From Exports to OFDI: Generational Progression and Alternative Ownership Structures in Indian Family SMEs

Abstract

This study examines how learning-based internationalization interacts with alternative family ownership structures to shape strategic change among family-controlled small and medium-sized enterprises (SMEs) in emerging markets. Drawing on the Uppsala model and the socioemotional wealth (SEW) perspective, we argue that generational progression enhances firms' ability to undertake complex international strategies, while ownership structures condition their willingness to do so. Strategic change is defined as the adoption of outward foreign direct investment (OFDI) while continuing exports, reflecting an escalation rather than substitution of international commitment.

Using panel data on listed Indian family SMEs from 2010 to 2020 and population-averaged logit models, we find that generational progression is positively associated with strategic change. More importantly, we identify systematic ownership-driven heterogeneity. Family office ownership weakens the positive effect of generational progression on OFDI escalation, consistent with SEW-preserving and risk-constraining governance logics. In contrast, diaspora ownership strengthens this relationship by providing access to foreign networks and reducing uncertainty associated with outward investment.

By integrating learning-based internationalization theory with family firm governance, this study extends the Uppsala model to account for ownership heterogeneity in emerging market family SMEs and explains why similar learning trajectories lead to divergent internationalization strategies.

Keywords: Family SME; Generational Progression; Strategic Change; Alternative Ownership Structures; Diaspora Ownership

1. Introduction

The strategic shift from exporting to outward foreign direct investment (OFDI) represents one of the most demanding transitions faced by small and medium sized enterprises (SMEs) in emerging markets. While exporting allows firms to exploit cost advantages and leverage intermediated access to foreign demand, OFDI requires deeper commitments in terms of capital, organizational capabilities, and exposure to host country institutional environments. Prior research consistently highlights that emerging market SMEs face substantial barriers to making this shift, including limited financial slack, weak institutional support, technological capability gaps, and the erosion of low cost advantages that initially sustain export competitiveness (Fernández & Nieto, 2005; Pukall & Calabrò, 2014; Arregle et al., 2021). These challenges are widely recognized as structural, persistent, and difficult to overcome.

For family controlled SMEs, these constraints are often amplified. Family ownership is frequently associated with conservative strategic postures, heightened sensitivity to downside risk, and a preference for incremental international involvement that preserves control and socioemotional endowments (Arregle et al., 2017; Debellis et al., 2021). As a result, exporting remains the dominant and often terminal mode of international engagement for many family SMEs, even in contexts where OFDI could support long term competitiveness. At the same time, leading reviews in the family firm internationalization literature emphasize that such conservatism is not static. As family firms progress across generations, socioemotional wealth considerations may attenuate, managerial structures professionalize,

and accumulated international experience expands, potentially easing constraints on more complex international strategies such as OFDI (Pukall & Calabrò, 2014; Arregle et al., 2021; Calabrò et al., 2024).

Learning based explanations of internationalization, most prominently articulated in the Uppsala model, offer a complementary account of why some family SMEs may eventually escalate their foreign commitments. The Uppsala model conceptualizes international expansion as a process in which experiential learning, network embeddedness, and incremental commitment interact over time, enabling firms to undertake progressively more complex international activities as uncertainty declines (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009; Vahlne & Johanson, 2017). From this perspective, the continuation of exports alongside the initiation of OFDI represents not a substitution of strategies, but an escalation of international commitment grounded in accumulated knowledge, codified routines, and relational assets. Later generation family firms, having inherited and institutionalized such learning, should therefore be better positioned to manage the organizational and strategic demands of OFDI while sustaining export operations.

Socioemotional wealth theory points to a parallel, but distinct, mechanism. While early generation family firms often prioritize control, identity, and legacy preservation, these priorities may weaken as ownership disperses and economic performance becomes more salient across generations (Gomez Mejía et al., 2007; Berrone et al., 2012; De Massis et al., 2014). In principle, the attenuation of SEW concerns should increase family firms' willingness to undertake OFDI, even when such investments entail greater exposure to risk and partial dilution of control. Taken together, learning based internationalization theory and SEW theory appear to converge on a similar prediction: generational progression should

increase the likelihood that family SMEs shift from export reliance toward OFDI while continuing existing international activities.

Yet recent empirical evidence complicates this expectation. Studies focusing on emerging market family firms report that founder led firms may exhibit higher propensities for OFDI and cross border acquisitions than their later generation counterparts, attributing this pattern to entrepreneurial orientation, risk tolerance, and proactive strategic action at the founder level (Mondal et al., 2025; Saurabh & Kumar, 2025). These findings raise an important challenge for both the Uppsala model and SEW based explanations. If founders can outperform later generations in undertaking complex foreign investments, then neither accumulated learning nor attenuated socioemotional preferences alone can fully account for observed heterogeneity in family SME internationalization trajectories.

We argue that resolving this tension requires moving beyond generation as a proxy and focusing instead on the mechanisms through which learning and willingness interact. Specifically, we contend that the codification of experiential knowledge, the development of foreign networks, and the availability of financial and organizational resources become increasingly central as firms attempt to escalate from exports to OFDI. Later generation family SMEs are not inherently less entrepreneurial, but their capacity to translate learning into strategic change depends critically on the ownership structures through which control, capital, and external ties are organized.

This study therefore centers on ownership heterogeneity as a key conditioning mechanism. Building on prior calls to integrate family business and internationalization research more closely, we examine how alternative ownership structures shape the relationship between generational progression and the strategic shift from exports to OFDI (Pukall & Calabrò,

2014; Arregle et al., 2021). We focus on two ownership forms that are particularly salient in emerging market family SMEs. First, family office ownership consolidates family wealth and control across generations, often reinforcing long term preservation logics that may constrain willingness to escalate international commitments despite accumulated learning (Villalonga & Amit, 2009; Almeida & Wolfenzon, 2006; Bhaumik et al., 2010). Second, diaspora or non resident Indian ownership introduces access to foreign networks, institutional familiarity, and cross border knowledge that can reduce perceived uncertainty and facilitate the translation of experiential learning into OFDI, in line with network based extensions of the Uppsala model (Johanson & Vahlne, 2009; Hennart et al., 2019).

By integrating learning based internationalization theory with socioemotional wealth logic through the lens of ownership heterogeneity, this study seeks to explain why generational progression does not yield uniform internationalization outcomes among family SMEs. Using panel data on listed Indian family SMEs, we examine the conditions under which accumulated experience and attenuated SEW concerns are either constrained or enabled by ownership structures in shaping the strategic shift from exports to OFDI. In doing so, we contribute to a growing body of work that seeks to explain heterogeneity in emerging market family firm internationalization beyond generational averages.

2. Theoretical Background

2.1 Family SME Internationalization

Research on family SME internationalization has consistently documented patterns that distinguish family-controlled firms from their nonfamily counterparts. Early empirical studies show that family SMEs are less likely to internationalize extensively and, when they do, tend to rely on low-commitment entry modes such as exporting (Fernández & Nieto, 2005; Bhaumik et al., 2010). Subsequent reviews and meta-analyses reinforce this view,

highlighting lower levels of international diversification, slower expansion, and greater persistence once international activities are established (Arregle et al., 2017; Debellis et al., 2021).

These patterns are often attributed to the unique characteristics of family SMEs, including concentrated ownership, long-term orientation, and the overlap between family and business systems. In small and medium-sized family firms, internationalization decisions are typically evaluated not only on economic grounds but also in terms of their implications for family control, continuity, and survival (Pukall & Calabrò, 2014; Arregle et al., 2021). As a result, family SMEs may adopt a selective approach to internationalization, prioritizing flexibility and downside protection over rapid expansion.

At the same time, recent research emphasizes heterogeneity among family SMEs. Not all family firms are reluctant internationalizers; instead, international behavior varies widely depending on governance arrangements, generational involvement, and access to external networks (Hennart et al., 2019; Metsola et al., 2020). This heterogeneity suggests that family SME internationalization cannot be explained solely by firm size or family ownership per se, but must be understood in relation to learning processes and ownership structures that shape strategic choices over time.

2.2 Family SMEs and Strategic Change

Strategic change in family SMEs is shaped by the interaction between organizational learning and family governance. Compared to nonfamily firms, family SMEs tend to exhibit stronger path dependence and a preference for incremental rather than radical change, reflecting concerns about stability, control, and intergenerational continuity (Kellermanns & Eddleston, 2006; Daspit et al., 2018). These tendencies are particularly salient in small firms, where strategic decisions are closely tied to the family's identity and personal wealth.

Generational transition represents a key internal trigger of strategic change in family firms. Founding generations often rely on centralized decision-making and tacit knowledge, which can limit responsiveness to complex or unfamiliar strategic opportunities (Cruz & Nordqvist, 2012). In contrast, later generations are more likely to introduce formalized governance structures, professional management practices, and external orientation, enhancing the firm's capacity for strategic renewal (Chirico et al., 2011; Chirico & Kellermanns, 2024).

Empirical evidence suggests that later-generation involvement is associated with higher levels of innovation, market orientation, and strategic experimentation, particularly when governance evolves alongside succession (Beck et al., 2011; Fang et al., 2018). However, these changes do not automatically translate into major strategic shifts. Instead, family SMEs often experience a tension between enhanced strategic capabilities and enduring constraints rooted in ownership concentration and family control, resulting in selective and uneven patterns of strategic change.

2.3 Uppsala Model and Strategic Change

The Uppsala model provides one of the most influential frameworks for understanding the internationalization of firms, particularly SMEs. Originally conceptualized as a process of incremental international expansion driven by experiential learning, the model posits that firms increase foreign market commitments as uncertainty declines and knowledge accumulates (Johanson & Vahlne, 1977). Exporting serves as an initial learning mechanism, enabling firms to acquire market-specific knowledge before committing to higher-risk modes such as foreign direct investment.

Subsequent revisions of the model emphasize the role of networks, opportunity recognition, and managerial cognition, framing internationalization as part of a broader evolutionary process rather than a deterministic sequence of stages (Johanson & Vahlne, 2009; Vahlne &

Johanson, 2013; Vahlne & Johanson, 2017). These extensions highlight that learning occurs not only through direct experience but also through relationships with external partners, which can accelerate opportunity development and commitment escalation.

At the same time, critics argue that the Uppsala model under-specifies organizational and ownership constraints that may interrupt or reshape learning-driven progression (Forsgren, 2002; Hult et al., 2020). In particular, the model is largely silent on how governance structures influence the translation of learning into strategic change. In family SMEs, where ownership and control are tightly coupled, learning-based explanations must therefore be interpreted in conjunction with family-specific decision-making logics.

2.4 Ownership Effects, Socioemotional Wealth, and Strategic Change

The socioemotional wealth (SEW) perspective offers a complementary lens for understanding strategic behavior in family firms. SEW refers to the nonfinancial value families derive from ownership, including control, identity, social ties, and the perpetuation of family legacy (Gomez-Mejía et al., 2007; Berrone et al., 2012). A central insight of this literature is that family firms may prioritize SEW preservation over purely economic objectives, particularly when strategic decisions involve high uncertainty or irreversible commitments.

Strategic change, and international expansion in particular, is often conceptualized as a mixed gamble for family firms. While such strategies may enhance long-term competitiveness, they can simultaneously threaten SEW by increasing exposure to external stakeholders, diluting control, or disrupting established governance arrangements (Gomez-Mejía et al., 2014; Gu et al., 2019). As a result, family firms may avoid or delay strategic actions even when they possess the resources and capabilities to pursue them.

The ability–willingness framework integrates these insights by distinguishing between a firm's capacity to undertake strategic change and the family's motivation to do so (De Massis et al., 2014; Belitski et al., 2021). In this view, learning and experience enhance ability, but

willingness remains contingent on ownership structures and SEW considerations. Ownership mechanisms that preserve family control such as indirect corporate ownership or concentrated family shareholding may therefore constrain strategic change, while mechanisms that expand access to external networks may enhance it.

3. Theory and Hypotheses

3.1 Generational Learning and Strategic Change

In family SMEs, generational succession is closely linked to the accumulation and codification of organizational knowledge. As control passes from founders to subsequent generations, firms move from reliance on tacit, founder-centered knowledge toward more formalized routines and professionalized decision-making processes (Chirico et al., 2011; Cruz & Nordqvist, 2012; Magrelli et al., 2022). These changes enhance the firm's capacity to evaluate complex strategic options and coordinate activities across organizational and geographic boundaries.

From a learning-based perspective, later generations are more likely to possess accumulated international experience through sustained exporting, repeated exposure to foreign partners, and inherited organizational memory. The Uppsala model conceptualizes such experience accumulation as a driver of increasing international commitment, particularly when firms seek to deepen their engagement in foreign markets while retaining existing operations (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009). In this context, strategic change is reflected not in abandoning exporting, but in complementing it with outward foreign direct investment.

Empirical research on family firms supports this interpretation. Later-generation involvement has been associated with higher levels of innovation, market orientation, and strategic renewal, which facilitate engagement in more complex international strategies (Beck et al.,

2011; Fang et al., 2018; Chirico & Kellermanns, 2024). Evidence from emerging market family firms further suggests that generational transitions are linked to a greater likelihood of undertaking OFDI while continuing to serve foreign markets through exports (Mondal et al., 2025; Bhowmick et al., 2025).

Consistent with both learning-based internationalization and family firm research, we treat generational progression as a baseline mechanism that increases the likelihood of strategic change, defined here as the adoption of OFDI alongside ongoing exporting activity.

Hypothesis 1: Generational progression in family SMEs is positively associated with strategic change, defined as undertaking outward foreign direct investment while continuing exports.

3.2 Family Office Ownership, Socioemotional Wealth, and Strategic Willingness

While generational progression enhances the ability of family SMEs to pursue strategic change, the willingness to do so depends critically on ownership based control considerations. The socioemotional wealth perspective emphasizes that families often prioritize the preservation of control, identity, and continuity, particularly when strategic decisions involve irreversible commitments or heightened exposure to external stakeholders (Gomez Mejía et al., 2007; Berrone et al., 2012). Strategic change that combines exporting with outward foreign direct investment (OFDI) represents such a commitment, as it increases organizational complexity, coordination demands, and governance challenges.

In emerging market contexts such as India, family office ownership in SMEs is typically exercised through indirect ownership structures, most commonly via unlisted corporate entities in which the controlling family holds a dominant equity stake. These family office entities function as vehicles for consolidating family wealth, maintaining control across generations, and shielding core operating firms from external influence. Prior research on indirect ownership and pyramidal structures shows that such arrangements reinforce

centralized decision making and limit external monitoring, thereby strengthening socioemotional wealth preservation motives (Villalonga & Amit, 2009; Almeida & Wolfenzon, 2006). In environments characterized by institutional uncertainty and underdeveloped capital markets, family office ownership structures are frequently used to manage risk while retaining tight family control (Bhaumik et al., 2010).

From an ability–willingness perspective, family office ownership is therefore likely to constrain strategic willingness even as generational progression unfolds. Although later generation family firms may possess greater capability to evaluate and implement complex strategic changes due to accumulated experience and codified learning, indirect ownership through family office entities may heighten concerns over socioemotional wealth loss. By increasing organizational layering and reinforcing control oriented governance, such structures can amplify coordination costs and discourage deeper international commitments that expose the firm to external scrutiny (De Massis et al., 2014; Belitski et al., 2021). As a result, the positive association between generational progression and strategic change may be weakened when family influence is exercised through family office ownership.

Hypothesis 2: Family office ownership negatively moderates the relationship between generational progression and strategic change, such that the positive effect of generational progression on undertaking OFDI while continuing exports is weaker when family office ownership is high.

3.3 Diaspora Ownership, Network Access, and Strategic Willingness

Recent extensions of the Uppsala model emphasize that internationalization is shaped not only by experiential learning but also by access to networks that facilitate opportunity recognition and commitment escalation (Johanson & Vahlne, 2009; Vahlne & Johanson, 2017). For family SMEs in emerging markets, diaspora ownership represents a particularly

salient source of such network access, providing links to foreign markets, institutions, and trusted intermediaries.

Prior research indicates that diaspora or foreign-linked ownership is associated with greater international orientation and a higher likelihood of engaging in outward investment, particularly when firms continue to rely on exporting as a parallel mode of market participation (Li et al., 2012; Hennart et al., 2019). In the Indian context, diaspora ownership has been shown to facilitate strategic change by reducing informational barriers and strengthening cross-border ties (Gregorič et al. ,2021).

From a family firm perspective, diaspora ownership may also mitigate SEW-related concerns. Because diaspora owners often share cultural or familial ties with the controlling family, their involvement may reduce perceived threats to control and identity, thereby enhancing willingness to pursue strategic change. In this way, diaspora ownership complements generational learning by enabling family SMEs to translate accumulated experience into OFDI without abandoning existing export relationships.

Hypothesis 3: Diaspora ownership positively moderates the relationship between generational progression and strategic change, such that the positive effect of generational progression while continuing exports is stronger when diaspora ownership is present.

Fig.1 shows our conceptual model.

4. Methods

4.1 Sample and Context

The empirical analysis focuses on listed family SMEs in India, a context in which family ownership is pervasive and internationalization remains selective. We limited our sample to only Family SMEs that were listed on Bombay Stock Exchange (BSE), the largest stock exchange in India, as the quality and availability of archival data on SME ownership,

internationalization and performance is much higher for listed SMEs, especially in emerging markets such as India (Prashantham et al., 2015).

We define Small and Medium enterprises based on the definition given by the Reserve bank of India in terms of annual turnover, which should be less than 5000 Million INR (USD 83 Million) (*Reserve Bank of India*, 2025). We understand that the European definition of SMEs as having less than 250 employees is widely accepted, however there is a large corpus of research papers where authors have used the locally accepted definition in their specific countries (Lahiri et al., 2020). We define Family SME as an SME where members of a family cumulatively represent more than 20% of the direct ownership in the firm (Mondal et al., 2022)

Our final sample includes 391 Family SMEs in Manufacturing sector listed in the BSE covering 11 years from 2010 to 2020. We chose this timeline as this period was uninterrupted by any major macroeconomic shocks that could affect the Internationalization behaviours of our sample SMEs. Overall, our final sample is an unbalanced panel of 3249 firm-years. We use the Prowess database which has been widely used for archival research on family firm strategy in India(Bhaumik et al., 2010; Bhowmick et al., 2025; Gregorič et al., 2021) along with annual reports of these SMEs extracted from the BSE database available online.

4.2 Variables

Dependent Variable

Following previously done work on Strategic Change (Bhowmick et al., 2025; Gaur et al., 2014), our dependent variable is binary as we focus on the decision of the SME to engage in OFDI rather than its commitment in terms of the absolute value of OFDI. The variable takes the value of "1" if a SME decides to engage in OFDI while continuing exports, otherwise takes a value of "0".

Independent Variable

Family Firm Generation (FFG) captures generational progression within the controlling family. We consider the Family Family Generation as the Generation in control of the SME. Following recent work on direct effects of Generation (Chirico & Kellermanns, 2024), we measure it as a continuous variable taking values from 1 to 4.

Moderating Variables

Family Office Ownership (FOO) is measured as the percentage of equity held by corporate shareholders where the ultimate controlling owner remains the family. This measure captures indirect control mechanisms that preserve family influence while increasing organizational complexity, consistent with prior research on ownership and control (Villalonga & Amit, 2009; Almeida & Wolfenzon, 2006).

Diaspora Ownership (DO) measures the proportion of equity held by non-resident Indian or diaspora investors. The definition follows Gregorič et al. (2021) and captures ownership ties that provide access to foreign networks, institutional familiarity, and cross-border knowledge.

Control Variables

We control for SME-level variables that have been found to have significant impact on the internationalization behavior of SMEs. Firm age is measured as the natural logarithm of the number of years since a SME's incorporation. SME age is a proxy of accumulation of business acumen and thus could have positive significant for Strategic change, however in cases of smaller SMEs age has also been shown to represent inertia and therefore resistance to change in strategic behaviour (Autio et al., 2000; Saurabh & Kumar, 2025). We measure firm Size as the natural logarithm of the sales in a given year (Pangarkar, 2008), and control for it as larger SMEs are able to overcome the resource constraints that limit exploitation of opportunity recognition of FDI (Bhowmick et al., 2025; Gaur et al., 2014).

We control for Marketing and R&D intensity as they represent proprietary content of SMEs and act as effective resources in helping the SME make the strategic change to OFDI (Lu & Beamish, 2001; Qiao et al., 2020). We measures Marketing Intensity and R&D intensity as the ratio of expenditure to Sales in Marketing and R&D in a given year respectively. We control for the affiliate of the SME with a Business group (BG) as having access to the resources of the BG helps the focal SME to overcome its own resource constraints and reduce the risk and costs of OFDI (Ray et al., 2018). SMEs with higher exports would be more inclined to take the Strategic change to save on transportation costs and avoid trade barriers (Bhowmick et al., 2025; Kuo & Li, 2003) and therefore we control for Export Intensity. We measures export intensity as ratio of total exports over total sales of the SME. We also control for financial metrics such as Financial Slack, Financial leverage and Financial performance that could significantly enhance or restrict a SMEs capability to undertake Strategic change. We measures Financial slack as the current ratio of the SME, Financial leverage as debt-to-equity ratio and financial performance as the return on total assets (Qiao et al., 2020; Ray et al., 2018)

We control for year to account for any underlying macroeconomic effects and even though the sample comprises of only Manufacturing Family SMEs we control for industry (Hilmersson & Johanson, 2016) to take into account the resistance of emerging market SMEs in certain industries such as cement and textiles to OFDI to preserve their cost advantages. We winsorize all variables at 1^{st} and 99^{th} percentile to account for any outliers present in the data.

4.3 Model Estimation

Our dependent variable Strategic Change is taken as a repeated measure, whereas our independent and moderator variables are stable and persistent across years for a given firm.

To account for the dependency and correlation between the repeated measures we apply the Generalized Estimation Equations (GEE) population average logit model (Hubbard et al., 2010; Shi et al., 2017) with an appropriate working correlation structure. Following standard practice, we report Huber–White robust (sandwich) standard errors at the firm level, which remain consistent even if the working correlation structure is misspecified (Walrave & Gilsing, 2023). We chose the GEE population-average model instead of fixed-effects and random effects as it helps us to explain between firm variations and overall behavioural tendencies without worrying about elimination of time-invariant regressors or making strong distributional assumptions. *This estimation technique also helps in alleviating endogeneity concerns* (Xu et al., 2019). All moderating variables and control variables except age and Business Group (BG) affiliation are lagged by one year.

We used the following logit model to investigate the underlying mechanisms of strategic change:

P (Strategic Change$_{it}$ = 1 $|X$) = $\Phi(\beta_0 + \beta_1$ Family Firm Generation$_{it-1} + \beta_2$ Family Controlled Corporate Ownership$_{it-1} + \beta_3$ Family Firm Generation$_{it-1}$ Family Controlled Corporate Ownership$_{it-1} + \beta_4$ Diaspora Ownership$_{it-1} + \beta_5$ Family Firm Generation$_{it-1}$ Diaspora Ownership$_{it-1}$ + Controls + (time and industry dummies))

Where Φ represents the density function for the logistic distribution and Strategic Change$_{it}$ implies the Strategic Change decision value of firm 'i' within in year 't.'

5. Results

5.1 Descriptive Statistics

Table 1 shows the means, standard deviations, and correlations of all the variables used in the study.

Strategic change (OFDI while continuing exports) was extremely rare and was found only in 4% of all the observed firm-years. This observation is similar to prior research which shows that due to resource and Institutional constraints Emerging markets SMEs seldom engage in FDI (Kumari et al., 2023). The mean Family Office ownership across all firms is 11.10% and 18.83% for firms with non-zero FCCO. The Diaspora ownership across all firms is 0.59% and 7.21% respectively for firms with non-zero DO. The average sales of a listed SME around the selected time period was INR 932 Million (around 15.5 Million USD using the average INR-USD conversion rate between 2010 and 2020), and the average total assets was INR 805 Million (around 13.4 Million USD). The sampled firms had an average age of 31 years and experienced an average ROA of 2.49%. The average expenditure on Marketing and R&D was 3.46% and 0.15% of sales respectively. Exports on average accounted for 14% of overall sales. Our samples covers 21 different industries within the manufacturing sector based on the available two digit NIC codes.

To assess multicollinearity issues, we evaluated the Variance Inflation factors (VIFs). The mean VIF is 1.5 and all the individual VIFs other than family firm generation and age are less than 2. The high correlation between family firm generation and firm age is not unexpected and we follow methodology used by prior research (Kalnins, 2018; Mondal et al., 2025) to assess for possible multicollinearity and Type 1 errors. We crosschecked our results with and without controlling for firm age, and wound the beta coefficients to be very consistent.

5.2 Regression Results

Model 1 presents the baseline specification including only control variables. Consistent with prior internationalization research, firm size, business group affiliation, marketing intensity, export intensity, and liquidity exhibit positive and statistically significant associations with the likelihood of undertaking outward FDI while continuing exports. In Model 2, we introduce family firm generation (FFG). The coefficient on FFG is positive and statistically

significant ($\beta = 0.397$; $p < 0.05$), indicating that later-generation family firms are more likely to engage in OFDI while continuing exports relative to founder-generation firms, thereby supporting H1.

Model 3 incorporates family-controlled corporate ownership (FCCO). While FCCO on its own shows a negative and statistically significant association with Strategic Change ($\beta = -0.271$; $p < 0.05$), the interaction between FFG and FCCO introduced in Model 4 is negative and highly statistically significant ($\beta = -0.527$; $p < 0.01$). This result suggests that although later-generation family firms are generally more inclined toward international investments, high levels of concentrated family corporate ownership dampen this propensity, lending support to H2.

In Model 5, we examine the role of diaspora ownership (DO). The coefficient on DO is positive and statistically significant ($\beta = 0.156$; $p < 0.01$), indicating that firms with greater diaspora shareholding are more likely to invest abroad while continuing exports. Model 6 further introduces the interaction between FFG and DO. The positive and statistically significant interaction term ($\beta = 0.302$; $p < 0.05$) suggests that diaspora ownership strengthens the positive association between later-generation family control and Strategic change decisions. This finding supports H3, highlighting the enabling role of diaspora investors in facilitating OFDI among later generation family SMEs.

Taken together, these results indicate that generational progression within family firms enhances the propensity to undertake OFDI while continuing exports, but this effect is contingent on ownership structure. While concentrated family corporate ownership constrains international investments, diaspora ownership serves as an enabling mechanism that amplifies the facilitate tendency of OFDI among later-generation family firms.

6. Discussion

This study integrates learning-based internationalization theory with family firm governance logic to explain heterogeneity in strategic change among family SMEs in emerging markets. In doing so, the study advances recent calls to move beyond isolated theoretical lenses and toward integrative explanations of family firm internationalization (Pukall & Calabrò, 2014; Arregle et al., 2021; Calabrò et al., 2024).

Consistent with revised formulations of the Uppsala model, the results show that later-generation family SMEs are more likely to undertake strategic change. This finding reflects not only the accumulation of experiential knowledge, but also the codification of learning into organizational routines, managerial capabilities, and network-based opportunity recognition that lower the uncertainty associated with higher-commitment international strategies (Johanson & Vahlne, 2009; Vahlne & Johanson, 2017; Vahlne, 2020). Importantly, when internationalization is conceptualized as escalation rather than substitution, the benefits associated with generational progression outweigh the constraining effects traditionally emphasized in socioemotional wealth arguments. In this sense, the study empirically validates an integrated argument that learning and experience accumulated across generations can overcome SEW-related reluctance when firms pursue complex but complementary international strategies.

At the same time, the findings make clear that generational progression does not translate uniformly into strategic change. The central contribution of the study lies in showing that ownership structures systematically condition whether learning-based capability is converted into willingness to escalate international commitment. This insight responds directly to recent empirical challenges raised in the literature, where founder-led firms were found to exhibit higher OFDI or cross-border acquisition activity than later-generation firms, prompting renewed attention to entrepreneurial orientation and agency at the founder level (Mondal et al., 2025; Saurabh & Kumar, 2025). Rather than contradicting these findings, the present

results demonstrate that heterogeneity previously attributed to generational differences can be more precisely explained by differences in ownership structures that shape governance, control, and exposure to external stakeholders.

Specifically, family office ownership weakens the positive relationship between generational progression and strategic change. Although later-generation firms possess greater ability to evaluate and implement OFDI, indirect ownership through family office structures reinforces control-oriented governance and amplifies concerns related to coordination complexity, monitoring, and potential dilution of family influence. These mechanisms are consistent with socioemotional wealth arguments emphasizing the preservation of control and continuity, particularly under conditions of heightened strategic irreversibility (Gomez-Mejía et al., 2007; Berrone et al., 2012; De Massis et al., 2014). The findings thus highlight an important limitation of learning-based internationalization models when ownership and governance are not explicitly considered, echoing prior critiques that call for greater attention to structural heterogeneity in family firm internationalization research (Pukall & Calabrò, 2014; Debellis et al., 2021).

In contrast, diaspora ownership strengthens the relationship between generational progression and strategic change, illustrating how ownership can also serve as an enabling mechanism. Diaspora owners provide access to foreign networks, institutional familiarity, and market-specific knowledge that accelerate the translation of accumulated learning into OFDI. This finding aligns closely with network-oriented extensions of the Uppsala model, which emphasize that commitment escalation is shaped not only by experience, but also by firms' embeddedness in relevant international networks (Johanson & Vahlne, 2009; Vahlne & Johanson, 2020). At the same time, diaspora ownership appears to mitigate socioemotional wealth concerns by offering culturally proximate and trust-based ties, thereby reducing perceived threats to family identity and control. This dual role reinforces recent calls to better

integrate ownership heterogeneity into internationalization theory, particularly in emerging market contexts (Hennart et al., 2019; Arregle et al., 2021).

Taken together, the findings support a process–structural perspective on family SME internationalization, in which learning-driven capability development constitutes a necessary but insufficient condition for strategic change. Ownership structures operate as structural filters that determine whether accumulated learning is converted into willingness to escalate international commitment. By integrating the Uppsala model's emphasis on learning and networks with the socioemotional wealth perspective's focus on ownership and control, this study provides a more comprehensive explanation of why family SMEs facing similar generational trajectories may arrive at markedly different internationalization outcomes. In doing so, it advances ongoing efforts to bridge international business and family business research and to explain heterogeneity in emerging market firm behavior beyond generational averages (Pukall & Calabrò, 2014; Arregle et al., 2024).

7. Limitations and Future Research

This study has several limitations that suggest avenues for future research. First, the analysis focuses on listed family SMEs in India, which may limit the generalizability of the findings to privately held firms or to family SMEs operating in other institutional contexts. Ownership structures, diaspora ties, and governance arrangements vary across countries, and future research could examine whether the integrated learning and governance framework developed here extends to family SMEs in other emerging and developed economies. Second, while this study theorizes learning and willingness at the organizational level, it does not directly observe the individual-level processes through which generational progression and ownership structures shape strategic decision making. The Uppsala model emphasizes experiential learning, opportunity recognition, and commitment decisions that ultimately

reside with managers, while socioemotional wealth concerns are rooted in family principals' perceptions of control, identity, and risk. Future research could therefore adopt qualitative or mixed-method approaches to examine how individual family members, professional managers, and external owners interpret learning, evaluate risk, and negotiate strategic change within different ownership structures.

Third, strategic change is operationalized as the combination of outward foreign direct investment and continued exporting, capturing a specific and theoretically meaningful form of escalation in international commitment. However, family SMEs may pursue strategic change through other pathways, including changes in geographic scope, reconfiguration of foreign governance structures, or selective exit from international markets. Extending the framework to alternative forms of strategic change would allow future studies to further unpack the conditions under which learning and ownership interact to shape family firm internationalization trajectories.

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Table 1. Descriptive Statistics and Pearson correlation coefficients

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) Strategic Change (YES=1)	1.000													
(2) Firm age[a]	0.060*	1.000												
	(0.000)													
(3) Firm sales[b]	0.082*	0.091*	1.000											
	(0.000)	(0.000)												
(4) Business Group (BG)	0.135*	0.082*	0.164*	1.000										
	(0.000)	(0.000)	(0.000)											
(5) Family ownership (%)	0.005	0.004	0.130*	0.079*	1.000									
	(0.748)	(0.826)	(0.000)	(0.000)										
(6) Marketing intensity[c](%)	0.093*	0.036*	-0.003	0.112*	0.049*	1.000								
	(0.000)	(0.025)	(0.849)	(0.000)	(0.003)									
(7) R&D intensity[d] (%)	0.029	0.018	0.027	0.150*	-0.019	0.120*	1.000							
	(0.070)	(0.264)	(0.100)	(0.000)	(0.258)	(0.000)								
(8) Export intensity	0.279*	-0.066*	0.090*	0.119*	0.053*	0.153*	0.022	1.000						
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.175)							
(9) Performance (ROA)	0.065*	0.011	0.170*	0.125*	0.108*	-0.019	0.052*	0.097*	1.000					
	(0.000)	(0.507)	(0.000)	(0.000)	(0.000)	(0.230)	(0.001)	(0.000)						
(10) Debt-to-equity	-0.046*	0.008	-0.017	-0.042*	-0.063*	-0.059*	-0.078*	-0.087*	-0.320*	1.000				
	(0.005)	(0.631)	(0.287)	(0.010)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)					
(11) Current ratio	0.055*	-0.032	-0.147*	0.050*	0.011	-0.004	0.054*	0.087*	0.220*	-0.198*	1.000			
	(0.001)	(0.051)	(0.000)	(0.002)	(0.492)	(0.823)	(0.001)	(0.000)	(0.000)	(0.000)				
(12) Family Firm Generation	0.062*	0.835*	0.123*	0.085*	0.038*	0.022	-0.002	-0.066*	0.020	0.016	-0.033*	1.000		
	(0.000)	(0.000)	(0.000)	(0.000)	(0.021)	(0.174)	(0.908)	(0.000)	(0.212)	(0.310)	(0.041)			
(13) Family Office Ownership	-0.025	0.186*	0.008	0.070*	-0.573*	-0.006	-0.020	-0.072*	-0.083*	0.094*	-0.008	0.158*	1.000	
	(0.131)	(0.000)	(0.610)	(0.000)	(0.000)	(0.703)	(0.227)	(0.000)	(0.000)	(0.000)	(0.634)	(0.000)		
(14) Diaspora Ownership	0.070*	-0.034*	0.005	0.011	-0.137*	-0.013	0.054*	0.024	0.040*	-0.058*	-0.007	-0.050*	-0.077*	1.000
	(0.000)	(0.034)	(0.748)	(0.501)	(0.000)	(0.435)	(0.001)	(0.139)	(0.015)	(0.000)	(0.683)	(0.002)	(0.000)	
Mean	0.04	3.38	6.35	0.31	41.67	3.46	0.15	14.09	2.49	1.47	1.69	1.61	11.19	0.59
Standard Deviation	0.20	0.36	1.11	0.46	18.11	3.59	0.57	24.79	7.65	2.65	1.43	0.61	15.84	3.24

*$p<0.05$; [a],[b] Variables are measured in natural logarithms. [c],[d] Marketing and R&D intensity are measured as a percentage of sales, respectively.

Table 2: Regression results for testing hypothesis

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	OFDI While Continuing Exports (Yes=1; else 0)					
Firm age[a]	0.993***	-0.046	0.042	0.072	0.300	0.288
	(3.448)	(-0.085)	(0.078)	(0.132)	(0.593)	(0.572)
Firm sales[b]	0.442***	0.436***	0.448***	0.445***	0.428***	0.431***
	(3.782)	(3.710)	(3.805)	(3.764)	(3.825)	(3.800)
Business Group (BG)	0.916***	0.929***	0.976***	0.940***	1.017***	1.023***
	(4.701)	(4.768)	(4.949)	(4.672)	(5.428)	(5.407)
Family ownership (%)	-0.010*	-0.010*	-0.019***	-0.020***	-0.009*	-0.009*
	(-1.852)	(-1.910)	(-2.818)	(-2.979)	(-1.834)	(-1.848)
Marketing intensity (%)[c]	0.119***	0.122***	0.122***	0.120***	0.074***	0.073***
	(4.974)	(5.071)	(5.157)	(5.023)	(3.383)	(3.341)
R&D intensity (%)[d]	-0.030	-0.026	-0.040	-0.073	-0.162	-0.196
	(-0.215)	(-0.188)	(-0.289)	(-0.514)	(-1.019)	(-1.189)
Export intensity (%)	0.037***	0.037***	0.037***	0.038***	0.036***	0.036***
	(12.290)	(12.306)	(12.199)	(12.043)	(12.734)	(12.748)
Performance (ROA)	0.017	0.014	0.013	0.012	0.010	0.011
	(1.199)	(0.973)	(0.868)	(0.839)	(0.720)	(0.780)
Debt-to-equity	-0.051	-0.055	-0.045	-0.048	-0.042	-0.043
	(-0.922)	(-0.981)	(-0.821)	(-0.886)	(-0.782)	(-0.781)
Current ratio	0.113**	0.114**	0.121**	0.101*	0.126**	0.122**
	(2.013)	(2.031)	(2.149)	(1.772)	(2.458)	(2.376)
Family Firm Generation(FFG)		0.397**	0.418**	0.371**	0.311*	0.288*
		(2.202)	(2.315)	(2.042)	(1.789)	(1.665)
Family Office Ownership (FOO)			-0.271**	-0.113		
			(-2.127)	(-0.828)		
FFG × FOO				-0.527***		
				(-4.329)		
Diaspora Ownership (DO)					0.156***	0.019
					(2.704)	(0.192)
FFG × DO						0.302**
						(2.317)
Industry Dummies	Included	Included	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included	Included	Included
Regression Statistics						
Observations	3249	3249	3249	3249	3249	3249
Wald χ^2	287.17***	287.25***	289.54***	291.21***	281.93***	285.26***

z statistics in parentheses;* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$; a, b: Natural Logarithm; c, d: Marketing and R&D expenses as a percentage of sales; e:

FIGURES

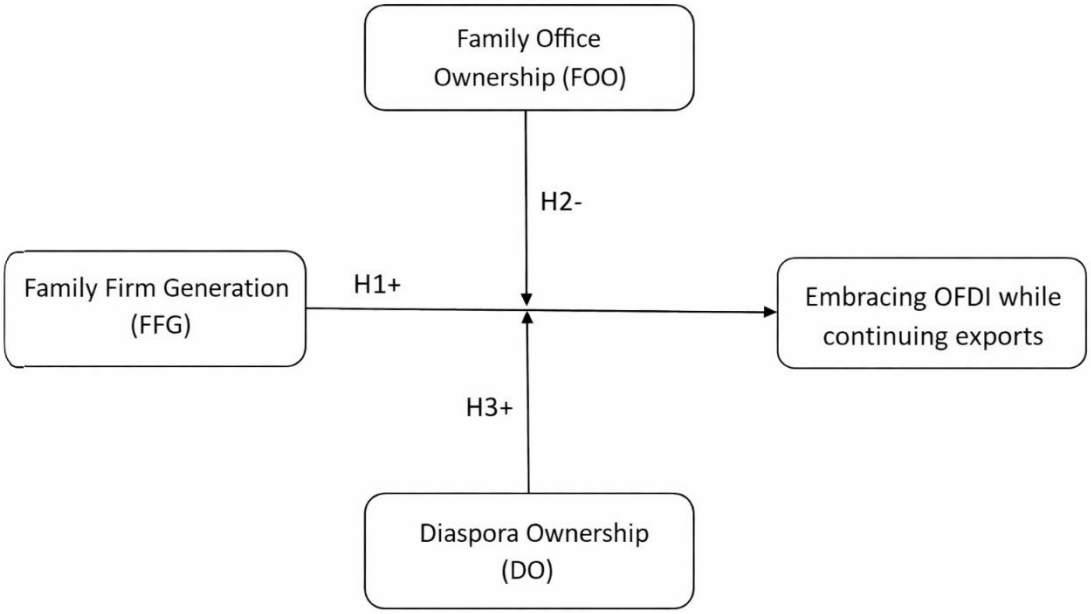


Fig. 1. Conceptual model.