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The Family Business in a Global Context

The Rationale behind Corporate Governance Structures in Subsidiaries Abroad

Bachelor's thesis within Business Administration

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Abstract

Background: Family Businesses represent the highest proportion of businesses in the world (Lin, 2012). Globalisation offers new business opportunities for growth and international diversification. Generally the internationalisation of family businesses is a well-studied field in family business research (Kontinen & Ojala, 2009). Still, there are certain shortcomings when it comes to the specific area of corporate governance adaptation in family firms that open subsidiaries (Calabro & Mussolino, 2011). Hence, this paper analyses the proceedings of family firms that internationalise through a subsidiary. From a methodological standpoint, existing studies concerned with family business internationalisation focus on quantitative research approaches. The results of these include some limitations, since they cannot account for questions such as how and why family firms proceed during diversification (Kontinen & Ojala, 2009).

Purpose: The purpose of this study is to investigate the rationale behind corporate governance structures in family businesses, focusing on the special case of internationalisation through a subsidiary.

Frame of Reference: A summary of recent research regarding the three main issues family businesses, internationalisation, and corporate governance will be given in the frame of reference. This theoretical background will serve as the basis for a solid analysis of our empirical data.

Method: A qualitative approach with an extensive literature review and a case study based on in-depth interviews with employees of the company Väderstad-Verken AB was chosen in order to fulfil the purpose.

Conclusion: The rationale behind corporate governance structures when setting up a subsidiary abroad is driven by the ambition to preserve a family firms' stewardship oriented culture and its informal structures. The result of this is better collaboration, which serves the mission of the business.

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1 Background

1.1 Introduction

Family businesses represent the highest proportion of businesses in the world (Lin, 2012). When using the broadest definitions, 90-98% of all businesses can be described as family businesses (Heck & Trent, 1999 cited in Aldrich & Cliff, 2003). They are generally perceived as small, inward oriented and less professional companies compared to other business forms (Grant, 2006). The stagnation perspective even describes family companies as sentimental and conflict-ridden, resource-starved, with higher degrees of conservatism and cronyism, which makes them slowly growing and often short-lived (Miller, 2008). Yet, a lot of research has proved the fact that family businesses often outperform non-family businesses in various cases such as innovativeness and entrepreneurial orientation (Nicholson, 2008). This kind of firm profits from a special degree of 'familiness', which summarises its resources and capabilities. Moreover, the long-term orientation and knowledge of the firm makes a family business more capable of surviving a crisis (Habbershon, 2003). While its competitors will focus more on quarterly results, families can focus on their long-term reputation and performance in order to remain competitive (Kets de Vries, 1993). Still, many cases show that due to limited resources, family businesses often face disadvantages when they internationalise and start businesses abroad (Abdellatif, 2009). The connotation of family businesses with risk aversion leads to further problems regarding the realisation of opportunities (Miller, 2008). A successful approach towards internationalisation is consequently a key for family businesses to stay competitive in a globalised market (Carr & Bateman, 2009).

The increased liberalisation of trade has created a vast amount of new opportunities for businesses during the last decades, but also increased the demands for specialisation and shaped the way companies do business (Claver et al., 2007). As a result of this, it became necessary for companies to engage abroad in order to stay competitive (Abdellatif et al., 2009). The research dealing with this issue has mostly focused on how companies enter foreign markets and how a company's resources and capabilities influence the entry decisions (Kontinen & Ojala, 2009). The authors of the Uppsala model, Johanson and Vahlne, describe the internationalisation of family businesses as a sequence of certain steps when entering a market (Kontinen & Ojala, 2009). One important issue in this field is corporate governance and especially how firms set up structures and policies within the growing company, to create a frame in order to direct and control the company's activities (Lin, 2012).

Corporate Governance is a very broad and complex area, especially when you are dealing with family businesses (Eisenmann-Mittenzwei, 2006). A lot of research has been done due to the constant problem companies are facing when owners and management teams consists of the same people (Thomas, J., & Graves, C., 2005; Segaro, 2012; Kontinen, & Ojala, 2010; Lin, 2012; Brunninge et al., 2007). Combining the corporate gov-

ernance system with internationalisation leads to a completely new perspective, where very little research has been done so far (Kontinen & Ojala, 2009). Moreover, there is little literature, which deals with the decisions companies make when they enter new markets and what kind of influence the decisions have for certain firms. This is certainly the case for traditional family firms aiming at doing business as usual (Kontinen & Ojala, 2009). It is interesting to analyse how family firms can build up a corporate governance structure to prevent their international efforts from failing, as many are said to be focused on domestic markets. Corporate governance literature is predominated by agency theory when investigating ownership and management structures in companies (Westhead & Howorth, 2006). Still, as agency theory cannot fully account for government issues in closely held family businesses, it is important to refer to stewardship theory which is more applicable when motives of owners and managers are aligned to those of the business, as it is the case in most family businesses (Davis et al., 1997).

This paper analyses the proceedings of family firms that internationalise through a subsidiary. From the perspective of agency and stewardship theory, corporate governance structures within family businesses are unique (Eisenmann-Mittenzwei, 2006). There is also a high level of evidence supporting that issues must occur regarding the building of the corporate governance when founding a subsidiary abroad. Astrachan (2010) stated that future research must be done within this topic. Two main characteristics of family firms are the long-term orientation that they possess and the will to keep the business in family ownership for future generations; to see how family firms manage this transition makes an interesting research topic. There has already been some research done on Asian family businesses, focusing on expatriation policies and how the family members were sent away to the different subsidiaries (Wee-Liang, 2008). This does however differ from the context we are focusing on.

1.2 Problem

The internationalisation of family businesses is in general a well-studied field in family business research (Kontinen & Ojala, 2009). There are still certain shortcomings when it comes to the specific area of corporate governance adaptations in family firms that open subsidiaries (Calabro & Mussolino, 2011). Hence, the focus will especially be on corporate governance issues that also appear in non-family businesses, but have a higher priority in family-owned companies, since they strive to keep the control inside the family.

Family businesses have a competitive advantage compared to non-family businesses due to lower agency cost and a stewardship oriented culture (Miller & Le Breton-Miller, 2005). It is therefore important to investigate how family businesses set up corporate governance structures with respect to internationalisation. It is interesting to analyse why they implement them in a certain way, and to understand how this competitive advantage, combined with a stewardship-oriented culture, is preserved during international

diversification. The same holds for the establishment of corporate governance structures in subsidiaries for the long-run wealth preservation of the family firm.

From a methodological standpoint, available studies concerned with family business internationalisation focus on quantitative research approaches. This leads to some limitations, since these studies cannot account for questions such as how and why family firms proceed during diversification (Kontinen & Ojala, 2009). Hence, many researchers argue that there is a need for more qualitative studies with respect to further research dealing with this aspect of family business research (Kontinen & Ojala, 2009; Nordqvist et al., 2009).

The subject for this research is internationalisation and corporate governance as a tool to preserve the long-term orientation in family firms. The chosen approach with an extensive literature review followed by a case study, applies theories and claims found in today's academic journals and books. This method was also seen as a way to benefit from this knowledge when conducting the case study, by developing research questions about internationalisation and corporate governance with respect to family business characteristics. Another aim is also to make a theoretical contribution to the existing theory, allowing researchers and practitioners to gain deeper insights in this special area.

1.3 Purpose

This research deals with the international ambitions of family firms, focusing on the special case of internationalisation through a subsidiary. In this context, the purpose is to investigate the rationale behind governance structure in order to preserve and increase family wealth.

1.4 Research Questions

How and why do family businesses establish governance structures when they set up a subsidiary abroad? This is the central research question that we wanted to answer with this paper.

Regarding the question of how family businesses establish certain governance structures, there will be a focus on how incentive alignment and governance mechanisms are implemented by the owner family to preserve their control abroad. Our work focuses on the owner family's motives with respect to long-term wealth preservation and the core values of the family, to answer the question of why governance structures are set in certain ways. With respect to the main topics covered in the frame of reference, we derived three major research questions:

Research question 1: How and to what extent do family aspects influence the subsidiaries?

Research question 2: How is the internationalisation process structured and what are major concerns, especially when it comes to the establishment of a new subsidiary?

Research question 3: How and to what extent are certain governance mechanisms applied to exert control over the subsidiary, and how does the relation between a subsidiary and the mother company develop over time?

1.5 Disposition of the Paper

This paper is structured in the following way: after this brief discussion about the problem and the purpose with the guiding research questions of this paper, the frame of reference is introduced. The theoretical background regarding family business, internationalisation and corporate governance is presented within this section. Afterwards, the method for gathering empirical data and data presentation for this research is introduced in the following section. The empirical account is presented together with the results from the analysis under findings and analysis. Implications for further research and practitioners will be dealt with in the conclusion and discussion.

2 Frame of Reference

This frame of reference is structured according to the three main issues presented in the introduction. A summary of recent research about family businesses will be given, drawing on definitional issues and important characteristics of family firms. The internationalisation process of firms will be highlighted, presenting the process model of internationalisation. Moreover, important issues of corporate governance literature are presented, introducing stewardship and parts of agency theory with respect to family businesses' diversification.

2.1 Family Businesses

Although the importance of family business is often quite neglected by the majority of the society, this kind of businesses represents about 80 per cent of all businesses (Gomez-Mejia 2011). Furthermore, family firms are not only the most common type of business, but also show a tendency to outperform its non-family business competitors (Nicholson, 2008). About one third of the Fortune 500 firms can be defined as family firms. About 40 per cent of the gross national product is created by family corporations in the United States (Kets, 1993). A lot of contradicting numbers can still be found, describing the number of existent family firms, due to different definitions (Handler, 1989). Littunen & Hyrsky (2000) also confirmed that there is no widely accepted definition of a family business. There are about 30 different kinds of definitions trying to describe the nature of family firms, which are all either combining or just taking a single part of ownership and management into account, according to Litz (2008). In the following paragraph we shall present some of the available definitions to give an overview of this topic.

2.1.1 Definitions

Villalonga and Amit (2004) proved that there are three common characteristics of family firms. Firstly, the family holds a significant stake of the company's capital. Secondly, the family has strong control functions, e.g. veto and voting right. Lastly, the family members hold top management positions. Yet Chrisman, Chua and Sharma (2005) perceive the main difference between the definitions in the focus on family business components. These include ownership, governance, management and succession issues, or may be represented by family business characteristics like long-term focus and resources created through family involvement.

Litz (2008) tried to explain the family business by making use of the "Möbius-Strip" metaphor, comparing the interaction between family and business to a band of paper given a 180-degree twist prior to having both ends connected. *"Building on this depiction, a business becomes a family business and, conversely a family becomes a business family, whenever cross-system transfers occur."* (Litz, 2008, p. 220)

A rather recent article by Ramona (2011) summarises most kind of terminologies and constitutes that according to Heck and Trent (1999), the majority of family firm defini-

tions deal with family ownership, family control or management, family involvement and the intention to transfer the family firm to later generations (cited in Ramona, 2011). Another aspect is the degree of ‘familiness’, which depicts the influence of the family on and in the business (Habbershon and Williams, 1999).

To put it in a nutshell, it is obvious that there is still an increased disagreement on how to define family firms and what special characteristics make them unique. Even though there are some reviews of extent research done in close intervals of about five years, no total agreement has been achieved so far.

The “Three-Circle-Model” (Tagiuri & Davis, 1983; Ramona, 2011; Habbershon, 2003) that combines Management, Ownership and Family to a construct, explains different behaviours inside and outside the business. For almost three decades this has been the standard theoretical model for picturing family and business as interlinking systems in order to explain the competitive tensions in strategy making (Habbershon, 2003). These circles help describe the complex individual and organisational relationships and are in that way useful when one wants to identify the stakeholder perspectives, roles and responsibilities (Chua et al., 1999).

As we want to investigate the influence of family characteristics on the business, we look for family businesses where the family is involved in both ownership and management. Hence, we refer to the definition of Litz (1995), who defined family corporations through the combination of the structure-based approach and the intention-based approach, which brought him to the conclusion that “*a business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit and to the extent its members strive to achieve, maintain, and/or increase intra-organizational family-based relatedness.*” (Litz, 1995, p. 79)

The failure to see the family and the business as separate entities is another important problem that is encountered by many researchers (Ramona, 2011; Chua et al, 1999). In the following sections we will give a short overview of both entities.

2.1.2 The Family

Families are the oldest and longest running social unit in our world (Ramona, 2011). “*The family is a social system endorsed by law and custom to take care of its members’ needs*” (Kepner, 1983, p. 60).

It is a big construct of emotional bonding and affectionate ties that develop between and among its members, as well as a sense of responsibility and loyalty to the family as a system. Consequently, the family must be perceived as a whole system that is very sensitive to shocks and impacts (Kepner, 1983). If a shift in the family structure is supported and maintained, the system’s rules and norms will change, and other individuals will take on new responsibilities and tasks (Kepner, 1983). On the other hand, if the shift is not supported, then the system will become dysfunctional, which means that some tasks will not be carried out any more (Kepner, 1983).

The family must basically fulfil different social and emotional needs for belonging, affection and intimacy. First of all, the family helps to build up a big group where everybody feels that they belong to it. Secondly, the need for intimacy is a very crucial part of the family system, as every individual is valued for what the person is, and not what he or she should be. Last but not least, the right mixture of identity and autonomy is of great meaning for every individual and the whole system. On the one hand, if there is too much individuation, the system will suffer because common sense will be missing. On the other hand, if autonomy is missing, this will cause the individual to be enmeshed in the family so that he or she is unable to separate from it and cannot turn into an autonomous adult; this is sometimes also described as spoiled kid-syndrome (Kepner, 1983; de Vries, 1993).

In some autocratic families, individuation might not be accepted, so everyone is pressured to feel alike and differentiation is actively discouraged. Combined with a business, this can extensively decrease the entrepreneurial spirit, to which family firms are usually connoted (Habbershon et al., 2003).

Another important fact about families is the crisis management, as normally major transitions occur as often as every five to seven years, which leads them to have more practice in managing crisis situations than have other larger social systems or organisations (Kepner, 1983). Being closely related to each other, it is easier for family members to express their feelings of love or hate (Kepner, 1983). This emotional involvement and confusion can create unusual motivation, cement loyalties and increase trust among relatives, but also leads to suppression of discussions or undermining each other's confidence or even avoiding one another (Taigiuri & Davis, 1996).

When it comes to families, it is also important to mention kinship, since it influences "rational" decision-making (Stewart, 2003). Although Harrel (1997) argues that only emotional support is the last remaining task of families, there is proof suggesting that kinship still has a big influence on the thinking of the family and by that on the business (cited in Stewart, 2003). Three properties identified by Nicholson (2008), distinguish family firms from non-family firms through kinship: genetic identity helps family members to identify with products. To have the family name on these increases their willingness to foster a good brand reputation. Intergenerational transmission describes the willingness to pass the ownership from one generation to the following. The last feature of the kinship effect is called wildcard inheritance, which describes the random process of placing inadequate family members in leader positions just because of the bloodline.

2.1.3 The Business

Coming back to the fact that family firms outperform non-family businesses, it is crucial to inform about all the advantages that this kind of business profits from, because of its unique structure based on the previously discussed characteristics.

The most important point is the long-term orientation that all family corporations are sharing because of their wish to keep the control within the family and its transfer to future generations (Nicolson, 2008). As already argued by Nicolson (2008), intergenerational transmission is one of the most important aspects regarding families and their businesses. Furthermore, losses are more accepted in the short run, if the long-run profit is secured. The fact that there is no pressure from the stock market and that no quarterly financial results have to be published plays a great part in the case of a completely privately held family business (Sirmon & Hitt, 2003). These characteristics can be best described by the notion of family wealth, which summarises a family's ambition to keep value for future generations.

A commonly used meeting form in family businesses is the "family council" approach. Family members meet up in an informal way and discuss both family and business issues, e.g. strategic decisions. These are often less bureaucratic and impersonal than formal board meetings and enrich flexibility and facilitate decision-making. As the children of the founder very often work, or at least spend time in the company from very young ages, they know how the business works early on and feel attached to it (de Vries, 1993).

Not all the family characteristics are of course good for the business; the independence from the stock market can for example mean less access to financial capital markets, which can slow down growth processes. The family councils can help to share information within the family, but for the rest of the organisation it might be confusing, as tasks could for example be divided in an unclear way (de Vries, 1993).

Talking about the management positions in a family business, nepotism is a keyword regarding upcoming issues with the hiring process (Nicolson, 2008). When inept family members are given positions within management, other more skilled non-family employees will be feeling that they are treated in an unfair way. Nepotism describes the preference of family members over anyone else (Kepner, 1983).

Yet, family issues can also lead to other consequences for the business, the case of the spoiled kid syndrome is one example. It also describes a rather close phenomenon - that of a child's upbringing, where love was substituted by money and gifts so that he or she was never able to build up an individual personality. He or she is instead demanding more and more without any knowledge. This symptom, as well as nepotism, altruism and many others cause succession dramas (de Vries, 1993).

The risk-averseness of family firms is also a highly discussed topic by many researchers (de Vries, 1993; Nordqvist 2011; Ramona, 2011). This characteristic of family businesses is closely related to the long-term affinity of families trying to protect the ownership and value of the family business. This can be rather counterproductive, since it impedes entrepreneurial thinking and eliminates most opportunities for growth. The impact on the growth possibility is huge as it is statistically proven that family firms are less likely to internationalise than non-family firms, mainly because of risk avoidance

and lack of financial capital (Kontinen & Ojala, 2011). The stagnation perspective by Miller et al. (2008) gives an even more pessimistic view of family firms. Within this perspective, the family business is regarded as inferior and subject to several critical weaknesses, all manifesting or resulting in stagnation. (Miller et al, 2008).

2.1.4 Family Business Concepts

After introducing several characteristics of family businesses, a very important model, which allows analysing the previous announced characteristics properly, will now be presented. Sirmon and Hitt (2003) introduced a concept of family businesses, which points out the importance of five major characteristics of the issues presented above, which are unique to family businesses and differentiate them from their non-family competitors.

The phenomenon of saving money for the long-term and being able to ignore short-term failure is referred to as patient financial capital (Sirmon & Hitt, 2003). Sirmon & Hitt (2003) found that there are more sorts of capital that characterise family firms. So they also introduced human capital, which represents the close proximity of dual relationships. Another aspect is social capital, which focuses more on building large networks and having access to the resources of the network. Survivability capital refers to the ability of family members to loan, contribute or share resources for the benefit of the family business. Last but not least, the governance structure in family firms are unique, as the CEO usually stays for 40 to 50 years till his or her children are able to take over. This allows family firms to save governance costs (Sirmon & Hitt, 2003).

2.2 Internationalisation

With respect to the previously mentioned characteristics of family businesses, also Kontinen and Ojala (2009) found in their research that these factors both aid and hinder family businesses' internationalisation compared to non-family firms. An unwillingness to accept outside expertise and a fear of losing control, as well as risk avoidance and a lack of financial resources would be factors that constrain the firm's internationalisation. A general long-term orientation and higher speed in the decision-making process were however seen as factors that favour family firms in this area (Kontinen & Ojala, 2009).

Increased globalisation has changed the level of competitiveness and the importance of strategy for the majority of firms (Zahra & George, 2002). The well developed communication channel through improved technologies, the opportunity to venture in different countries thanks to political agreements, and the steady development of strong supply chain management have given most small to medium-sized companies an incentive to internationalise (George, Zahra & Wiklund, 2005). To export a share of its sales abroad becomes more and more a competitive performance indicator (O'Farrel et al., 1996). The competitiveness can even ensure the survival and growth of small to medium-sized companies (D'Souza & McDougall 1989). There are a lot of different theories about the

development of the internationalisation process. Vermeulen and Barkema (2002) found that a change in the structure of foreign expansion would have an impact on the firm's performance. The most known and used model for internationalisation is however the Uppsala Model, which describes different entry modes and stages for companies (Johanson & Vahlne, 1977).

2.2.1 The Uppsala Internationalisation Process Model

The Uppsala Internationalisation Process Model was developed by Johansson and Vahlne (1977). The main focus in this model was on the gained knowledge about overseas markets, the company's transactions there and the step-by-step increase of commitments to marketplaces abroad.

Johanson and Vahlne (1977) did not see the formations of the first sales subsidiaries abroad as a step in a conscious and goal oriented direction. O'Farrell, Zheng and Wood later stated that: “*International market selection is fundamentally unsystematic and ad hoc and most cases focus upon whether to undertake a particular project, rather than a country choice*” (1996, p. 112).



Figure 2-1 The Uppsala Internationalisation Model (Johanson and Vahlne, 1977; Picture Source: Compiled by authors)

Johanson and Vahlne developed a so-called state-change model to better explain the internationalisation process. The resource commitment to the foreign markets constituted the state aspects, in other words the market commitment as well as knowledge about foreign markets and operations. The change aspects are seen as “*decisions to commit resources and the performance of current business activities*” (Johanson & Vahlne, 1977, p. 26). Market commitment and market knowledge are assumed to affect both commitment decisions and the way current activities are performed (Johanson & Vahlne, 1977).

It is assumed that the firm should strive to keep a low risk-taking level while aiming for long-term profit. This endeavour was believed to represent decision-making within the whole multi-layer firm. Market commitment is considered since the authors assumed that the commitment to a market would affect the way the firm perceives opportunities and risks (Johanson & Vahlne, 1977).

Knowledge can take several different forms; knowledge of opportunities or problems was assumed to initiate decisions. There is also a difference between general knowledge and market-specific knowledge. General knowledge is more company-specific and can be transferred from one country to another, whereas market knowledge must be obtained step-by-step on each individual market. A 'short-cut' to this knowledge could be either the hiring of experienced personnel or integration of experienced people in the decision process (Johanson & Vahlne, 1977).

2.2.2 The Establishment Chain

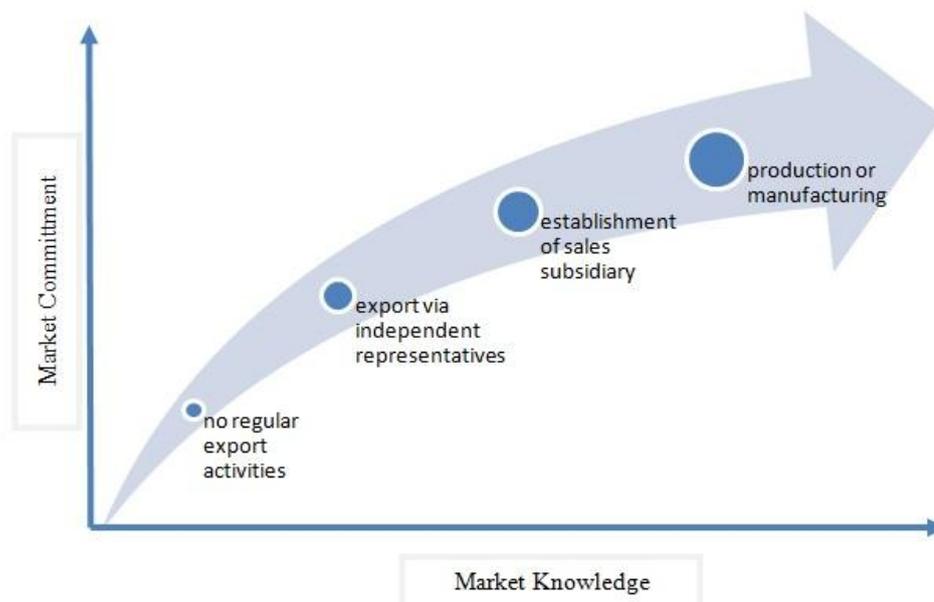


Figure 2-2: The Establishment Chain (Johanson & Vahlne, 1977; Picture Source: Compiled by authors)

The most usual way for firms to develop international operations was through a so called 'establishment chain' (Johanson & Vahlne, 1977). A firm would get an international order, which would initiate step one, international export. The firm would normally export to the country in question for a while, before deciding to contract a sales agent in the country. The next step would thereafter be to open an own sales subsidiary in the country, to gain better control of the operations and increase the market share if possible. In some cases, a final step in the value chain would be the creation of a production unit in the country (Johanson & Vahlne, 1977).

The establishment chain was not a part of the model itself, but rather a description of the observations that the authors had attained through their research (Johanson & Vahlne,

2009). It is also important to point out that the model disregarded the decision style of the decision maker, and instead focused on the bigger picture (Johanson & Vahlne, 1977). Subsequent studies also found that companies can skip one or several stages of the 'establishment chain' when they develop internationally (Oviatt & McDougall, 2005).

Loane, Morrow and Bell (2004) found in their research that the choice of a firm's entry into foreign markets often depended on whether it was an early or late mover on that particular market. Early movers, which are among the first international firms to establish themselves in a foreign market, would normally follow the stages in the internationalisation model, whereas late movers would rely more on alliances and joint ventures to start with. In other words: skipping the early stages in the model and not opting for wholly owned subsidiaries initially. The choice of entry mode would in either case be chosen so that the highest risk adjusted to return on investment would be reached. Firms with specific resources or those who are knowledge intensive tend to prefer wholly owned subsidiaries on new markets, since they normally require a higher degree of control (Agarwal and Ramaswami, 1992).

Something that should not be forgotten is however that the entry of a family firm into a new market might be a result of interaction initiatives taken by one or several other firms who are insiders in a national network, rather than a thought out plan by the family firm (Johansson & Vahlne, 1990). Kontinen and Ojala (2009) stated that early on, managers in family businesses were prone to maximise revenues from foreign markets that they were acquainted with, rather than going for a wide focus. Family firms are also more likely to choose a traditional internationalisation approach due to cautiousness, compared to their non-family counterparts (Claver et al., 2007).

Moreover, Johanson & Vahlne (1977) found that the psychic distance played an important role in the internationalisation process. They defined it as the sum of elements that prevent information flow of information between two countries. Differences in language, education, business practices, culture and industrial development were stated as important factors (Johanson & Vahlne, 1977). This means that neighbouring countries typically had less of a psychic distance than countries far away from each other. A case study including several Swedish firms showed that most of them opted for neighbouring Nordic and Scandinavian countries when they opened their first subsidiaries abroad during the 1960s to 1990s (Johanson & Vahlne, 1990).

The awareness of psychic distance can however have an unexpected effect, which can make it harder for firms to establish themselves in countries with less of a psychic distance (Johanson & Vahlne, 1977). To assume that a country is similar to one's native country can lead to issues when unexpected differences exist. Firms operating on markets with a great psychic distance would on the other hand be more aware of the fact that great differences exist, and prepare accordingly. To master the native language in a country can also trick managers into thinking that they know the culture and business practices as well, which can lead to negative experiences (Andersson, 2004).

2.2.3 Critiques on the Uppsala Model

Many researchers argued that the model was becoming less applicable as the world was becoming more uniformed through internationalisation (Johanson & Vahlne, 1990). Concepts such as corporate relationships and networks were introduced during the 1990's. These concepts would later find their way into a revised Uppsala model. Johanson and Vahlne stated that “[...] *the business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers*” (2009, p. 1411). This meant that the International Process Model had to follow suit, so that it also integrated “[...] *mutual commitment for internationalisation*” (Johanson & Vahlne, 2009, p. 1414).

Later on, Johanson and Vahlne (2009) explained that markets are networks of relationships in which firms were linked to each other through different, complex and rather invisible patterns. The goal for each firm is therefore to gain 'insidership' in the right network (Johanson & Vahlne, 2009). The building of trust and commitment are essential elements of the internationalisation process. The management team's prior relationships will in many cases bring very important knowledge that will benefit the firm's relationship (Johanson & Vahlne, 2009).

2.3 Corporate Governance

Globalisation is offering new business opportunities, growth and diversification for family businesses, which consequently become more complex organisations. Generally speaking, growth goes in hand with several aspects, which all require that family businesses have to adapt their governance system, such as an increasing separation of ownership and management, the involvement of new generations within the company, or a growing number of non-family managers (Cadbury, 2000; Carsrud, 2006). As a result of this, ownership control, ownership dilution and governance mechanisms that regulate separation of ownership and control have been increasingly acknowledged in research over the past two decades (Astrachan, 2010). These issues can all be related to the topic of corporate governance.

According to the OECD, corporate governance can be defined as: “*Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making.*” (Organization for Economic Cooperation and Development, 2005)

Corporate governance discussions usually cover the issues of control and interest differences between the owners and the management and seek ways to align the interests of both sides (Eisenmann-Mittenzwei, 2006). Keasyey et al. (1997) and Blair (1995) describe this perception of corporate governance which mainly refers to agency theory, as the so-called narrow-view (cited in Eisenmann-Mittenzwei, 2006). In contrast to that

there is the definition by Neubauer & Lank (1998), who define corporate governance broader as, “*a system of structures and processes to secure the economic viability as well as the legitimacy of the corporation. (...) economic viability means securing the long-term sustainable development of the firm.*” (Cited in Eisenmann-Mittenzwei, 2006, p.29). Agency and stewardship theory are both common tools to investigate ownership and management in family businesses and understand family firms’ performance and objectives (Westhead & Howorth, 2006). As most family businesses are characterised by a stewardship-oriented culture (Miller & Le Breton-Miller, 2005), there will be more emphasis on this concept within corporate governance.

2.3.1 Stewardship Theory

Stewardship theory is a sociological and psychological approach to governance, which attempts to include also non-economic assumptions to mirror the complexities of organisational life (Davis, Schoorman & Donaldson, 1997). Due to this, it gives a better understanding of owner-manager relations within family businesses who also pursue non-financial goals (Westhead & Howorth, 2006). Research on altruism in family businesses has investigated the limits of this traditional view on managers and firm governance as this view fails to account for the more sophisticated bonds, which exist in family businesses (Chrisman, Sharma & Taggar, 2007). As family businesses are characterised by very closely held ownership structures (Brunninge, Nordqvist & Wiklund, 2007), it seems to be reasonable to go beyond control mechanisms to align or preserve the owners’ interest towards the management, which would refer to the narrow-view. Hence it is reasonable to take the broader view on corporate governance, which includes the long-term survivability of a firm, as this is also a dominant aspect in the overall strategy of family businesses (Kontinen & Ojala, 2009; Miller, & Le Breton-Miller, 2006).

Generally, within stewardship theory managers are seen as stewards whose motives are aligned with those of their principals, rather than assuming them to be motivated by individual goals only (Davis et al., 1997). Within their article “Toward a Stewardship Theory of Management”, Davis et al. (1997) pointed out the major differences between agency and stewardship theory with respect to the conditions necessary to take into account. They described the model of man, psychological mechanisms and situational mechanisms.

Regarding the model of man, stewardship theory assumes business leaders to be self-actualising persons who are altruistically motivated, serving the collective instead of applying the assumption of the self-serving homo-oeconomicus (Davis et al., 1997). When it comes to differences in psychological mechanisms such as personal motivation and identification with the company’s values, stewardship theory considers managers to be stewards, motivated intrinsically by higher goals instead of extrinsic motives such as economic needs. Stewards also identify themselves with principals’ objectives rather than comparing themselves with other managers and these managers’ compensation, as stewards are characterised by a high value commitment (Davis et al., 1997). Hence,

there is a need for a substantive mission at the heart of the company, as this allows for more personal identification for the employees (Miller & Le Breton-Miller, 2005).

Even though not all family businesses have a stewardship culture, its presence can become a competitive advantage when employees are stewards and shunt personal interest for the sake of the business (Eddleston, Chrisman, Steier & Chua, 2010). Consequently, the competitive advantage arises from people who are enthusiastic and committed to the company's mission and therefore do their best for the company (Miller & Le Breton-Miller, 2005). This possible competitive advantage is reflected in the situational mechanisms such as the management philosophy or the cultural difference in a stewardship culture that is characterised by trust, long-term orientation and involvement-oriented government structures empowering employees, emphasising collective, rather than individual achievement orientation and control mechanisms (Davis et al., 1997). Family businesses with multiple family members are more likely to have a stewardship oriented culture, as in this case the firm serves as a possibility to provide socio-economic wealth to the entire family in the long-run (Miller, Le-Breton-Miller & Scholnick, 2008).

The negative outcomes of a corporate culture, which is too control-oriented, have been described by Lorsch & Clark (2008), who acknowledge the fact that an overemphasised incentive alignment will create a dysfunctional relationship between the board of directors and the management, where the board starts to trace managers' failures rather than guiding and supporting them. Still, the choice between agency and stewardship relationship in an organisation relies heavily on the trust between managers and principals and the perceived risk in this relationship (Davis et al., 1997).

2.3.2 Diversification of Family Businesses

Referring to diversification, Gomez-Mejia et al. (2010) noticed that there were two important aspects to consider. On the one hand, diversification of a business offers risk-diversification by reducing revenue fluctuation due to investments in different markets; this spreads the risk of the company. The increased complexity does on the other hand make it necessary to hire non-family expertise from outside the company in many cases, which could lead to a loss of control. Still, maintaining the control over the family business is an important aspect for family wealth preservation as family businesses are often managed according to the families' values and philosophies (Sharma, Chrisman & Chua, 1997; Miller & Le Breton-Miller, 2005). This is a major threat to family businesses when it comes to diversification, according to Schulze et al. (2003).

New actors, such as stakeholders, shareholders or creditors, outside the family circle will have the possibility to exert influence on the strategic direction of the firm, which could lead to an erosion of the family's ability to exert its power (cited in Gomez-Mejia, Makri & Kintana, 2010). Consequently, family businesses diversify less on average, both domestically and internationally. The ones that diversify tend to do this domestically rather than internationally, but if they do so they also have a strong tendency to choose culturally close regions (Gomez-Mejia et al., 2010).

Davis et al. (2010) argued that the general commitment to trust and values in family businesses, which is positively associated with stewardship, will also be valid for non-family managers having a high value commitment; even though the commitment will be higher for family managers. In hand with that, Gomez-Mejia et al. (2011) state that family businesses that perceive low opportunism are more likely to design an agency contract, which also protects the non-family managers' welfare instead of emphasising incentive alignment with financial rewards and punishments.

In accordance with stewardship theory, one would expect no additional cost for interest alignment for family members through costly incentive alignment or monitoring. This is reasonable as decision-making is characterized by centrality and informality as long as family businesses do not diversify. Loukas, Lena, and Manolis (2005) drew the conclusion that due to this, family businesses tend to have only weak governance structures (cited in Gomez-Mejia, Cruz, Berrone & De Castro, 2011). This state will be challenged in several ways when companies start to diversify, as the need for goal alignment will influence formal governance required in the family firm (Chrisman et al., 2007; Fernandez & Nieto, 2006). Hence, when it comes to further diversification of family businesses it becomes more important to have a more formalised structure of corporate governance, as there is a higher need for decentralised decision making (Fernandez & Nieto, 2005).

Generally, the importance of aligning the different interests increases when family businesses are growing or the ownership disperses as further generations take over. Governance mechanisms, which are treated in agency theory, become more important in these cases (Eisenmann-Mittenzwei, 2006).

2.3.3 Governance Mechanisms

Governance mechanisms are an important part of agency theory, which is the most common approach to examine ownership effects in the literature (Astrachan, 2010). A main assumption of agency theory is the model of man, which refers to the homo oeconomicus (Davis et al., 1997). Within this model, managers are seen as individualistic, opportunistic, and self-serving agents, whose goals are financial driven and differ from the owners' goals; the owners or shareholders are the principals in this model. According to Jensen and Meckling (1976), both parties are seen as rational actors who seek to maximize their utilities; it therefore becomes necessary for the principal to limit possible losses to their own utility when contracting with managers (cited in Davis et al., 1997).

Agency theory has often been applied on family businesses (Chua, Chrisman & Steier, 2003; Davis et al., 1997; Gomez-Mejia, Nunez-Nickel & Gutierrez 2001). Chua et al. (2003) suggest that the classical agency theory is seen as less relevant in family businesses. This is due to the fact that ownership and management are unified, so there are no agency costs for the family in most cases. This is also mirrored in the governance structures of family businesses. Family CEOs' compensation is for example largely de-

coupled from firm performance, as they are seen as stewards for the firm (Gomez-Mejia et al., 2011).

Agency issues become relevant when a company is growing to such an extent that a single owner does no longer have the means to meet economic obligations. A spread of ownership, as well as a separation of ownership and management occurs as a result of this; each party maximises its own utility (Davis et al, 1997). So the crucial point within agency theory is that principals are delegating authority to agents, which then may act opportunistically in favour for their own utility, at the expense of the principals' utility, which leads to agency cost (Davis et al., 1997). Jensen and Meckling (1976) defined agency cost as the cost associated with monitoring by the principal on the one hand, the expenditures of the agent due to bonding, aligning interests of both parties, and cost associated with contracting on the other hand (cited in Chrisman, Sharma & Taggar. 2010). Hence, agency costs are costs, which can be associated with the implementation of governance mechanisms.

The purpose of governance mechanisms is to align the diverging interests of principals and agents. There are according to Davis et al. (1997) two main types of governance mechanisms. On the one hand there are compensation schemes, which aim to align interests with financial incentives for managers, providing rewards or punishments in financial terms with respect to a successful or unsatisfying completion of shareholder objectives. Another way to minimise agency cost is the implementation of governance structures, such as adding a board of directors (Davis et al., 1997). Ownership concentration in family businesses gives the owner family the possibility to set up a board freely. The owner family most often holds the majority of board seats, so that the top executives pursue the family's objectives (Gomez-Mejia et al., 2011).

The board has the task to stimulate the essential attitudes necessary for indoctrinating employees with the company's values, in order to maintain a stewardship oriented culture (Miller & Le Breton-Miller, 2005). This can be achieved by several means. It is important to have flat and informal organisational structures with only a few levels of hierarchy and not too much bureaucracy according to Miller & Le Breton-Miller (2005). Hence, it is important that key positions within the company are staffed with employees who share the same values as the family; so that the interests are aligned through the same objectives rather than through rules, which guide action (Miller & Le Breton-Miller, 2005). For that purpose, a well-formulated mission, inspiring commitment by going beyond pure economic issues is important for the company (Miller & Le Breton-Miller, 2005). To sum up, it is important that the board is farsighted, able to listen and patient to develop a cohesive high commitment culture. Such a culture is characterised by freedom to act, good collaboration between different functions and business units, possibilities for personal development, and most important, a frank communication (Miller & Le Breton-Miller, 2005).

Another important impact on corporate governance comes from the demands of the legal systems where companies are operating, thus governance systems are different

across countries. The main characteristics of the legal requirements in Sweden and Germany will be discussed briefly, as it will be dealt with in a case where a Swedish company set up a subsidiary in Germany.

According to Fredborg (1992), the Swedish system of corporate governance combines characteristic of the Anglo-American and the German approach to corporate governance (cited in Brunninge, Nordqvist & Wiklund., 2007). Corporations in Sweden have a one-tier board as in the Anglo-American system, but also need to have representatives of the employees on the board, if the firm has more than 25 employees. The CEO is usually the only executive on the board in Sweden (Brunninge, Nordqvist & Wiklund., 2007).

The German governance system is characterised by a two-tier board system with a strict division between the top management, called management board, and if existing, the supervisory board. It is not possible to become a member of both boards (Klein, 2000). As Klein (2000) describes, the task of the supervisory board is to control and support the top management, but this is only required for an 'Aktiengesellschaft' (limited company). It is the responsibility of the owner family to direct and control the company's activities in family businesses, which are no limited companies. Most family businesses in Germany are not limited companies, but GmbH (company with limited liability). They can therefore do without a supervisory board. Despite this, German literature recommends the installation of a supervisory board for family businesses to avoid family conflicts impeding the business; still, most of the family businesses have no supervisory board (Klein, 2000).

3 Method

From a methodological point of view, this paper will follow a qualitative approach. As Kontinen and Ojala (2010) mention in their literature review about the state of the art in the field of the internationalisation of family business, there is a need for case studies focusing on the questions of how and why companies make decisions and act in a certain way. It is recognised that previous studies have greatly emphasised quantitative research methods with a focus on positivistic measures, in order to evaluate the internationalisation of family businesses from a scientific point of view (Nordqvist, M., Hall, A., & Melin, L., 2009; Kontinen & Ojala, 2010). This spurred us to conduct qualitative research, which will allow a more in-depth investigation on a micro level.

Family businesses face special challenges when they go abroad, due to conservatism, their orientation towards independence or their limited resources (Basly, 2007; Fernández & Nieto, 2005). Another important issue is the governance of family businesses and the impact that ownership and the top management have on internationalisation (Segaro, 2012). To gain meaningful knowledge in these areas of family business research, we decided to follow the methodological approach with inductive qualitative research (Nordqvist, Hall, & Melin, 2009).

It should on the other hand be pointed out that the outcome of a qualitative study cannot be generalised from a statistical point of view (Nordqvist et al., 2009), but it might provide the grounding for further empirical and quantitative research, which can be used for positivistic measurements (Kontinen & Ojala, 2010).

3.1 Research Approach

In general, there are three different methodological approaches that may be applied; a qualitative- or quantitative method, or a combination of both (Darlington & Scott, 2002). According to Holme & Solvang (1997), the qualitative approach is generally referred as being descriptive. This implies that the findings are described with the help of an interpretation process, which investigates the linked activities, experiences, beliefs and values in the case (Holme & Solvang, 1997; Darlington & Scott, 2002; Yin, 2009). In most cases the qualitative approach serves to enhance understanding of the area of research. Furthermore, it is also often applied when there is a lack of theories in the specific area of interest (Merriam, 1998).

Moreover it will be advantageous to consider business values and beliefs into consideration to achieve a better understanding of the collected data (Darlington & Scott, 2002). Qualitative data is useful since it describes and captures the situation and emotions of the interviewees (Patton, 2002), while the quantitative method rather focuses on the facts, testing and verification (Ghauri et al., 1995). With respect to possible shortcomings of a qualitative approach, Holme & Solvang (1997) argue that the researchers face the risk of being subjectively biased.

As our purpose is to do research on the rationale behind corporate governance structures when a family firm is setting up a subsidiary abroad, a qualitative approach seems to be the most suitable one. This way, new knowledge can be gained and an understanding will be deepened, as the interviewees can show how they think about the different stages during the internationalisation process.

3.2 Research Design

As a qualitative approach was chosen, we followed an interpretive approach and decided to use a case study approach realised through in-depth interviews and extensive secondary data research, allowing us to collect our empirical data.

3.2.1 Interpretive Approach

The relevance of the interpretive approach in qualitative research of family businesses has been discussed by Nordqvist et al. (2009). They argue that due to the uniqueness of these businesses, family businesses are better investigated and understood through an interpretive approach, rather than through quantitative survey research in general. With respect to our purpose, this approach is feasible in order to achieve a comprehensive in-depth understanding, as we want to generate new insights with regard to the specific challenge of internationalisation in family businesses from a micro-perspective.

According to Asplund (1970) and Ödman (1991), understanding within the interpretive approach is meant as seeing an organisational phenomenon as one thing, and interpreting is about seeing these phenomena in new ways and assessing new meanings to it (cited in Nordqvist et al., 2009). Hence, the theories applied in our frame of reference will serve as a frame of interpretation of our empirical material, combining the presented concepts.

3.2.2 Case Study Approach

There are different methods of realising a qualitative research. We decided to choose a case study approach, as Yin already stated in 2009 that case studies are an appropriate method of realising qualitative studies (Yin, 2009). A case study is focusing on observations and findings regarding people or events. Furthermore, it is useful when the case tries to explain special happenings and how processes are realised and felt. Within this study, the focus lies on the internationalisation ambition of a family business and the applied governance structures. Consequently, a case study approach allows us to achieve deeper insights into this special field of research, approaching it in a holistic manner (Yin, 2009). Moreover, we decided to deal with this area of research by conducting interviews to reach an in-depth understanding. Still, there are the same restrictions to the case study approach as for the qualitative study – Information might be biased and data might be analysed subjectively (Yin, 2009).

3.3 Data Collection

According to Yin (2009), there are six main sources of information when conducting a case study, which can be referred to as documents, archival records, interviews, direct or participant observations and physical artefacts. In order to collect our data we used primary and secondary sources. Primary data is first hand information, which was collected by us, conducting two in-depth interviews. Moreover we used secondary sources such as documentation about the company's history to get a better overview of the company's activities. With respect to the frame of reference we searched mainly for textbooks and research journals in order to retrieve secondary data. Beyond that, we also visited the sights of the mother company and the subsidiary and had the opportunity to learn about the corporate culture of the company, which allowed us to study physical artefacts of Väderstad as well. Generally said, this use of several different sources increased the validity of our method. The employment of multiple sources made our case description as appropriate as possible.

3.3.1 Data Selection

As we are studying the internationalisation of family businesses and how they set up governance structures, we needed to find an appropriate company to make a valid case study. In the beginning we searched for family firms according to the following criteria:

- Family firm: According to our definition of a family firm, the company had to be managed and owned majorly or wholly by a family and had to perceive itself as a family business.
- Internationalisation: With respect to this, a company should have experienced a process of internationalisation and have more than one subsidiary abroad.
- Corporate governance: As our focus was on the long-term perspective of family businesses, we were mainly interested in subsidiaries which had been established for a time of at least three years, so that we could do research on the development of the relationship over time.

To be able to get an in-depth understanding of how the business was diversified internationally and how the owner family preserved the family's property also abroad, we decided to narrow our case study down to only one company to get a more holistic picture on the process of internationalisation in this company.

In order to get the right interview partners we contacted Väderstad AB in Sweden first to find the persons who had been involved in the internationalisation process. Provided with additional contact details, we then contacted Väderstad GmbH in Germany. Within the mother company and the subsidiary we interviewed one person, each individually. Hence, we prioritised to meet more than one person involved in the internationalisation to get a deeper understanding. The roles of our respondents in the company have been worked out more clearly as we focused only on the internationalisation process of one

company, rather than the marginal benefit of conducting a larger quantity of interviews in several firms. This way we avoided having only a one-sided perspective on the processes within the firm. Hence, we decided to use only one case as the basis for an analytical generalisation.

3.3.2 In-depth Interviews

According to Yin (2009), an interview is a directed conversation with a person in order to achieve better insights in a special field of research. In-depth interviews represent the most common method to collect empirical data when it comes to a qualitative approach. According to Maxwell (1996), interviews can focus either on gathering in-depth information regarding a certain point of interest, or on covering a large amount of information regarding several issues, focussing on the breadth information to ascertain. Within our case we explore in-depth information due to our interest in achieving deeper knowledge about the internationalisation process and the applied corporate governance structure. Therefore we decided to conduct two in-depth interviews with one single company. So we were able to obtain information about the point-of-view of the headquarters and the subsidiary.

3.3.3 Interview Guide

There are three different ways to conduct interviews: in a structured, semi-structured, or unstructured way (Yin, 2009). Structured or focused interviews are conducted with the intent to analyse and organise retrieved data. The opposite is an unstructured interview, also called open-ended interview. Within this kind of interview questions are asked out of a conversation to gain more insight in the field of interest. A semi-structured interview combines the advantages of both described interview types in order to avoid the shortcomings of the above mentioned.

In a semi-structured interview a prepared interview guide helps the interviewer with staying on track and keeping the time. This was very important in our case as the interviews were time limited. A semi-structured interview is more flexible in this way, compared to a structured interview, as the interviewee can be guided through his or her experiences and at the same time the interview guide helps the interviewer to focus on issues which are relevant to the research topic. Hence, the interview was as flexible as a conversation, as it gave the opportunity to collect additional information and to broach a subject again, when unexpected issues came up during the interview. The interview guides are attached in appendices A to C.

3.3.4 Interview Mode

We conducted both our interviews face-to-face in order to be able to have the possibility to increase our understanding by avoiding mishearing and other possible interruptions. The face-to-face interview allowed us to experience the culture at the company's site, making it possible to get a better impression.

The interview at Väderstad GmbH in Germany was conducted on the 23rd of March 2012 with Kai Kamp, who is responsible for the administration at Väderstad GmbH and acts as a major link between Väderstad AB and its German subsidiary. The interview was conducted face-to-face by Sören Salzwedel and took 55 minutes. The language was German as it was the mother tongue of both interviewee and interviewer. Still, the data is presented in English. In order to avoid any deviations from the intended meaning of the respondent's answers, and to assure that it was a valid translation, the translated transcript of the interview has been approved by the interviewee.

At Väderstad AB the second face-to-face interview was conducted on the 28th of March in Väderstad, Sweden. The interviewee was Johan Orrenius who works as the Deputy Managing Director at Väderstad AB and has been involved in establishing several subsidiaries for Väderstad AB in foreign markets, including the German market. This interview took one hour and ten minutes and was conducted in English as all group members were present at the interview in order to be able to shape the conversation.

Both interviews were recorded digitally, which made it possible for all group members to follow up also the interview conducted in Germany. With respect to analysing and processing the data, we used transcripts of the previously recorded interviews. In both cases the interviewed person accepted to be quoted and that the conversation was recorded.

3.4 Data Reliability

The choice of using semi-structured, in-depth interviews is a way to gain a detailed understanding of a certain issue. It is however important to keep in mind that different forms of bias affect the reliability of the research (Lewis, Saunders & Thornhill, 2007).

The first bias to consider is the interviewer bias, which is present when the interviewer's comments, body language or behaviour affect the way the interviewee responds to asked questions (Lewis et al., 2007). The interviewer's beliefs and frame of reference might in this way guide how the interviewee is being questioned. It might also play a part when the collected data is being analysed after the interview (Lewis et al., 2007).

It is important that the interviewer acts in a way that the interviewee perceives as professional; the credibility of this person could otherwise be seen as deficient. This would damage trust and work against the researchers, since the interviewee would be more prone to leave out important information from the interview (Lewis et al., 2007). It is therefore important to not let time constraints create a feeling of stress and discomfort when people are interviewed.

The interviewee or response bias is on the other hand less related to the interviewer, but more concerned with the interviewee. The person in question might depict a biased view of the researched area. This might be the case if the interviewee wants to describe the organisation in a more or less desirable way than it is actually true (Lewis et al., 2007). He or she might have a hidden agenda, but it could also be a question of following or-

ders from management. In order to minimise this risk, we did not give the interviewee the opportunity to create a hidden agenda, as they did not receive the questions in advance. They were just informed about our research topic in general terms.

The use of few interviews as in this research increases the ‘damage impact’ that one biased interview would lead to, so this gives the researchers a greater responsibility. The use of several interviewers per interview occasion might however increase the chance of observing both interviewer and interviewee bias, so that this can be taken into account.

A rather obvious issue that comes with qualitative research in the form of interviews is the question of generalisability (Lewis et al., 2007). It is important to keep in mind that the research is an in-depth study that cannot be used as a general framework. The uniqueness of companies does however mean that the findings cannot even be seen as general knowledge within this narrow scope, but rather as an example.

The fact that research that focus on historic examples can be out-dated is also important to consider. Reality changes all the time, so research based on what was done 10-20 years ago can differ from what one would find, when contemporary cases are examined in the exact same way.

Cultural aspects such as ‘Swedish modesty’ are other factors that have to be taken into account. This is a factor that could prevent interviewees from expressing the full extent of a success or failure.

3.5 Data Presenting and Analysis

In order to analyse our data, we applied our theories from the frame of reference to interpret our empirical findings. Our formulated research questions served as a guideline for this process to follow our purpose. This way we guaranteed a logically structured analysis sticking to issues of the purpose and the research questions. Findings and analysis were both structured according to our previously formulated research questions. This led to a more integrative presentation of our data in relation to theory to obtain a better understanding and develop meaningful interpretations.

Throughout the process of reviewing our empirical data, the authors analysed, discussed and reflected on different parts of the interview and aspects in theory to evaluate the findings. There is a description of Väderstad AB and Väderstad GmbH and our respondents in the beginning of the empirical account, so that the reader can gain necessary background information regarding the company and the respondents. This will facilitate the understanding with respect to the context of the studied internationalisation on the one hand, and allows the reader to better comprehend the points of view of the respondents on the other.

Each research question is presented and followed by the relevant empirical data retrieved with respect to each point. These empirical findings are then analysed with the help of theory presented in the frame of reference, relevant to each research question.

This way to analyse data is also suggested by Silverman (2000) to facilitate the readers understanding and ability to grasp the content.

4 Empirical Findings and Analysis

4.1 Väderstad-Verken AB

Väderstad AB was founded in the early 60's by the farmer family of Rune and Siw Stark. When Rune Stark invented his first rigid tine harrow in 1962, he just planned to improve his way of doing agriculture. Yet, after some time farmers from the neighbourhood heard how well his machinery worked, so they started ordering. Although he never intended to open a business in the beginning, he fast recognised the opportunity and opened up a small company called 'Rune Starks Mekaniska Verkstad'. It was located close to where Väderstad-Verken AB is located today. Rune paid a lot of attention to innovation and developed a lot of different optimised machines through the 60's. The family was important from the very beginning as he also included his wife Siw in the business, even though the business idea did not convince her from the beginning (Väderstad, 2012a).

In the 70's the business started to boom and Rune had to expand. Consequently, he changed the name of the company to Väderstad-Verken AB. In 1972 the workforce amounted to 20 people already. One decade later, in the 80's, Väderstad could profit from a very good reputation in the agriculture market as they made several crucial innovations. After the first exports to geographically close markets, Väderstad started to export their machines to the Soviet Union and even to New Zealand. Furthermore, the four children of Rune and Siw Stark were introduced in the company. During the 90's the number of employees increased from 125 to 300. In 1992 the first decision to build up an own subsidiary in the United Kingdom was decided by the board. As this establishment was a success, other subsidiaries were opened up in France (1994), Poland (1996), Hungary (1997) and Germany (1999) (Väderstad, 2012a).

Today the company is controlled by Crister, Christina, Andreas and Bo Stark, who are the second generation being in charge of the business. During the last 50 years the small company has achieved a huge growth, which is manifested by twelve wholly owned subsidiaries and a total of 900 employees worldwide. The turnover in 2011 amounted to 184 million Euro. This year (2012) the turnover is predicted to reach about 200 Million Euro while Väderstad is present on 30 markets (J. Orrenius, 2012-03-28). Their mission is to create flexible machines for soil tillage and drilling that do an excellent job regardless of the cropping approach. The company is highly innovative as ten per cent of their workforce is employed in R&D-activities. Therefore the machines are characterised by high efficiency as several operations are carried out in a single pass, which secures high return on investment for its customers and has a clear ecological benefit on the other hand. Väderstad's values are based on a vision that goes back to Rune Stark, the founder:

“To supply modern agriculture with highly efficient machinery and methodology.”
(Väderstad, 2012a).

Nowadays the top management team is composed of eleven people, whereof three are family members. Crister Stark is the Chairman of the Board, Christina Stark serves as the Managing Director and Andreas Stark fills the position as Production Director. Hence, there is a deep connection between family ownership and management. Bo Stark is the sales director for Scandinavia and Siw Stark continues to be an owner, but is not involved in the daily activities (Väderstad, 2012a).

Our interview partner Johan Orrenius is also a member of the top management team and is deeply connected to the family since 1997 (J. Orrenius, 2012-03-28). He was running sales and marketing in the company for ten to eleven years, and during that time he spent a lot of time travelling and starting up new markets. Today, he serves as the Deputy Managing Director and Product & Marketing Director. Setting up the German subsidiary was his first big project in 1998, where he also served as a managing director in the beginning and therefore knows the subsidiaries well.

4.2 Väderstad GmbH

The history of Väderstad in Germany began in 1975, when the first machine was exported to Schleswig-Holstein. During the 80's and 90's the company Husen worked as an importer and retailer of Väderstad products in Germany. The demand for drilling machines that were able to work on a large scale increased tremendously right after the fall of the iron curtain (K.Kamp, 2012-02-23). This allowed Väderstad to establish itself on the market. As the importing of Väderstad machinery was not a main part of Husen's business, some major issues within this corporation appeared, which finally led to a termination of Husen's contract and the decision by Väderstad to set up an own subsidiary (Väderstad, 2012b).

A major reason for not getting a new importer was the importance of the German market for Väderstad (J. Orrenius, 2012-03-28). As the importer fired the entire personnel force working with Väderstad from one day to another, Väderstad was confronted with the situation of having no distribution at all. Väderstad Deutschland GmbH was founded in January 1999. As the main customers of Väderstad were located in former East Germany, the location was chosen to be close by Berlin to also profit from the well-developed infrastructure. The intention was that every potential customer from the new federal states would be able to reach Väderstad GmbH within three hours (K.Kamp, 2012-02-23). During the years Väderstad GmbH developed a broad network including retailers, offerings of seminars and other events with their customers and potential new customers. Today they are offering a range of high value products like drilling and tine harrows (Väderstad, 2012b).

Our interviewee in Germany was Kai Kamp, working in the administration department. He has been in touch with this company since its foundation, while others like the management director left within that time span. That is why he is able to give a holistic view on the whole development of the subsidiary since 1999 (K.Kamp, 2012-02-23). Furthermore he also proves to have connections with the family.

4.3 Family Business

Our first research question was: „How and to what extent do family aspects influence the subsidiaries?” In order to answer this question we will first prove to what extent Väderstad AB can be called a family business by applying the definitions introduced in the frame of reference. Referring to the three-circle model and its three dimensions, we observe that at Väderstad there is an overlap of all three dimensions of family, management and ownership. Väderstad is wholly owned by the five family members Siw, Crister, Andreas, Bo, and Christina Stark. Except for Siw, all owners are also involved in management as previously described. Hence, as this is in accordance with the family business definition of Litz (1995), we will expect to observe a strong influence of the family and its values on the business. First, we will present the empirical insights from both companies, followed by the analysis.

4.3.1 Insights from Väderstad AB

According to Orrenius, Väderstad AB has very good relationships in general with all its subsidiaries. Overall the company is characterised by direct and open communication, not having many rules and a simple structure. Hence, the people within company also have a quite clear understanding of the company’s culture when it comes to questions like: ‘How should we act towards customers?’, ‘How should we look at leadership in Väderstad?’, and also how Väderstad treats its employees. Much emphasis is put on having this culture as well in the subsidiaries. This is sometimes also challenging, an example mentioned was Russia:

“If we come to farm, we say hello to the farm manager, we say hello to the truck driver, we say hello to the people we meet, and we respect the people we meet. In some cultures, like Russia, you only care for the manager and you [are not interested in] the people living on the farm, or the truck driver [at all].”(J. Orrenius, 2012-03-28).

Consequently, the recruiting of the right leader, who can identify with Väderstad’s values and has a similar mind-set, is crucial when expanding into countries like Russia, where also a manufacturing plant has been established. Hence, any candidate for the position of the managing director in a subsidiary will be invited to Sweden to get to know the company, the employees and the family. This is important in order to find out if the new managing director has the same values and the same way of thinking. There have also been some cases, when Väderstad had to shift the managing director because they were on the wrong track, or they didn’t have the right values, or they just didn’t perform.

“First we speak, Väderstad tries to be quite clear that a certain thing goes the wrong way, you have to do this and this. And if the people in the subsidiary aren’t certain, Väderstad wants them to ask” (J. Orrenius, 2012-03-28).

As a general guideline on how issues are handled within the company they have a booklet, which is called “The Väderstad Way”. In this booklet there is a simple description of Väderstad’s culture, its values and how Väderstad looks at leadership and teamwork.

“When we created this book we made a lot of interviews in the company, both with the family Stark and with people that were quite new in the company and with people that had been a very long time in the company, with people in subsidiaries, with some customers to find out: - Where does Väderstad come from, and where are we today and what will be important in the future? So it was like a mirror of how we look and how we want to be.” (J. Orrenius, 2012-03-28).

How the companies’ culture is influencing decision-making and how its values influence the treatment of the employees could be observed in Germany as well as in Australia. After the importer Husen laid off the people who distributed Väderstad’s products, Väderstad faced a situation where everyone that had worked for Husen wanted to work for Väderstad. Orrenius criticised Husen’s managing director for an absence of emotional connection with his employees and the practise of laying off people with such ease. In Australia, where Väderstad was forced to shut down their subsidiary, Väderstad managed to help their managing director, sales manager and one of the service guys so that they got a job at the new importer instead. Being asked about whether the fact Väderstad is a family business is important to the company’s employees and its culture, Orrenius explained the importance of personal relations, as this makes people feel their importance for the business (J. Orrenius, 2012-03-28).

“Some people that come to Väderstad from big companies and felt that: - when I worked for John Deere I was only a number, I was only one of a thousand employees. – When I work for Väderstad then I am someone, I am the sales guy in Mecklenburg Vorpommern” (J. Orrenius, 2012-03-28).

The family very much represents the values that are important: that Väderstad cares for the customers, that people within Väderstad are friendly with each other and that everyone is treated with respect. So, there are some core values, which Väderstad tries to preserve while growing:

“Even though Väderstad is growing we try to keep this family approach that we are friendly to each other. If we meet someone in production we say hello. And we pay attention and interest to each other; so I think [that] this you can find everywhere in the company, and that very much comes from the owner family.” (J. Orrenius, 2012-03-28).

With respect to the assumption that Väderstad could be a public company, Orrenius said:

“Things would be very much different because then it would be much more formalised, it would be much more reporting. It would probably be... like the decision to go into a country would be more paper work, more meetings and investigations to come to the same conclusion. Instead we are working quite a lot with the heart or the stomachs. If

managers at Väderstad believe in something, they say that they can do it.” (J. Orrenius, 2012-03-28).

An important aspect when it comes to this is the longer time horizon at Väderstad. Taking the example of entering a new market, Orrenius states that if the family and the management think that something is right in the long-term, then Väderstad can incur a loss in the first year, or even the second year. Still, in the third year they should make a profit; but managers at Väderstad can do things that they think are right in long-term, which also is related to being a family firm. Another mentioned advantage of being a family firm is that the money earned goes back into the business again. Väderstad builds new facilities to produce, invests in robots, laser cutting equipment, more engineers, and new subsidiaries. Some 100 of their 900 employees work in R&D in order to make old products better and investing in new products (J. Orrenius, 2012-03-28).

Personally, Orrenius appreciates to work in a family business as the way from a problem to a decision is short and because people really care for each other. Another aspect he thinks is very important is that family ownership keeps the business independent and that it is quite clear that Väderstad is not for sale.

4.3.2 Insights from Väderstad GmbH

In the German subsidiary, when it comes to the working climate, it is described as very satisfying. There are some values and guidelines written in the previously described Väderstad handbook, but it serves more as a framework so that everybody knows his position. Besides that, everybody always has the opportunity to express his opinion and share his ideas and if he or she is able to defend them, they might be implemented in the system:

“I think it is a very open structure and if you have a good idea and good arguments, and then there will be people who listen” (K. Kamp, 2012-02-23).

Some kind of family feeling between the different employees is created within the company, so people start using their imagination and human knowledge for better understanding of a special issue. The longer one works at Väderstad, the more sensible one will become. People like to work there because of the community feeling. The work is not only about pure job descriptions but also rather about being a generalist and taking a look at the whole big picture. Everyone works together to achieve the best result (K. Kamp, 2012-02-23).

All the employees are conscious about the fact that they are working for a firm controlled by a family for two generations and not any anonymous stock company. This creates a lot of respect among the employees for all the work the family has achieved so far. Everyone has the possibility to simply contact the family whenever they feel the need to do so. Even though there is not much intercourse in the daily activities, you find several meetings where especially people in leading positions have the chance to ex-

change their ideas and experience with the top management team of Väderstad (K. Kamp, 2012-02-23).

For people at Väderstad it is important to have contact with people at the same positions in other countries, to be able to talk to others and to help each other.

“The flat hierarchy structure also allows an open culture to be created, so the family does not want to exercise too much control on its workers, but rather desires them to have fun while working as they know they can do things on their own” (K. Kamp, 2012-02-23).

Furthermore this also ensures the freedom of workers to act creatively on every single market, presenting Väderstad machines to dealers and farmers, building up solid relationships of mutual exchange, in order to improve the offerings (K. Kamp, 2012-02-23).

Another important characteristic of the culture at Väderstad is patience and long-term orientation. Everything is planned in a range of about five to ten years, so there is more to it than what shall be done the following year. According to Kai Kamp, this long-term planning is way more interesting and fun to work with. Patience is also a very important point when it comes to discussion about how things have to be done at Väderstad. The top management team in Sweden is always willing to discuss all kind of issues, but both sites have to accept a long process in order to negotiate and reach an agreement (K. Kamp, 2012-02-23).

4.3.3 Analysis Family Business

In order to analyse the influence the family has on the subsidiaries, we will firstly apply the model of Sirmon and Hitt (2003) on Väderstad AB. Then we will test if the five capital criteria also hold true for the subsidiary. If so, we can prove and evaluate the family’s influence on the subsidiary abroad.

We found evidence for a rich base of human capital at Väderstad that represents all the acquired knowledge and capabilities of the employees and the family members. So, the huge family involvement allows creating an atmosphere where exchange of information is highly emphasised. This establishes a warm and friendly atmosphere with an open culture where the expression of opinions and ideas is desirable and welcomed. Also for the subsidiary we found evidence for these characteristics and that also non-family members abroad feel affinity to the family and its business.

Also Kai Kamp mentioned several times that he values working for a family and that the fact that they are not working for an anonymous publicly traded company is appreciated by the employees in the German subsidiary. Furthermore, the examples of Russia and Australia show how human capital is valued within Väderstad and its subsidiaries. Another indicator for this is the recruiting policy for Väderstad’s management positions in foreign countries.

When it comes to social capital it is worth to go back to the beginnings of Väderstad, when Rune Stark was first producing drills for his own use, before his neighbours became aware of his increased productivity and started to order drills for their own farms. Hence, during this stage social capital and the Stark family's embeddedness in the local area was the key to Väderstad's success. These interrelations with farmers are important as still nowadays joint development and presentation for farmers plays an important role. This is also true for the subsidiaries, as a strong connection towards the farmers is crucial for marketing and sales purposes.

The fact that Väderstad is a family business is moreover important when it comes to strategy making with respect to the time horizon of the business in general, which is about five to ten years long. This indicates patient financial capital, as investment decisions, and hence the strategy does not strive for fast returns on investment rather than on long-term growth and the preservation of the family business. This holds as well for the subsidiaries, as Johan Orrenius emphasised.

This long-term orientation is accompanied by the high commitment of the family members to their business, which can be characterised as the presence of survivability capital. We found evidence for this high commitment in the past when Siw Stark was working in the business due to her commitment to her husband's business. Even today most of the money earned goes back into the business and is invested in research and development, new facilities to produce, or new market entries. Still, the resource commitment to Väderstad's subsidiaries is lower, which showed the example of Australia. As the fluctuations in this market were too high, Väderstad AB was not willing to invest further in this market.

With respect to the governance structure also at Väderstad, the first CEO Rune Stark was in charge as a CEO for a very long time until this position was given to his son, Crister Stark who is now in charge of this position. This also reduces agency cost, as the CEO is committed to the business itself. To further avoid agency cost on the subsidiary level, Väderstad has established a special recruiting procedure, where possible candidates are invited to Väderstad to meet the family, as mentioned above.

Referring to our research question, our empirical findings proved that in this case the family aspects have a strong influence on the subsidiaries. By analysing the five distinctive kinds of capital in family businesses, we found evidence showing that the family business characteristics are important both for the headquarters and the subsidiary. For four out of the five kinds of capital we found evidence also on the subsidiary level. Hence, we can conclude that even though family members are not involved in the daily business, the subsidiaries benefit from unique family business characteristics and are different from possible non-family business competitors. So the family's influence on the subsidiary is of a strong nature.

4.4 Internationalisation

The second research question was: “How is the internationalisation process structured and what are major concerns, especially when it comes to the establishment of a new subsidiary?” One would expect the opening of the first subsidiary to follow the classical establishment chain with sporadic export followed by sales agent cooperation, the opening of a subsidiary and sometimes a production plant. To aim for markets with less of a psychic distance is also an expected action, at least initially in the process of internationalisation.

4.4.1 Insights from Väderstad AB

Väderstad has subsidiaries within their main markets, as they want to be present there on their own. Väderstad works with importers on other markets, which implies that it is difficult for Väderstad to be as present as in markets where they have subsidiaries, because importers do not have the same focus on Väderstad’s products (J. Orrenius, 2012-03-28).

The first subsidiary was set up in England where Väderstad had a history with two different importers, who had problems with payments, focus and a lot of other things. Hence, Väderstad thought about setting up a subsidiary. Väderstad spent a lot of time and focus on this first subsidiary, visiting farms, sending machines, developing the reporting models and so on. Afterwards Väderstad very much kept this philosophy to do the same in different countries. The German subsidiary is organised in the same way as the subsidiaries in France and England (J. Orrenius, 2012-03-28).

Another important issue is marketing. Väderstad wants to look the same in different countries, so there are guidelines for that. This has been an important factor, because if some 80 % are set, then it is easier to start up a new subsidiary according to Orrenius; because then they know what to do. They know how it should be reported and how they should be organised. Then the next important task comes down to finding the right people and to train them. Hence, the more subsidiaries Väderstad had established, the easier was each extension due to previous learning (J. Orrenius, 2012-03-28).

In Germany, after Husen decided not to be an importer anymore, Väderstad had to decide whether to look for a new importer or set up an own subsidiary. A major reason to not only change the importer was the importance of the German market for Väderstad. As the importer fired the entire Väderstad personnel from one day to another, Väderstad was confronted with the situation of having no distribution at all. Before deciding, Väderstad created a project description including what they wanted to do. Step one was to recruit key-personnel and then find a location. Väderstad in Sweden calculated the costs, determined the budget and how it would look the first year and the second year; and what the major investments would be. It was a simple decision for Väderstad, because Germany was a very good market for them (J. Orrenius, 2012-03-28).

There were four important things to consider in the first phase of setting up the subsidiary. One was to secure personnel, because Väderstad did not want the people at Husen to disappear. Instead Väderstad intended to secure especially the sales guys, so that they could work for Väderstad again. The second important thing was to find a new base, an office with spare part facilities. The third important thing was the communication to dealers, because in the situation where an important brand lost its importer, Väderstad's competitors would have had the chance to increase their market share at the expense of Väderstad. So, to have a clear communication with the dealers was important in the beginning. Finally, the fourth thing was, as it took some time to set up a subsidiary, to have efficient spare part distribution from Sweden in the meantime (J. Orrenius, 2012-03-28).

In the beginning the team in Germany consisted of about 13 people including the management director, four sales guys, a marketing manager, and two employees working in service, two with spare parts, and three in administration. Securing the former sales guys from the importer allowed Väderstad to keep the connection with its dealers in Germany (J. Orrenius, 2012-03-28). Another important issue was the choice of the location, which has already been discussed under 4.2.

A special thing in Germany was that the subsidiary was established under time pressure. In other markets such as the Ukraine, Väderstad could start up a subsidiary from scratch, as they previously had no importer. Moreover Väderstad is not any longer doing the entire recruitment process on their own. Instead a recruitment company is employed in order to find the right people on the different markets. The first interviews with potential managing directors are then done locally in the markets. Promising candidates are then invited to Sweden, where they get to know the production and the employees in Sweden, including the owner family to see if they can identify with Väderstad (J. Orrenius, 2012-03-28).

Another very special case was the subsidiary in Australia, which has been set up and needed to be closed later on.

“The reason is the fluctuations in the Australian market, because Australia is very much a weather depending market. So that means that one year they have a good harvest and they put out fertiliser and they invest in machines and they have a profit. And then maybe the next two years, three years if you don't have any rain they do nothing. They wait for the rain until they do anything. So that means that many farms are prepared that they make money one year out of four, and they invest one year out of four.” (J. Orrenius, 2012-03-28).

These fluctuations made it very hard to run operations. Väderstad came to the conclusion that they could not run a subsidiary if it was not profitable. Hence, Väderstad thought that probably for Australia it was better to find an importer that had a wider base for their income. So the long-term relationship, to work with a strong importer was a better solution, both for Väderstad and the market (J. Orrenius, 2012-03-28).

4.4.2 Insights from Väderstad GmbH

In Germany, the establishment process was rather fast. As already mentioned, in the pre-phase there was a company who imported Väderstad machines into Germany and managed the distribution. This importer had a principle discussion with Väderstad Sweden in 1998. The decisive point was actually, that when Väderstad had a discussion with Husen, they expressed that they did not really want to continue the importing.

“A huge opportunity opened up. The influence you can have on the market is way bigger with an own subsidiary” said Kai Kamp. (K. Kamp, 2012-02-23).

It was a very lucky situation as on the one hand the importer did not want to continue and Väderstad had the opportunity to rule the market on its own. In the beginning Johan Orrenius helped establishing many contacts with farmers and dealers. So Kai Kamp argued:

“Väderstad AB knew that the Germans work in a different way than the Swedes, they were looking for something that would fit in this cultural mix” (K. Kamp, 2012-02-23).

Subsequently, Väderstad Germany was founded in the kitchen of the former employees. This went really fast and several employees were directly hired from the former importer. One of the workers became management director and then they created Väderstad Germany out of this small nucleus. Happily, the connection to the German market already existed because of the importer and as the demand for its products was high, the subsidiaries' success was enormous. Another advantage of having its own distribution organisation is to have more influence in the whole process and more decision power (K. Kamp, 2012-02-23).

At that time the management director together with Johann Orrenius were looking for a location that suited the purpose of being the future company site. Previously, the location was situated in Schleswig-Holstein, which was the former site of Husen, the importer. So they were looking for a strategically well-positioned site somewhere in the area of Berlin. The idea behind was that every potential customer from the new states could reach Väderstad within three hours to get spare parts etc. Everything developed pretty fast. The new federal states were very important after the fall of the wall, there was a lack of seed drills, but Väderstad was able to serve this need, which underlined the importance of the market to Väderstad. The market conditions were really good and they could have sold much more than they actually had sold before (K. Kamp, 2012-02-23).

4.4.3 Analysis Internationalisation

Referring to this empirical data, it is of great interest that Väderstad did not choose the neighbouring Nordic and Scandinavian markets for their first subsidiaries, since these are countries with less of a psychic distance, which has been suggested to play an important role in decision making. The fact that England and other non-Nordic markets

were chosen, implies that factors such as the markets size and potential played a greater role than going for markets where it would be easier to establish subsidiaries.

The great use of time and resources that the first extension led to was spent efficiently, since it simplified the following subsidiary openings on other markets. The guidelines for areas such as organisation structure, reporting models and marketing saved Väderstad valuable resources and it will likely continue to do so when future subsidiaries are planned and opened.

The German subsidiary was no exception in this case, but it differed in the way it was established compared to the first four subsidiaries. The termination of exporting agents' contracts had previously been Väderstad's planned choice, but this time it was the reversed scenario. The people in Sweden saw a lost market share, but felt that they had the potential to gain a higher market share than they ever had. The quick decision to open a subsidiary was a benefit of being a family firm, where quick decisions leading to long-term benefits are possible.

The state aspects in the original Uppsala Model, Market knowledge and Market commitment would in this case mainly be represented by the knowledge that the former Husen employees possessed and Väderstad's former resource investments in Germany. The knowledge of the market potential in Germany that the parent company's employees were aware of should however not be neglected, as this initiated the decision to expand. Hence, this commitment to the market was based on knowledge from the current activities. In the following, a commitment decision, based on the increased market knowledge from the terminated relationship, was made. The experience of selling to the German market reduced the perceived risk of opening up a subsidiary, as it was after all a market where the featured products had been popular.

The market knowledge might have been good, but the Market commitment was low to start with. Väderstad possessed very few resources in Germany, so it can be said that it was the extensive market knowledge that affected the change aspects, commitment decisions and current activities. It was decided that the firm was to invest in housing for the subsidiary and the hiring and training of more personnel and this led to an increase in current activities on the market. These activities would include marketing, sales and other similar actions. On-going operations in the country increased the weight of the state factors, which in turn spurred the change aspect further, until the vision of the full subsidiary had been realised.

A key to the success was definitely the integration of the former employees from the terminated Husen division. These men were insiders on the German market and they had market specific knowledge, which would have taken a long time to gain from someone operating in a different market. The market specific knowledge was combined with what one could interpret as company specific knowledge from the parent company's employees, such as the interviewee Johan Orrenius. This was the most important concern, and it was directly linked to a second issue to secure the connection with the

German dealers. Two other concerns were to find premises and to secure the spare part distribution.

The establishment chain on Väderstad's markets has in most cases followed the classical model where export is followed by subcontracting sales to a local agent. Thereafter, the decision to open a subsidiary has been realised in many cases. The final step, which is local manufacturing, has however been left out on almost all markets; Russia does however serve as an exception. Another distinguishable exception is the Australian market, where the company experienced, what one could call a regression in the establishment process. The decision to liquidate a subsidiary and go back to using a contract sales-agent proves that developed models covers far from all possible scenarios. Moreover the example of the Ukrainian subsidiary is also a case where the classical establishment chain is not valid because of the rapid international expansion.

Referring to the research question, our findings showed that Väderstad's internationalisation through subsidiaries was an action that was closely related to the profit potential that the market in question offered. Factors such as psychic distance were less important than market potential. Profit was however not the only factor taken into account, since the well being of the employees was prioritised. This was made clear in the way that Väderstad helped several employees from the liquidated subsidiary with getting an employment with the sales agent that was contracted in Australia.

4.5 Corporate Governance

The last research question we wanted to deal with was: "How and to what extent, are certain governance mechanisms applied to exert control over the subsidiary, and how does the relation between a subsidiary and the mother company develop over time?" With respect to these issues in corporate governance we argue that with the internationalisation of a family firm and hence the dispersion of management and ownership there is an increased need for formalisation and control mechanisms in order to prevent opportunistic behaviour. On the other hand the present stewardship oriented culture in family businesses is often described as the major source of competitive advantage. In this section we want to analyse how family businesses can balance these two contradicting needs, when establishing a subsidiary abroad.

4.5.1 Insights from Väderstad AB

Every subsidiary of Väderstad needs to report its financial result monthly to Sweden. Everybody uses the same forecasting system, the same business software is used in all the subsidiaries and they are controlled from Sweden, so it is possible to look after their activities from the headquarters. The servers are located in Sweden and the subsidiaries work from remote. The order flow, especially on spare parts, is integrated into an Enterprise Resource Planning (ERP) System. So if an order is entered in a subsidiary, it does not have to be entered in Sweden again; it just flows through the system. Also when it comes to marketing, things are set, as Väderstad wants to look the same on all markets.

Hence, overall around 80% is set centrally and the main task when setting up a new subsidiary is finding the right people (J. Orrenius, 2012-03-28).

This is important as Väderstad does not have many rules; instead they have only some general guidelines. Still there are also some clear rules, e.g. the subsidiaries are not allowed to buy machines that are not sold directly to customers, they are not allowed to carry stock, and they are not allowed to give long credits without security, unless it is approved by the finance department in Sweden (J. Orrenius, 2012-03-28).

In general, decision-making processes are consequently characterised by open communication, which is very important at Väderstad. This makes it crucial that everybody in the company has a quite clear view of the company culture. Consequently it is important that the people with the right values are recruited to work for Väderstad, as hired managers then will do the right things for the company (J. Orrenius, 2012-03-28).

To ensure this, employees from Sweden spend quite a lot of time to train employees in a new subsidiary. When for example, employees from the new subsidiary go to the first customers to start up a machine, employees from Sweden are with them to show them and to help. This way, things can be corrected quite early if something is observed that is going wrong. As already mentioned, there is also a small booklet called 'The Väderstad Way', it was introduced in 2005 and in this booklet there is a quite simple description of what Väderstad's culture is, what their values are and how do they look at leadership and teamwork and similar issues. These values are also important during staffing:

"We do the first interviews down there, and then when we find one or two good candidates we bring them up here. And that's both for ourselves to get to know the person, and also for this person to find out: - is this a company I want to work for?" (J. Orrenius, 2012-03-28).

Later on, there are subsidiary meetings, where people from the subsidiary come to Sweden nine times a year. Moreover there is a structured routine, which implies that the subsidiaries hand in a company report about the activities that are going on, the activities for the coming period, what problems they have and how the market situation is. Sales and sales activities are discussed, and information is exchanged about development going on in Sweden. The subsidiaries also list what they see, what they want or what they need. By this way it can be also found out if things are going the wrong way, and if so this can be corrected that way. Besides these nine meetings, they have a telephone meeting with the subsidiaries every two weeks to follow up on sales and forecasts. For the coming years it is likely that there will be eight personal meetings per year as Väderstad will start to come into video conferences (J. Orrenius, 2012-03-28).

Another major tool for tracking what is going on in the subsidiaries is provided by a planning document for each market for the whole year. This includes a sales budget for the year to come, answering what the main targets sales-wise are and what activities they are doing to reach these targets in terms of shows, demonstrations, marketing,

other projects they are doing and what investments are needed. Each subsidiary prepares a report like that in November, which is then discussed with the people in Sweden during December. Sometimes things need to be changed after these discussions, either the ambition needs to be taken up or down depending on the person (J. Orrenius, 2012-03-28).

To come up with appropriate numbers, the amount of machinery to be sold is determined; this is then multiplied with the machine value, which gives the income budget. On the other hand there is also a cost budget consisting of the cost of goods sold, personnel costs, marketing costs, sales costs and other costs. This provides in total the expected net income. The expectations from this report are then followed up monthly. The cost connected to this way of ensuring how things are going through personnel meetings etc. is seen as very well spent time and money (J. Orrenius, 2012-03-28).

Moreover, when sometimes things come up, employees from the headquarters have to go in to correct it; normally it's enough to speak to the person and to really find out what was going on. Still, if necessary they have an employee in the finance department who can be sent as well to take a look in the books. In a few cases the managing director has been replaced, since they were on the wrong track, or they did not have the right values. In this case the managing director is approached directly and the headquarters speaks with them to be clear that a certain thing is wrong. How things need to be changed are also discussed, and that if people in the subsidiary are not certain about the right way forward, they are encouraged to ask the mother company (J. Orrenius, 2012-03-28).

Furthermore, the headquarters wants to encourage learning between the subsidiaries by encouraging direct communication between these. This communication is widely managed in Sweden. For example, when it comes to delivery questions it is the supply and distribution department that speaks to the responsible person in a subsidiary. This also holds for other functionalities. There are three area sales managers that are travelling a lot of the time to help the subsidiaries if they have a problem or need something. There are a lot of contact persons in the company, so that the worker at the subsidiary can speak with the right person directly. Hence, not only sales people are travelling, also the supporting people are (J. Orrenius, 2012-03-28).

There are also some financial incentives for Väderstad's employees. At Väderstad they have a profit sharing system in the group. In a subsidiary it means that ten per cent of the profit in the subsidiary is shared among the employees in the subsidiary, and ten percent of the profit in the mother company is divided among all employees. In the small subsidiaries during start-ups, employees have good money from this profit sharing, especially when the subsidiary grows and should have more employees, but there has been no time to employ anyone. Still, Väderstad does not work with sales incentives for regular employees. For managing directors there are profit targets, aimed to be equally challenging. E.g. if someone reaches two per cent profit growth he or she will get a full bonus, and a full bonus can be a month's salary extra and for another market it

might be said that if five per cent are reached, they will have a full bonus, in order to make it equally difficult for all managing directors. (J. Orrenius, 2012-03-28).

Different legal requirements, such as the possibility to have a two tier board system in Germany, do not play a role, as Väderstad does not have this in-between level in any other country. Sometimes legally required structures exist on paper, because in some countries a board, board members or board meetings are required, but in practice it is not working that way. Väderstad has people in Sweden that travel and look into companies to make sure that things are going the right way. Hence, at Väderstad they feel that they have so much daily contact, that there is no need for this control function from a board. Still, the further growth and the establishment of subsidiaries on other continents could lead to a higher need of formalisation and a need for another structure, because the distance from the market to the management at Väderstad would increase (J. Orrenius, 2012-03-28).

When it comes to questions of how the relationship between a subsidiary and the mother company develops over time, the fact is acknowledged that especially in the start-up phase, employees are highly motivated as they feel that the development in the new market is up to them. This makes the people feel that they are important to Väderstad. In the case of the German subsidiary, Johan Orrenius mentioned that he could imagine that the decreasing focus on the German subsidiary has been hard for the German team, because they were used to have all the attention. Especially in the beginning of Väderstad's internationalisation, because when Väderstad did not have so many subsidiaries, Väderstad Sweden had a personal relation with everyone. People in Germany had a personal relation with Christina Stark, Crister Stark and Johan Orrenius. They were used to have Crister calling once a week to check how things were going or to be there quite often; but now as the company is growing there is no time for that. This was also kind of hard for the people that were used to this attention, to find out that it was not the same focus on them anymore. So, these things have changed when Väderstad reached more markets, increased sales and hired more employees (J. Orrenius, 2012-03-28).

“Another issue is that it is becoming more complicated to integrate the feedback from all subsidiaries as their numbers are increasing.” (J. Orrenius, 2012-03-28).

One issue is that Väderstad might face opinions coming from Germany, but this is only one out of 30 different markets. Hence, it is sometimes necessary to clarify that they got the point from one market, but that this cannot be considered, as a market may only account for five per cent of the sales. With respect to this, Väderstad introduced the so-called product management to avoid too much formalisation and instead integrate feedback better. This consists of three employees that are product managers for their products, who then have quite a lot of contact with the sales people, service, customers, so that they also get a lot of feedback on things that are good and things that can be improved (J. Orrenius, 2012-03-28).

4.5.2 Insights from Väderstad GmbH

From the German point of view the relationship with Väderstad in Sweden is structured in a rather simple way. Väderstad GmbH is one of the subsidiaries and responsible for the German market. Väderstad Sweden is the only owner, holding 100% of the subsidiary. This means that the work is done by the German management director and the German sales team, but the ‘companion’ who is observing the results is the mother company in Sweden. This structure is the same for all other subsidiaries, for example in England, France and Poland. The ownership is held by Väderstad Sweden and they have their teams on the different local markets to establish connections (K. Kamp, 2012-02-23).

Väderstad Germany is free to organise its market operations. It is their job to do what they need and otherwise when having something clear in mind; Väderstad Germany has to build a network of dealers. As they are responsible for the German market, they decide how to do the job. Still they have to listen to Väderstad AB if they for example want special equipment to be made in a higher quantity for the German market (K. Kamp, 2012-02-23).

It is in many ways controlled like any other subsidiary; the control process is structured in a rather simple way. First they check how high the fixed costs are, how much they have to sell and where they want to go. Finally they determine a budget that will be used to determine the number of machinery and where it has to be sold (K. Kamp, 2012-02-23).

Moreover there is the previously described monthly reporting system, where both the subsidiary and the mother company can see how sales were planned, what was achieved and what the profit turned out to be. This system is quite broad, including the different regions and workers. The deviation compared to the previous year and the result in general is openly discussed and evaluated with all the employees. This is done to show everybody what his or her position is and how the whole company is developing. The reporting to the mother company in Sweden is organised in the same way. This implies that the controlling process is of a general nature based on performance indicators, which serve as the basis for exchange. Control is exercised as a sustainable observation of processes, tasks, aims and other things to ensure that the subsidiary is developing in the right direction (K. Kamp, 2012-02-23).

There are of course also some limits set by Väderstad, but those are more designed like a framework, where everybody has the chance to discuss with others about changes or ideas and improvements. Consequently, everybody has the right to express his opinion and if he is able to defend his idea then it is realisable (K. Kamp, 2012-02-23).

All subsidiaries are organised in the following way: There is a management board, which consists of the management director. He is also responsible for the sales management. He is the sales manager responsible for the retail team that is focusing on the different regions. Besides the management director there is a marketing department and

a sales department and a spare parts department with four employees, who are overlooking the spare part distribution across Germany. Furthermore there is a customer relations department with four employees, who are supporting the retailers, organise seminars etc. So, there is no board of directors and no supervisory board. The whole administration is about Human Resource Management, Finance, Computer Data Processing and Controlling. Independently from the fact that there are contacts for every department in Sweden, the main communication and controlling process is done by the management director in the previously discussed monthly meetings (K. Kamp, 2012-02-23).



Figure 4-1 Organisational Structure in Subsidiaries (derived from K. Kamp, personnel conversation, 23-03-2012; Picture Source: Compiled by authors)

When it comes to the salary of the employees; every employee has his or her own fixed salary that was negotiated on at the beginning of the career. The worker will get paid this amount throughout twelve months of the year. There is no holiday allowance and neither a Christmas allowance. Furthermore, the profit sharing system is used. This means that the employees receive a share of the profit from the subsidiary as well as from the mother company. Hence, independently from the salary that was negotiated, everybody has the chance to earn some additional money if the company is performing well, so there is an incentive for the employees to perform better because they also profit from it. Yet, it is not possible for anyone to become a shareholder (K. Kamp, 2012-02-23).

In general, the relations to Väderstad are very good, as there are especial strong ties between the German management team and the Swedish management team including the Stark family. It is always possible to just call any member of the family and ask for their opinion. In the case of the German subsidiary, an even more intensive relationship has been built up with Johan Orrenius because of his previous position as a management director of Väderstad Germany. So this dual relationship is always aimed at helping each other; but not only towards the mother company, there is a strong connection also between the different subsidiaries. There was once the case of the Polish subsidiary having

an issue with its distribution channel, so they asked for help. Väderstad Germany shared its knowledge, but could unfortunately not help since it had not encountered that kind of problem yet. Still this exchange of knowledge can help in the future where any part of Väderstad might encounter a problem (K. Kamp, 2012-02-23).

Chart 4-1 Communication Structure

	Sales	Service	Parts	Marketing	Admin.
Sweden					
Germany					
England					
France					

There were weekly telephone conversations with Sweden as a controlling measure in the beginning, but during the years those became less intensive. Also a dedicated line to Sweden was installed during the start phase, when it came to planning for the next year, in order to ask for detailed orders, but this was abandoned about ten years ago, when everybody knew what he had to do. Still, they have the possibility to just call a responsible in Sweden in case they needed support. Another important fact is that Väderstad sends out special teams to new subsidiaries, so that they can share their opinion about the situation and the people. This ensures creating links. Moreover there are meetings on the administrative level anywhere in the world during two or three days per year to discuss special aspects regarding controlling, finance or book keeping. They can also contact the group of people in Sweden responsible for finance and controlling regularly (K. Kamp, 2012-02-23).

Kai Kamp’s interesting last statement was about autonomy:

“With a strong tendency for rigorous control mechanism you would reach your limitations pretty fast. From a certain size I think it is also in larger enterprises the case that you communicate via certain relations and personal trust and lead your business that way” (K. Kamp, 2012-02-23).

4.5.3 Analysis Corporate Governance

Conducting our interviews we found evidence for a number of control mechanisms at Väderstad Germany. On the one hand there are certain reporting mechanisms between Väderstad and its subsidiaries to achieve desirable results. Every subsidiary has to provide monthly reports to the mother company in Sweden and also needs to create yearly forecasts stating the main targets regarding sales, demonstrations and marketing. Moreover there are nine personal meetings at the headquarters for each subsidiary during the year. On the other hand there is also a profit sharing system that allows employees to

benefit from the overall success of the subsidiary and Väderstad. Still this is not a compensation scheme, which treats the employees as agents in the classical way. It is not linking personal monetary benefits with personal performance rather than it is linking personal monetary benefits with the overall performance of the company. This sharing system and the described reporting mechanisms, which are more meant to be frameworks for regular information exchange than sophisticated control mechanisms, are both indicators for a stewardship rather than an agency relationship between the family owners and their employees abroad.

Generally the organisation at Väderstad is characterised by flat hierarchies, informal structures and a low level of bureaucracy. Instead of detailed rules of how things need to be done, there are more general guidelines that can be found in “The Väderstad Way” This guarantees for the employees a lot of freedom to act and the possibility to express their opinions. This open communication is not only taking place between the subsidiary and the mother company but also between subsidiaries and internal departments. For example people from the administrative level in the subsidiaries and Sweden meet twice a year in any place in the world to exchange information and improve relationships, apart from usual day-to-day business operations. We argue that this good collaboration between Väderstad Sweden and its subsidiaries, which is based on the same commitment for the company and its mission, can be understood as a representation of stewardship culture.

Although there is high evidence of a stewardship culture nowadays at Väderstad it is still very important to understand the steps, which lead to this stage. To achieve this state it is crucial to look at the establishment phase of a subsidiary. At the starting of a subsidiary, much emphasis is laid on the recruiting process. On the one hand the position of the management director is determined by the personal fit with respect to family values and company’s mission. On the other hand, employees from Sweden also go to the new established subsidiaries in order to train and support the newly hired employees and to check whether things are going the right way and to adjust possible shortcomings and mistakes observed in the early stage of a subsidiary. This strong exchange of personnel and information for this purpose decreases over time, as the new employees adapt to the “Väderstad Way”.

For example in Germany there is a huge difference between the control nowadays and in the beginning. While in the beginning phase there was a dedicated phone line towards Sweden to guarantee a strong support for the new team setting up their first yearly planning document; nowadays there are only sporadic phone calls when an issue occurs. Moreover the managing director from Germany used to have weekly phone calls with Crister Stark in the beginning, today the family Stark is no longer involved in the daily business in Germany. From this evidence, we can conclude that especially the establishment phase is crucial, as initial support and incentives for close relationships are the foundation for personal motivation of the employees and a good collaboration between the business entities.

Still, Väderstad also used the possibility to exchange the managing director, when the relationship did not work out. This implies that any candidate has to identify with Väderstad's core values and needs to understand the way the family and the business think, which clearly shows that Väderstad treats its employees as stewards also in the subsidiaries. During the interviews both respondents valued the open and informal structure, which gives freedom to act and is also perceived as an advantage of being a family business. As Johan Orrenius mentioned, Väderstad strives to keep this family approach while growing. Consequently, also legal requirements to establish certain structures within in the subsidiaries of Väderstad are perceived as unimportant for the business itself. Even though these required structures may exist on paper, a need for formal control mechanisms is not perceived at Väderstad AB, as there is almost daily contact with the subsidiaries. Still, with respect to further growth on other continents, Orrenius mentioned that an increasing distance could lead to a higher need of formalisation, which goes in hand with our previously stated assumption with respect to this.

Going back to the research question, the empirical findings did not prove the assumption that family businesses need to implement formal governance structures and control mechanisms in order to protect the family wealth. By analysing the development of the relationship between the mother company and its subsidiaries we found that governance mechanisms are more meant as a frame for exchange rather than a mean to exert control. By hiring employees who feel attached to the companies' values acting as stewards in the beginning, Väderstad manages to establish a stewardship-oriented culture also in its subsidiaries. Hence, Väderstad can preserve this source of competitive advantage, based on informal structures and communication channels also in its subsidiaries.

5 Conclusion and Discussion

5.1 Conclusion

The purpose of this study was to investigate the rationale behind corporate governance structures in a family business when they set up a subsidiary abroad. Our main question with respect to this was how and why family businesses establish their governance structures when they set up a subsidiary abroad. To answer this question we derived three major research questions, each focusing on a different aspect presented in the frame of reference.

With respect to the field of family businesses and the question to what extent family aspects influence subsidiaries; we can conclude that there is a strong connection between family values and the daily routine in subsidiaries. Although the family is not even involved in the daily business any more, the recruiting process that every person in a management position has to go through is decisive for the implementation of a stewardship-oriented culture. Each subsidiary and its workforce are more perceived as a part of the family system. Hence, we can conclude that the family business will always take special care of its employees and will foster an open climate for discussion and ideas. The family business ensures the development of a sophisticated internal network so that every worker has the possibility to exchange information and doubts with each other. This network, the ability to always contact someone else, serves as a framework for the realisation of the open culture.

Referring to the second research question, how the process of internationalisation was structured and what the major concerns have been, we observed that the chosen firm has followed the establishment chain in all the observed cases, the only exception being the establishment on the unique Australian market. It is also probable that future extensions through subsidiaries will follow a similar pattern, since specific guidelines have been established within the studied company, that are in place to assist the construction of new subsidiaries and make the internal structure compatible with the parent company. We can conclude that guidelines like these simplify additional extension through new subsidiaries, thus making more extensions possible in a limited time frame.

Moreover, we can also draw the conclusion that three factors played a crucial role in the quick decision to set up a subsidiary in Germany. The termination of the sales-agent contract by the sales agent sparked the change, but it was the market knowledge experience from exporting that convinced the management team that the German market had a higher potential than had been realised through sales-agent export. Finally, by employing personnel with tight connections to German dealers, Väderstad could gain significant market specific knowledge at once. This led us to the conclusion that the lack of market commitment could be compensated by the access to extensive market knowledge.

When it comes to the third research question regarding corporate governance structures in the subsidiaries and how they develop over time, empirical evidence showed that an intense interaction between the mother company and the subsidiary in the beginning of the relationship served as the basis for a stewardship oriented culture. Moreover governance mechanism and reporting structures served as means for information exchange and the foundation of solid collaboration. Consequently we can conclude that when hiring new employees it is crucial that the family business selects employees who can identify with its values and the mission. This is especially important with respect to corporate governance when a family business relies on informal governance structures and sets up a subsidiary abroad.

Reviewing our findings with respect to these research questions, we can now draw our conclusion for the main question answering our purpose. We can conclude two important aspects from our findings and analysis regarding the question of how family businesses establish their corporate governance structures. The recruiting of employees, who feel attached to the family businesses' values, is crucial. Together with a focus on personnel exchange of knowledge and values between employees in the beginning, this allows the governance mechanism to serve as a framework for mutual exchange rather than a tool to exert control. This way of proceeding is linked to great investments in the beginning, but pays off in the long-term as it assists the implementation of a stewardship-oriented culture in the subsidiary. This serves as a competitive advantage in the long-run.

To conclude, we argue that governance structures and mechanisms do not serve as means for control at a first glance, but rather as liberal frameworks for mutual interaction and collaboration. This creates value for the business as it preserves one of the family business' main sources of competitive advantage during the business' growth and diversification. *Hence, the rationale behind corporate governance structures when setting up a subsidiary abroad is to preserve a family businesses' stewardship oriented culture and its informal structures for good collaboration to serve the mission of the business.*

5.2 Discussion

The aim of this study was to contribute to the on-going debates in the field of family business internationalisation and corporate governance. With this paper we advance the understanding of how and why family businesses set up their governance structures and consequently contribute to an area where a lack of qualitative research exists.

Our results proved the importance of a stewardship oriented culture and low agency cost for family businesses as a source of competitive advantage, which is based on informal governance structures. Although the family members were not involved in the daily business in the subsidiary anymore, we found evidence that the long-term orientation has also been established in the subsidiaries. Hence, we were able to show that the in-

ternationalisation of family businesses and the preserving of a stewardship culture are not excluding each other.

Consequently, this study makes a strong theoretical contribution to the on-going debate about family businesses. One crucial fact that we found out is that the family system described by Kepner (1983), can also be applied to the business as a system. The whole business with its subsidiaries functions as a system that is very sensible to shocks. As a lot of people decide to stay in the company for a great part of their lives, trust and loyalty among members is established. This trust, combined with the business knowledge those people have is a valuable resource for family businesses in an international context. Furthermore, the strength of the ties within the internal business network has implicit consequences on the overall strength, and by that on the resources of the business. This quite informal network between the different subsidiaries and the parent company helps the family firm to foster its competitive advantage.

Referring to implications for practitioners, we argue that our study gives an example also for non-family businesses on how the corporate mission and values can be transferred when new business entities are opened at new locations, or when a business starts to diversify. Our case showed that especially early exchange with actors involved in establishment can serve as the foundation for long-term value-based collaboration. Hence, our findings are especially relevant to businesses with informal governance structures, which base their competitive advantage on fast and informal inter-organisational communication and collaboration. Finally, this study has implications with respect to the appointment of leadership positions in new subsidiaries. As a trustful relationship with a key person representing the link between the headquarters and the new employees is crucial to guarantee a fruitful relationship in the long-run.

5.3 Limitations and Future Research

Although this study improves the understanding of how family businesses proceed, when they set up a subsidiary abroad and install control mechanisms accordingly, our research design has some limitations we need to point out. To start with, we conducted two in-depth interviews, one at a big family business, and the second interview at one of its many subsidiaries. This limits the ability to generalise our findings. Clearer results could be obtained by comparing a larger amount of family firms. Yet at this point, it was important to stay with one company to get an original idea about this special topic. Secondly, this paper is mainly focusing on the case of a family business holding subsidiaries in different countries. It would be interesting to know if our results would also remain true for licensed firms or franchises. Would the family firm also keep a value based approach through licensed partners? Thirdly, this study deals with a family firm with about 900 employees worldwide. How will bigger companies handle this internationalisation process? Is it still possible to make use of stewards in order to sustain the competitive advantage or are agents inevitable? Moreover, the role of new communication methods such as Skype and other videoconference tools has been mentioned as possible substitutes for personal meetings. It would be very interesting to find out how

these new communication means can help bridge geographical distances and family business with further expansion while maintaining informal governance structures. We argue that these studies should further follow a qualitative approach to complement the prevailing quantitative research in this field of family business research. These studies could in addition give a deeper understanding of the specific dynamics and challenges, which especially matter to international family businesses.

6 Reflection on the Writing Process

Writing in a group generally can be perceived as advantageous when it comes to reviewing and exchanging knowledge on certain topics. Helpful tools to ensure a fruitful exchange of group members' work are Dropbox, Google documents, and Facebook groups for discussion. Still, the increased demand for coordination makes it sometimes very hard to work in a group, especially if group members work with a different pace on their subjects. This can lead to unequally divided amounts of work facing deadlines. Moreover, it can be deceiving for group members as internal discussions may water their ideas regarding certain issues, if others may perceive them to be too vague. Written communication tools such as chat and e-mail also increase the risk of misunderstanding each other, since text is not as descriptive as face-to-face discussions. When discussing with other Bachelor groups we often recognised that students feel that due to the fact that the Bachelor's thesis is a group work, individual achievements might not be recognised and acknowledged. Another difficult point, which can lead to serious problems, is the gathering of empirical data. Any thesis-writing student should therefore look out for cases to study from the very beginning. We would have appreciated if it was possible to have a choice of writing the thesis in a group of three, two or alone.

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Appendix A: Interview guide - Väderstad GmbH/German

General Questions:

1. Wie würden Sie Ihre Position bei Väderstad beschreiben?
2. Wie sind Ihre Beziehungen zu Väderstad in Schweden? Haben Sie Kontakt mit der Familie?
3. Waren Sie schon mal in Schweden?

Family Business

1. Welchen Einfluss hat die Tatsache, dass Väderstad ein Familienunternehmen ist, auf die Motivation der Mitarbeiter?
2. Inwiefern waren Familienmitglieder persönlich in den Aufbau dieses Standorts involviert?
3. Wie würde sich Ihre Arbeit unterscheiden, wenn es sich nicht um ein Familienunternehmen handeln würde?
4. Was sind mögliche Einschränkungen aufgrund der Tatsache, dass die Familie alleiniger Eigentümer ist?
5. Wie unterscheiden sich die zeitlichen Horizonte bei Väderstad von anderen Unternehmen?
6. Arbeiten Sie gern in einem Familienunternehmen?

Internationalisation

1. Wie gestaltete sich der Gründungsprozess der Väderstad GmbH?
2. Wie sah der Übergang vom Importeur Husen zur Väderstad GmbH aus?
3. Welchen Einfluss übten Familienmitglieder zu dieser Zeit in Deutschland aus?
4. Inwiefern konnten Sie von den früheren Erfahrungen, die Väderstad auf anderen Märkten machte, profitieren?

Corporate Governance

1. Wie werden sie jetzt von Schweden aus kontrolliert?
2. Wie funktioniert die Kommunikation zwischen Väderstad GmbH und Väderstad AB?
3. Wie gestaltet sich der Austausch zwischen den Tochtergesellschaften untereinander?
4. Inwiefern glauben Sie versucht die Familie Stark Kontrolle in den Tochtergesellschaften auszuüben?
5. Wie haben Sie Vorschläge zur Verbesserung von Betriebsabläufen oder Produktänderungen eingebracht?
6. Wie ist das Gehalt der Mitarbeiter strukturiert?
7. Gibt es hier einen Vorstand und einen Aufsichtsrat?
8. Inwiefern glauben Sie sind diese informellen Strukturen dauerhaft funktionsfähig?

Appendix B: Interview guide - Väderstad GmbH/English

General Questions

1. How do you see your position within Väderstad?
2. How would you describe your relation to Väderstad AB, especially when it comes to the family?
3. Have you ever been to Sweden?

Family Business

1. How does the fact that Väderstad is a family business play a role when it comes to motivation of employees?
2. How are members of the owner family involved personally when a new subsidiary is started?
3. In what way do you think that it would be different to work for a non-family business?
4. What limitations exist because of the idea of keeping ownership within the family?
5. How do time horizons differ at Väderstad compared to other companies?
6. Do you enjoy working for a family firm?

Internationalisation

1. How did the foundation of this subsidiary start?
2. What about Husen? How did the transition work out?
3. What was the influence of the owner family during this period?
4. Did you profit from the knowledge gained from the opening of the older subsidiaries?

Corporate Governance

1. Were there any regulations imposed by the parent company?
2. How is the communication between subsidiaries and the parent company managed?
3. How does the exchange between the subsidiaries work?
4. To what extent do you think that the family strives to maintain control over the subsidiaries?
5. What did you do when you had suggestions to improve business procedures or product features?
6. How is the compensation for the employees structured?
7. Do a management board and a supervisory board exist?
8. Do you think that these informal structures can be kept for the long-run?

Appendix C: Interview guide - Väderstad AB/English

General Questions

1. How do you see your position within Väderstad?
2. How would you describe the general relationship between Väderstad AB and its subsidiaries?

Family Business

1. In what way does the family play a role when it comes to things that are important to Väderstad?
2. Would members from the owner family be involved personally when a new subsidiary is started? Would they be there in person or just send staff like you?
3. How do you convince employees to adapt to your values and way of doing things in countries where there are cultural differences?
4. How does the fact that Väderstad is a family business play a role when it comes to motivation of employees?
5. How do you think that Väderstad would be different if the company wasn't a family firm?
6. What limitations exist because of the idea of keeping ownership within the family?
7. Do you enjoy working in a family business?

Internationalisation

1. What learning from the opening of the four first subsidiaries was helpful when expanding to Germany?
2. What about Husen? How did the transition work out?
3. Was it different for other markets; did it take longer to make the decision?
4. What was the influence of the owner family during this period?
5. What were major concerns when closing the Australian subsidiary?
6. How do you integrate feedback from customers in countries where you have subsidiaries?
7. Did you profit from the knowledge you gained through the process of installing a subsidiary in Germany?

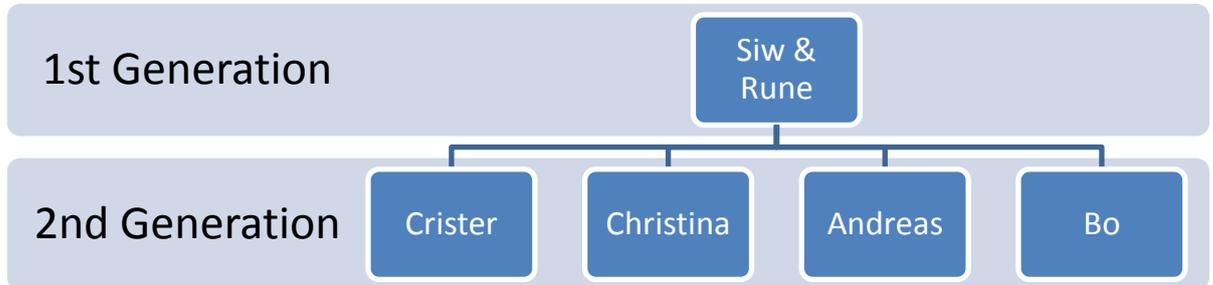
Corporate Governance

1. Were any regulations imposed for the subsidiary?
2. How is the communication between subsidiaries and the parent company managed?
3. How do you ensure that the subsidiaries work in the way that you want them to, once you've given them more freedom?

Appendix

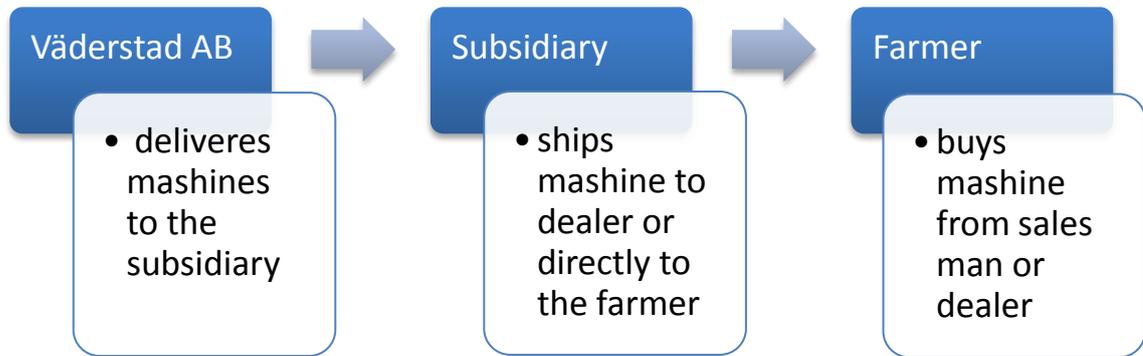
4. What did you do when a subsidiary didn't agree with your plans, what are your instruments to impose changes?
5. How is the compensation for the employees structured?
6. Do a management board and a supervisory board exist in the German subsidiary?
7. Do you think that you could keep your structure if the company size increased significantly?
8. How do you think new technological means for communication influence communication between the subsidiary and Väderstad AB?

Appendix D: Family tree – The Stark Family



Family Tree of the owner family (derived from Väderstad, 2012c; Picture Source: Compiled by authors)

Appendix E: Retail Structure



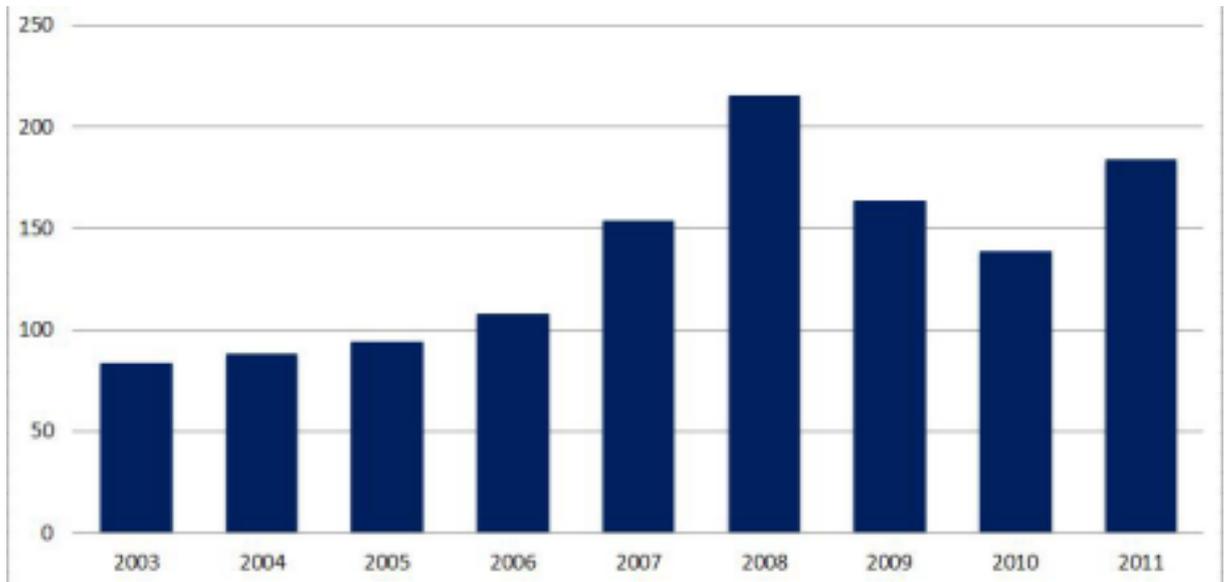
Retailing Structure (derived from J. Orrenius, personnel conversation, 28-03-2012; Picture Source: Compiled by authors)

Appendix F: Timeline - Väderstad



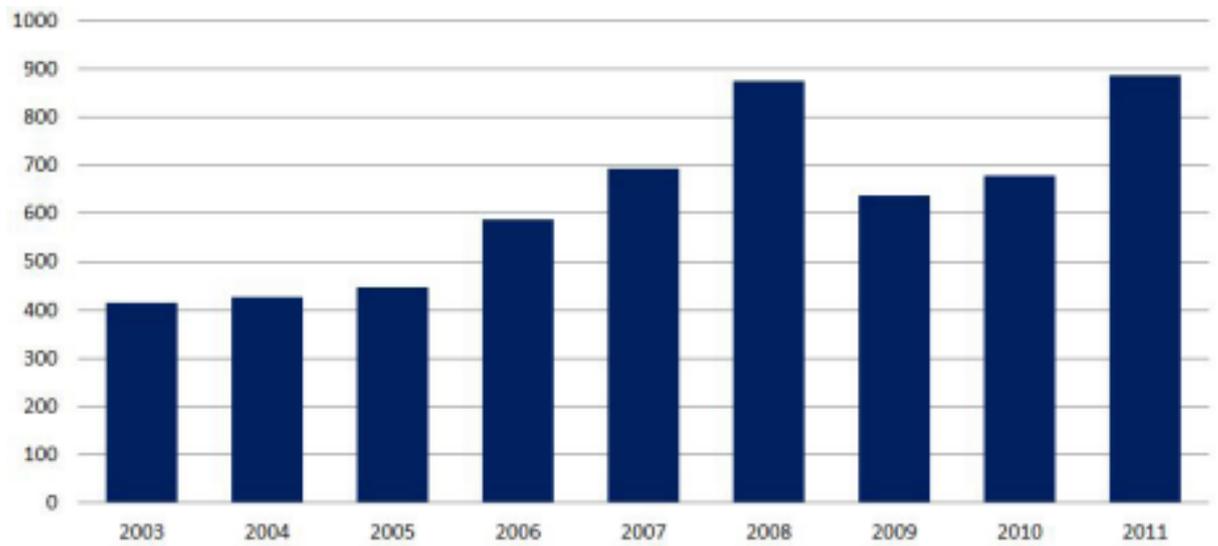
Timeline Väderstad (derived from Väderstad, 2012a; Picture Source: Compiled by authors)

Appendix G: Turnover - Väderstad 2003-2011



Turnover Väderstad 2003 - 2011 (from Väderstad, 2012d)

Appendix H: Number of employees - Väderstad 2003-2011



Number of employees Väderstad 2003 - 2011 (from Väderstad, 2012d)