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THE INTERNATIONAL GROWTH OF FAMILY BUSINESS: DO FIRM-SPECIFIC AND CONTEXT-SPECIFIC FACTORS MAKE A DIFFERENCE?

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Introduction

Increasing globalization has urged firms of all sizes and ownership types to expand their international operations (Zahra, 2003). However, while previous research on internationalization has focused primarily on large corporations and new ventures, studies on the internationalization process of family firms are still sparse. As noticed by several scholars, this gap contrasts with the economic relevance of family firms, especially small and medium sized ones, which still constitute the most diffused typology of firms in the world economy (Leenders and Waarts, 2003). Indeed, Dyer estimated that as many as 90% of all companies, worldwide, can be classified as family firms (Dyer 2003: 403).

This paper aims to help fill this gap by examining the process of international expansion of a sample of 90 family firms localized in three Italian industrial districts. The analysis of firms' strategies is conducted in relation to three main dimensions of the internationalization process: i) export strategies; ii) strategies relating to international subcontracting; and, iii) strategies relating to direct investment abroad. International subcontracting and FDI are not considered as mere transfer of capital, but complex bundles of management, technology, market access and capital money. The focus on international subcontracting and FDI has both practical and theoretical significance, and has been neglected by previous research which has mostly focused on the export orientation and foreign market entry modes of SMEs and family businesses.

2 Theoretical background

2.1 The internationalization process perspective

A fundamental problem in the theory of multinational corporations is why they exist at all. The internationalization literature has proposed numerous explanations.

Concerning the Vernon "product cycle" theory (1971), the internationalization of firms follows the maturity of the product technology. So, standardized productions tend to be manufactured in low costs countries. The application of transaction costs analysis has led to the discussion of the issue of imperfections in knowledge selling among contractual agents which are prone to opportunisms and endowed with information asymmetries, explaining why in many cases the international expansion of firms in foreign markets (within a verticalized structure) is more advantageous in comparison with the alternative solutions of exports and license agreements (Caves, 1982). Joint ventures and non-equity collaborations are viewed as intermediate forms that limit hazard and knowledge dissipation (Dunning, 1981; Teece, 1981).

In more recent years, a new line of thinking has been developed that is more focused on a different explanation of the internationalization process, seen as the result of capitalization of knowledge and technical know-how of firms (Casson, 1982, Cantwell, 1998). The role of intangible assets and technological capabilities has been proposed in order to explain the role of MNCs. Proprietary knowledge gives MNCs cost advantages over producers in foreign countries. The modern MNCs theory also advances other explanations. MNCs investments are seen as resources, market, or knowledge (if they occur in high-tech districts) seekers.

Stage models of internationalizations (Johansson and Vahlne, 1977) suggest that the liability of foreignness provokes risk exposure and limits resource commitments, favouring a model of gradual penetration of firms in foreign countries, after a period in which new experimental knowledge is acquired on markets, habits, and business rules. Being settled in foreign countries, in order to control risks firms will prefer to verticalize their activities (Kougt and Zander, 1995), applying entry models that include FDI. However, FDI (via merger, acquisitions or Greenfield investments) are more costly fixed investments, and non reversible exposures, than alternative ways of governance arrangements (cooperation through international subcontracting, thus, global sourcing). In addition, different location advantages may favour more or less hierarchical arrangements and global start-ups (Oviatt and McDouglas, 1997).

The international new venture literature addresses factors that contribute to the understanding of accelerated internationalization: the suppliers' orientation for seeking low costs production in internationally expanding business, the achieving of larger scale economies, the need to exploit some market niches (Lee, 2002). The identification of local relations from the point of view of a large international buying actor have been framed within various factors: the complexity of transactions, the ability to codify transactions, the capabilities in the supply-base, and the governance type (Gereffi, Humphrey and Sturgeon, 2005). The latter can be understood as market ties, modular autonomous relationships, collaborative and relational ties, and captive relations (in the case in which the buying actor manifests a maximum power of profit and task controlling). A large body of literature has also discussed the multinational growth of the firm from the point of view of knowledge transfer, both within the various units of a multinational and among external units (Barlett and Ghoshal, 1989). Are foreign subsidiaries channels of international diffusion of technology (Almeida, 2005; Veugelers and Cassiman, 1999) or, inversely, do MNCs tap into knowledge clusters to absorb local knowledge (Rugman and Verbeke, 2003)?

An evident limit existing in the literature on multinationals is that it generally concentrates its attention only on large businesses. The idea behind this is the existence of a growth theory of the firm, which forecasts that, after being become large, the last stage is to go abroad. On the contrary, in many specific cases, the process of internationalization either occurs immediately, as discussed by the authors that have studied small-born multinationals, or it is developed in a stage in which the firm is still small. So the analysis of the internationalization of the small business firms does not appear to be a much explored field of research (Cafferata and Mensi, 1995). In the case of export, Calof (1994) detected that size only matters for very small firms. Scarcity of resources can affect the ability of smaller firms to enter export markets and can also limit a smaller firm's ability to follow more advanced stages of internationalization (Moen, 1999). However, many small firms are endowed with valuable and rare resources, and they have advantages over competitors on both domestic and foreign markets. So, we can confirm the statement that small firms can develop the ability to enter foreign markets using their accumulated stock of intangible resources (Bonaccorsi, 1992; Zucchella, 2001). In the Italian case, the internationalization of SMEs and family businesses alludes to a kind of heteromorphic variety of the national capitalism, and this issue deserves more attention because it has been at the basis of the change in the main industrial district model since the 1990s (Belussi, 2005; Zucchella, 2006). Our study is therefore focused on the empirical verification of this argument.

2.2 The international orientation of family business

Until a few decades ago, the family firm was considered by traditional economists as a transient organizational form prevailing in the initial stage of a company life cycle and destined to evolve in the managerial form to allow for a high rate of growth and profitability (Casson, 2000). In this view, the family firm is typically portrayed as small to medium sized, slow growing, characterized by a flat and centralized organizational structure, relying upon self-financing and internal succession mechanisms, often strongly rooted in favourable local contexts (e.g. industrial districts and clusters), implicitly backward with respect to production technology and international expansion and less profitable than managerial ones (Colli, 2003).

Recent research has demonstrated that this portrait is not adequate to capture the strategic behaviour of an increasing number of real world family firms. In Italy, Benetton, Luxottica and Natuzzi are just some of the most well known examples of dynamic and highly performing family firms which have rapidly acquired worldwide reputation by pursuing strategic and organizational innovation, international expansion and growth. However, increasing international orientation is becoming a wider phenomenon among Italian family firms that cannot be confined to few exceptional examples of over performing companies. The traditional internationalization pattern characterized by the divergence between the very good export performance of Italian firms, especially family SMEs, and their weak and delayed multinational growth (Mariotti, 2004) showed a dramatic turnaround in the last two decades. Since the 1990s the process of internationalization has been more and more concerned with SMEs operating in scale-intensive and traditional sectors, investing in the EU, Eastern Europe and the Far East. The emergence of small family-owned multinationals represents one of the most significant transformations in the Italian economy, emphasizing the need for a deeper understanding of the motives and forms of internationalization OF SMEs family firms.

Several studies have focused on the differences between family and non-family firms with regard to internationalization (Gallo and Sveen, 1991; Welsch, 1991; Gallo and Pont, 1996; Donckels and Aerts, 1998). In general, they indicate that family firms are less prone to enter international activities. Family firms have indeed a number of peculiar features which affect the way family firms define, address and coordinate business objectives (Corbetta and Montemerlo, 1999) and which are relevant to explain their willingness to expand abroad and the specific modes of internationalization that they can choose (Zahra, 2003).

Firstly, family firms are generally considered more conservative in their policy of investment and growth. The possible conflict between family and business objectives and interests can indeed reduce the firm's propensity towards risk taking. For instance the family objective of controlling the destiny of the firm may conflict with the business objective of growing abroad. Internationalization is indeed a particularly risky strategic move that may take years to generate profits, depriving the family of short-term wealth (Zahra, 2003). Further, internationalization usually requires additional capabilities and resources which may alter the firm's labour force, values and organizational culture (Zahra and Garvis, 2000) in contrast to the owner-manager's tendency to keep full control of the firm's operation. Therefore, though internationalization can provide significant opportunities for profitability and growth, it can also create conflicts within the family about the need to internationalize operations.

Secondly, although there are several large family firms, a relevant part of family business is represented by SMEs (Gubitta, 2006). Size is therefore one of the structural features which can affect firms' willingness to expand their operations abroad. From a resource-based perspective, size is indeed considered as a proxy for stronger resource endowment namely in terms of financial, technological, organizational and human resources, including managerial knowledge which firms need to intensively internationalize their operations (Zahra, 2003). In this view, small and medium sized family firms should encounter greater difficulty in growing international compared to larger firms, especially for undertaking high commitment entry modes, such as wholly owned subsidiaries (Petersen and Pedersen, 1999). Empirical research concerning the distinction between exporters and non-exporters has identified size as a relevant variable for internationalization (Whitley, 1980; Katsikeas, 1994; Prince and Dijken, 1998; Simoes and Crespo, 2002).

2.3 Models of internationalization of family business

Some authors argue that the Uppsala model of progressive internationalization (Johanson and Wiedersheim-Paul, 1978; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977) is particularly effective for capturing the prevailing pattern of family SMEs internationalization. This theoretical approach proposes that firms go through sequential internationalization stages beginning with sales to the home market and irregular exports. This is followed by regular export via agents and subsequently by the establishment of sales subsidiaries. At a later stage, firms invest equity in offshore production sites. The stage approach is considered a useful model to study the internationalization of family SMEs in consideration of the structural limitations of this type of firm. In this view, the limited resource base of SMEs implies that the process of being involved in foreign activities in terms of export, manufacturing and R&D investments must be gradual and executed in incremental steps over a long period of time (Boter and Holmquist, 1996).

Empirical research offers contrasting results in this regard. While some studies have confirmed the empirical validity of the stage theory to describe the internationalization process of SMEs, other studies have come up with opposite findings. In a study of small companies, Gandemo and Andersson (1993) found no evidence that the decision to invest in a foreign country is a step following a previous decision to export to that country. Other scholars propose that a difference exists in the internationalization pattern of innovative SMEs and SMEs operating in traditional manufacturing industries. However, also many SMEs in traditional manufacturing industries are forced to internationalize early in their development and may not be able to wait for stages to evolve (Oviatt and Philipps McDougall, 1994), due to a focus on highly globalized industries and, frequently, the small size of their domestic markets (Bradley et al., 2006).

Some authors argue that besides industry characteristics, a firm's territorially based environment could influence a firm's internal resources, affecting the ability to identify and exploit the opportunities linked to international growth (O'Farrell et al., 1998a, 1998b). Social networking may influence a firm's ability to identify and acquire the necessary information and knowledge to undertake international expansion, helping SMEs overcome constraints due to their limited internal resource base. In this view, one factor that may enable family SMEs to skip stages in the internalization process is their involvement in long-term collaborative supplier-customer relationships with firms which have already moved their operations abroad. In this case, their customers' request for close supplier-customer relationships also in host countries may provide a drive to internationalization by reducing family firms' aversion to risk taking. The range of collaborative partners and the density of network relations may provide a competitive advantage for SMEs entering foreign markets. This approach seems to provide a useful perspective to integrate the stage model of SMEs' internationalization, especially in the context of firms rooted in industrial districts and clusters, which are embedded in particularly dense business and social networks.

3 Methods

3.1 The research context

Considering the fact that firms immersed in the industrial district atmosphere benefit from numerous advantages (e.g., specialization, scale economies, knowledge flows, cooperative relationships) which could potentially moderate the liabilities of foreignness (Beamish and Lu, 2001), we selected a sample of firms from a pooling archive derived from three distinct Italian industrial districts, which were chosen after a qualitative analysis had confirmed the presence of different dynamics of the internationalization process. The selected industrial districts include (i) Montebelluna (sport-shoes and sportswear), (ii) Verona (walking shoes) and (iii) Vibrata Valley (clothing)[1]. In each setting the field work was conducted over a period of eight months using several data collection techniques.

[1] The empirical research was part of a research project entitled "*Industrial Districts' Re-location Processes: Identifying Policies in the Perspective of EU Enlargement*". The project was funded by the European Commission under the 5th Framework Programme (1998-2002) Key Action "Improving the Socio-economic Knowledge base" (www.west-east-id.net).

3.2 Data Collection

The research integrates qualitative and quantitative data collection methods in a two-stage case study design. In the first stage, we collected documents and conducted in-depth semi-structured open-ended interviews (10 interviews in each district, 30 in total) with key informants and local institutional actors.

In the second stage, a survey was carried out in each district through face-to-face in-depth interviews on the basis of a semi-structured detailed questionnaire. In this paper, a firm is considered a family business when its ownership and/or management are concentrated within a family (Handler, 1989; Litz, 1995; Morris et al., 1997; Leenders and Waarts, 2003). We selected a stratified sample of 30 firms in each district (tab. 1) in order to represent all the different phases of the district production chain. Interviewed companies included final firms and subcontractors, leading firms and followers. Fieldwork was conducted during spring and autumn 2003. Interviews lasted on average about two hours.

Tab. 1 Key sample data

	Montebelluna (N=30)		Verona (N=30)		Vibrata Valley (N=30)	
	District	Sample	District	Sample	District	Sample
N° of firms (2001)	464	30	324	30	484	30
N° of employees (2001)	8943	3636	4038	1407	6231	1590

4. Results

4.1 Export orientation and strategies

Montebelluna

Foreign trade related to the firms interviewed represents 97% of the foreign trade estimated by the official sources: 901,628 million euros (tab. 2). In our sample all firms are exporters. Export flows are largely in the hands of final firms, but all subcontractors interviewed are also export-oriented. From our estimations it results that the EU market represents the largest area of export flows (58% of total exports). Large firms are more able to place their products at a more global scale while small firms target principally the EU market.

Verona

Foreign trade related to the sampled firms interviewed was estimated, in 2001, at 185,975 million euros, which appear to be a significant part of the total sales of the firms located in the area (tab. 2). Export flows in the Verona district, unlike Montebelluna, are related to final producers and not to subcontracting firms. In our sample, 17 firms (out of 21 final producers) are exporting firms. Export flows are in the hands of family business district firms with more than 20 employees. However, firms with more than 50 employees covered the largest segment of export in 2001 (107 million euros).

The EU market represents the largest area (72.9% of total export) for the Verona district firms, and the rest of the world covers another 24.1%. Only a small share of export reaches CEECs countries (3.0%). The largest firms (those with more than 50 employees) export more in the rest of the world than in EU countries, while smaller firms' export flows cover mainly Europe. In particular Germany and France are the most important foreign trade markets. The majority of the sample started to export in the Nineties, while the relocation phenomenon through subcontracting started in the area much earlier, in the 1970s and in the early 1980s. FDI started during the 1990s, but within the logic of juxtaposition and not as a substitute strategy to international subcontracting.

Vibrata Valley

The total export of the sampled firms amounts to 104,318,691 euros. As regards the distribution of exports according to firm size (tab. 2), the greatest contribution to the sample's total export comes from the firms in employment size-classes 50-249 (66.4%), followed by firms in employment size-classes 250-449 (22.4%). Out of the 18 exporting firms interviewed, 16 are firms producing a final product, their export share amounts to 99.5% of the sample's total export. Only the final firms have achieved a good exporting capacity, with a foreign sales share amounting to about 60% of their total turnover, while the many micro and small firms which carry out façon productions or intermediate manufacturing phases do not have access to foreign markets.

The most import foreign market for the sampled firms is the EU which absorbs about 75% of the total export, while the rest of the world covers another 22%. The CEECs still have a marginal position. Only one final firm has chosen a strategy of market penetration in the CEECs (jointly with a process of relocation in the same countries), which are considered the key foreign markets for the company's expansion abroad.

In terms of entry modes in foreign markets, across all the export-oriented firms in the sample, the most important route of export is traders and intermediaries. This result indicates that most of the exporting district firms still have an indirect relationship with foreign markets, mediated by independent traders and intermediaries. Obviously, this commercial strategy is the less risky for local final firms because it involves the investment of a lower amount of resources and competencies (financial and organizational) and, for this same reason, it is the most frequent among small and medium sized firms which do not have a long experience in exporting and a deep knowledge of foreign markets' characteristics and constraints. On the other hand, this indirect export route does not allow local exporting firms to have full control of their products' positioning abroad or to acquire a direct knowledge of foreign markets' opportunities and threats.

Tab. 2. Export of firms by employment size classes (2001)

Employment size classes		*1-19*	*20-49*	*50-249*	*250-449*	*500+*	*Total*
Total sample	*Export*	7.206.431	131.655.267	798.896.760	204.160.955	50.000.000	1.191.921.913
		0,60%	11,05%	67,03%	17,13%	4,19%	100,00%
	Exporters	7 (35%)	16 (84%)	29 (83%)	12 (80%)	1 (100%)	65 (72%)
	Non-exporters	13 (65%)	3 (16%)	6 (17%)	3 (20%)	0 (0%)	25 (28%)
Montebelluna	*Export**	2.000.000	46.442.267	622.422.500	180.760.955	50.000.000	901.628.222
		0,22%	5,15%	69,03%	20,05%	5,55%	100,00%
	Exporters	2 (100%)	8 (100%)	16 (100%)	3 (100%)	1 (100%)	30 (100%)
	Non-exporters	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Verona	*Export*	1.800.000	77.013.000	107.162.000	-	-	185.975.000
		1%	41%	58%	-	-	100%
	Exporters	4 (27%)	4 (100%)	9 (82%)	-	-	17 (57%)
	Non-exporters	11 (73%)	0 (0%)	2 (18%)	-	-	13 (43%)
Vibrata Valley	*Export*	3.406.431	8.200.000	69.312.260	23.400.000	-	104.318.691
		3%	8%	66%	22%	-	100%
	Exporters	1 (33%)	4 (57%)	4 (50%)	9 (75%)	-	18 (60%)
	Non-exporters	2 (66%)	3 (43%)	4 (50%)	3 (25%)	-	12 (40%)

*data refer to 24 firms (5 missing cases; one firm had no direct export flows)

4.2 International subcontracting

Montebelluna

Subcontracting is related to the acquisition of intermediate inputs, final products, which are full-package orders, or to services on demand. At the time of our interviews, in 2003, local outsourcing represented about 1/3 of intermediate products and 1/4 of final products. CEECs countries were dominant in intermediate products, while a significant share of final products was acquired in non-CEECs countries, like China[2] and the Far East. The internationalization process activated through the building of international supply chains appears to be a widespread firm strategy in Montebelluna. 20 firms of our sample resorted to subcontracting (tab. 3). Interestingly, the firm size threshold, beyond which this strategy is massively applied, is just 20-49 employees.

This means that small family business firms in Montebelluna are able to overcome the direct and indirect costs of international outsourcing. The number of transactions with subcontractors is of course related to the size of the enterprise. Small firms deal on average with 3-4 subcontractors, middle size firms with 10- 13 and large firms even with 25-30. In 2001, the total number of international subcontractors was 131, in 2002 133. 82 subcontractors were located in Romania (62%), 16 in Hungary (12%), 5 in the Czech Republic, and 2 in Slovenia. The size of CEECs subcontractors is generally large. 44.4% of them have more than 250 employees and also small firms typically in Montebelluna use large foreign subcontractors.

Verona

The extent of the use of international subcontracting strategies is striking in Verona. Not just large and middle volume producers are using international sub-contracting, but also

[2] For instance a large quantity of the jogging shoes or the trekking shoes.

very small family business firms with less than 20 employees. Production phases are relocated but the know-how is kept in the district (related to design, marketing and communication, prototyping and R&D activity). Often only the finishing of the product is realized in Italy because firms want to (must) apply on their product the label “Made in Italy.

This strategy differs from what occurs in Montebelluna, where often the complete production cycle is outsourced in China and in the Far East (or in non-CEECs countries). The main motivation for using subcontracting in CEECs countries is, as already said above, the low cost of labour. But there is another important reason: in Verona there is a shortage of manual workers, qualified with the necessary skills and abilities.

On average, each firm in the district is engaged in subcontracting with at least 8-10 firms, 4-5 of which are from CEECs countries, and their number has slightly decreased in the last three years.

In 2001, 12 district firms established international global chains in CECCs countries, using 85 subcontractors (tab. 3). In 2002, the number of international subcontractors was significantly higher: 95 firms. Romania is the country that hosts the majority of subcontractors, 64.2%. Each district firm has an average number of about 8 CEECs subcontractors. Unlike local subcontractors, the CEECs suppliers have on average a large size, and 70% of them consist of firms with more than 250 employees. In many areas contracting companies most influence the subcontractors located in the CEECs: prices, choice of machinery (sometimes by transferring their own machinery and tools to CEECs subcontractors), on-site inspections connected to the planning of quality standards and production procedures, and the delivery system.

In practice, the level of autonomy of CEECs subcontracting is very low. The comparison between CEECs subcontractors' and domestic firms' performance provides known results. CEECs subcontractors perform better than domestic ones only regarding prices, but there are still problems with their ability to change type and volumes of production in a short time. In general CEECs subcontractors are managed (or owned) by Italian entrepreneurs. They come from old footwear regions: the Marches or the Veneto. During the 1990s their Italian firms were facing troubles and they had to close down their factories. Now they work as small entrepreneurs owning a foreign firm in CEECs - their firm has thus CEECs legal status. They supplement CEECs countries that lack entrepreneurial resources.

Entrepreneurs in Verona are not particularly positive as regards the comparison with the CEECs workers' performance. Only 33% of interviewed firms declared that workers' productivity was at the same level as in Verona. As regards the Timişoara district, Verona entrepreneurs expressed their criticism on many points: absence of technical assistance, lack of specialists with creative and design capabilities, and limited training received by the professional figures with whom they have to work.

In conclusion, the greater advantages of the international subcontracting strategy are mainly based on costs and the opportunity to pursue an internationalization production strategy without risking their own capital, as would have happened through FDI. This formula also gives firms the possibility to move quickly towards other countries, bearing new local advantages (read: access to lowered labour costs).

Vibrata Valley

In recent years, increased competition and international differentials in labour cost have pushed most local final firms and a few subcontractors to undertake a strategy of international subcontracting abroad, mostly targeted towards Romania, Tunisia and Morocco.

Among the interviewed firms, 11 declared that they use international subcontracting (tab. 3). With respect to the geographical distribution of foreign subcontractors, most are located in Romania, and the remaining part in other Eastern European countries and North Africa (Tunisia and Morocco).

Especially for the firms producing intermediate products, the decision to subcontract abroad seems to follow the relocation process already undertaken by their national clients. As concerns the criteria used to select foreign subcontractors, 2 interviewed firms declared that the selection was based on the suggestions and indications provided by client firms and distributors located outside the district. Only one respondent firm declared that it had relied on local trade associations in order to select its CEECs subcontractors.

Relationships with foreign subcontractors (both from Eastern Europe and North Africa) are typically stable although characterized by a low degree of interaction with respect to the content of work to be done. International subcontractors execute the most labour-intensive phase of the production process without any control on the most value-added activities such as design, cutting and quality control which remain in the hands of the district subcontracting firms. Quality control on the subcontracted products is based on random visits to the subcontractors' establishment and control on products' reception.

Tab. 3. International subcontracting by employment size classes (2001-2002values)

Employment size classes		*1-19*	*20-49*	*50-249*	*250-449*	*500+*	*Total*
Total sample	Firms with subcontractors	3 (15%)	7 (37%)	22 (63%)	10 (67%)	1 (100%)	43 (48%)
	Firms with no subcontractors	17 (85%)	12 (63%)	13 (37%)	5 (33%)	0 (0%)	47 (52%)
	N° of international subcontractors	14	20	162	182	30	408
Montebelluna	Firms with subcontractors	1 (50%)	4 (50%)	11 (69%)	3 (100%)	1 (100%)	20 (67%)
	Firms with no subcontractors	1 (50%)	4 (50%)	5 (31%)	0 (0%)	0 (0%)	10 (33%)
	N° of international subcontractors	4	6	63	30	30	133
Verona	Firms with subcontractors	1 (7%)	2 (50%)	9 (81%)	-	-	12 (40%)
	Firms with no subcontractors	14 (93%)	2 (50%)	2 (9%)	-	-	18 (60%)
	N° of international subcontractors	5	7	73	-	-	85
Vibrata Valley	Firms with subcontractors	1 (33%)	1 (14%)	2 (25%)	7 (58%)	-	11 (37%)
	Firms with no subcontractors	2 (77%)	6 (86%)	6 (75%)	5 (42%)	-	19 (63%)
	N° of international subcontractors	5	7	26	152	-	190

4.3 FDI strategies

Montebelluna

10 firms in our sample undertook FDI against 19, which set up FDI for commercial purposes (tab. 4). In the industrial field we can count 13 initiatives: most of them appear to be a Greenfield investment. 6 initiatives were based in Romania. The majority of Greenfield initiatives are organized in the district by small family business firms (7 out of 10), with a size of 50-249 employees. Our data confirm that large firms are articulating more complex strategies of internationalization, spanning from Greenfield to acquisition and to joint ventures. The processes of relocation occurred in the last decade, transforming the district radically. As a result of these strategies of globalization, the district in the shoe sector lost about 1500-2000 employees. From our interviews it resulted that they have been re-employed in other sectors. Many firms are now basically concentrated on immaterial operations: marketing, logistics, general firm functions, projecting, low series production, high-quality series production, shifting all manufacturing operations to low costs countries. The relocation of manufacturing has not undermined the district competitiveness and the bulk of the district capabilities have been maintained. Prototypes are still manufactured in the Montebelluna headquarters, where the secrets of technologies and design can be better maintained. For firms exporting in international market outlets, the relocation process has typically increased competitiveness and sales. So, the internal decrease in employment in firms with FDI has not been very severe. Considering the firms which have utilized the FDI strategy, only in 3 cases out of 10 was a reduction of the internal employment observed (in half

of the sample the implementation of FDI only influenced the reduction of local subcontracting).

The relationship between the parent company and the subsidiary, in the case of FDI is quite close. The influence of the Montebelluna firms on their FDI subsidiaries is strong in relation to the price to charge and to the technology embodied in the machinery that the subsidiaries must adopt. However, *subsidiaries* enjoy moderate autonomy on the entry decision in small markets, and for product development. In some cases part of the production of prototypes will be moved to the subsidiaries, not only to verify the pre-launching aspects, but also to allow the local workers to interact with the product, and to be trained better. There is now a growing responsibility for the *subsidiaries* on the development of the CEECs markets. FDI strategies seem to have become reversible, firms already engaged in FDI initiatives (prevalently *Greenfield*) tend to be quite "mobile" and often revise their previous decision for selecting a new "relocation". We can speak about a "continual geographical remodelling" of the production filière, as discussed by Ansoff (1965) and Normann (1994). Following the first historical phase of relocation, which took place imitating the leading Montebelluna firms, now firms seem to choose their internationalization paths much more selectively, not only being focused on cost-oriented FDI, but guided to control more strategic factors (entry in foreign markets).

The internationalization growth of the Montebelluna firms does not seem to follow a stage model (Johansson and Vahlne, 1977) in which there is a progressive increase of the internal commitment shifting from pure subcontracting strategies to more demanding FDI strategies. In reality the risks of international investments through FDI are controlled through a dual strategy of mixing reversible strategies (subcontracting) with relatively more sunk investments (FDI). However, FDI strategies also seem to become reversible. Some firms already engaged in FDI initiatives in Romania for instance (prevalently *Greenfield*), have revised their previous decision, selecting a new country (China) for the "relocation" of their factory.

Verona

The internationalization of production strategies through FDI involves a small (9 cases), but significant number of firms. From our interviews it appeared that FDI are developed by Verona entrepreneurs in order to have a better control of quality standards, production efficiency, and logistics. Outward processing through FDI has also provoked the entry in new markets, and the expansion of sales. But the latter is still a minor cause of explanation.

Referring to our sample, there are 9 firms that have carried out FDI investment in CEECs, compared to 12 firms that are engaged in sub-contracting in CEECs. FDI strategies are adopted (tab. 4) mainly by the largest companies in the sample (between 50 and 249 employees). In most cases, these firms own more than 50% in their CEECs direct investments.

The 9 firms in the sample that are engaged in FDI in the CEECs have developed 11 investment initiatives: - 9 Greenfield (and this figure means that nearly every company has realized a Greenfield investment), one acquisition of an existing local company, and one joint equity venture with an existing local company. 64% of initiatives are located in Romania (6 Greenfield, 1 acquisition), 9% in Hungary (1 Greenfield), 9% in Slovakia (1 Greenfield) while the remaining 2 cases, one is a Greenfield investment located in Bosnia, and the other a joint equity venture situated in Serbia. As is shown in the other cases analysed, Romania hosts the majority of the FDI set up in CEECs. But also 61% of the CEECs sub-contracting firms are located in Romania (52 firms out of 85).

FDI realized in the Verona district are mainly directed towards manufacturing plants for assembling shoes. The FDI strategy differs from those existing in the Montebelluna district, because they do not involve licensing and commercial distributors at all.

In general, CEECs subsidiaries are not at all limited in their innovation activities, but all new technological knowledge is developed in the Verona headquarters and then transferred to the subsidiary. It turned out from our interviews that the quality realized in CEECs FDI was still lower than what was previously expected. The influence of the FDI subsidiaries on the parent firm's decisions is not very relevant.

While in the literature on internationalization FDI and other forms of contractual alliances are perceived as alternative modalities to globalization (Casson, 1990; Horstmann and Markusen, 1996), our district firms have explored the opportunity of building international subcontracting chains together with the use of FDI strategy. So the process of internalization of the small family business firms in Verona can be described as a combined strategy of governance of global supply chains and FDI .

As is shown in Tab. 4, 2/3 of firms involved in international subcontracting have also activated direct foreign investment. Therefore the two options are not devised as alternative strategies but, on the contrary, as complementary decisions. Referring to our sample of interviewed firms, there are 9 firms that have carried out FDI investment in CEECs, compared to 12 firms that are engaged in sub-contracting in CEECs, but significantly many of them (8 cases) use both. The choice of Romania, as a preferred area in which to delocalize the production process, is not casual, given the cultural proximity to Italy.

FDI investments are explained as a strategy following low labour costs. Firms in the district were imitating their international competitors that had invested in Romania. The possibility to enter new geographical markets was only considered an important factor for few firms.

The process of relocation has inevitably transformed the Verona district. In about 30 years local employment has halved and many other workers will lose their jobs in the near future, because many small local subcontracting firms unable to shift their production towards low cost countries will close down. Employment levels are shrinking also in the local leader firms, because they have concentrated their activity on services and knowledge-intensive operations: marketing, logistics, projecting, and general firm functions. However, for the local leading companies, as 3A Antonini, Olip or Diamant, the relocation process has been an opportunity to increase their competitiveness and sales. So, the internal decrease in employment has not been so serious. The firms interviewed were in general quite satisfied with their relocation experiment. The needs of entrepreneurs - using the words of Cesare Oliosi[3], the president of the Verona consortium Shoes Export – is less bureaucracy in the custom phase, more investments in CEECs infrastructures, and training. The relocation process in Verona has created a new demand in Verona for qualified workers and "production controllers". Thus, the district will have to prepare new professional figures in the future.

[3] See www.clubdistretti.it/Archivi/archivio02/prato28/articolo-distretto-di-Verona. Referring to Romania he has underlined the existence of high toll payments, changes in customs regulations, difficulties with local banks, scarce help from the consulate and embassy, difficulty in finding really qualified workers.

Vibrata Valley

Relocation through FDI involves a smaller proportion of district firms compared to international subcontracting (6 out of 30). In the sample, there are 5 firms that have carried out Greenfield investments in CEECs and 1 firm which has establishment an agreement with a CEEC's clothing enterprise (tab. 4). It is worthy noticing that if we look at the distribution of outward FDI by firms' size, the process of internationalization of production does not involve exclusively the larger companies of the district. As concerns the geographical localization, most FDI in CEECs (5 out of 6) have been undertaken in Romania.

District clothing firms involved in FDI have a great influence on their foreign subsidiaries/affiliates. The most important areas of influence concern product adaptation and development, the price to charge and the customers to whom to sell. Typically, CEECs affiliates do not have internal competencies of design and execute the most labour-intensive phases of the clothing production process (dressmaking) following the parent's strict technical specification. In many cases, when the parent company is a final firm with more than one brand, the CEECs subsidiary realizes the manufacturing of the lower cost line of products. This choice is justified by the necessity to move to lower labour countries the production of medium quality products which can no longer be conveniently produced within the district. Interestingly enough, the interviewed companies with CEECs subsidiaries declared that their foreign affiliate does not work exclusively nor primarily for the parent companies, but also have other foreign clients, mostly other Italian clothing firms with a well known brand. This strategy is justified by the large scale of the foreign affiliates. However, the parent company keeps control of the decision on the customers to whom to sell.

Based on field results, the leading reason for FDI and international subcontracting is clear and univocal: the most important motivation lies in the possibility to exploit labour wage differentials. Therefore, their internationalization strategy is based on efficiency-seeking investments (Dunning, 1993). Further, respondents declared that the internationalization of production has become an obliged choice because of the progressive reduction of profit margins in the home country. These results suggest that district firms have reacted to the increased competition in the clothing industry by trying to maintain price competitiveness through FDI and international subcontracting rather than trying to build new success factors.

Tab. 4. Outward Foreign Direct Investment by employment size classes (2001-2002)							
Employment size classes		*1-19*	*20-49*	*50-249*	*250-449*	*500+*	*Total*
Total sample	Firms with FDI	3	3	18	0	1	25
	N° declared FDI	3	4	20	0	3	30
	-Greenfield	2	3	18	0	1	24
	-Acquisition	0	0	1	0	1	2
	-JV	1	1	1	0	1	4
	Firms without FDI	24	17	20	4	0	65
Montebelluna	Firms with FDI	0	2	7	0	1	10
	N° declared FDI	0	3	7	0	3	13
	-Greenfield	-	2	7	-	1	10
	-Acquisition	-	0	0	-	1	1
	-JV	-	1	0	-	1	2
	Firms without FDI	2	6	9	3	0	20
Verona	Firms with FDI	0	1	8	-	-	9
	N° declared FDI	0	1	10	-	-	11
	-Greenfield	-	1	8	-	-	9
	-Acquisition	-	0	1	-	-	1
	-JV	-	0	1	-	-	1
	Firms without FDI	15	3	3	0	0	21
Vibrata Valley	Firms with FDI	3	0	3	0	-	6
	N° declared FDI	3	0	3	0	-	6
	-Greenfield	2	-	3	-	-	5
	-Acquisition	0	-	0	-	-	0
	-JV	1	-	0	-	-	1
	Firms without FDI	7	8	8	1	-	24

Tab. 5. Firms' internationalization strategy by employment size classes (2001-2002)							
Employment size classes		*1-19*	*20-49*	*50-249*	*250-449*	*500+*	*Total*
Total sample	No FDI & IS	15 (75)	11 (58)	8 (23)	5 (33%)	0 (0)	39 (43)
	Only IS	2 (10)	5 (26)	9 (26)	9 (60)	0 (0)	25 (28)
	Only FDI	2 (10)	1 (5)	5 (14)	0 (0)	0 (0)	8 (27)
	Dual strategy	1 (5)	2 (11)	13 (37)	1 (7)	1 (100)	18 (20)
Montebelluna	No FDI & IS	1	3	2	0	0	6 (20)
	Only IS	1	3	7	3	0	14 (47)
	Only FDI	0	1	3	0	0	4(13)
	Dual strategy	0	1	4	0	1	6 (20)
Verona	No FDI & IS	14	2	1	-	-	17 (57)
	Only IS	1	1	2	-	-	4 (13)
	Only FDI	0	0	1	-	-	1 (3)
	Dual strategy	0	1	7	-	-	8 (27)
Vibrata Valley	No FDI & IS	0	6	5	5	-	16 (53)
	Only IS	0	1	0	6	-	7 (23)
	Only FDI	2	0	1	0	-	3 (10)
	Dual strategy	1	0	2	1	-	4 (13)
Note: percentage values in brackets							

5. Conclusion

The purpose of this study was to provide new theoretical and empirical insights on the process of internationalization of family SMEs specialized in traditional manufacturing industries.

Our findings offer only a partial confirmation to the stage model of internationalization. Indeed, we found that for several firms in our sample the decision to invest in a foreign country, notably in the CEECs, is not preceded by an established export to that country. For several family SMEs the process of internationalization was not very lengthy and incremental, as part of the literature would have predicted. Our results indicate that domestic factors, such as increasing wages and overall cost of production, provided incentives for firms to skip stages in their internationalization process. Furthermore, the involvement in dense networks of social and supplier-customer relationships generally reduced the liability of foreignness of family SMEs, especially those specialized in intermediate manufacturing phases. We indeed found that firms tend to follow each other into foreign locations. This is true of many suppliers that followed their larger clients when they relocated abroad.

The study offers some interesting indications on the importance of size for international growth. With respect to export orientation, we found that size only matters for very small firms, notably those with less than 20 employees. Above this threshold, in the overall sample, the percentage of exporters involves about 80% of the interviewed firms. The size constraint appears to be more compelling for the adoption of international subcontracting and FDI. In this case, the size threshold seems to rise to the employment size class 50-249. However, in this class, 63% of firms in our sample did resort to international subcontracting and 43% to FDI.

Generally, FDI and international subcontracting have been undertaken as an instrument for improving production costs under strong control by the firms, rather than instruments for extending market shares abroad (i.e. export-related), or upgrading innovative knowledge capabilities. However, an interesting variation exists across the districts investigated. While the FDI strategy realized by the interviewed firms in Verona and the Vibrata Valley is, in most cases, exclusively targeted to establish manufacturing plants in lower labour cost countries, several FDI initiatives undertaken by the Montebelluna firms are also export-related.

Finally, results from the study reveal that 20% of family firms in our sample pursued a dual strategy of international expansion which combines international subcontracting and FDI. This dual strategy allows family firms to expand their international operations abroad rapidly while reducing the risk and complexity associated with the process of international growth. This process of internationalization appears to be built on a more complex business model in comparison with the simple *fully-owned* FDI described in the literature (Chen, 2006).

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