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**Internationalisation of Traditional Family Businesses:  
An Absorptive Capacity Approach**

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## ABSTRACT

This study examines the internationalisation of traditional sector Maltese small and medium-sized family businesses (SMFBs) through an absorptive capacity (ACAP) lens. We argue that extant explanations of internationalisation as entrepreneurial, dynamic and risk-taking behaviour do not adequately account for the involvement of SMFBs in global business. To this end, we extend the conceptual frame of absorptive capacity to SMFBs' Internationalisation to examine the acquisition, assimilation and exploitation of internationalisation knowledge. Mapping the concept to a non-high tech context answers calls for broader operationalisation of ACAP beyond that pertaining to formalised knowledge and scientifically-related activity. Focusing on SMFBs, this study also addresses an important gap in SMFB Internationalisation.

## INTRODUCTION

Since the early days of research in internationalisation of the firm, scholars have argued that information, learning and knowledge are key elements in the internationalisation process. Indeed, at a broader level, scholars recognise that *"knowledge constitutes the most critical resource for surviving and developing"* (Mejri and Umemoto 2010: 161; Nonaka and Takeuchi 1995; Grant 1996, 2000). Building on Uppsala research, stage theorists posit that firm internationalisation follows a sequacious process of acquisition, integration and use of knowledge about foreign markets (Johanson and Vahlne 1977; Luostarinen 1978, 1979; Cavusgil 1984; Welch and Luostarinen 1988). That viewpoint is commonly attributed to small firms, particularly those involved in traditional, non-high tech or less knowledge intensive activity. While a variety of critiques and alternative perspectives on internationalisation exist (e.g. Andersen 1993; Oviatt and McDougall 1994; Coviello and McAuley 1999; Jones 2001), it is generally agreed that learning and knowledge are critical to the internationalisation process (Petersen, Pedersen and Sharma 2001). This is particularly the case for smaller organisations characterised by resource limitations, and whose competitiveness and strategic advantage is vested in tacit resources such as knowledge. Knowledge resources then, enable small firms to overcome deficiencies related to size and scale (e.g. Calof 1993; Reuber and Fischer 1997; Burpitt and Rondinelli 2000; Lu and Beamish 2001; Wolff and Pett 2004; Dimitratos et al. 2010; Mejri and Umemoto 2010; Musteen and Deepak 2011). Indeed, EU exporting SMEs cited lack of knowledge about foreign markets as the prime export obstacle (EC 2007).

Contemporary research on firms' knowledge acquisition and learning increasingly draws on the concept of absorptive capacity. ACAP conceives the acquisition of external information and knowledge as enabling innovation (Cohen and Levinthal 1990). Thus, ACAP is one form of dynamic capability that involves a firm's ability to recognise the value of external knowledge, its acquisition, assimilation, and exploitation by applying it to commercial ends (Cohen and Levinthal 1990; Zahra and George 2002a). Increasingly ACAP is viewed as an emerging *"concept that bridges the literature on dynamic capabilities and organisational learning"* (Easterby-Smith 2005: 3). Learning at multiple levels is recognised *"as a dynamic capability which cannot be disentangled from the systems, processes and structures of the organization"* (Sun and Anderson 2010: 134). Cohen and Levinthal (1990) underline the importance of individual as well as organisational ACAP, and acknowledge the role of social interaction, ties and relationships in this process (e.g. Van den Bosch, Van Wijk and Volberda 2003; Daghighi 2004: 21; Lane, Koka and Pathak 2006: 854).

Although useful, current theorizing on ACAP has several limitations. Developments in the ACAP field have *"been largely at a conceptual level with major contributions building on secondary data and literature reviews. Very few studies seriously address the concept based on fresh primary data"* (Easterby-Smith et al. 2005: 2; 2008). Since the early 1990s conceptual progress and development is limited due to *"the dominance of quantitative studies that have failed to develop insights into the processes of absorptive capacity"* (Easterby-Smith et al. 2008: 483). Furthermore, *"few studies have examined the internal processes of absorptive capacity"* (see for example Jansen et al. 2005). Additionally, R&D related perspectives dominate empirical studies resulting in technological emphases at the expense of process-oriented knowledge. *"Few have examined the role of absorptive capacity in the acquisition, assimilation and commercial application of other types of knowledge, including managerial techniques, marketing knowledge and manufacturing know-how"* (Lane et al. 2006: 852; see also Lane et al. 2001; Easterby-Smith et al. 2008).

While fundamental tenets of ACAP apply universally, research in this nascent field maintains emphasis on formal, structured processes, infrastructure and initiatives focussing on *R&D in specific areas of technology and is generally associated with larger corporate forms involved in high-technology, knowledge-intensive operations* (Lane, Koka and Pathak 2006; see also Cohen and Levinthal 1989, 1990). Such extant frameworks and conceptualisations based on R&D budgets and facilities, registered patents and other structured and explicit approaches, are not directly applicable in the SMFB context. In this study we answer the call for ACAP research in *"non-R&D contexts"* (Lane et al. 2006: 853) and the adoption of qualitative

methods to understand its key processes (Easterby-Smith et al. 2008). Additionally, “a lack of systematic research on the construct of knowledge in family business” is observed (Chirico 2008: 434). The important role of ACAP in small firm internationalisation, particularly in an SMFB context, is under-researched to date. Given the fundamental importance of learning and knowledge in the internationalisation process, and its main theories, further value in this study derives from insight in also adopting a novel ACAP approach.

The current study addresses this gap. We extend the conceptual frame of absorptive capacity to SMFBs’ Internationalisation to examine the acquisition, assimilation and exploitation of internationalisation knowledge. We argue that notwithstanding SMFBs’ infrastructure and resource limitations when compared to larger firms, as well as contextual and circumstantial differences, ACAP nonetheless underpins SMFB growth, internationalisation, and survival, – yet in ways not fully captured in ACAP research. Thus, this research explores and investigates SMFBs’ internationalisation from an ACAP approach – emphasising the intangible, often tacit resources and capabilities, and learning and knowledge processes towards enhanced international performance, international market entry and competitive advantage.

We apply an ACAP perspective to an inductive, qualitative study of multiple family business case firms located in and indigenous to the Maltese islands. Family businesses derive their unique characteristics from distinct resource endowments and the way in which they are combined. Beyond ownership, governance and succession characteristics (Chua, Chrisman and Sharma 1999; Steir 2003; Naldi et al. 2007), for example, the familiness of the firm lends tacit and idiosyncratic elements to resources and capabilities –(Habbershon and Williams 1999; Habbershon et al. 2003). Familiness derives from complex interrelated dimensions arising from ownership, the family and management dimensions (Tagiuri and Davis 1982), and is brought together in the culture of the family firm – an important potential source of competitive advantage (Denison et al. 2004; Zahra et al. 2004, Pearson et al. 2008). In the context of this study, the owner-manager tends to “define the personality of the business” (Sorenson 2000: 198; Dyke, Fischer and Reuber 1992) i.e. its organisational culture a direct extension and reflection of the founder / owner-manager. Structured knowledge and R&D based approaches to ACAP, do not seem appropriate for small, family, craft based firms because for example, their initial knowledge is likely to be vested in the skills of their trade, family ties and connections, as well as experience, deriving from e.g. education or training overseas. Entrepreneurial risk taking, volition, internationalisation or indeed learning are not traditionally associated with family business. Rather, research reveals complex family business dynamics (Gallo and Sveen 1991; Gallo and Garcia Pont 1996; Goffee 1996), in which risk aversion is partly associated with the desire and responsibility to preserve the family’s wealth, trust, reputation and recognition, and obligations owed to future generations. This long-term view transcends the shorter-term, speculative strategic decisions adopted by non-family businesses where principal-agent situations may exist, and the risk of business failure viewed as an individual rather than familial problem. While research into the internationalisation of SMEs has attracted much interest in recent years, most traditionally oriented economic activity is less prevalent than that on high tech or other knowledge-intensive sectors. Within this context hardly any research has been undertaken in the case of family businesses.

The study makes several contributions towards extant understanding of ACAP. By positioning the concept within a non-R&D intensive context, we provide theoretical extension of the underlying theory. Our model extends the theory by explicitly incorporating antecedents and outcomes of ACAP in the context of internationalisation and presents an IACAP model, which also captures learning. At a theoretical level, the model brings together concepts and notions from the fields of small firm internationalisation, family business research and ACAP. Our findings offer insight into organic, unstructured, processes, tacit knowledge and contacts driving ACAP dynamics and potentially, enhance extant small firm internationalisation theory.

## LITERATURE REVIEW

### Knowledge and Internationalisation of smaller firm

Welch and Luostarinen (1988: 36) define internationalisation as “the process of increasing involvement in international operations”. Beyond exchanged / transacted products or services, “involvement” embraces various forms of interaction across international boundaries, including communication and transfer of learning and knowledge (Johanson and Vahlne 1977, 1990; Young et al. 1989; Burpitt and Rondinelli 2000; Hutchinson et al. 2006; Pangarkar 2008). Johanson and Vahlne (1977) emphasise the importance of experiential knowledge gained through direct interaction with the foreign market by involved individuals. In the context of this study involved individuals are the founders, or current owner managers. Johanson and Vahlne (1977) also acknowledge experience gained vicariously from hiring people, seeking advice from

knowledgeable persons and interaction with foreigners. Both tacit experiential knowledge types, 'market' (specific to a foreign market), and more general 'internationalisation' knowledge (can be applied to different markets), arising from 'learning by doing' are important for the perception and exploitation of internationalisation opportunities.

Knowledge is a central tenet in small firm internationalisation. Working towards an integrative model of internationalisation, Bell et al. (2003: 339) emphasise the knowledge base of the firm as a fundamental source of competitive advantage influencing both the patterns and pace of internationalisation. Most recently, deeming "*international knowledge a key intangible resource*", Fernhaber et al. (2009: 297) also adopt a knowledge-based view, to investigate empirically the internal and external sources of international knowledge within the context of international entrepreneurship. This emphasis on the importance of *international knowledge* (information, beliefs and skills organisations can apply in their international activity) especially for new ventures arises from the acknowledgement that while the use of leveraging tangible resources in foreign markets is noted, it is the intangible resources that increasingly relate to sustainable competitive advantage since they cannot be easily replicated and competed away (Kotha, Rindova and Rothaermel 2001; Knight and Cavusgil 2004). Some studies highlight *international knowledge* as a crucial and important intangible resource leading to internationalisation (e.g. Bloodgood et al. 1996; Reuber and Fischer 1997; Carpenter et al. 2003; Fernhaber et al. 2009).

Other studies on internationalisation emphasise the TMTs' (top management team's) prior experience and knowledge stocks, i.e. *internal knowledge*, Fernhaber et al. (2009: 298) and show the importance of knowledge on the external environment, and *external sources of international knowledge* as "*important to overcome liabilities of newness and foreignness*". Mejri and Umamoto (2010) introduce *experiential knowledge types: entrepreneurial knowledge and network knowledge* into their knowledge-based SME internationalisation model. *Entrepreneurial knowledge* vies with individual characteristics and learning-related dynamics including alertness (Kirzner 1973) and international opportunity identification and exploitation (Shane 2004). Indeed, in many cases this is what might explain firms' internationalisation. Acknowledging network perspectives on internationalisation, *network knowledge* represents knowledge embodied in the contacts and relationships constituting the network, where the network is recognised as an external knowledge resource in itself (Kogut 2000). On the other hand, Eriksson et al.'s (1997, 2000) *internationalisation knowledge* is considered a general accumulated stock of experiential knowledge, including 'self-awareness' of the firms' resources and capabilities, as well as knowledge on foreign institutions and internationalisation procedures. It includes "*abilities to search for information, to identify and evaluate opportunities, screen country markets, evaluate strategic partners, and manage customs operations and foreign exchange*" (Fletcher and Harris 2011: 2; Prashantham and Young 2011). Being non-market or entry-mode specific, this knowledge is transferable to different settings. In this regard, reference is made to "*learning-by export / internationalisation*" (Branstetter 2006; Chuang 1998) linking internationalisation to innovation as a result. These learning effects can occur because foreign market activities provide firms with access to knowledge and technologies that are not available in the domestic market (EC 2010: 51). Acquisition of important *internationalisation knowledge* is positively related to geographical scope in market diversity in international activity, is key, and considered to mediate other knowledge types (Eriksson et al. 2000).

Zahra et al.'s (2009: 81) recent work on SMEs' innovative gains from internationalisation underlines the central importance of social knowledge, defining it a crucial asset that "*allows SMEs to comprehend, assimilate and exploit the types of knowledge that exist in these markets*" – again, directly echoing ACAP definitions. This view is accommodated by the network approach to internationalisation. This sees contacts, relationships and networks with "*customers, suppliers, competitors, support agencies, family friends and so on*" (Coviello and McAuley 1999: 227; Gomes-Casseres 1994; Chetty and Blankenburg Holm 2000) as a conduit for knowledge. They offset resource limitations and facilitate identification and exploitation of international opportunities (Johanson and Mattsson 1988; Bonaccorsi 1992; Chetty and Blankenburg Holm 2000; Chetty and Eriksson 2002; Hadley and Wilson 2003). They also influence the rate, pattern, market selection and entry mode of SMEs' internationalisation (Axelsson and Johanson 1992; Johanson and Vahlne 1992; Coviello and Munro 1997; Holmlund and Kock 1998). Given resource implications, smaller organisations rely more on such tacit, socially-based external resources (Burpitt and Rondinelli 2000; Chetty and Wilson 2003; Hutchinson et al. 2006; Johanson and Vahlne 2009; Fernhaber et al. 2009). Ultimately, "*managing relations*" is considered "*the essence of international entrepreneurship*" (Etemad 2003: 223).

## **Absorptive Capacity**

In their seminal article, Cohen and Levinthal (1990) lay out foundation for the notion of absorptive capacity arguing that "*the ability of a firm to recognise the value of new, external information, assimilate it and apply it*

to commercial ends is critical to its innovative capabilities” (1990: 128), and proceed to label this capability “a firm’s absorptive capacity”. The notion of absorptive capacity (ACAP) contends with the firm’s acquisition of external information and knowledge enabling it to do new things and innovate, enhancing competitive advantage. A process and dynamic capability reflected in the ability to recognise the value of new external information and knowledge, acquire it, assimilate it, and eventually utilise and exploit it by applying it to commercial ends (Cohen and Levinthal 1990; Zahra and George 2002a).

Increasingly the idea of ACAP is viewed as an emerging “*concept that bridges the literature on dynamic capabilities, and organizational learning*” (Easterby-Smith 2005: 3; see also Sun and Anderson 2010). This conceptual convergence viewing ACAP as a dynamic capability derives from an ongoing process involving the effective utilisation of various resources, (particularly) prior knowledge stocks, in enabling the recognition of value in external knowledge and information, its acquisition, assimilation and eventual exploitation towards competitive advantage, manifested in improved performance, innovation, strategic flexibility and responsiveness. This emergent view involving learning at multiple levels is recognised “*as a dynamic capability which cannot be disentangled from the systems, processes and structures of the organization*” (Sun and Anderson 2010: 134). ACAP is thus both a process and capability (Cohen and Levinthal 1990; Zahra and George 2002a), defined as “*the ability to identify and value external information, assimilate it, and commercially apply it*” (Cohen and Levinthal 1990: 128), a “*fundamental learning capability*” (Lane et al. 2006: 839). Easterby-Smith et al. (2008: 483-484) consolidated the theoretical underpinnings of ACAP, conceptually convergent and “*positioned between the fields of dynamic capability (Teece et al. 1997; Zollo and Winter, 2002), organizational learning (Easterby-Smith, 1997; Akgun et al. 2003; Sun and Anderson 2010) and knowledge management (Chiva and Allegre, 2005; Oshri et al. 2006)*”. This consolidates more tightly Van den Bosch et al’s (2003) earlier conceptual positioning, which had also included the managerial cognition literature.

ACAP’s process entails 3 main components: external information and knowledge ‘acquisition’, ‘assimilation’ and ‘exploitation’ (Cohen and Levinthal 1990; Lane, Salk and Lyles 2001; Van den Bosch et al. 2003; Todorova and Durusin 2007). While ‘*potential*’ ACAP resides in acquired knowledge stocks, it is ‘*realised*’ upon exploitation (Zahra and George 2002a). As an antecedent, prior knowledge begets knowledge, so that ACAP becomes a self-reinforcing learning cycle leading to learning and new knowledge, in turn enabling, facilitating and leading to further ACAP (Lane et al. 2002; McDonald and Madhavaram 2007).

In existing research rarely do ACAP and the family business context coincide as the central elements of a study (e.g. Zahra, Hayton and Salvato 2004; Eddleston et al. 2008; Higginson 2010). More usually, the incidental family aspect remains unexplored (e.g. Jones 2001; Gray 2006). Although the underlying fundamentals of ACAP are assumed to apply generally, extant literature remains narrowly focussed mainly on larger corporate forms transacting business in technologically-oriented or knowledge-intensive sectors. Operationalisations of ACAP empirically concentrate on formalised knowledge management infrastructure and procedures, with an “*over-emphasis*” on R&D, patents and other explicit scientifically-related activity and measures (Lane et al. 2006: 852; Cohen and Levinthal 1989, 1990; Lane and Lubatkin 1998; Van den Bosch, Volberda and deBoer 1999; Easterby-Smith et al. 2008). Scholars underlined this R&D emphasis as a shortcoming in ACAP literature, consequently calling for broader approaches (Lane et al. 2006; Easterby-Smith et al. 2008). Such research frameworks and operationalisations are incompatible and far detached from the traditional SMFB context of this study.

## Conceptual Approach

Our empirical investigation is guided by Massa’s (2011) conceptual framework based on Cohen and Levinthal’s (1990) conceptualisation. The framework portrays ACAP as both a dynamic capability as well as a process (Zahra and George 2002) that continues throughout the internationalisation process, influencing and being influenced by each event (see Figure 1). Knowledge being core to internationalisation, ACAP consists of three processes: information and knowledge acquisition, assimilation and exploitation (Cohen and Levinthal 1990), and two states of capability: potential and realised (Zahra and George 2002a). We extend the model and incorporate antecedents as well as outcomes of ACAP. The framework focuses on specific outward internationalisation events as part of an evolutionary process, also integrating antecedents and outcomes. Assuming that prior to commencing internationalisation an SMFB’s focus will be largely domestic, elements and outcomes of the ACAP process from initial internationalisation will result in increasing internationalisation capability and performance. Thus, outcomes from one internationalisation event constitute antecedents for subsequent events leading to successive international business activity.

Figure 1 about here

## METHODOLOGY

To answer 'what', 'why', 'who' and 'how' questions on phenomena occurring in complex realities and organisation-specific circumstances where existing theory might seem inadequate, this study adopts a case study approach (Eisenhardt 1989; Yin 2003; Ghauri 2004). The research is levelled at the firm while data collection is at the level of the individual within the firm (Eisenhardt 1989; Miles and Huberman 1994; Yin 2003). Seeking general explanations, a multiple-case design was adopted (Ghauri 2004). Multiple case studies allow generation of comparative insights across a range of situations or contexts (Ghauri 2004; Pauwels and Matthyssens 2004). In this regard, apart from adding confidence to findings, such approaches also contribute towards breadth in extending findings to broader inferences (Gummesson 2000; Miles and Huberman 1994:29). Such an approach enables the researcher to explore patterns and themes across cases to provide for accurate and reliable theory and capture novel findings that may exist in the data (Eisenhardt 1989; Miles and Huberman 1994).

This study sample involves eight SMFBs operating in different non-high-tech sectors (see Table 1 for the overview of cases). SMFB size ranged from the smallest with 22 employees (FiredPride) to 140 (SunDeli). Five employed between 80 and 100. All SMFBs were long established, ranging from 28 to 116 years, spanning founders, to 3rd generation descendants. Three SMFBs had already commenced export activity in previous generations. Otherwise, the current generation, initiated outward internationalisation.

Table 1 about here

Large volumes of primary and secondary data were obtained and engaged in analyses. Multiple composite unstructured and semi-structured interviews were held with the founders/ owner-Managing Directors. Where relevant, other family members or employees in direct involvement with internationalisation participated in the series of interviews. Primary data collection involved ongoing interaction between the researcher and the case firms and interviews were undertaken through 2006 to 2011. Additionally, numerous forms of secondary data were acquired in support of analysis including company records, internal publications, sectorial commissioned reports, company-specific research, internet-based resources, the business press as well as other material in the public domain enriched the data-set, and confirmed veracity on specific events and circumstances. The longitudinal and also historical aspects permitted deep insight into the current behaviour and evolution of the SMFBs' internationalisation development.

Data analysis proceeded in parallel with data collection, and full transcription of interview material enhanced collation and data categorisation in matrices, tables and timelines (Miles and Huberman 1994; Yin 2003; Ghauri 2004; Silverman 2005). Data in digital format facilitated importation into computer aided qualitative data analysis software (CAQDAS) – NVivo.

## RESULTS AND IMPLICATIONS

### Antecedents and outcomes of ACAP

Table 2 provides a descriptive overview of SMFBs' organisational size, age, generation and international experience in relation to their extent of outward internationalisation. Although an association between internationalisation experience and levels of commitment to foreign markets and entry modes was observed, the extent of internationalisation activity evidenced transcended organisational age and generation, as well as size and international experience. Depending more on respective SMFBs' unique characteristics and idiosyncratic circumstances, internationalisation patterns identified included rapid, non-traditional internationalisation soon after inception, as well as 'born-again' rapid internationalisation in later generations.

Table 2 about here

Since experiential learning and prior knowledge are considered central for both internationalisation and ACAP, it is useful to discern SMFBs' relative internationalisation experience. Complementing SMFB-specific analyses undertaken, Figure 2 gives an overall indication of the SMFBs' internationalisation experience. It primarily considers the number of years the firms have been engaged in regular, ongoing exports, as well as other relevant qualitative measures, categorising the SMFBs as '*experienced*' or comparatively '*novice*' internationalisers. Patterns evinced the findings of previous studies in suggesting that SMFBs' unique idiosyncratic characteristics influenced their international activity – see discussion below.

Figure 2 about here

Data shows that SMFBs' strategic direction and decision-making, are centrally controlled by the founder/owner-MD whose status with the firm, and accordingly with Maltese culture was one of "boss" or "padrone". Singular 'undisputed boss' status were evinced in 6 of the 8 SMFBs studied. In two cases, though owner-MD siblings were also involved in the business, though the MD's absolute leadership and strategic direction was clear, and the 'secondary' brother keeping a lower profile. At *WineDivine*, WD3 became sole shareholder following a business split in earlier years.

Indeed, putting "heart" and passion into their "baby", as described by one respondent, owner-MDs embodied their SMFB's vision and culture, complementing scholars' observations that – "they define the personality of the business" (Sorenson 2000: 198; Schein 1983; Dyer 1986; Zahra et al. 2004). Family culture, "plays an important role in determining the success of the business beyond the first generation" (Sorenson 2000: 198) and in this study, founder/owner-MDs emerge as the key determinant of future direction, internationalisation and success of the SMFB, and the single most important resource among several "key factors that enable or limit family business' internationalisation processes" (Gallo and Garcia Pont 1996: 46). Their influence is generally positive, and on several occasions demonstrated resilience and enterprise in turning barriers into opportunities for internationalisation allowing them to manoeuvre beyond the confines of Malta's restrictive market. In many instances, personal volition (Jones and Coviello 2005: 289) rather than quantified strategizing determined their exploitation of international opportunities. They were predominantly 'entrepreneurial owner-managers', alert to opportunities, with high market orientation and comparatively less developed control systems (Goffee 1996). For example size did not keep INV *GloGlass*, one of the smallest firms in the study, began internationalising from inception at a time when the domestic market was buoyant and survival not an issue. GG1 maintained international business activity in several countries, also engaging in more committed modes beyond exports.

Contacts and relationships with others outside the organisation, especially those in the international domain, were assumed by the owner-MDs as the most critical resource for these SMFBs, and a central component in absorptive capacity and internationalisation processes. Differences were observed between strong ties characterised by established relationships and weak or even negligible ties which included acquaintances as well as casual or chance encounters – which were nonetheless important with respect to knowledge and opportunities associated with internationalisation (Granovetter 1973; Kontinen and Ojala 2011). As Granovetter (1973, 1983) observed, these owner-MDs' ties evolved over time, through events and interaction. In instances strong ties made at some earlier point may have become dormant over the passage of time – yet they were very quickly resuscitated as strong trust-based links when needed partly due to a shared past. Conversely, weak or casual ties also developed into strong relationships that transcended business and became family friendships. In the same way that Granovetter (1973: 1361) deemed "negligible ties" as useful in the case of e.g. a "disaster", within the context of this study, such ties were also valuable to the owner-MDs, where 'disasters' were critical events and situations related to the SMFBs' quest to survive. The owner-MDs leaving no stone unturned to mitigate resource limitations, gain knowledge and secure new international business – leveraging and resorting to all social contacts and 'friends of friends' (Boissevain 1974), and acquaintances to gain legitimacy and trust, and access to new information and opportunities to facilitate business.

These contacts and relationships, notably converging on owner-MDs, formed the basis of an important, valuable tacit resource, 'network knowledge'. Through their contacts and relationships, owner-MDs gained market, internationalisation, and product and technology knowledge, as well as direct access to opportunities for international business and business facilitation, lowering transaction costs, mitigating risk and liabilities of newness and foreignness. Together with accumulated experiential knowledge, owner-MDs' social capital, ties and relationships, acted as important antecedents and integral elements to the ACAP processes entailed in internationalisation activity.

Owner-MDs' strong ties characterised by trust-based relationships and friendships mainly developed from close rapport with long-standing foreign suppliers and satisfied international clients. Through them, besides important tacit knowledge and know-how, the owner-MDs often got recommendations and introductions directly leading to subsequent international business. Alliances and joint ventures were struck with both domestic competitors as well as foreign suppliers for mutual gain, offsetting resource and knowledge limitations, enabling them to punch above their weight, tendering for large lucrative international contracts or diversifying into new innovative products for export markets. Relationships with émigrés were sought and established. Leveraging these strong ties based on trust deriving from a common Maltese heritage, the owner-MDs penetrated geographically distant markets via more committed modes such as franchising.

## Conceptualising ACAP

Within these SMFBs, absorptive capacity as a fundamental process was evidently taking place in an organic manner: owner-MDs recognised the value of external information and sought to acquire relevant knowledge, assimilate and eventually leverage it in exploiting internationalisation opportunities towards, growth and survival – within their unique circumstances, characterised by resource limitations and increasingly competitive markets (Cohen and Levinthal 1990). Table 3 summarizes the key elements of ACAP.

Table 3 about here

In contrast with extant ACAP research, these SMFBs were not engaged in high-technology or knowledge-intensive activity. Within the context of their size and resource limitations, notions of formal R&D and patents were alien, and in instances irrelevant. Yet these SMFBs were transforming ideas into new product development and innovation, process and technological innovation, as well as business and strategic innovation, including internationalisation itself (Granovetter 1984; Amabile et al. 1996; Luecke and Katz 2003), enabling them to “*advance, compete and differentiate themselves successfully in their marketplace*” (Baregheh et al. 2009: 1334).

Figure 3 captures antecedents of ACAP. It illustrates the importance attributed to key sources and resources for the acquisition of new information and knowledge associated with internationalisation. A process organically embedded in crucial tacit knowledge, mostly experiential, and associated with relational / social dynamics. As firms overcame threatening challenges, such capability enabled owner-MDs innovatively to reinvent themselves and their SMFBs, developing new products, adopting new processes, and targeting international markets. While internationalisation process theory (Johanson and Vahlne 1977) emphasises market knowledge and largely ignores product and technological knowledge, findings in this study observed that smaller as well as larger traditionally oriented SMFBs also sought and valued such knowledge in connection with their internationalisation. This was important for owner-MDs to embrace new efficient processes to offset costs of operating from Malta, and develop innovative products conducive to internationalisation and specific foreign markets.

Figure 3 about here

Tacit experiential knowledge was a very important resource and knowledge stock for owner-MDs and their SMFBs. This included objective as well as subjective knowledge relating to internationalisation activity. Experiential knowledge gained vicariously and informally gained through “*valuable*” contacts and relationships and represented these owner-MDs and their SMFBs’ most crucial resource for mitigating resource limitations and liabilities of newness (Sapienza et al. 2006). In a few instances external experience, insight and expertise were brought into the SMFB either through external consultants or professionals, via social and informal “*network contacts*” (Berry et al. 2006: 36), or by approaching government agencies or embassies.

Generally, the absorptive capacity process, involving the acquisition, assimilation and exploitation of external knowledge, involved informal processes converging on owner-MDs. The various knowledge types, whether subjective or objective, remained tacit in their assimilation through organic processes. In instances interaction with contacts was involved in the process of assimilating this knowledge and combining it with existing internal prior knowledge and experience.

Family business research investigating comparative strategic advantage focuses on three types of factors enabling or limiting family business’ processes, including internationalisation. Perfectly juxtaposed with this iACAP model (Massa 2011) emergent from this research, these are: external factors, internal organisation factors and founder / owner-manager attitudes (Gallo and Sveen 1991; Gallo and Garcia Pont 1996:46). Here broadly defined, performance “*refers to efficiencies in terms of utilization of resources as well as the accomplishment of organizational goals*”, which in this case concerns internationalisation (Dyer 2006: 259; see also Steers 1982). Several scholars, including Dyer (2003), Habbershon and Williams (1999) and Steier (2001) observed that “*families are thought to influence firm performance primarily through family goals and family resources or assets* (Dyer 2006: 259, Author’s emphases). As emerged clearly from this study, crucial and central SMFB assets and resources employed for the purposes of effective internationalisation are *social* as well as *human capital*.



The social capital of these SMFBs includes goodwill and accumulated resources deriving from connections and relationships with others (Zahra 2010; Arregle et al. 2007), *network knowledge* (Kogut 2000; Mejri and Umemoto 2010) – it “enables family firms to assemble the resources (especially knowledge) necessary for successful adaptation. Connecting with new ventures, the vanguard of radical change is a priority for family firms seeking to achieve survival, profitability and growth” (Zahra 2010: 345). Such intangible resources proved crucial in establishing and sustaining competitive advantage for these owner-MDs and their SMFBs. Findings in this study (cf Sirmon and Hitt 2003; Grant 2008; Zahra 2010) tend to confirm that, “Because of the causal ambiguity that surrounds intangible resources it is difficult for competitors to imitate, making their contributions more enduring” (Zahra 2010: 345; see also Nahapiet and Ghoshal 1998; Barney 1991). In support of Gibb (1997), this study observed that in these SMFBs, relational dynamics and direct interaction (know-how and action learning) were generally more important for learning than formal training, especially given resource limitations. Furthermore, this study’s findings and conceptualisation are also supported by Fernandez and Nieto (2005: 80) “Apart from generating resources internally, the family firm can obtain them from other companies through stable relationships”, locally or internationally – thus blurring organisational boundaries vis-à-vis resource availability.

Ultimately, this centrality of owner-MDs in the internationalisation of these SMFBs in relation to the critical importance of social contacts and external relationships presented in this model, is supported by the network perspective on small firm internationalisation as discussed earlier (Chetty and Blankenburg Holm 2000: 91).

## CONCLUSION

An important contribution forthcoming from this research ensues from the novel ACAP approach adopted in investigating the severely under-researched internationalisation of small- and medium-sized family businesses, particularly those engaged in more traditional business activity. Positioned at the critical yet unexplored overlap of three distinct domains, informing *small firm internationalisation*, *family business research* and *absorptive capacity*, this study contributes two emergent conceptualised models – derived from empirical evidence and substantiated by converging complementary theory. Conceptualising (i) the key components determining the *internationalisation ACAP* (iACAP) of SMFBs (Massa 2011), as well as (ii) the outward internationalisation of SMFBs from an ACAP approach (Massa 2011), the consolidating rationale forming is as follows.

The study findings make several important contributions to research on ACAP and SMFB internationalisation. In extending the application of ACAP to SMFBs, findings confirm the centrality of the founder / owner-MD and the role of his/her social contacts and relationships in determining SMFB internationalisation, and configuring the ACAP process. This departs from existing findings which emphasise formal and structured knowledge processes within knowledge-intensive corporate environments. Anchoring ACAP at the level of an individual, findings provide rich insights into the breath and complexities of ACAP development in informal organic contexts. By drawing attention to the context, this study highlights the intricacies of processes at play: the delicate balance of management and family dynamics, influencing competitive advantage and internationalisation capability.

This study demonstrates ACAP as an important capability-building process (Lane, Koka and Pathak 2006) that complements dynamic and combinative capabilities (Teece et al. 1997; Kogut and Zander 1992; Zahra and George 2002). Our findings show that owner-MDs’ social interaction with international contacts enhances prospects for international opportunities and growth. Yet potential limiting effects of structural embeddedness arising from strong ties reinforce incremental learning. Thus it is important for owner-MDs to maintain international exposure and visits at for example fairs, for new contacts and innovation possibilities. Trust-based strong ties are crucial for offsetting resource limitations via business facilitation and lowering transaction costs, and which maintain owner-MDs’ embedded knowledge base, whereas the establishment of weak ties enhances the identification and absorption of new external knowledge (Todorova and Durusin 2007).

Detailed dynamic maps of ACAP developed from case evidence (Massa 2011) cast new light onto the internal processes of absorptive capacity development (Jansen et al. 2005). These insights advance our understanding by complementing existing research, which is based largely on secondary data and literature reviews (Easterby-Smith et al. 2005; 2008). In extending the theory to the context of traditional industries, the study shifts ACAP’s technological emphases and preoccupation with R&D to other types of process-oriented knowledge. The findings demonstrate the empirical applicability of the concept to “*acquisition, assimilation and commercial application of various types of knowledge, including managerial techniques, marketing knowledge and manufacturing know-how*” (Lane et al. 2006: 852; see also Lane et al. 2001; Easterby-Smith et

al. 2008). Viewed from the managerial perspective, this study offers SMFBs important insights into processes and key factors affecting internationalisation and the realisation of international opportunities as a result of judicious leveraging of internal resources – generally tacit knowledge resources and dynamic capabilities.

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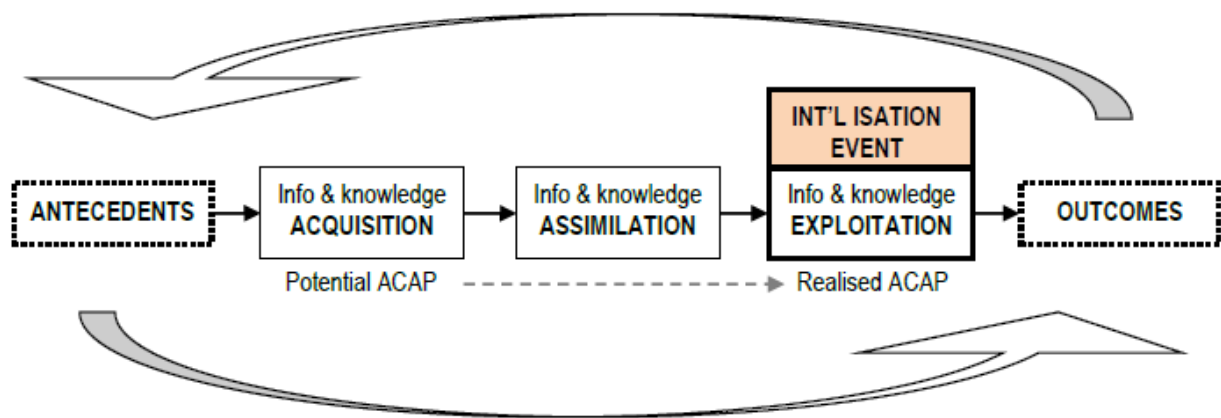
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Figure 1: Conceptual Approach – Internationalisation ACAP (Massa 2011)



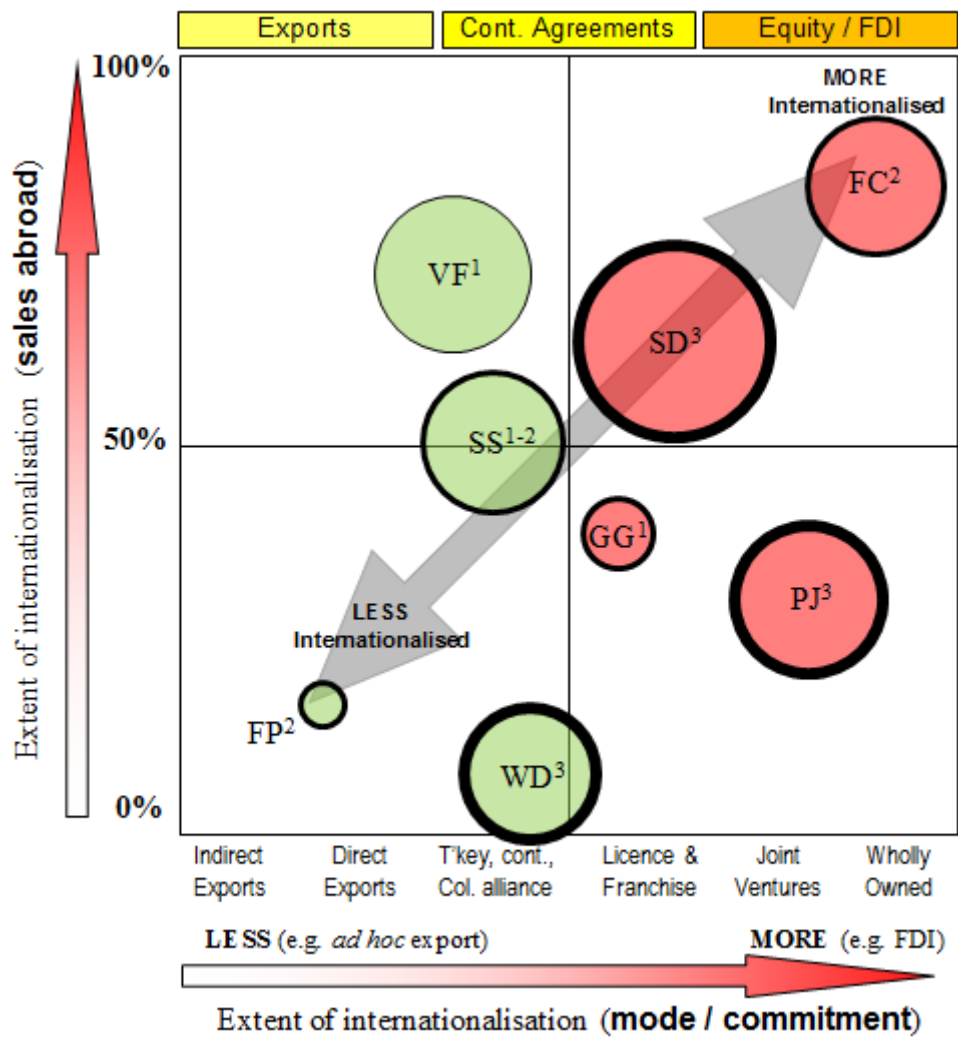
**Table 1: Overview of case organisations**

	SMFB 1 <b>Glo Glass</b>	SMFB 2 <b>Fresh Catch</b>	SMFB 3 <b>Wine Divine</b>	SMFB 4 <b>Fired Pride</b>	SMFB 5 <b>Sun Deli</b>	SMFB 6 <b>Pro Joiners</b>	SMFB 7 <b>Vega Font</b>	SMFB 8 <b>Star Snack</b>
Primary econ. activity	Mouth- blown artistic glass	Fisheries & seafood processing	Boutique vintners & wine production	Handcraft. artisan ceramics & items	Tomato processing & food preserves	Furniture joiners & retailers	General & book printing	Biscuits & bagged snacks
FT employ	44	88	80	22	140	90	100	90
Year ops est.	1968	c.1968	1907	1964	1916	c.1894	c.1982	1965
Age since est.	42	c.42	103	46	94	c.116	c.28	45
Gen. at helm	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	1 <sup>st</sup>	1 <sup>st</sup> →2 <sup>nd</sup>
% exports	40%	c.90%	c.5%	15%	66%	30%	70%	50%

Table 2: Overview of SMFBs' Internationalisation

		← ← Experienced internationalisers				Novice internationalisers → →			
		Glo Glass	Pro Joiners	Fresh Catch	Sun Deli	Vega Font	Star Snack	Wine Divine	Fired Pride
SMFB	Age	42	c. 116	c. 42	94	c. 28	45	103	46
	Size (FT)	44	90	88	140	100	90	80	22
	Gen. control	1 <sup>st</sup> gen.	3 <sup>rd</sup> gen.	2 <sup>nd</sup> gen.	3 <sup>rd</sup> gen.	1 <sup>st</sup> gen.	1 <sup>st</sup> → 2 <sup>nd</sup>	3 <sup>rd</sup> gen.	2 <sup>nd</sup> gen.
Internationalisation	Exports	40%	30%	c. 90%	66%	70%	50%	c. 5%	15%
	Export extent	S'stantial	S'stantial	High	High	High	S'stantial	Low	Low
	Age @ 1 <sup>st</sup> exp.	2 yrs*	c. 85 yrs	c. 7 yrs*	39 yrs*	c. 18 yrs	20 yrs*	c. 91 yrs	c. 15 yrs*
	Yrs reg. exp.	39 yrs	31 yrs	c. 21 yrs	14 yrs	10 yrs	6 yrs	c. 12 yrs	c. 6 yrs
	N <sup>o</sup> countries	4+1*	4 [ad hoc contracts]	2+2*	6+2*	1+1*	4	5	4 [ad hoc]
	Countries	Greece UK Holland Cyprus *USA  (*web franchise)	Libya France Germany S Arabia*  (*software)	Japan Italy *France *G'many  (*ad hoc)	Ireland UK Italy Greece Belgium Cyprus *G'many *Australia  (*own label)	UK *Ireland  (* ad hoc)	France UK Ireland Cyprus	Sweden Poland Belgium UK Holland	USA UK Germany France
	Modes & commitment	- Dir exp - F'chise	- Dir exp - Contract - J Vent. - FDI	- Dir exp - Contract - J Vent. - FDI	- Dir exp - F'chise	- Dir exp	- Dir exp	- Dir exp	- ad hoc exports

Figure 2: SMFBs' international experience and extent of outward internationalisation



■ Int'l. experience: novice; ■ Int'l. experience: experienced  
 (Int. experience based on onset of regular ongoing export activity not the first instance of irregular, sporadic or isolated exports)  
 ∅ Diameter size denotes size of organisation in terms of employment  
 O Diameter thickness denotes age of organisation; AB<sup>n</sup>: 'n' denotes generation

Indicative extent of outward internationalisation gauged via 3 indicators:

- 1) % of international sales
- 2) Internationalisation mode and extent of int'l commitments
- 3) Years of engagement in regular exports & int'l sales activity

**Table 3: Key elements and factors for iACAP**

<b>Acquisition</b>	<b>Assimilation</b>	<b>Exploitation</b> [internationalisation event]
<ul style="list-style-type: none"> <li>● Most <i>internationalisation, market, product &amp; technology</i> knowledge, experientially gained by owner-MD through direct interaction &amp; exposure in foreign markets.</li> <li>● Beyond experience &amp; prior knowledge, <b>(i)</b> <i>trust-rel'ships</i> &amp; contacts, <b>(ii)</b> <i>int'l fairs</i> – source for further contacts (network knowledge) – the 2 most critical sources: Market knowledge from foreign suppliers &amp; agents.</li> <li>● Also imp weaker social ties and <i>"friends of friends"</i>-introductions, insight, access, legitimacy.</li> </ul>	<ul style="list-style-type: none"> <li>● Owner-MDs central often sole protagonist seeking &amp; orchestrating <i>int</i> business. Most new know-<i>what</i>, know-<i>how</i> &amp; know-<i>who</i> lies tacitly with owner-MD himself. Organically assimilated via direct experience and interaction.</li> <li>● In instances contacts further facilitate: Int'l supplier / friends impart product &amp; technology knowledge, know-how, training. Social context – also internal human capital.</li> <li>● Yet owner-MD engenders transition: <i>potential</i> → <i>realised</i> ACAP aligned to 'his' vision.</li> </ul>	<ul style="list-style-type: none"> <li>● Owner-MDs exploit knowledge assimilated in decisions associated with int'l business opportunities.</li> <li>● In doing so, factors assoc. with networks &amp; contacts, e.g. trust, reputation &amp; recommendations played part.</li> <li>● While decision and direction is firmly in hands of the <i>"boss"</i>, 'oneness' between SMFB and owner-MD, characterised by total commitment &amp; resilient enterprising vision – their committed, flexible workforce is competitive advantage in int'l markets making the initiative possible. A <i>"goldmine"</i>.</li> </ul>

Figure 3: iACAP antecedents – sources and resources: Attributed importance for acquiring new knowledge associated with internationalisation

● Key 'internal' sources & resources							
1	(4.9) ●●●●● Exceedingly Imp	Contacts and relationships with others outside SMFB					
2	(4.7) ●●●●● Exceedingly Imp	Experience					
3	(3.8) ●●●○○ Important	Formal education and training					
4	(3.2) ●●●○○ Important	In-house experimentation / any rudimentary internal R&D					
● Key 'external' sources & resources							
1	(5.0) ●●●●● Exceedingly Imp	International fairs and exhibitions					
2	(3.8) ●●●○○ Important	Recruiting graduates, Engaging external professionals, Consultants and availing of external training programmes					
3	(3.3) ●●●○○ Important	Internet					
4	(2.2) ●●○○○ Somewhat Imp	Govt agencies, Industry associations & Chambers of commerce					