility of the data and conclusions drawn based thereon (Lämsiluoto & Järvenpää, 2010; Woodside & Wilson, 2003). First, the Russian-speaking researcher has participated in all interviews and the first author asked the follow-up and relatively probing questions. Second, the researchers not only asked the same set of questions to every respondent CEO but also obtained information regarding the enterprises in order to contextualize the data with respect to the firm/industry/specific determinants.

### 3.2. Description of case enterprises

The first three interviewee CEOs, representing the FFs, are coded as A, B, and C in the current study. All three enterprises are operating in education and training services. Among other things, the main business activities of the three enterprises are to train the students aspiring to go abroad for higher education and activity based on providing education services and process their immigration-related issues. The headquarters of the three FFs are in the Moscow region. All three enterprises have been founded from February 1993 to April 1995. These enterprises have initiated their operations in the international markets in 2005. The business partners of A, B, and C are mainly based in Great Britain, the USA, Canada, Germany, Australia, and Finland.

The second set of two interviewees, D and E, affiliated with the FFs are working in the textile industry. The main business activity of these enterprises is related to the export of textile products and designs. The first enterprise (D) is based in Moscow whereas the other one (E) is in St. Petersburg. Both enterprises have been established at the beginning of 2015 with a clear and explicit motive of internationalization. The enterprises have their business relationships with Baltic countries, Poland, Hungary, Czech Republic, Netherlands, Belgium, and France.

The third set of participants, F and G, represents the automotive industry. The principal business activity of the enterprises is related to both the sale and purchase of new and used cars. The other auxiliary functions of both enterprises include financing and servicing of cars. The enterprise F has been founded in 1996, located in the Republic of Karelia, started its internationalization at the beginning of 2000. In 2005, enterprise F moved its headquarters to St. Petersburg region. The other enterprise (G), based in Moscow, has been established in 2011 and it has started its operations in the international markets with effect from 2017. Both enterprises have their business connections in Germany, Poland, and Finland.

The fourth set of interviews are with two CEOs, H and I, who represent FFs in the heavy industry sector. The main business activity of both enterprises is the import of building and industrial materials. The first enterprise (H) has been founded in 1999, whereas the second one (I) was established in 2003. Both enterprises have their headquarters in St. Petersburg region, and they have started their internationalization activities with effect from 2008 and 2018, respectively. The enterprises have business relationships with several Asian countries.

The last interview participant, J, is the CEO of the FF exporting several stones and minerals to Japan, China, Korea, Germany, the USA, Czech, Ukraine, and Hungary. The enterprise has been founded in 2000. The headquarters of the enterprise is in St. Petersburg. The internationalization of enterprise J has been initiated since its inception.

## 4. RESEARCH RESULTS

In this section, the research findings have been discussed, first, by highlighting problems and motivations of internationalization of FFs in Russia, and second, in the light of key theoretical underpinnings discussed in Section 2.

### 4.1. Problems and motivations of internationalization

The internationalization of FFs in Russia has been observed to be both the cause and the effect of the business growth and potential expansion opportunities. The findings show that there is an overwhelming willingness of the Russian FFs to internationalize, however, these enterprises face several obstacles. It is pertinent to study the internationalization of FFs in Russia and the related corporate governance and other regulatory issues in the wake of MPP carried out in the country during 1992–1994. The MPP created numerous disruptions on the business and economic spectrum of Russia, and resultantly the FFs in Russia could also get exposure to several new vistas in the international markets. However, it is noticeable that corporate regulatory, and corporate governance systems do not even clearly define the term FF. Several researchers put forward that MPP caused adverse effects on the corporate governance system and practices. For example, MPP created an atmosphere of the weak and porous corporate governance system in Russia characterized by ineffective internal controls, accounting data manipulations, higher incidence of related party transactions, depletion of minority shareholders' rights, weakening of property rights of foreign investors, and lowering the quality of financial reporting, among others (Sprengr, 2002, pp. 3–5)<sup>2</sup>.

<sup>2</sup> "... all the five members of our family work in the business. Technically, we are running the family business, however, we are not officially registered as the family enterprise. I do not know if there is any possibility to register our business as a family enterprise and even if such category of enterprises exists the next issue is even registering our enterprise is mandatory at all" (A).  
 "I am unsure whether we shall be better off or worse off than before after we register our business as family enterprise, assuming such category exists. The regulatory system is so unclear and confusing that I have no idea of pros and cons of getting any official status as a family enterprise. We want to continue our work the way we do it now. We will consider the possibility to formalize our business only if it brings us any benefits from the State" (D).  
 "... unfortunately, we do not know what problems and challenges, for example associated with the taxation, reporting or other administrative formalities, in the future. ... we plan to further expand our business, but this is going to be accompanied by certain problems, for sure" (J).  
 "In the educational sector in Russia, we need to obtain a license from the Ministry of Education for each building in which we are located and do our education activities. Obtaining a license involves a large number of delays due to bureaucratic obstacles. I do not see any hope that such obstacles will be overcome in the near future" (B).  
 "... we must get a new license every time we acquire a new building, the basis of license should be the enterprise, and not the new building. We feel constrained by such requirements. ... we can contribute to the state revenue arising from business activities more through the income tax than the license fee that we pay every time we acquire a new building. ... only two kind of businesses are required to pay license fees: pharmaceutical companies and education institutions" (C).  
 "... accordingly, if we decide to expand our business operations by taking a new building on lease, we need to go through a large number of administrative formalities, for example, signing the lease for a very long time (sometimes more than ten years). ... problem of signing of the long-term

Similar to the empirical findings of Elango and Pattnaik (2007) and Brown et al. (2006), the current study finds that access to the business loans provided by the regulated banks is extremely limited for the FFs. Because of such paucity of institutional finance, many entrepreneurs must seek personal use loans in order to invest in the business. Notably, the conditions attached to personal use loans are unfavorable to FFs.

Nearly all the case FFs state that the taxation system in Russia is getting even more complicated and the effective tax rates are very high. All the case FFs unequivocally state that if the government wants the FFs to flourish and business innovativeness to increase in the economy, there should be a liberal tax regime especially those fiscal reforms, which are favorable to small-sized FFs<sup>3</sup>.

Although researchers, regulators, and practitioners recommend that firms must follow the best corporate governance practices, nonetheless, there is an acute lack of knowledge and understanding of the core principles of corporate governance aspects in Russia especially in the context of FFs. Similarly, there are several anomalies, ambiguities, contradictions, heterogeneities, uncertainties, and obstacles associated with the implementation of whatever little corporate governance rules and practices related to the FFs exist, including those related to the definition of an FF, procedure, taxation, subsidies, international operations, and financial reporting. The above discussion clarifies that the FFs in Russia experience a feeling of making a constant struggle to grow despite their capabilities, willingness, and favorable market dynamics. Therefore, the abovementioned limitations and pitfalls necessitate further exploring of the corporate governance system, mechanisms, and tools.

The analysis shows that the FFs lay significant emphasis on innovation. The primary goal of innovation propelled by the business growth attributable to internationalization has been profit maximization. The enterprises underpin financial strength as a key parameter to repay the financial debt, do better debt-servicing, and re-invest profits to expand business operations. Internationalization has been reckoned as an engine to achieve the abovementioned financial strength<sup>4</sup>.

Another important factor for internationalization has been observed to be the economic situation in Russia. The domestic economy of Russia is not stable, in many cases, FFs consider internationalization as a means to hedge their business risks. Internationalization seems to have enhanced the business stability of case enterprises.

Nonetheless, some enterprises even consider their exposure to new types of challenges that they are getting exposed to in the wake of internationalization<sup>5</sup>. Interestingly, the awareness of such challenges has arisen during the post-internationalization phase only.

#### 4.2. The stage approach

The findings show that in some cases FFs have initiated and then further extended their international business activities due to constant and steady growth in their linkages with the external contingencies developed over time. However, the growth in such linkages can be attributed to the behavioral aspect of the leadership of these enterprises. The desire and motivation to grow have led these enterprises to bring changes in their organizational structure, utilize their previous experiences, and explore more of the potential markets. Interestingly, several enterprises have already established their business relations with diverse markets. It appears that these enterprises have grown incrementally and sequentially. Internationalization has increased the competitiveness of these FFs even in the Russian domestic market.

At the initial stage of internationalization, driven by growth expectations, many case FFs explored the potential international market by themselves and obtained first-hand experience in the process. Needless to say, several case FFs exposed themselves to extremely high financial, market, operation, and organizational risks, especially in the wake of almost no institutional support. However, these risks became better managed and relatively foreseeable as the perceptions, desires, motivation, experience of the enterprises grew over time. With some initial openings, exposures, and even minor successes, some case enterprises were in a better position to make self-commitment to go for further internationalization and commit resources (physical, intellectual, and organizational) in this pursuit. Such commitments paved the way for medium to long-term planning and informed business decision-making. Therefore, several shades of *the learning process*, as highlighted in the U-model can be observed in the context of the case FFs (Johanson & Vahlne, 1977, 1992).

Some FFs report that a major difficulty that they have often come across is *the psychic distance*,

leasing contracts, along with other problems, make us wary and sometimes demotivated to plan or implement any further business expansion" (I).

"... for example, the state authorities gave us directives to run our business operations in certain specified buildings. We have our headquarters in one of these buildings. This building is not large enough and the rent is at-least five times more than the market rent for the similar building. We felt the pressure to take the lease of the building since the demand exceeded the supply, and we were afraid of building rent rising further" (E).

"Tax cuts and lower interest rates can help our firm to become financially sustainable. We can earn more profits and reinvest them back in business" (F).

"... and at the moment the only form of Business is financed from within, i.e., regarding profit, profit is reinvested into the business" (G).

"... we borrowed heavily when we, first, started our business, and second, when we did business restructuring and expansion. Our source of borrowing has been friends, family and our own savings. We sought institutional finance a few times, however, our application did not go further after having meetings with bank managers" (H).

<sup>3</sup> "... the government does not support the idea of giving tax concessions to the family enterprises for the reason that the medium/large-sized private enterprises will start to fall apart in order to avoid paying tax and as a result the state revenue will shrink. ... profit is the only source of re-investment in the business" (D).

<sup>4</sup> "... decision to enter international markets are meant to earn commercial advantages. I do not think our enterprise needs to do business with any foreign company unless it is profitable do so" (A).

<sup>5</sup> "I recognize innovation as an important tool that can give our enterprise a competitive edge over competitors with respect to lower costs and more profits" (F).

<sup>6</sup> "... that is to say that our business activities in the foreign market enables our enterprise to face the challenges of instability of the local market. If we only depend on the local market demand, we may even face bankruptcy threats. The importance of selling our products and services was recognized right from the very beginning. And, now in the hindsight I can say that we made a good" (E).

"... our international operations on the one hand has increased our business competitiveness but at the same time we face fluctuations in the exchange rate more often than before" (J).



which is the second component of the U-model. For example, cultural differences between the case enterprises and their foreign counterparts have created some difficult moments<sup>6</sup>.

It has been further found that the exposure to information technology; business trips, for example, meant for business negotiations, trade exhibitions, and conferences both domestic, education and training are the key elements that significantly helped some case FFs to overcome the psychic distance phenomenon. Interestingly, the learning process and the psychic distance, two components of the U-model, have not only enhanced internationalization separately but also through their mutual interactions. The learning process, for example, education, experiences, and exposure has been observed to minimize the psychic distance, and the minimization of the psychic distance has helped to support the learning process<sup>7</sup>.

In accordance with the I-model, it has been found that many FFs reckon internationalization as an innovation activity *per se*. Firstly, some entrepreneurs of FFs, despite having minimal or almost no experience in the field of international business, studied multiple dynamics of global markets to look for suitable markets, and counterparties. As it has been earlier mentioned several factors including education, training, and even perceptions played an important role to obtain actionable information. This was followed by the stage in which some FFs started taking part in the foreign trade activities, however, at a very basic, low value and volume and without bringing any perceptible changes at their organizational level. Later, these enterprises engaged in more frequent, high-value, and volume foreign business activities by incorporating internationalization as an important business objective. This stage also witnessed many changes related to, for example, organizational restructuring, market research, product and process innovation, quality assurance (Johanson & Vahlne, 1992).

It has been further noticed that D, E, and J represent the FFs that have followed the born global internationalization pathway, whereas all other enterprises have gone through the traditional path of internationalization.

### 4.3. The network approach

As the entrepreneurs decide to explore international markets, they often require, at the first stage, some knowledge of the export market, risks (including business, financial, operation, and technological), legal challenges, administrative formalities related to both in the country and abroad. Therefore, joining the right type of network is expected to make the internationalization process streamlined with minimum risks.

The findings show that invariably all the case FFs have developed their international network connections with several countries in Europe, North

America, and Asia. These networks, both domestic and international, have played a major role in augmenting international business activities of the case FFs. Similar to the findings of Johanson and Vahlne (2006), the study finds that entrepreneurs identifying international business opportunities sooner than their counterparts via international business networks have an edge over their counterparts. Regardless of the industry/sector, all the case FFs admit that they have been the beneficiaries of various business networks right from the start stage to the business expansion one. The findings, similar to those of Hohenthal et al. (2014), highlight that at the beginning of their international activities, the business networks helped the case enterprises mainly with respect to the basic legal formalities, administrative work, and preliminary market research, at the next stage the support provided by business networks extended to quality control, business negotiations, membership to trade associations, financial matters, technical support, and relatively complex legal issues<sup>8</sup>.

Many case FFs hold that there are more administrative challenges in Russia than they face in the foreign markets. There has been no support from the state. However, the non-state business networks, particularly those based in Russia have been reported to be very useful. Almost all the case FFs have the unanimous opinion that they took a big risk while placing the import orders or executing the export orders in the wake of almost no first-hand knowledge until they could obtain the actual experience until first-time at least. Similarly, there were lengthy administrative requirements at the border control and custom checkpoints, nonetheless, no proper official guidelines in this respect could be made available to the case enterprises<sup>9</sup>.

In some other cases, FFs also have the opinion that having the right type of prior knowledge is crucial to make the optimum utilization of business networks. The study further shows that those entrepreneurs, who have a higher level of knowledge and education, have been in a better position to explore not only the existing networks but also successful in joining more specialized business networks<sup>10</sup>.

## 5. CONCLUSION

It is a well-recognized phenomenon in the empirical literature that the internationalization of FFs can contribute to both business and economic success. Russia is an interesting case requiring deeper scrutiny of the internationalization of FFs for two reasons: first, there is a general paucity of the empirical evidence in the Russian business and

<sup>6</sup> "... prior to start exporting, we used to think in our organization that cultural differences would not have much influence in the international business activities, but we were wrong ... some misunderstandings were witnessed when executing the export order to our European clients, whereas, certain misunderstandings were experienced, almost at every stage, during the business negotiations even though our local facilitators were present in each round of the business meetings" (J).

<sup>7</sup> "Nevertheless, the accumulation of knowledge and experience along with frequent communication helped us to know more about our suppliers" (I).

<sup>8</sup> "In addition to the communication with the foreign counterparty, we joined an association of traders based in St. Petersburg which provided us very useful guidance in the field of business administrations and disclosures" (H).

<sup>9</sup> "... with no idea of payment transfer we consulted the International Business Coordinators of our clients in the USA and the UK, and we could understand the standard payment transfer practices ... the interactions with the network of business lawyers based in Moscow was of immense help with matters such as foreign currency denominated bank accounts, withholding tax and exchange rate movements" (C).

<sup>10</sup> "... the entire administrative process we very complicated and discouraging. Learning from those, who have already been in the business have been very helpful to our enterprise, however, the utility of such help would have been limited had I not possessed any prior knowledge of international business and markets" (G).

economic settings, and second, the MPP carried out in Russia during 1992-1994 created several disruptions in the business and economic environment leading to an abundance of uncertainties and challenges. An interesting research motivation ensued from the abovementioned background has been to study multiple dynamics of internationalization of FFs in Russia. It has been observed that there is no officially recognized concept, let alone a definition of the FFs. Similarly, there is a near consensus among the interviewee CEOs of the FFs that the government does not support them in any form and instead by imposing multiple directives and stipulations it obstructs their functioning and future growth prospects. On the other hand, several favorable elements have emerged, which reflect the survival instinct of the FFs in Russia, particularly in the light of continuing apathy shown by the government towards them. For example, many case FFs have initiated their international business activities owing to constant and steady growth in their linkages with the external contingencies developed over time. Almost all the case FFs have developed these linkages to grow their businesses internationally and showcase their entrepreneurial skills. All the interviewee CEOs are relatively young and well-educated, and it has been clearly observed during the interviews that they are full of energy,

passion, and ideas. Another example underscoring the entrepreneurial zeal of the case FFs has been their active participation in diverse multiple business networks, which in turn have played a crucial role in the internationalization of case FFs. Similarly, participation in the business networks and internationalization have increased the competitiveness of the case FFs in the Russian domestic market as well.

A major limitation of the current study is that all the case FFs have been selected from in and around Moscow and St. Petersburg. Despite innate limitations related to FFs in Russia, the entrepreneurs based in the abovementioned regions have relatively better access to resources (for example, technology, finance, marketing, managerial talent) and diverse business networks. Therefore, it can be argued that the sample enterprises, which are based in relatively advanced regions, do not fully reflect a true picture of Russian FF, in general.

It is recommended that in future research endeavors, first, more representative FF samples can be selected to conduct a qualitative study similar to the current study, and second, the findings of the current study can also be used to build up new hypotheses, which can be tested by collecting quantitative data both secondary and primary (for example, by survey method) and applying econometric models.

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