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INTERNATIONALIZATION STRATEGY OF FAMILY-OWNED BUSINESS GROUPS – LPP CASE STUDY

Introduction

In the recent years we have been witnessing growing interest in the realm of family business reflected in the increasing number of research publications, newly established associations of family businesses, as well as the newly launched journals dedicated to issues specific of family business (e.g., *Family Business Review,* or the Polish *Magazyn Firm Rodzinnych [Family Business Magazine]*). All of the above are motivated by the prominent role these businesses play in the developed, as well as emerging economies [LaPorta et al., 1999]. According to diverse estimates, family businesses represent between 50% to as many as 90% of the total population of firms in different economies across the world. The report by KPMG informs that the share of family businesses in total population of companies in Europe ranges from 50% (the Netherlands) to over 90% (Italy) compared to 90% in the United States and ca. 80% in Chile [KPMG, 2014]. Similar estimates are quoted by Jeżak [2014] who claims that family businesses occupy the most prominent place in the economy of the following countries: the United States, Mexico, Argentina, Chile, Japan, Singapore, and Hong-Kong. In Europe family businesses are the most active in Italy, Greece, Spain, Portugal, France, as well as in the Scandinavian countries.

In Poland, family business sector began to develop after 1989. Currently, family business sector is a vital component of the Polish economy and their number continues to grow steadily. Studies conducted by PARP [Polish Agency for Enterprise

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Development] provide estimates according to which the share of family businesses, including one-person companies, amounts to as much as 78%. In a narrower perspective (excluding one-person companies, which do not have employees), family businesses account for 36% of the micro and SME sector, employ about 1.3 million people, and generate at least 10.4% of the Polish GDP (more than PLN 121 bn) [PARP, 2009]. The studies carried out in 2014 on a sample of 641 enterprises revealed that 65% of them were family businesses majority-owned by family members [PARP, 2015].

Family businesses are not just small companies. Examples worth mentioning include: Ikea, Porsche, BMW, Carrefour, Michelin, Auchan, and Raben Group at international level and some well-known big Polish family business groups, such as Cyfrowy Polsat, Pelion, Neuca, Farmacol, Selena, Pamapol, Vox, or Grupa Pruszyński. The fact that family businesses are not only SMEs is confirmed by, inter alia, studies conducted by PARP, in which 7.2% of family businesses included in the sample were large companies [PARP, 2015]. Cases of large family businesses are also confirmed by the ranking of 10 family businesses with the biggest turnover in the world published by "The Economist" [jk, 2014]. Walmart ranks first with the turnover of USD 476.3 bn achieved in 2013. Next in the ranking we can find the following companies: Volkswagen Group, Glencore, Samsung Electronics, Philips 66, Exor, Ford, Lukoil, McKesson, and Foxconn. Blikle [2016] reports that out of 250 the largest companies listed at the Paris Stock Exchange, 57% are family-owned while the share of the same category of firms at the Frankfurt Stock Exchange is 51%. Family businesses represent also 19% of companies listed at the Fortune Global 500 [jk, 2014]. Family-owned business groups have also dominated some regions of the world. In Asia, family-owned business groups make a very sizeable (although differentiated across the countries) contribution to the GDP [Dela Rama, 2012; Terlaak et al., 2018].

We need to bear in mind that the proportion of shares held by the family in a business and its management are decisive for a company's structure, strategic conduct, and the selection of goals [Kraus et al., 2011; Xi et al., 2015]. Although internationalization and its effects in family businesses are different than in companies representing diverse ownership structure [Fernandez, Nieto, 2006; George et al., 2005], family businesses internationalise in line with both the Uppsala model and the born-global model [Kontinen, Ojala, 2010a]. Nevertheless, latest research studies prove that internationalization is a vital development strategy for family-owned companies [Arregle et al., 2017; Pukall, Calabrò, 2014].

The paper integrates three research perspectives of: a family business, business group, and internationalization theory. The goal is to investigate into the internationalization of a family business group. Studies on the internationalization of family companies focus on small operators, which is why there is a research gap since this perspective misses the internationalization in large family companies organized in business groups.

The research goal will be attained through analyzing literature focused on aspects of family business and family-owned business groups, as well as empirical studies. The paper discusses pilot empirical studies focused on a business group run by a family actively involved in activities pursued by the group and successfully operating in international markets. The company was purposefully selected for the analysis. We selected a business group, which has been in the market for at least over dozen years and is listed on the Warsaw Stock Exchange.

1. Literature review

Family business characteristics

Family involvement in business makes a company a unique management structure, creates its inimitable organizational culture, specific communication patterns, and other processes within the organization. Yet, despite the studies that have been conducted for many years, no-one has come up with a definition of a family business that would be broadly approved [Littunen, Hyrsky, 2000]. That can be explained by different research approaches but also by the fact that in the group of companies with the same level of family involvement, some see themselves as family businesses and some do not.

In the simplest way possible, family business can be defined as a company owned and/or managed by a family [Casrud, 1994]. The definition rests on two criteria that dominate in the subject matter literature and are used to identify family businesses: ownership criterion and management criterion. In definitions founded on the ownership criterion stress is put on the fact that the family or some families own the business [Barry, 1989; Lansberg et al., 1988], while members of the family are motivated to hold shares in the company not just due to its financial performance, which becomes especially evident when the business is running at a loss [Donnelley, 1988]. Other definitions introduce the additional management criterion, i.e., family participation in day-to-day business management [Barnes, Hershon, 1976] and in the governance [Donnelley, 1988]. Thus, we may conclude that most definitions of a family business usually consider components of family involvement, such as: ownership, governance, and management [Chua et al., 1999]. Family involvement can be very different across companies. Some researchers are trying to operationalize the definition of a family business by measuring the above-mentioned components of family involvement, i.e., ownership, governance, and management [Astrachan et al., 2002].

Besides simply seeing a family business through the lenses of ownership and management, there are definitions which additionally take account of criteria that capture the specificity of family business. Relatively frequently definitions consider the aspect of succession, e.g., definitions developed by Ashley-Cotleur [1999] or Churchill and Hapten [1987]. Some definitions use the term family business to denote companies, with which a particular family has been involved for at least two generations [Donnelley, 1988]. Others stress the impact of a family upon business strategy [Davis, Tagiuri, 1989] or their intention to maintain control over the company and its management [Litz, 1995]. Chrisman et al. [2005] draw attention to features that are decisive for the essence of a family business, such as intention, vision, and behavior resulting from interactions between family members and striving to ensure inter-generational sustainable growth of the company and its family character. If these features are missing, a company may not be classified as a family business even when it is family-owned. The essence of a family business lies in the need that drives the family to establish a business, in this family's capabilities and talents that help them run it, as well as in values dear to the family, which get transformed to become company values [Lea, 1998; Donnelley, 1988]. Such an approach to defining a family business is interesting but extremely difficult to operationalize.

Family-owned business groups

Although family businesses are mostly small entities operating at a limited scale, the sector also includes large enterprises or business groups. Business group is an economic organization that brings together companies pursuing diverse activities under joint, concentrated and centralized management and control [Saxena, 2013]. Business groups are set up to accomplish a common goal [Trocki, 2004]. Literature stresses that this format of economic activity occupies a place between the market and hierarchy [Powell, 1990]. Entities within a business group are linked with formal and/or informal ties, which can be of capital, contractual or personal nature [Granovetter, 1994; Trocki, 2004]. Business groups can be found everywhere, but they have dominated the economies in transition [Carney, 2008].

Some researchers point to the fact that perhaps due to the specificity and scale of operations we should formulate clear-cut definitions of micro, small, medium-sized and large family businesses [Winnicka-Popczyk, 2016]. Business groups also emerge based on different premises than family-owned business groups which result from investments made by a family or by some cooperating families [Dela Rama, 2012] or are linked with the wish to guarantee safe future to the family and secure different succession options [Marjański, 2014]. In studies devoted to family business groups, Marjański [2014] drew attention to two sets of premises behind establishing such complex structures. The first set includes family-specific premises connected with ensuring succession and avoiding conflicts in the family. The second set of premises behind establishing family business groups consists of purely business-specific premises relating to business development, ensuring competitiveness, as well as striving for limiting the risk and maximizing financial benefits.

Growing population and importance of family business groups suggest we need to examine these operators, especially when managing family business groups (similarly to managing family businesses) differs from managing non-family business groups [Ramachandran, Jha, 2007]. The specificity of managing family business groups results from two factors. The first one links with operating within a concrete economic structure which forces out the implementation of advanced management methods. The second factor can be attributed to the absence of separation of ownership and management. These two factors exert significant impact on implemented strategy, organization of operations, type of corporate supervision, and personal issues. Specificity of strategic management in a family business group stems from strategic goals which focus on the survival of the group and passing it over to the next generation rather than on financial performance. Organization of a family business group differs from the organization of other business groups mainly when it comes to the involvement of the family in group activities which may be reflected in bigger centralization, a wider scope of cooperation amongst companies within the business group, and less complex structure of the business group. At the level of human resource management, the specificity of a family business group links predominantly with the issue of succession. Inter-generational transfer is the core aspect of family business group operations. Family-related issues produce a more closed organizational culture and paternalistic leadership but also personalize the approach to employees who are not family members.

Family business and internationalization

Family businesses are usually viewed in the context of the local market. However, they are increasingly more often seeking growth opportunities in the foreign markets [Zahra, 2003; Graves, Thomas, 2006]. That is true of small and large entities whose operating scale goes beyond not only one country but the entire region. Unfortunately, studies on the relationship between being a family business and internationalization are inconclusive. Some of them provide evidence for slower internationalization of family businesses [Fernandez, Nieto, 2005]. Other, on the contrary, argue in favor of a positive impact of family involvement in company internationalization [Kontinen, 2011], no relationship [Crick et al., 2006; Graves, Thomas, 2006; Muñoz-Bullón, Sánchez-Bueno, 2012] or curve-like relationship between family ownership and internationalization [Sciascia et al., 2012]. Differentiated results of studies on the relationship of family ownership and internationalization are due to ambiguous definition of a family business and research samples including companies denoted as family businesses based on diverse criteria.

Some studies argue that family businesses are unwilling to get actively involved in foreign markets or to buy abroad [Okoroafo, 1999]. Evidence is provided for negative correlation between family ownership and company internationalization [Bhaumik et al., 2010; Wąsowska, 2017; Tsao et al., 2018; Lin, 2012]. Research studies that compare internationalization in family and non-family businesses demonstrate that the first ones often exhibit lower export intensity and their internationalization takes place later and at a much slower pace [Fernandez, Nieto, 2005; Gallo, Pont, 1996]. In addition, if they do not internationalize in the first or second generation, most probably they will never go international [Okoroafo, 1999].

Factors that negatively impact internationalization of family businesses include risk aversion, insufficient capital, fear of losing control, lack of knowledge about foreign markets, and the absence of skillful management [Kontinen, Ojala, 2010b]. Risk aversion and aiming at stability are among the factors responsible for low propensity or reluctance to internationalization [Patel et al., 2012; Cerrato, Piva, 2012]. In addition, CEOs, who are family members, fear of losing control over the business [Gallo et al., 2004]. Graves and Thomas [2008] explain that the unwillingness to increase company's equity by taking loans can be another factor negatively influencing family business growth through internationalization. Financial limitations and capital shortages, especially in small entities, are surely such a factor [Yrkkö et al., 2007]. Also, difficulties in building the portfolio of strategic resources may hamper internationalization of family businesses [Fernandez, Nieto, 2006]. Low level of internationalization may also result from insufficient knowledge about foreign markets or low intensity of cooperation with other operators [Cesinger et al., 2016].

Besides studies providing evidence for negative correlation of family ownership with internationalization, there is another meaningful group revealing positive impact of family ownership on internationalization [Calabro et al., 2009; Zahra, 2003]. Apparently, in some studies family businesses got internationalized more quickly than other companies [Wach, 2015] driven principally by market-seeking motives [Daszkiewicz, Wach, 2014]. Rapid internationalization of family businesses is due to factors, such as quick decision-making process and long-term management orientation (compared to non-family companies) [Arregle et al., 2017; Brigham et al., 2014]. Experience of key managers in family businesses, their knowledge, education received abroad, and ability to speak foreign languages have positive impact on internationalization [Sernik, 2010]. However, the key role played by family members in making internationalization decision or knowledge acquired in the process often stays within the family and is not shared with non-family managers [Tsang, 2001]. Nevertheless, the involvement of family in business management positively correlates with internationalization [Kontinen, 2011; Zahra, 2003], even though it may negatively impact the number of countries in which the company is present [Zahra, 2003]. Family businesses successful in internationalization are willing to use new information technologies, innovative, committed to internationalization, able to delegate power, and capable of using available resources. Furthermore, new generation that takes over the management [Kontinen, 2011] together with the system of governance and management specific to family businesses [Zahra, 2003] favor internationalization.

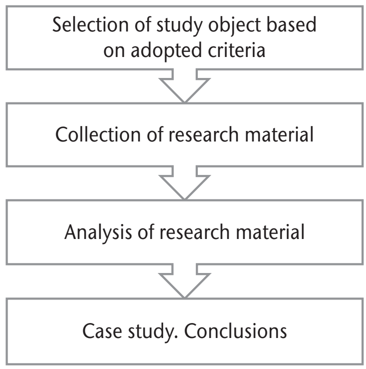
Internationalization of family businesses and the choice of internationalization path are influenced by diverse factors. Graves and Thomas [2008] stress first and foremost the involvement in internationalization that stems from the vision and strategic goals of the family, their financial resources and organizational skills (production, managerial, marketing and network relationship). Internationalization of family businesses can be enhanced by recruiting skillful managers from outside of the family. It helps in developing internal competencies useful in internationalization [Cerrato, Piva, 2012]. On top of that, ramifications caused by the shortages of resources necessary to implement the internationalization strategy in family businesses can be reduced by establishing cooperation with other firms and joining networks of enterprises. Engagement in collaborative networks positively correlates with internationalization of family businesses [Cabrera-Suárez, Olivares-Mesa, 2012].

2. Method and research design

The results of empirical studies discussed in this part of the paper are effects of authors’ interest in two areas: family business and business groups. In most cases, subject matter literature and economic practice associate family businesses with small and medium-sized operators, although we can witness an increasing number of cases when they develop into business groups [Marjański, 2013]. Family business groups are typical of many regions of the world. Their intensive growth is triggered by changes occurring in institutional and competitive environment in countries of South-East Asia [Carnej, Gedajlovic, 2002]. In Central and East European countries, the growth of family business groups was facilitated by changes in the economic system. By implementing their growth strategy, small family firms were faced with a dilemma of business reorganisation and they often opted for the business group format as an optimum solution. Increasingly more business groups operating in Poland can be considered family business groups [Marjański, 2014]. Studies on family business groups are still viewed as a new research area that has not been sufficiently explored in the subject matter literature. Yet, due to the growing number of such business groups and, first and foremost, due to their relevance to the economy we observe growing demand for knowledge about their specificity, management or operating strategies [Marjański, 2014].

Our empirical studies were motivated by the wish to examine internationalization as a process carried out by a family business group. These pilot qualitative studies were conducted between March and May 2019. The stages of the studies are presented in Figure 1.

Figure 1. Stages of pilot studies



Source: own study.

The first stage consisted in the selection of the object (operator) for further examination. We adopted the following selection criteria:

- acting as a business group for at least 10 years,
- a holding company listed at the Warsaw Stock Exchange,
- family as a majority shareholder,
- family involvement in business group management,
- the feeling of being a family business.

Next stages of research studies were devoted to the collection of empirical material, its analysis, and drafting the case study. To collect and analyze data we conducted desk research of documents and other existing content, such as, materials and papers published on websites and in magazines, stock exchange reports, etc. Desk research and analysis are two methods widely used in management research studies. Documentation is the source of information about selected aspects of real-life performance and operations of objects covered by the research [Apanowicz, 2003]. Our research material consisted of qualitative and quantitative data that we collected.

Further analysis of the collected research material was conducted using the narrative data analysis technique. It allowed us to draft a detailed history of internationalization for the group in question. The history was enriched with comparative analysis of time series of quantitative, mainly financial, data [Czakon, 2013].

The above-mentioned analyses were used in drafting the case study focused on internationalization of a family business group. Case study is a method that is widely used in management sciences although in recent years the prevalence of quantitative methods can be observed. Nevertheless, many writings by precursors of management have been developed around single or several case studies and some of them have become genuine breakthrough achievements. Case study method requires strict research discipline and proper structuring of conducted analyses. It is particularly useful at early stages of knowledge development in a specific area [Czakon, 2013] which is why it fits our investigation into the internationalization strategy of family-owned business groups.

3. LPP as a case study

We purposefully selected the object of our studies based on the earlier listed criteria. The criteria were met by the LPP business group owned and managed by its founders: Marek Piechocki (President of the Management Board) and Jerzy Lubianiec (President of the Supervisory Board). In 2019, following in the footsteps of other family businesses, the LPP founders transferred their shares to two private foundations: Semper Simul (31.5%) and Sky (28.5%), whose Statutes state explicitly that shares in LPP cannot be sold. This step is intended to avoid equity fragmentation and ensure the continuity of group operations in the family business format. Besides effectively blocking the marketing of LPP shares, the Statutes of the foundations assume that LPP will not be voting on paying out more than 30% in dividend from profit and family members will be authorized to spend no more than 30% of their dividend on consumption; the rest should be invested in business projects. Currently, the founders are preparing their children to succession. Piotr Piechocki, Marek Piechocki's son, is a member of the LPP Supervisory Board, he also co-created the e-commerce department. The second son, Marcin Piechocki, started as a warehouse worker from where his career path progressed to the position of the head of the Design Department in Cracow, which was an intentional move to help him understand how the company works at each level. Having the security of the family in mind, they decided to diversify the portfolio and Piotr invested his dividend surplus in the real estate market, i.e., in the expansion of the Norwegian hotel chain Puro in Poland. The Piechocki family developed their own Family Constitution which recommends subsequent generations to live modest and unshowy lifestyle and invest in the growth of the Polish economy. It is designed to foster the position of LPP as a socially responsible Polish family business whose overarching goal is to create and develop the spirit of enterprise to ensure longevity to the business. The second co-founder, Jerzy Lubianiec, has no children but he fully supports the idea of a family-managed business [Grzeszak, 2018; Piechocki, 2019].

LPP is one of the largest family business groups in Poland and one of bigger family business groups in Europe (ranks 27; revenue EUR 1.7 bn) dealing with design, manufacturing, and distribution of clothes, although the owner, who is personally involved in the creation of subsequent collections, identifies the core of his business as "designing and selling fashion" [Stankunowicz, 2019]. The history of LPP begins in 1991 when Marek Piechocki and Jerzy Lubianiec established Mistral, a company trading in textiles imported from Asia. In 1995 the company changed its name to LPP after the names of its founders (Lubianiec, Piechocki and Partners). The business group has been listed at the Warsaw Stock Exchange since 2001 (since 2014 as part of the WIG20 index and it is also part of the prestigious MSCI Poland index) while its active internationalization was launched one year later. The current portfolio of the Group includes fashion brands such as: RESERVED, CROPP, MOHITO, HOUSE, and SINSAY. LPP employs over 25,000 people in its offices, distribution centers, and retail chains in Poland and in 23 countries in Europe, Asia, and Africa. In 2018 the total number of LPP stores reached 1,765.

LPP business model is similar to that pursued by other fashion companies which take care of clothes designing and distribution and outsource the manufacturing. LPP has got 3 design offices and 2 offices abroad designated for working with the suppliers. The Group has got no manufacturing plant within its business structure.

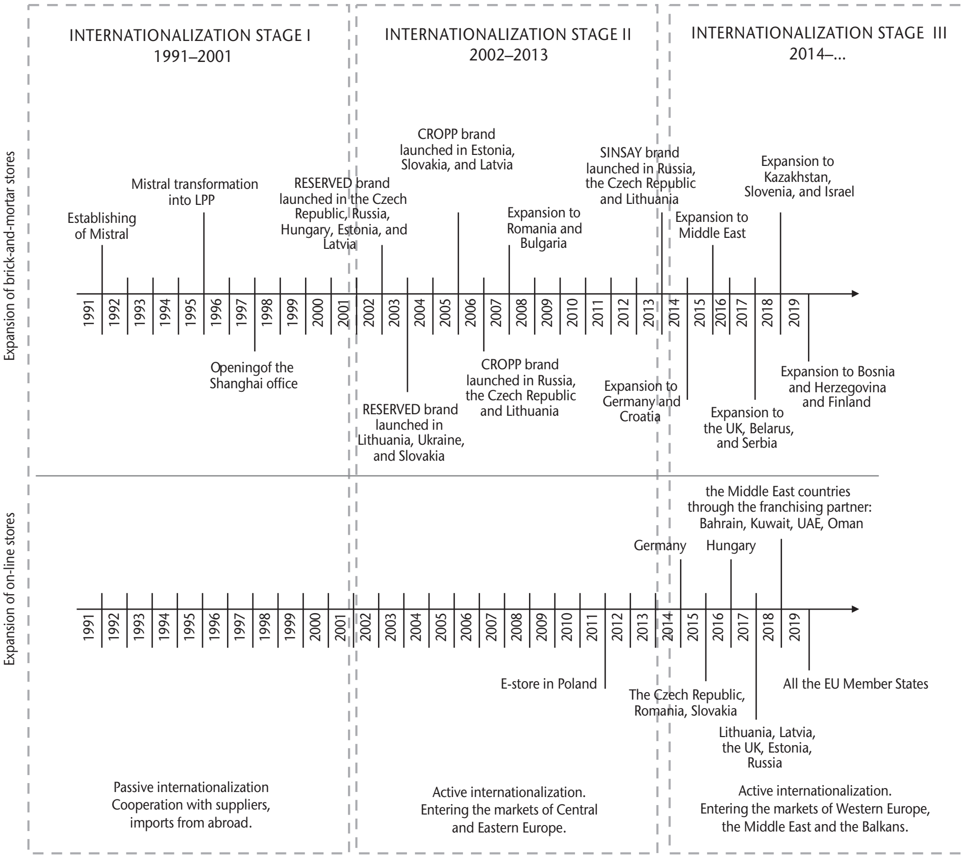
At present, LPP business group is composed of the parent company, 4 domestic companies and 23 foreign affiliates. LPP companies are based in the following countries: Estonia, Lithuania, Latvia, Hungary, the Czech Republic, Russia (3), Ukraine, Romania, Bulgaria (2), Slovakia, Croatia, Germany, Serbia, the United Kingdom, Bosnia and Herzegovina, Kazakhstan, Slovenia, Cyprus, Lebanon, and the United Arab Emirates. Foreign affiliates operating within the LPP Group take care of the distribution of products. In addition, there are offices based in Shanghai (China) and Dhaka (Bangladesh) responsible for contacts with suppliers.

4. LPP internationalization trajectory

LPP internationalization

Due to the adopted operating model and the activity profile, LPP got internationalized already at the very beginning of its activities when it acted as an intermediary in trade in goods imported from foreign suppliers. Some years later it began actively conquering foreign markets and opening stores in different countries. The timeline of LPP internationalization has been presented in Figure 2 and broken down into expansion within traditional brick-and-mortar stores and online sales.

Figure 2. Timeline of LPP internationalization



Source: authors' own compilation based on the LPP data.

Typically, most companies in the fashion industry have their suppliers in Asia. That is also true of LPP which is why from its very onset it has been a company operating at international scale. Besides traditional trade relations, founders started to invest rather quickly and in 1997 they opened the office in Shanghai dedicated to search for suppliers, supervise manufacturing and pursue quality control. The initial profile aimed mainly at supplying low price textiles to supermarkets was changed in 1998 when they created their own RESERVED brand and decided to start building their own retail chain. Addressed to fashionists, RESERVED brand offers good quality clothes for women, men, and children. The first RESERVED store opened in 2000. Currently, there are 464 RESERVED stores in 23 countries. In 2001 LPP became a listed company, which helps it in raising capital for further development. Consequently, 2002 marks the beginning of the next stage of internationalization when RESERVED brand entered the markets of Estonia, the Czech Republic, Russia, Hungary, and Latvia.

Next year brought the expansion forward to further markets of Lithuania, Ukraine, and Slovakia. Following the success of RESERVED in 2004 LPP introduced a new brand: CROPP. It targets young people and is founded on pop and hip-hop culture. CROPP debut in the Polish market was followed by its introduction into the Estonian, Slovak, and Latvian markets (in 2005) and in the markets of Russia, the Czech Republic, and Lithuania (in 2006) where RESERVED brand was already present. In 2007 LPP added on the Romanian and Bulgarian markets by placing both brands on them together with a newly created lingerie brand ESOTIQ (sold in 2010/2011). On top of that, by taking over the Artman company in 2008, LPP expanded its brand portfolio with Mohito and House. In 2013 another brand was created (SINSAY) and in 2014 LPP entered the Croatian and German markets. Next, in 2015 it celebrated its debut in the Middle East where it entered the markets of Egypt, Kuwait, Saudi Arabia, and Qatar. Parallelly it expanded its presence in the German market. In 2017 LPP opened a store in the United Kingdom in Oxford Street, one of the most prestigious shopping streets. In the same year LPP stores opened in Belarus and Serbia. The next step is Kazakhstan and Slovenia, as well as the opening of a store in Israel under a franchising agreement. Plans for 2019 include Bosnia and Herzegovina plus Finland. All the markets, in which LPP is present enjoy positive GDP growth ratios and exhibit positive change dynamics in GDP per capita.

LPP internationalization strategy

LPP represents an interesting model of entering subsequent markets. The strategy consists in starting with the introduction of the flagship brand RESERVED which, if successful, is followed by brands from the Group's portfolio. LPP Group operates in six geographic regions of diverse characteristics. Central and Eastern Europe region (Poland, the Czech Republic, Hungary, Slovakia) together with the Baltic States (Lithuania, Latvia and Estonia) are considered mature markets mainly because of the long-term presence in these markets. Operating strategy in these markets provides for investing in store quality and modernization. The CIS (Commonwealth of Independent States) (Russia, Kazakhstan, Belarus, Ukraine) region includes markets of big development potential, in which LPP put in place a long-term investing perspective (in particular in large and attractive Russian market). The region of South-East Europe (Bulgaria, Romania, Serbia, and Croatia) is also a market with big development potential, in which LPP wants to invest and foster its presence by entering new markets (Bosnia and Herzegovina in 2019). Although being objectively mature, the market of Western Europe is in the early growth stage to LPP due to its relatively short presence in it. Strategic plans include building brand awareness (in particular for RESERVED brand) also in other European countries, intensification of sales and boosting the profitability within the existing retail network in Germany and in the UK.

This is the market where RESERVED brand is present as a flagship product of LPP Group. The last region of LPP operations is the Middle East (Egypt, Qatar, Kuwait, the United Arab Emirates, and Israel). Growth in these markets is achieved through cooperation with franchising partners. At the moment, only RESERVED brand is available. In parallel to the expansion of brick-and-mortar store network, on-line sales develop intensely. Availability of individual brands in geographic markets is presented in Table 1.

Table 1. LPP internationalization by brand

Brand	RESERVED	CROPP	HOUSE	MOHITO	SINSAY
Available in on-site stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Germany, the United Kingdom, Egypt, the United Arab Emirates, Kuwait, Qatar, Israel	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia
Available on-line	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany, the United Kingdom	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Ukraine, Kazakhstan, Belarus, Bulgaria, Croatia, Serbia	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany

Source: authors' own compilation based on LPP data.

LPP internationalization strategy fits the Uppsala model. In LPP we can distinguish three main stages of geographic expansion of company's operations: passive internationalization, active internationalization to markets in cultural proximity, and active internationalization to more distant markets (see Figure 2).

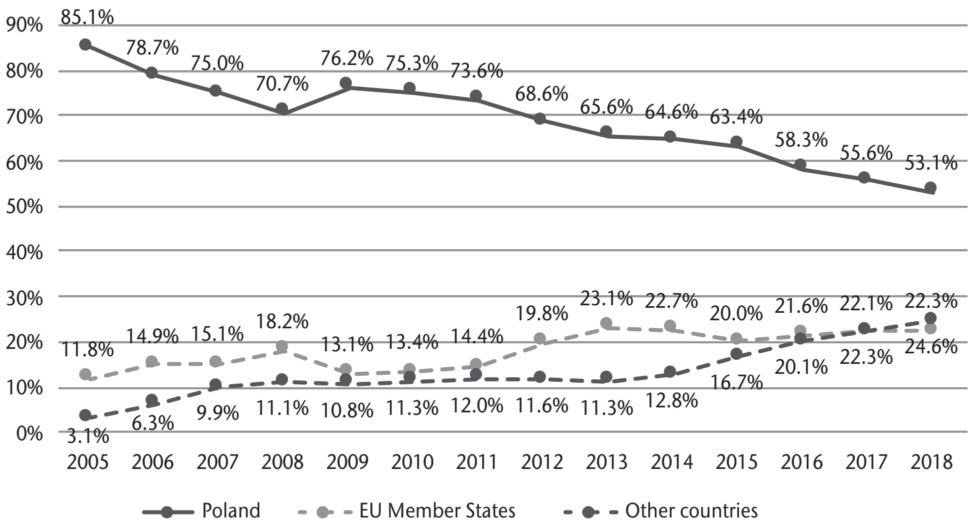
They started with passive internationalization as the company entered new markets for import-related purposes and then proceeded with actions that necessitate deeper involvement. In the first stage of internationalization which took 10 years, LPP decided to open its representative office in Shanghai to facilitate the purchases of goods and cooperation with suppliers. Due to the nature of international relations in this stage of internationalization the cost and resource seeking motive is considered dominant (the source of low-price products). Further stages are active internationalization when, by creating its own fashion brand, LPP ceases to buy ready-made goods from foreign suppliers but engages in cooperation consisting in placing manufacturing orders for their collections.

Further stages are dominated with market seeking motives connected with looking for new markets, benefiting from the economies of scale, and the wish to maximize the value of the company. Active internationalization took quite a long time and started with countries in geographic proximity located within short psychical distance (small cultural differences between the markets, similar level of economic development). The accumulation of knowledge about how a company should operate in foreign markets helped LPP in entering more difficult (Western Europe) and culturally distant markets (the Middle East). Interestingly, in order to develop LPP expands its distribution network by opening its own stores (95% of LPP stores operate in Central and Eastern Europe) and uses franchising as a tool of development only in culturally distant markets (e.g., the Middle East). At that time the company wanted to improve its competitiveness and grow in China, for which LPP needed a high brand awareness in Europe and later expanded to cover Germany and the UK. Western markets are the source of inspiration as customer expectations in these markets are much higher and new experience is transferred to Poland before the competitors "reach out" to LPP customers in their domestic market.

In the third stage of internationalization we can notice the "behavioral" motive understood as a desire of success, the wish to join the top players in the industry, i.e., to make LPP one of the top five clothing companies in Europe and turn Reserved into a global brand that would be admired by all. This finds confirmation in interviews with the founder of the company, Marek Piechocki, who on multiple occasions has stressed that "Europe giants are the world giants". LPP owner prefers evolutionary growth path for his business, at the rate between 10 and 15% annually which, according to him, is good for quality. In the owner's opinion, progressing technological advancement and involvement in on-line sales (currently below 10%) are not in contradiction with the growth through expanded distribution network. Brick-and-mortar stores will always be the distinguishing feature of the industry but LPP seeks its advantage not in the sales force, like the Internet boutiques (Zalando), but in frequent changes of the collections and creative skills of designers (over 1,000 people) because "fashion is about art, the act of creation, and managing emotions". The role of modern technologies is restricted to that of a tool used to support productivity. In the near future, "selling dreams" to customers who do emotional purchases will no more be possible with "next business day" delivery date (the current standard) as they will be looking for “on the spot” option. In the future, LPP plans to draw most of its market advantage from product individualization and an extended network of stores operating as distribution mini-centers, because the future lies not only in on-line sales but in immediate order execution.

The analysis of revenues from sales generated in individual markets confirms that LPP’s internationalization[1] was a slow process. At the same time, we may clearly conclude that it is a valid growth strategy (Figure 3). Even though revenue from the home country continues to represent a major share of all revenues of the company, it has been decreasing systematically since 2005. At the same time, the share of revenue generated in the EU Member States and in other countries is growing.

Figure 3. LPP revenue generated in individual geographic markets



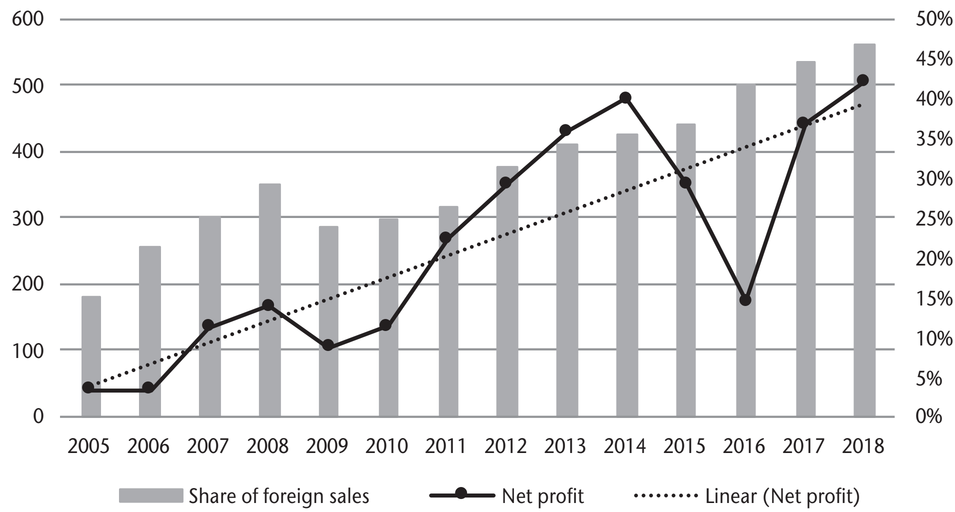
Source: authors’ own compilation based on LPP data.

LPP internationalization: Effectiveness assessment

The assessment of effectiveness of LPP internationalization can be carried out by analyzing the performance of the business group. Figure 4 shows net profit against the background of the share of foreign sales.

[1] For reasons pertaining to data availability, revenue from sales and other financial indicators were analyzed for the period 2005–2018.

Figure 4. Share of foreign sales and LPP net profit



Source: authors' own compilation based on LPP data.

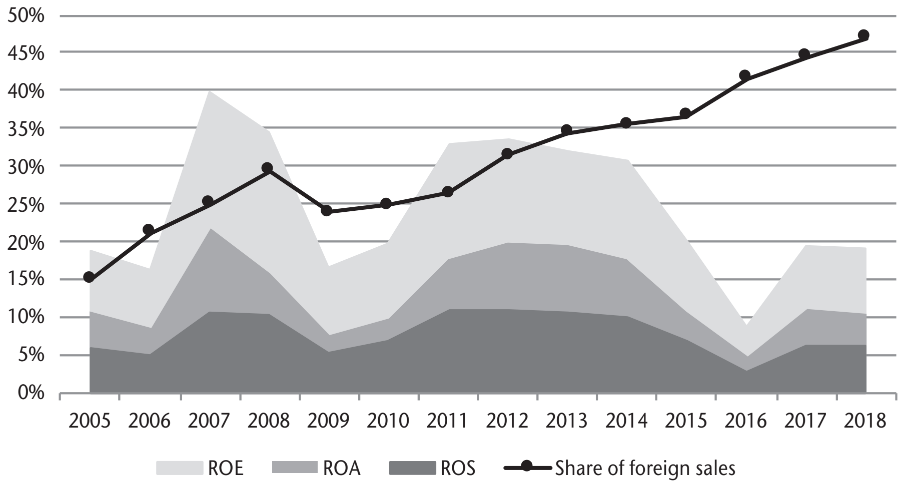
In the above presented figure, we can see a positive increasing trend in changes to the net profit. Net profit increases in subsequent years together with the growing share of foreign sales. It confirms the positive impact of internationalization strategy on LPP financial performance. The only drops in net profit are linked with the economic crisis but they were compensated rather quickly in 2010 and in the next years. Decrease in net profit reported in 2016 was caused by a number of investment initiatives, e.g., the opening of a new design office, launching a new e-commerce distribution channel in more countries, and, predominantly, the placing on the market of a new Tallinder brand (premium segment), which, unfortunately, failed to generate satisfactory sales which is why it was withdrawn.

Positive impact of internationalization on the effectiveness of LPP business group is also confirmed in the analysis of profitability ratios (Figure 5).

Increasing share of foreign sales is accompanied by positive profitability ratios (ROE, ROA, and ROS). The only years when the ratios were decreasing are the years marked with economic crisis and substantial investment including the Tallinder brand failure.

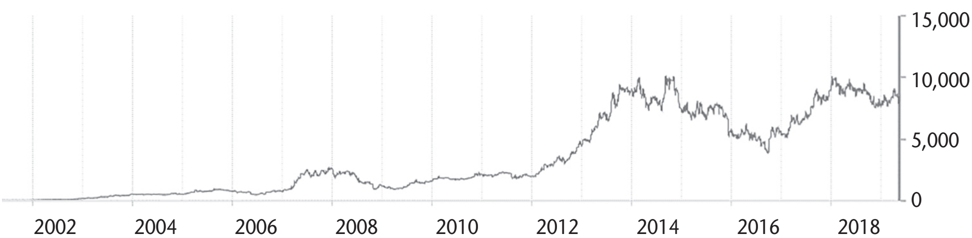
Another confirmation of a properly executed growth strategy through internationalization comes from the analysis of LPP share price performance, which since LPP Stock Exchange debut in 2001 has been systematically increasing (Figure 6). Some slowdown was observed in 2015–2016 when the value of shares dropped by two thirds. In response, corporate management style was changed by delegating responsibility to lower levels and by staff empowerment (heading towards turquoise organization).

Figure 5. Share of foreign sales and profitability ratios



Source: authors' own compilation based on LPP data.

Figure 6. Value of LPP shares in the period 2001–2019



Source: Warsaw Stock Exchange data.

In general, LPP internationalization should be assessed positively as indicated by the analyses of changes in net profit and profitability ratios, which although ranging, remain on the positive side; first and foremost, we need to take account of the value of the group since its stock exchange debut.

Conclusion

The paper outlines the main research lines that reveal the impact of family ownership on the course and strategies of internationalization of family business groups on the example of the Polish LPP business group dealing with clothes designing and distribution. Activities of LPP family business connected with internationalization were assessed based on the analyses of revenues generated by LPP in individual geographic markets, net profit against the background of foreign sales, and profitability ratios. Obtained results have allowed us to clearly state that in the case of LPP internationalization is a valid growth strategy. LPP business group followed different internationalization motives in diverse stages of the process. Internationalization strategies fit the Uppsala model in a staged and sequential way. Initially, internationalization was driven by the market seeking motives to find new markets when sales opportunities in the domestic market are limited; then economies of scale emerged in parallel with the expansion to markets that are geographically and culturally close and finally there is the learning effect, i.e., the wish to use experiences acquired in one market by transferring them to other foreign markets. Expansion was preceded by domestic success. The fear of inevitable confrontation with foreign suppliers in the domestic market motivated the company to make a pre-emptive move and acquire knowledge about much higher expectations of customers in the Western markets and transposing the experience to the domestic market. Alongside with the initial economic goal of achieving the highest possible income, long-term goal is paramount, i.e., maintaining the continuity of company existence in an increasingly more globalized and competitive environment.

Conclusions from the above presented case study of LPP Group internationalization fit within the mainstream of research suggesting positive impact of family ownership of a business upon the implementation of internationalization strategy. Positive correlation between the strategy and financial performance of the company has also been confirmed although due to the nature of the research (qualitative analyses) it should be confirmed on a bigger research sample.

Research studies on family business groups, such as LPP can lead to the identification of some regularities and rules that could contribute to the drafting of a code of best practices that would help in proposing a kind of recipe for success for the future that could be used not only by family businesses but also by other institutions from outside of this group.

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INTERNATINALIZATION STRATEGY OF FAMILY-OWNED BUSINESS GROUPS – LPP CASE STUDY

Abstract

The paper discusses pilot empirical studies focused on the impact of family ownership on the course and strategies of internationalization of family business groups on the example of LPP. LPP is one of the largest family business groups in Poland and one of the bigger family business groups in Europe dealing with clothes designing and distribution. Internationalization strategy of LPP was assessed based on the analyses of activities on each geographical market and financial indicators generated by LPP from foreign markets. Obtained results have allowed us to clearly state that: LPP internationalization strategy fits the Uppsala model and in the case of the LPP internationalization is a valid growth strategy because positive correlation between the strategy and financial performance of the company has been confirmed. The main research methods used for this article are a literature study and a case study.

Keywords: family-owned business groups, internationalization, LPP, case study, Poland, fashion industry

JEL classification codes: F23, L22

STRATEGIA INTERNACJONALIZACJI RODZINNYCH GRUP KAPITAŁOWYCH NA PRZYKŁADZIE GRUPY LPP

Streszczenie

W artykule przedstawiono pilotażowe badanie strategii internacjonalizacji polskich rodzinnych grup kapitałowych na przykładzie grupy kapitałowej LPP. LPP to jedna z największych rodzinnych grup kapitałowych w Polsce oraz jedna z największych grup branży odzieżowej w Europie. Strategię internacjonalizacji LPP oceniono na podstawie analizy działalności na poszczególnych rynkach geograficznych oraz wskaźników finansowych generowanych przez grupę. Wnioski z analizy wskazują na zgodności zachowań grupy LPP z teoretycznymi przewidywaniami – strategia internacjonalizacji następuje w sposób sekwencyjny zaprezentowany w modelu uppsalskim. Pozytywny wybór internacjonalizacji jako strategii rozwoju potwierdzają uzyskiwane wyniki finansowe. Głównymi metodami badań użytymi na potrzeby artykułu są studia literaturowe oraz studium przypadku.

Słowa kluczowe: rodzinne grupy kapitałowe, internacjonalizacja, LPP, case study, Polska, branża odzieżowa

Kody klasyfikacji JEL: F23, L22