

Is (Or Not) Different Internationalization Strategy of Hospitality Family–Owned Business?

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Abstract: *Families created several hospitality groups, in the world, as family business. However the growth process of family-business implies some strategies that could (or not) away the business management of families. Research in fields of internationalization of family businesses continue little studied mainly with respect to the development of empirical studies applied to hospitality companies. This research aims try to answer to the question: Is (or not) different internationalization strategy of hospitality family–owned business? In order to discuss this topic the paper present theoretical approach focused on the internationalization process of a family business, and also present a case study applied to a hospitality business family. Through a qualitative research the case study applied to the largest Portuguese hospitality group the research analyzed t internationalization of family businesses theories. The results emphasize some significant interpretations concerning to the internationalization of family businesses particularly in the case of service-oriented companies.*

Keywords: *Internationalization; family business; strategy.*

1. INTRODUCTION

Around the world most businesses may be defined as family businesses (FB) (La Porta, Lopez-de-Silanes and Schleifer, 1999). Shanker and Astrachan (1996) refers that in the US 80% of the businesses are run by families.

The literature presents different definitions to FB. This variety depends on the perspective considered by each focus, i.e., size, that's vary from a small store to a large multinational (Birley and Godfrey, 1999), percentage of ownership, strategic control, commitment of multiple generations, and the intention for the business to continue in the family (Astrachan and Shanker, 2003).

A consensual definition presented by Litz (1995), regard a business as a FB when ownership and control are concentrated on the family's hands. Astrachan, et al (2002), suggested a scale to standardize the measurement techniques of the family influence on the companies in three dimensions (sub-scales): power, culture and experience. The power subscale measured ownership, governance and management. Culture measures the overlap between family and business values and also the FB commitment. Finally, the experience subscales assess, which was the generation with the ownership, how active in management and active on the governance board this generation was and the number of contributing family members.

Astrachan and Shanker (2003) classified FB into three definitions:

- A broader definition involves companies with some family participation in management and control over the strategy;
- A middle definition includes FB consider that company remain in the family and the founder or descendant is the responsible for the management;
- A last definition where multiple generations are present in the business and more than one are member of the owner's family with management responsibility.

Furthermore, Chua et al (1999: 25) proposed that FB is a “business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of family or families”.

Other author use six criteria have to classify FB (Mustakallio, 2002):

1. Ownership (family owned);
2. Management (family run);
3. Generations (passed a generational transfer);
4. Intention (the family's intention to continue as a FB);
5. Family goals (that may be broader than short term market prices);
6. Interaction between the family and business.

The several definitions suggest a lack on the consensus and is not possible identify with one unique definitions the differences between family and business. In fact, FB is also influenced for non-economic factors in the management of the company. This is a key distinctive element that separate family companies from other organizational forms. Several authors identify crucial socio emotional aspects, such as: stock of affect-related values that a family derives from its controlling position in a particular company (Gomez-Mejia, et al, 2007) and “affective endowment” of family owners (Berrone et al, 2010). Chua et al (1999) argued that the FB could be distinguish from non-family business due some characteristics intrinsic of this type of business, such as, the combination of rules, values and aspirations of the family and from the business. Additionally, Chrisman, et al (2005) suggested that traditional family studies fail in explain why family involvement leads to behaviors and results that differ from non-family businesses. Gomez-Mejia et al (2011) suggested that socio emotional wealth has a main impact on strategic decision in FB, for the motive that tend to reveal the family's desire to protect its socio emotional wealth apart from efficiency or economic instrumentality considerations.

In this context, is possible to note some differences between family and non-family hospitality business, based in non-economic or even rational arguments. This aims to answer the question: Is (or not) different internationalization strategy of hospitality family-owned business? The paper is divided in two main parts, firstly present a literature review on these topics and secondly a case study applied to a hospitality business family. Finally, provide some remarks and proposes.

2. THEORETICAL APPROACH

2.1. FB Typologies

It's possible identifying diverse typologies of FB (large versus small, internationalized, national or just have a local actuation). Holland and Boulton (1984) argued that FB face huge challenges into balance the internal and external influences within the business, and recommend dividing FB into four categories considering different management strategies: pre-family, family, adaptive family and post-family. This theory allows introducing the evolution concepts of the family companies; commonly they start as a small family owned business and than grow in terms of size, revenue, employees, structure, improve the professionalized and evolutes to the next category.

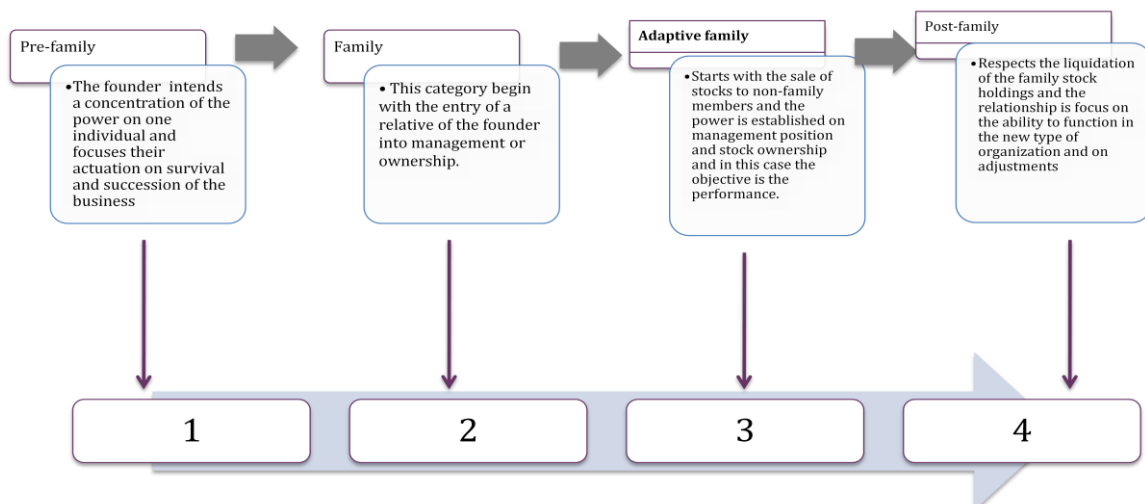


Fig1. FB typologies

The founder of the business initiates the category pre-family, and intends a concentration of the power on one individual and focuses their actuation on survival and succession of the business. The second category knows as family; begin with the entry of a relative of the founder into management or ownership. The third category, adaptive family, starts with the sale of stocks to non-family members and the power is established on management position and stock ownership and in this case the objective is the performance. The last category, post-family, respects the liquidation of the family stock holdings and the relationship is focus on the ability to function in the new type of organization and on adjustments (Holland and Boulton, 1984). Figure 1 presents this model.

2.2. FB Internationalization

Literature review reveals a lack in the research applied to FB internationalization, particularly in the case of the large companies, yet its possible to find more studies in this field applied to SME and most of them focus on exports (Graves and Thomas, 2008). A literature review based on 25 articles proposed by Kontinen and Ojala (2010) verified that FB tends to form less networking than non-family business.

However, other study proposed by Gallo et al (2004) exposed a different perspective: family’s management style and values may influence the ability of the companies to enter in strategic alliances with other companies in foreign markets.

Literature also remarks that the internationalization of FB is different from the non-family business, such as, most of the family companies rarely monitor the international marketplace, and have low-awareness of possible government programs (Okoroafo, 1999); the international expansion is uncertain due to the lack of information over the international markets and process (Fernandez and Nieto, 2005) and FB tend to maximize profits in fewer countries than in pursuing an aggressive internationalization in several ones (Zahra, 2003).

A more positive perspective about FB internationalization proposed by Zahra (2003) argues that ownership is a motivation to improve performance in long term and motivates the level of family involvement in decision-making. Moreover, succession seen as a challenge to FB is identified as a positive influence to internationalization (Fernández and Nieto, 2005; Okoroafo, 1999) in part, for the reason that the later generations tend to be more qualified (Fernandez and Nieto, 2005). Other studies recognized other variables that influence internationalization of FB, i.e., owner’s age and education background, technological resources and decision to internationalize (Davis and Harverston cited in Graves and Thomas, 2006).

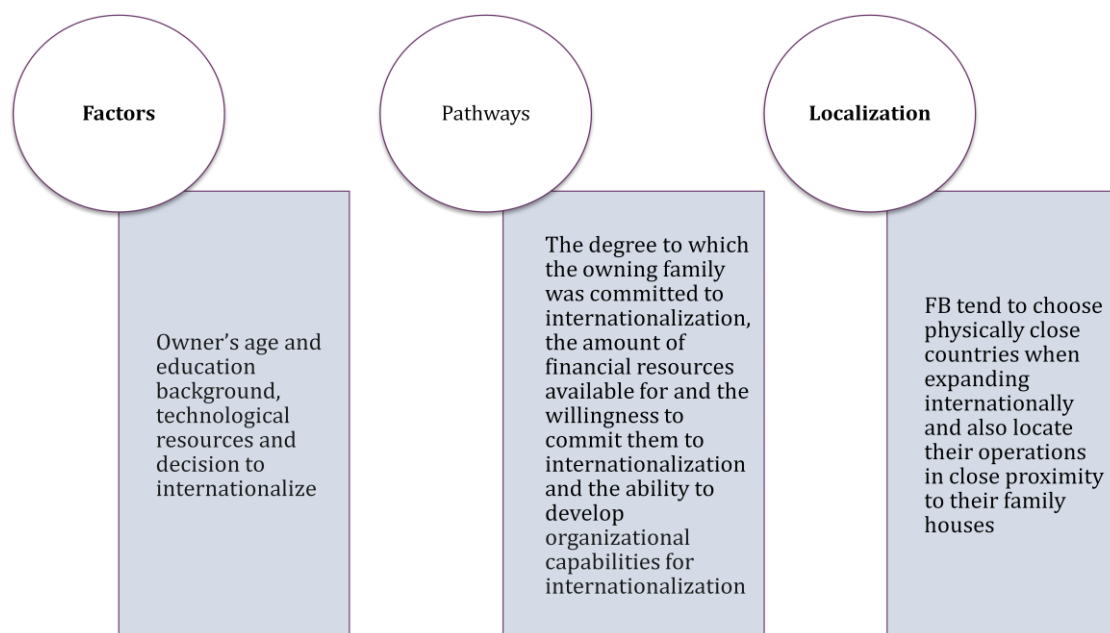


Fig2. FB internationalization

Additionally, other contributes about location propose that FB tend to choose physically close countries when expanding internationally and also locate their operations in close proximity to their family houses (Harris, Martinez and Ward cited in Graves and Thomas, 2008).Complementarily, was

identified three pathways followed for FB in internationalization process (Graves and Thomas, 2008): the degree to which the owning family was committed to internationalization, the amount of financial resources available for and the willingness to commit them to internationalization and the ability to develop organizational capabilities for internationalization. Figure 2. Summarize the approaches about FB internationalization.

3. EMPIRICAL STUDY

3.1. Methodology

This research aims to study the hospitality family-business internationalization. Through, an exploratory methodology the case study research permits study the process of FB internationalization. Besides, the adoption of a case-intensive methodology prevents the authors from collecting superficial data, thus deeply understanding the particular FB characteristics (Litz cited in Graves and Thomas, 2008).

Consequently, this qualitative research applied to the largest Portuguese hospitality group (Pestana Group) allows study the internationalization of a FB supported on FB theories. Pestana Group is currently the largest Portuguese group working in tourism sector and started its internationalization strategy in several countries some years ago (Carvalho, 2013, 2015).

The empirical research applies a case study methodology. According to Yin (1989), it refers to empirical research that explores a contemporary phenomenon within a real-life context when the boundaries between the phenomenon and context are not clearly evident and where multiple sources of evidence could be used. Comparing case study methodology with other methodologies, Yin (1989) expresses that in order to define the method to be used, issues that are raised by the research must be analyzed. This method is particularly appropriate for answering explanatory ‘how’ and ‘why’ questions and deals with operational facts that occur over time rather than frequencies or incidence. To attain a better understanding about internationalization of FB particularly in the hospitality sector, the fundamental problem of this research was to address the question: Is (or not) different internationalization strategy of hospitality family-owned business?

The case unit of analysis is the organization, i.e., the Pestana Group. The choice of this case followed criteria that guaranteed reliability. As mentioned in the first part of this study, the studies about internationalization of FB, mainly the applied to large companies are understudied and still at their infancy. This finding has led to the application of case study research. According to Yin (1989), any research is typified as a case study when there is a desire to understand a complex social phenomenon, and its investigation retains the holistic and meaningful characteristics of real-life events. Both these aspects fit this case perfectly and to access this information, we consulted information about the Pestana Group in complement to other studies developed applied to this group (Carvalho, 2014, 2015).

3.2. Case Study: Pestana Group Internationalization

3.2.1. Company overview

The Pestana Group¹ is the Portuguese largest international tourism and leisure group and one of the largest in Europe, where it ranks 25th. Starting with a 300 bedroom hotel in Madeira Island in 20th November 1972, the family owned Pestana Group has grown steadily and currently includes in its portfolio of nearly 90 four and five star hotels worldwide with two brands: Pestana Hotels & Resorts and Pousadas de Portugal. In the leisure area the Group currently owns and manages, besides the 47 hotels (9 in Madeira, 10 in the Algarve, 1 in Lisbon (the Pestana Palace - a Leading Hotel of the World) 2 in Cascais and Sintra, 1 in Oporto, 1 in England, 1 in Germany, 9 in Brazil, 3 in Mozambique, 1 in South Africa, 1 in Cape Verde, 1 in Argentina, 1 in Venezuela, 3 in S. Tomé e Príncipe, 1 in Miami, 1 in Casablanca and 1 in Colombia), 37 Pousadas de Portugal, 15 Holiday Ownership units, 6 golf courses, 3 real estate ventures, two casinos (Madeira and S. Tomé e Príncipe), an air charter company and one tour operator. In 2003 the group was awarded an international tender to manage the Pousadas de Portugal chain adding to its portfolio 44 unique properties located in converted monuments, palaces, convents and castles spread across the country.

¹ All information was provided by the Pestana Group and is available in www.pestana.com

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In 2005 the Pestana Group internationalised the Pousadas de Portugal brand with the opening of the Pestana Convento do Carmo, by Pousadas de Portugal, a Leading Hotel of the World property in S. Salvador da Bahia in Brazil. Between 2012 and 2013, the Pestana Group will continue growing with the opening of the following projects:

Argentina: Pestana Buenos Aires Golf & Residences (the 3rd investment in the country)

Angola: Pestana Luanda Bay, Luanda

Portugal:

Pestana Tróia Eco-Resort, Tróia

Pousada da Serra da Estrela, Covilhã

1 Hotel in Lisbon – name to be defined

Pousada do Terreiro do Paço, Lisbon

The Group also continuously analyzes ownership and management proposals particularly in the South American and European capitals and expects to reach the 100 properties by the end of 2012, when the group celebrates its 40th anniversary in the hotel industry.

In 2010, the Group obtained total Revenue of 500 million Euros and EBITDA of 100 million Euros. The Pestana Group currently employs 7000 collaborators worldwide.

3.2.2. *The Pestana family: The founder*

The founders, Dionisio Pestana open the first hotel in Madeira Island – Portugal in 1972. In a first stage the young entrepreneur invested in timeshare, an innovative model in Portugal in these times that support the development of the brand.

Dionisio Pestana born in Johannesburg, South Africa, is his son of Portuguese immigrants and study at a Marist College (a system based on Anglo-Saxon system, where there is discipline, methods of study and hard work). In his opinion this phase of his life influences their entrepreneurial profile. The founder focuses their management approach on the teamwork and refers that "There aren't great managers and leaders without teamwork".

During his youth he worked in part time on holidays with his parent. This experience was considered important because allows to know the value of the money. He obtains a degree in management and after than travel to Madeira where their parents were born. The idea in this time is to make a "master" in Europe and return to South Africa. He aims to make an internship at the Sheraton Hotel in Madeira (which operates in the hotel built by his father) gain experience and return. However Dionisio Pestana begins working at the hotel with 24 years old and no more leaves touristic activity.

Later, challenge a friend and colleague from South Africa to keep in business. It is the main responsible for the "timesharing" Pestana Group. Dionisio Pestana reveals the quality of knowing how to manage ups and downs and notes that the hotel projects are long term. He remarks that there is always a risk in investments, states that calculates the risk with the team support, to mitigate and eliminate the risk if possible, but in hotel investments the returns just appears seven or ten years latter. Additionally, the founder considers essential to have a team of qualified professionals.

Today, Dionisio Pestana owns the largest hotel chain in Portugal. Gradually adopted a strategy for a sustainable growth based in diversification and complementary based on three vectors:

1. Horizontal integration: After having secured a solid base in their home market in the autonomous region of Madeira, the Pestana Group set out to increase its 'core business' (hospitality). The growth initially remained in Portugal - the Algarve, Cascais, Sintra and Porto - and later grew through internationalization, which started off in countries that shared affinities with Portuguese culture, such as Mozambique, Brazil and Cape Verde.
2. Vertical integration: Growth in other sub-sectors of tourism in Portugal, including gambling, golf, real estate, leisure air travel via charter flights and tourist operations abroad (with special focus on the United Kingdom). The underlying logic of this vector was betting on growth through strong upstream integration, creating marketing and distribution channels that dominate or where the Group could have a significant influence in order to reduce the levels of dependence on large

clusters of tour operations. Furthermore, the Group also bet on the downstream areas of tourism activities in order to increase the attractiveness of their hotel products (their core businesses) and present complete products in the market.

3. Their tourism and leisure industry is diverse and tailored to each of the areas where it exists; adapting its business to the specific characteristics of each region, that is, it never relies on standardized models.

3.3. Discussion of the results

The internationalization process of Pestana Group was analyzed based on different aspects: motivations of the internationalization; entry modes and internationalization strategies, attending to the FB particularities. The motivations and internationalization strategies were analyzed considering factors related to the conditions of transaction: Entry modes: degree of control versus cultural distance and degree of control versus market potential. And, factors related to organizational skills: Entry modes: degree of control versus company size; type of control versus international experience; degree of control versus intangibility and specificity of the service provided by the company and degree of control. The case study allows highlighting that:

- The Pestana Group began its internationalization in countries at a close cultural distance with Portugal, for instance Latin America (Brazil) and Africa, focusing on FDI with total control;
- The Group held FDI in high potential markets in South America. According to the Group, South America markets represent an important slice of the total gross operating income and in all markets the group exercises a total control of the business operations abroad;
- Entry modes that involve high degree of control are associated with the size of the company, i.e. they increase with the increase in company size;
- The company wants to maintain control over large international operations, even in the early stage of the internationalization process;
- The company considers that the provision of services requires total control over the international operations in order to maintain high standards of quality.

Table1. Summary: checklist of FB attributes

1. Ownership – Family owned	
Desire to keep the family ownership	√
Fear of losing company control	√
Ownership is a motivation to growth	√
2. Management (family run)	
Presence of family members in management	√
Limited growth aspirations	x
Low level of professionalization	x
Use of networks when internationalizing	√
Long-term view of the financial returns	√
Long term relationship with suppliers	√
3. Generations (passed a generational transfer)	
Succession impact on internationalization	NA
4. Intention (the family’s intention to continue as a FB)	
Succession plan	NA
5. Internationalization strategies	
Maximize the profit in less countries than pursuing a global strategy	√
Choice of countries with closer cultural distance when internationalizing	√
6. Founder profile	
Founder age (young when found the company)	√
Low level of formal education of the owners	x

√- Verified in this company; x- Not applicable in this company; NA- Not available

Similar results have been achieved in other studies (Carvalho, 2013, 2014), however this research aims to despite if this behaviour reveals particular features identified in literature about FB, because general literature concerning internationalization of services propose similar patterns to FB and non FB. In order to analyse the internationalization process of a FB and the role of behaviour of FB in

internationalization, we analysed the case study considering 6 dimensions identified in literature review: ownership, management, generation, intention, internationalization strategies and founder profile.

Table 1 resume the achievements to Pestana group and reveal some particular patterns highlighted in literature review particularly in the case of pre-family type. The more important factors that determine the motivations to internationalization are similar to other FB studies are ownership aspects. The management (family runs) reveals some disparities comparing with cited studies, in two items (limited growth aspirations and low level of professionalization). We believe that these differences are related with the founder profile. Some studies highlight that the founder generally is less educated and just the second-generation more educated are able to develop a professional and strategic management with impacts on internationalization strategies. In this case the owners have a degree in management, and this skill could influences the management process of the group and also this deviation on internationalization pattern related in literature.

4. FINAL REMARKS

The globalization has increased the importance of discussing internationalization strategies engaged by companies. In contrast with some studies developed earlier, nowadays its possible to find many family companies professionalized and highly internationalized, which is the case of the company from this study.

This case present a FB that operates in tourism sector and follows an internationalization pathway, their internationalization process varies according several factors, such as, international experience, scale, group consolidation, etc.

The attributes checked in table 1 main of them typical in FB reveals some differences when compare this case with literature review. In the fact some of the aspects identified are part of the internationalization process, however maybe some of them could not be determinant elements of the process. This might be due to the fact that this FB is a large group however remains some FB particularities in the way it is managed, and concerning particularly the maintenance of the ownership in the internationalization process. The Pestana Group is following a strategy of internationalization that falls within the OLI paradigm the Group decided on FDI with total ownership as a way to control the standards and quality associated with their brand, as well as to control international operations. On the other hand, FB has grown from a small nucleus in Madeira and this pathway could be an influence the choice of ownership and control in internationalization process. The increased size of the company may or may not determine a change in that trend, even assuming that the characteristics of intangibility of the service are a limitation (Carvalho, 2013, 2014).

This case allows to conclude that ownership variables are the stronger to explain the internationalization in this case, however the entrepreneur profile suggest an important influence on entrepreneurial vision and in decision to internationalize or not. Additionally, the FB managerial characteristics are very important and introduce a valuable managerial style to the company. Furthermore, the centralization of the decision-making in FB, which might have an impact on the internationalization strategy, still it is not exclusive from family companies. Further studies aims to continue accompanying this group mainly in succession process in order to understand if the patterns presented concerning ownership, entrepreneurship, internationalization and management variables maintain or change with succession plan.

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