IDENTITY CONFLICTS AND INTERNATIONAL STRATEGIES OF FAMILY FIRMS

A Dissertation

by

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ABSTRACT

In the current literature, there are seemingly incompatible predictions about the benefits and costs of internationalization for family firms. On the one hand, the behavioral agency model suggests that to preserve socio-emotional wealth, loss-averse family firms usually invest less internationally than nonfamily firms. In contrast, other scholars believe that international diversification has become a key way to protect family wealth. To reconcile the conflicting conclusions, I propose that whether family firms are able to achieve the economic benefits from internationalization as well as preserve their family identity is partly dependent on the how, when and where the family firms enter international markets.

From these theoretical underpinnings, a model is developed proposing that the mode of entry choice may mitigate the risk of loss of family identity. Specifically, family firms are more likely to choose Greenfield investment as their mode of entry to a foreign country. In addition, three formal institutional distances--economic, regulatory, and political—may create extra costs if family firms choose Greenfield investment as their entry mode.

I compiled the dataset of 2,595 family firms from 70 countries that invested in 38,014 subsidiaries from 89 countries between the years 2007-2013. The results show that family firms are more likely to use Greenfield investment as their entry mode when they try to protect their family identity and use M&A investment when they care more

about their economic identity. The institutional distance significantly moderates these two main relationships.

Through this dissertation, I hope to make a number of contributions to the literatures of organizational identity, family firm, and institutional theory. First, in this study, I focus on the family firm internationalization strategy, and determine under what circumstances the two dominant identities (economic identity and family identity) of a family firm converge and under which they diverge when the reference points are changed. Second, this study contributes to the current institutional distance-mode of entry research by introducing additional dimensions of institutional distance. Third, I investigate the interactive effects between identities and institutional distance on mode of entry choice by introducing the institutional polycentricity concept in the theoretical framework.

DEDICATION

To my two adorable children: Justin and Emily.

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NOMENCLATURE

IB	International Business
M&A	Merger and Acquisition
SEW	Socioemotional Wealth
WOS	Wholly-Owned Subsidiaries

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INTRODUCTION

The concept of organizational identity focuses on two questions: "who we are" as an organization and "who are they." "Who we are" depends on the assumptions about how to understand the identity as an organization. Similarly, "who are they" is a question asked by internal and external stakeholders, such as alumni (Mael & Ashforth, 1992), employees (Elsbach & Glynn, 1996), and boards of directors (Golden-Biddle & Rao, 1997), trying to understand the identity of organized group. The organizational identity determines a firm's vision and mission (Dutton & Dukerich, 1991), strategies (Dutton & Dukerich, 1991; Dutton, Dukerich, & Harquail, 1994; Dutton & Penner, 1993), resource allocation process, and motivation (Whetten & Godfrey, 1998).

Applying organizational identity to the family firm, current research suggests two major identities for family firms: economic identity and family identity (Gomez-Mejia, et al., 2011; Stewart & Hitt, 2012)[1]. On one hand, as an economic entity similar to non-family firms, profitability is an important motivation for family firms to maintain ownership of their operation. However, as Sirmon and Hitt (2003) observed, family firms are different from nonfamily firms across many dimensions, such as their recruitment of family members for key positions, their embeddedness in social networks, their long-term investment planning, their sustainable support (from family) during poor economic times, and sometimes their lack of professional management (Stewart & Hitt, 2012). Therefore, Gomez-Mejia et al. (2007) hypothesized that for family firms, the

[1] The family firms discussed in this study are the majority of family firms which consider family identity as one of their critical identities.

primary reference point is the loss of socio-emotional wealth (SEW). In their words, "for family firms a key criterion, or at least one that has greater priority, is whether their socio-emotional endowment will be preserved… for nonfamily firms, financial criteria seem to be most important when it comes to assessing the value of a business decision, as they are less driven by the need to protect their socio-emotional endowment" (2007: 131). Therefore, the preservation of SEW engenders a strong sense of shared family identity (Berrone, et al., 2010). However, the emphasis on family identity instead of economic identity creates the possibility of identity conflicts in family firms because "it is possible that a family firm owner could regard the family as being more salient than the business and could thus overemphasize relationship concerns at the expense of business concerns" (Barnett, Eddleston & Kellermanns, 2009: 42).

The possibility of identity conflict between economic identity and family identity caused by non-financial goals in family firms (Corbetta & Salvato, 2004) is higher when the family owners make a decision to internationalize. Internationalization presents an opportunity for family firms to diversify their operations geographically (Anderson & Reeb, 2003; Denis, Denis, & Sarin, 1994; Faccio, Lang, & Young, 2001, Hitt, Hoskisson, & Kim, 1997). This opportunity to potentially mitigate family risk provides two economic benefits to the family firm: it decreases the volatility of earnings as well as provides greater financial security to the family (Faccio et al., 2001); therefore it potentially improves the chances of firm survival. The financial benefits derived from internationalization are especially important to the family firms because family firms are normally financially constrained because they are reluctant to raise financial capital from

the external capital markets since an increase in share capital will dilute their equity stake and undermine their controlling position eventually (Shleifer & Vishny, 1986). With these financial benefits, the economic identity of family firm could be satisfactorily served. However, operating in a foreign environment also bears potential risk. Prior research has suggested that when multinational enterprises (MNEs) operate within multiple countries, they experience liabilities of foreignness (i.e., costs of doing business abroad relative to the local operations) (Eden & Miller, 2004). In sum, there is a trade-off between benefits and costs of internationalization when it is considered from the economic perspective.

Interestingly, we also cannot develop an absolute conclusion regarding the relationship between family identity and internationalization. On the one hand, the behavioral agency model suggests that to preserve socio-emotional wealth, loss-averse family firms usually invest less internationally than nonfamily firms (Gomez-Mejia, Makri & Kintana, 2009). Effective foreign operations generally require hiring personnel from outside the company with sufficient and proven talent, professional abilities and competencies to staff key executive positions. Family members are often reluctant to allow non-family members to fill top management positions because this might dilute family identity in the firm. According to Gomez-Mejia et al (2009), the pursuit of internationalization entails greater uncertainty and more delegation, both of which can reduce family control which may lead to real or perceived socio-emotional wealth. So, the potential downside of internationalization is the loss of family identity. Comparatively, Kachaner, Stalk, and Bloch (2012) argue that family-controlled firms

have been ambitious about their overseas expansion. "They generate more sales abroad than other businesses do; on average 49% of their revenues come from outside their home region, versus 45% of revenues at nonfamily businesses" (Kachaner et al., 2012: 105). The rationale is that international diversification has become a crucial way to protect family wealth. If one subsidiary suffers a downturn, businesses in other countries can generate funds that allow a company to balance the loss of that subsidiary (Table 1). In this way, the family identity is preserved.

In this study, I try to reconcile these seemingly incompatible predictions by integrating insights from organizational identity theory, institutional theory, and mode of entry research. I propose that whether family firms are able to achieve the economic benefits from internationalization as well as preserve their family identity is partly dependent on the how, when and where the family firms enter international markets.

The first issue is "how." Some studies argue that a MNE may prefer acquiring local firms to compensate for its lack of knowledge in an unfamiliar environment, relying on local employees to contribute local knowledge (Gatignon & Anderson, 1988; Shenkar, 2001). By co-managing the venture with local employees, the MNE can better manage the subsidiaries, learning from their local employees. Furthermore, the local employees can manage the labor force and continue their relationship with suppliers, customers, and government authorities (Stopford & Wells, 1972). In this way, MNEs realize their economic goals. However, Greenfield investment provides some advantages over acquisition. For example, it is easier to maintain absolute control. This

is especially meaningful for family firms because by using Greenfield investment as their mode of entry, family identity is more likely to be preserved.

The choice between acquisition and Greenfield investment can be explained by the behavioral agency model (Wiseman & Gomez-Mejia, 1998; Gomez-Mejia, Welbourne & Wiseman, 2000; Larraza-Kintana et al., 2007). Behavioral agency model predicts that decision makers try to avoid the loss compared to their reference point. In order to avoid the loss, they even are willing to accept a higher risk (Wiseman & Gomez-Mejia, 1998; Gomez-Mejia, Welbourne & Wiseman, 2000). Thus, to protect the family identity, family owners are more amenable to accept economic risk. Therefore, family firms are more likely to choose Greenfield investment as their mode of entry to a foreign country.

The second issue is “when.” When family firms emphasize their family identity, the choice of Greenfield investment as the mode of entry will significantly increase the family control and preserve the family identity. On the contrary, if the family firms have a major concern for their economic identity, it is more likely that they will choose acquisition to enter into a foreign country.

The third issue is “where.” Institutional distance plays an important role in answering this question. Institutional theory suggests that the institutional environment is an influential determinant of firm structure and strategies (DiMaggio & Powell, 1983, 1991; Scott, 1995). For example, formal institutions represent laws, regulations, and rules that governments use to control the activities and behaviors of local and foreign organizations operating within a country. Specifically, three formal institutions--

economic, regulatory, and political--were identified in previous literature as three highly important national formal institutions (Holmes, Miller, Hitt, & Salmador, 2013). Economic institutions mainly determine a country's capital availability and market liquidity. Regulatory institutions are used by governmental entities to regulate the activities of domestic and foreign organizations operating within a country. Political institutions are rules and standards established by governments that define the nature of the political process (Hillman & Keim, 1995). Economic, regulatory, and political institutions shape firms' strategic choices, such as mode of entry in their internationalization process.

Institutional distance between home and host countries creates extra costs for MNEs because of the complexity and challenges of having operations within multiple institutional environments. Institutional distance refers to "the extent of dissimilarity between host and home institutions" (Xu & Shenkar, 2002: 610), and has been regarded as one of the main sources of liability of foreignness related to MNEs' FDI strategies (Zaheer, 1995). Many scholars have discussed how MNEs could mitigate the liability of foreignness by choosing from different types of entry mode. The main conclusion is that when the institutional distance between home and host country is higher, MNEs will choose high equity involvement (Gatignon & Anderson, 1988; Gaur et al., 2007). It is difficult for MNEs to manage their foreign affiliates when institutional distance is high, so MNEs prefer high control as a way to reduce dependence on local partners. Hence, previous literature suggests a positive relationship between institutional distance and equity investment (Gatignon & Anderson, 1988; Gaur et al., 2007). But all the studies

have been focused on one identity: firms' economic identity. The family firm focus provides us an interesting research setting to examine how institutional distance will influence family firms' international strategies when they present two identities: family identity and economic identity. This study extends the current institutional distance-mode of entry research in three ways. First, I study the relationship between different types of institutional distance (economic, regulatory, and political) and Greenfield/acquisition choice. It is well acknowledged that the low institutional distance will lead to acquisition (Xu & Shenkar, 2002). But economic, regulatory, and political institutions influence the mode of entry choice in different ways. More developed economic institutions influence the availability and accessibility of the country's financial resources and reduce transaction costs; more favorable regulatory institutions[2] ensure stability and order in societies and enact policies that facilitate economic growth; the democratic political institutions is an indicator of credibility of the government. When economic, regulatory, and political institutional distances are low, firms are operating in a similar institutional environment, resulting in a situation in which acquisitions are commonly used as the preferred entry mode.

Second, although previous research has examined the impact of institutional distance on a MNE's mode of entry, that work has treated institutional distance as symmetric measure like geographic distance. However, the institutional distance is

[2] Favorable institutions refer to the institutions that provide firms with the material and immaterial resources when there exists the resource unavailability or opportunity costs in the markets (Carney, 2012). Commonly recognized favorable institutions include economic institutions that provide equity, debt, and qualified labor, regulatory institutions which provide regulated and social orders for firms' operation, and democratic political institutions.

actually asymmetric between two countries. For example, unlike their counterparts from developed countries, MNEs from emerging markets face greater challenges in obtaining legitimacy when entering the developed markets. Therefore, when a MNE from an emerging market invests in developed markets, it will perceive a smaller institutional distance than a MNE from developed country investing in emerging markets because of the favorable institutional environment in the developed country. Thus, it is more likely to choose acquisition over Greenfield as its mode of entry.

Third, the dominant role of family identity in family firms also influences the relationship between institutional distance and entry mode choices. When institutional distance is low, the utilization of Greenfield investment enables family firms to achieve economic benefits as well as preserve their SEW and specifically family identity. However, when institutional distance is high, family firms will prefer acquisition over Greenfield investment as their mode of entry in order to mitigate liability of foreignness.

The research questions of this study include:

In order to preserve economic identity, what mode of entry are family firms more likely to use to enter international markets?

In order to preserve family identity, what mode of entry are family firms more likely to use to enter international markets?

How does the economic and family identity conflict influence the mode of entry choice?

How do local institutional environments, including such variables as institutional type and institutional distance, influence the relationship between family identity and mode of entry choice in family firms when they enter into international markets?

How does the interactive effect of internal identity conflict and external institutional environments affect mode of entry choice in the family firm international strategy?

This study has potential to contribute to the organizational identity theory, institutional theory, mode of entry, and socioemotional wealth research in several ways. First, previous organizational identity theory discussed the conflict or reinforcement of identities when organizations possess multiple identities. Existing family firm literature treats family identity and economic identity as two conflicting objectives. Scholars argue that the emphasis of one identity leads to ignoring another identity (Gomez-Mejia, et al., 2007). In this study, I focus on the family firm internationalization strategy and use socioemotional wealth and financial performance as the proxies of family and economic identities, and determine under what circumstances the two dominant identities (economic identity and family identity) of a family firm converge and under which they diverge when the reference points are changed. With external environment change, such as operation in a foreign country, if institutional distance is low, the use of a Greenfield investment realizes the convergence of family and economic identity.

Second, this study contributes to the current institutional distance-mode of entry research by introducing more dimensions of institutions. The constructs of institutional type, institutional distance, and the direction of institutional distance is used to

differentiate the country institutional systems. Although previous research has examined the impact of various institutional distance on a MNE's mode of entry, that work has only considered institutional distances as absolute values. In this study, I examine how the direction of various institutional distance impacts mode of entry choice. In particular, I compare how more favorable/less favorable host country economic, regulatory, and political institutions determine mode of entry choices.

Third, I investigate the interactive effects between identities and institutional distance on mode of entry choice by introducing the institutional polycentricity concept in the theoretical framework. Previous literature has discussed the institutional polycentricity by integrating the different country level institutions (Batjargal, et al., 2013). In this study, I extend the current institutional polycentricity literature by examining the interaction of the country level and organizational level institutions (Hughes, 1939; Selznick, 1949). The organizational identities, such as family identity and economic identity, create "rules of games" inside the organizations. The identity consistency among the parent family firms and their subsidiaries creates internal legitimacy for the subsidiaries. The country level institutions, on the other hand, determine the external legitimacy of the subsidiaries. The organization level and country level institutions interactively affect the mode of entry choice.

Specifically, I discuss under what institutional circumstance, the economic identity and family identity converge or diverge in terms of mode of entry choice. If under certain institutional conditions the economic identity and family identity suggest the same mode of entry (the convergence situation), how do these two identities increase

the likelihood of choosing certain types of mode of entry? If under certain institutional conditions the economic identity and family identity each suggest a different mode of entry (the divergence situation), how does the family firm balance its identity conflict and which identity will be considered as dominant identity? Based on behavioral agency model, a Pareto improvement concept is used to study the possibility of preserving family and economic identities simultaneously when family firms choose their mode of entry under certain institutional conditions. If a family firm could significantly strengthen one identity without greatly damaging another identity when it chooses a certain entry mode, then there is possibility of Pareto improvement. On the contrary, if a family firm can only strengthen one identity and damage another identity when it chooses a certain entry mode, then it achieves Pareto efficiency and no Pareto improvement exists.

The dissertation proceeds as follows. In the next section, I discuss organizational identity theory to explain how conflict between economic identity and family identity influences mode of entry choice. The following section introduces different types of institutional distance, the direction institutional distance, and reviews of research concerned with mode of entry, with a particular emphasis on acquisition/Greenfield choice. I then develop hypotheses for the set of relationships illustrated in Figure 1. Following the development of the hypotheses, I describe the methodology used to test the hypotheses. Results follow the methodology section, and then I provide a discussion of the results regarding their support for theory, their relationship with past research, limitations, and prospects for future research.

THEORETICAL DEVELOPMENT

Organizational Identity

Albert and Whetten (1985: 264) characterized organizational identity as “a self reflective question.” It captures an organization’s essential features. Albert and Whetten summarized these features into three major dimensions: Organizational identity help organizations answer three questions: (a) what is considered to be *central* to the organization by the organization members; (b) how the organization *distinctive* from other organizations; and (c) what is the *enduring* or continuing organization feature in the present the past. Importantly, organizational identity is a self-referential concept defined by the members of an organization to articulate who they are as an organization to themselves as well as external stakeholders.

However, the three major dimensions have been challenged and questioned by many scholars. Regarding to centrality, Corley et al. (2006: 90) indicated that the notion “can be problematic, not because there is any question about whether or not an organization can have characteristics that are central, but because it is so difficult to define what makes a characteristic central.” Corley et al. (2006) also argued the criterion of distinctiveness has rarely been demonstrated. The debate on the enduring nature of organizational identity has attracted more attention than centrality and distinctiveness dimensions in the last two decades (Chreim, 2005; Corley, 2004; Fiol, 1991, 2002; Gioia & Thomas, 1996; Gioia, Schultz, & Corley, 2000; Hatch & Schultz, 2002; Ravasi & Schultz, 2006; Ybema et al., 2009). The debate on the enduring nature of organizational identity is explained in the later part of this chapter.

Further, regarding the self-referential nature of the organizational identity definition, there are three different theoretical perspectives: a functionalist perspective, an interpretive perspective, and a postmodern perspective.

Organizational Identity and Firm Decision-Making

Organizational identity influences firm strategy and decision-making in several ways. First, as suggested by Albert and Whetten (1985), identity describes the essence of an organization. Thus, identity becomes a major symbol in which firms and other organizations define or signal themselves to customers, employees, suppliers, and investors, and also the way customers, employees, and other constituencies recognize the image of these organizations (Dutton & Dukerich, 1991). An identity that creates a central, distinctive, and enduring identity in the minds of internal and external stakeholders can have significant and positive reputational effects and be a source of legitimacy.

Second, the central, distinctive, and enduring identity helps top managers focus their attention on the most significant or important strategic issues. Studies by Dutton and her colleagues (Dutton & Dukerich, 1991; Dutton, Dukerich, & Harquail, 1994; Dutton & Penner, 1993) have shown that organizational identity influences which environmental stimuli are noticed and which environmental stimuli are ignored. Identity can also play an important role in influencing organizational priority. It is not that managers purposefully ignore less central competitors and issues, but identity requires managers to focus their attention on a much more limited set of direct competitors and

the most relevant strategic issues. This request to focus management attention may be important or even essential to affect organizations' strategic choices.

Third, the central, distinctive, and enduring identity has a major influence on the allocation of resources within organizations; and, understanding identity can become tightly coupled with these allocation processes, standard operating procedures, and fixed assets purchase. If the firm manages to develope these processes and skills of resource allocation, it further reinforces its identity. Together, organizational identity and the associated resource allocation can form what Mintzberg (1979) has called an organizational "gestalt." Such a gestalt not only places a firm in a unique identification vis-à-vis its rivals in the competitive environment, it also provides that firm with a set of organizational competencies that reinforces its identity.

Identity Change and Identity Conflict

There is a debate considering the organizational identity change. Beginning with Albert and Whetten (1985), the deterministic perspective suggests that organizational identity is stable and durable over long period of time. The inertial nature of organizational identity suggests that, over time, many aspects of a particular firm's identity are likely to become obsolete and less competitively relevant. A growing body of evidence also reveals that most firms find it almost impossible to change in ways that are inconsistent with their identities. Changing identity involves much more than economic costs; indeed, the costs of changing identity are largely psychological and social rather than economic (Albert & Whetten, 1985).

However, the human agency perspective suggests that organizational identity changes or is capable of being changed in shorter durations of time. One factor that can accelerate organizational identity change is organizational environmental changes. In a relatively stable environment, organizational identity is more likely to be a component of competitive advantage because members strongly agree on the identity, they believe it is the right identity, the identity is simple and unified, the identity is concrete, and content fits with the environment. On the contrary, in an environment that is changing in ways that requires new strategies from the firm, identity is less likely to be a source of competitive advantage. When members disagree about identity, they are not sure what the identity is, they are not sure it is right, or even think it is wrong, especially when the identity has many aspects, or there are multiple identities, and ambiguous terms allow for multiple interpretations. New contextual and competitive features appear and supplant old ones, products and services undergo extraordinarily rapid change, and so on. All of these have an immediacy of impact that requires rapid reconstruction of identity so that the organization can maintain flexibility.

Besides the changing of organizational identity, organizations can be viewed as having multiple identities, each of which may be a dominant identity for a given context or a certain type of stakeholders. Organizations present a complicated and multifaceted identity, each component of the identity is relevant to specific context, functions, or external stakeholders, without appearing fragmented or contradictory. Organizations develop and manifest different identity components according to core values, practices, and products and services. Using the concept of life-cycle of organizational identity,

Albert and Whetten (1985) suggested that over the course of the organization's life, identity shifts by both "substitution" (one identity giving way to anther) and "addition" (one identity joining another-leading to dual or multiple identities). In terms of substitution, organizational identity change is a punctuated equilibrium (Gersick, 1991; Romanelli & Tushman, 1994) and identity change may lead to loss of legitimacy caused by identity ambiguity. For the addition of identity, the new identity is added to the old identity. For example, in the initial phases of a profit-seeking firm, it is very economic value-oriented; survival is its primary goal, so the economic identity is its dominant identity. In the later phases, normative identity (social values-oriented) is added to the economic identity. This phenomenon has especially meaningful applications in family firms. In the early phase of a family firm, financial goals are primary because of the high failure rate of new ventures. Therefore, economic identity is its dominant identity. With the development of the family firm, the survival is no longer the primary concern, the family identity is added to the economic identity. For example, the family firm will pay more attention to some non-financial goals, such as the preservation of socioemotional wealth.

Family Firm

A family firm has been defined in many different ways, each focusing on some combination of a family's control in the different business components, such as ownership, governance, management, and transgenerational succession (Chua, Chrisman, Sharma, 1999). Chrisman, Chua, and Sharma (2005) pointed out that "researchers have had problems making these components precise and it is not readily

apparent how they could or should be reconciled." In this study, I follow the definition of Chrisman, Chua, and Sharma (2005). They identify a firm as a family firm when a family has influence over the strategic direction of a firm (Davis & Tagiuri, 1989); when the family intends to maintain control in the firm; when the firm emphasizes family interests over economic interests (Chua et al., 1999); and when the firm obtains unique, valuable, synergistic resources and capabilities from family members and interactions (Habbershon, Williams, & MacMillan, 2003).

The family business literature has stressed that the key distinguishing feature that separates family firms from non-family business is the presence (sometimes even the dominance) of noneconomic factors in the decision making process (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). In family firms, because family and business systems are intrinsically linked, boundaries between the family and the business are blurred. Consequently, elements such as emotions, idiosyncratic family values, and an altruistic orientation tend to permeate at all levels of the organization and they build up to an "affective endowment" that family firms cherish and strive to preserve.

Socioemotional Wealth and Behavioral Model

This interrelated nature of family firms and the consequential utilities family owners derive from the noneconomic aspects of owning and operating a business have been labeled as "socioemotional wealth" (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Berrone, Cruz, & Gomez Mejia, 2012; Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Gomez Mejia et al., 2011). The socioemotional wealth of family firms include the ability to exercise authority in the

firms (Schulze, Lubatkin, & Dino, 2003), the emphasis on belonging, affect, and intimacy (Kepner, 1983), the importance of family values through the business (Handler, 1990), the establishment of the family dynasty (Casson, 1999), the building and development of the family firm's social capital (Arregle, Hitt, Sirmon, & Very, 2007), the fulfillment of family obligations (Athanassiou, Crittenden, Kelly, & Marquez, 2002), and the altruism to family members (Schulze et al., 2003).

A basic tenet of the concept of socioemotional wealth is that family owners are often motivated influenced by the intentions of the preservation of their affective stock, even if doing so comes at the financial expense of the company. That is, in family firms, with the increase of the family ownership and family control, the socioemotional wealth takes priority over other dimensions of the business and becomes the main reference point for decision making, influencing the way the firm is managed.

Specific to family firm identity, Barnett, Eddleston, and Kellermanns (2009: 42) note that "based on theories of individual and social identity, it is possible that a family firm owner could regard the family as being more salient than the business and could thus overemphasize relationship concerns at the expense of business concerns." Therefore, family identity which could lead to the preservation of socioemotional wealth is more salient than the economic identity in family firms.

Family Firm Identity

Combined with the organizational identity theory, the central family identity makes it the core to the family firms. Family firms intentionally perpetuate their family identity. Any effort to substitute the family identity or add other identities to the family

identity is resisted as it raises fundamental questions about the nature of the firm. Managers in the family firms often find it too difficult to bring about a change in identity. An enduring family identity also can be desirable because consistency over time is rewarded with legitimacy from external stakeholders. When the family identity meets the external expectations, the family firm is rewarded with legitimacy from its family identity, thereby improving its chances of survival, acquiring and mobilizing resources, and financially prospering. When family firms deviate from their family identity, it causes confusion among external stakeholders thus evoking disapproval, devaluation and sometimes even bringing long-term survival into question (Hsu & Hannan, 2005).

Nonetheless, family firms also have profit motives. As managers, the family members work toward the firm's operational effectiveness. The marketplace objectivity and profit discipline are necessary to achieve profitability. In order to achieve a better financial performance, family firms need to strive for a healthy level of internal employee competition. A good financial performance is the primary condition for family firms to survive.

Therefore, family firms possess two major identities: family identity and economic identity. As family firms, they are concerned primarily with the welfare and the unity of the family; as economic organizations they are required to be interested in return on investment and the viability of the firms. Because of simultaneous roles, family considerations can easily intrude on business decisions, and the reverse. The higher the family ownership and the family control are, the more intense the conflict between

family and economic considerations will be. Family, family ownership, and business issues are interwoven with each other; business discussions may be transformed into the arguments about family issues, while family decisions may not be made on the basis of company needs. Consequently, companies can suffer from a lack of marketplace objectivity and profit maximization motivation.

When there is conflict between family and economic identities, family firms have two choices: substitution or addition of their identities (Albert & Whetten, 1985). When the top managers decide to make a shift from one identity to another identity or add one identity to the primary identity, existing routines (such as resource allocation and retailing strategy) and symbolic elements (vision, mission, and so on) imprinted by the previous identity (Shinkle & Kriauciunas, 2012) inhibit the firm from accomplishing identity change. So, when a firm adds one identity to the primary identity, it is temporal and it is very likely to create conflict between the multiple identities. Therefore, in order to make economic identity to the family identity coexist or even substitute family identity with economic identity, family firms need to examine and revise routines and organizational practices supported by the family identity. For example, Ward (1987) proposes a three-stage evolutionary model of the family firms. In the first stage, survival is the primary goal, the needs of the economic identity and the family identity are consistent; the owner-manager makes all decisions. Financial success also means family identity continuity. In the second stage, the owner-manager keep his/her control, but the importance of the family's relatives increases and more family members will be employed for the crucial positions. As a consequence, the identities of the family firm

are likely to diverge, reflecting the importance of family identity. In the last stage, economic and family identities can come into conflict. The economic identity can become obsolesce and is in need of regeneration; the owner-manager retires; and maintenance of family harmony becomes the primary family goal. Again, economic identity is substituted by family identity.

Similar to Ward's (1987) three-stage development model, when family firms decide to extend their operation to foreign countries, the foreign expansion can create economic and family identity conflict. The choice of mode of entry is a critical factor which could avoid or intensify the conflicts.

Mode of Entry

An entry mode is a business decision for implementing international strategies and conducting international business transactions by which all future decisions are influenced (Andersen, 1997; Kumar & Subramaniam, 1997). In the entry mode literature, whether or not to control the subsidiaries is an important decision because it is an indicator for resource commitment, potential risks and return on assets for firms entering foreign markets (Anderson & Gatignon, 1986).

Control represents a firm's ability to influence systems, methods, and decisions. It helps a firm to have a critical impact on the future of MNEs. Without control, a firm may find it more difficult and costly to coordinate actions with its local partners, carry out strategies, implement its values and beliefs, and resolve the disputes that invariably arise especially when two parties to a contract pursue their self interests (Davidson,

1982). Further, the MNE can use its control to obtain a larger share of the subsidiaries' profits. In short, control is a way to mitigate transaction costs and obtain a higher return.

Yet control, while obviously desirable, also carries a high cost (Vernon, 1983). To take control, the MNEs must take full responsibility for every decision. However, the MNEs may be unwilling or not able to carry out this responsibility in an uncertain foreign environment. Control also involves commitment of resources. This in turn creates sunk costs and reduces the firm's resource slack and flexibility. Resource commitment also increases the firm's possibility of unexpected losses due to institutional differences (Davidson, 1982; Brouthers, 2002). Thus, the trade-off between control and risks isone of the main problems that a firm needs to consider when it decides to invest in a foreign country (Anderson & Gatignon, 1986).

In this study, I mainly focus on two types of high control entry modes: acquisition and Greenfield investment. Acquisition is an entry mode through which a firm from one country acquires a stake in or purchases all assets of a firm located in another country. The ability of an acquisition to provide rapid access to new markets is a key reason to use acquisition as an entry mode. Actually, acquisition is regarded as one of the quickest means for firms to enter international markets (Hitt, Ireland, & Hoskisson, 2012). However, the firm completing the acquisition must deal not only with different corporate cultures inside of the firm, but also with potentially different social cultures and practices in the foreign country. These cultural differences make integrating the two firms after the acquisition more challenging. Therefore, it is more

difficult to capture the potential synergy when integration is slowed or impossible because of cultural differences.

Comparatively, a Greenfield venture is an entry mode through which a firm invests directly in another country or market by establishing a new wholly owned subsidiary. This entry mode offers maximum control to the firm and has the greatest amount of potential to contribute to the firm's strategy as it implements international strategies. The risks associated with Greenfield venture are significant in that the costs of establishing a new subsidiary in a new country or market can be substantial.

Although previous literature has examined the trade-offs between acquisition and Greenfield investment (Gatignon & Anderson, 1988), the choice of acquisition and Greenfield investment involves some special trade-offs for family firms. Some studies suggest that a MNE may prefer acquiring local firms to compensate for its lack of knowledge in an unfamiliar environment, relying on local employees to contribute local knowledge (Gatignon & Anderson, 1988; Shenkar, 2001). By co-managing the venture with local employees, the MNE can better manage the subsidiaries, learning from their local employees. Furthermore, the local employees can manage the labor force and continue their relationship with suppliers, customers, and government authorities (Stopford & Wells, 1972; Hennart, 2009). In this way MNEs realize their economic goals. However, when family firms choose to acquire a local firm, the local culture and the firm's previous identity may stay in the subsidiary for a long time. This will sabotage or at least weaken its family identity. On the other hand, Greenfield investment also provides some advantages over acquisition despite its disadvantages of being costly

and risky to establish new ventures. For example, it is easier to maintain absolute control. This is especially meaningful for family firms because they pay more attention to the family identity preservation.

This study contributes to the current mode of entry research by incorporating the identity conflicts into the mode of entry choice. A local acquisition is often a rational way to realize economic identity. However, by using a Greenfield investment, family firms can preserve their family identity to the greatest extent (Table 2).

Behavioral Agency Model and Mode of Entry

According to behavioral agency model (Wiseman & Gomez-Mejia, 1998; Gomez-Mejia, Welbourne & Wiseman, 2000), the risk preferences change with the reference point. The gains or losses relative to a reference point serve as a base on which to make a choice from available options. Behavioral agency model predicts that decision makers are always trying to avoid a loss of family identity even if this means accepting a higher economic risk. Further, risk bearing is subjective, representing perceived losses to a decision maker's endowment.

Pareto efficiency or Pareto optimality is a state of economic resources allocation in which it is impossible to make any one better off without making at least one individual worse off. If a change to a different allocation that makes at least one individual better off without making any other individual worse off, there exists Pareto improvement. In this study, I discuss the possibility of Pareto improvement between economic identity and family identity when a MNE chooses between Greenfield investment and acquisition. To be specific, I investigate the possibility of strengthening

economic identity in a family firm without weakening its family identity when it chooses between two different entry modes: acquisition and Greenfield investment.

Applying the behavioral agency model logic to the family firm's international strategy, the preservation of family and economic identity can be considered as two reference points and the preservation of family identity is family firms' primary reference point. The identity choice achieves Pareto efficiency which means a choice of acquisition or Greenfield investment cannot increase economic identity and family identity simultaneously. As shown in Table 3, when both family identity and economic identity are high, the choice of mode of entry is very difficult as we predicted. Family firms may avoid international diversification since they have no motivation to invest overseas. The addition of one identity to the primary identity may cause confusion and conflict in the firms. There is no Pareto efficiency in this circumstance. When family identity is high and economic identity is low, family identity becomes the primary identity, Greenfield investment help the family firms achieve Pareto efficiency. When family identity is low and economic identity is high, acquisition is a better choice and help family firms achieve Pareto efficiency. Finally, when both family identity and economic identity are low, the family firms are willing to take risks and choose joint venture as their mode of entry since firms have no motivation to preserve either of these identities.

In the following part, I discuss the potential Pareto improvement under certain institutional environments. When we take the institutional condition into consideration, specifically economic, regulatory, and political institutional distance, there is a

possibility that family firms could simultaneously preserve economic and family identity when they choose either acquisition or Greenfield investment as their mode of entry.

Institutional Environment

The extent to which family firms can preserve economic and family identity simultaneously is also dependent on the institutional environment in the host and home countries. I identified three institutional dimensions which have been widely discussed in the previous literature, type, distance, and distance direction, to characterize the internal and external institutional environment.

Institutional polycentrism is a theoretical concept suggesting that institutions are multi-centered systems rather than monocentric (single-centered) hierarchies. Polycentricity refers to a complex system of mutually adjusting multiple power centers that operates as a spontaneous order (Polanyi, 1951). Polycentric institutions are defined as multiple, configurational, and context-specific institutions that originated from, are situated in, and enforced by numerous decision-making power centers (Batjargal et al, 2013; Ostrom, 2005). Institutional multiplicity exemplifies how multiple institutions and their different isormophic mechanisms form a society's system of institutions. An institutional configuration exemplifies the integration of multiple institutions and their interaction with other dimensions of the external environment. Previous work suggests that the confluence of multiple institutions, such as regulatory, political, and economic institutions, influences firm performance (Batjargal et al., 2013). This study extends the current institutional polycentricity concept by examining the integration of firm level and country level institutions and how they collectively affect mode of entry choices in

the family firm internationalization process. Thus, it examines the multilevel influence of institutions.

Organizational Level Institutions

From an institution theory point of view, institutions create the “rules of the game” for a firm’s activities (North, 1990). These rules include requirements, constraints, enforcement mechanisms, and incentive structures (Dunning & Lundan, 2008; Meyer et al., 2009; Peng, 2003).

Analogue to the country level institutions, organizational level institutions are the creation of collective meaning structures through social processes by “rules of games” inside the organizations. These institutions are concerned with the symbolic and cognitive aspects of organizational life and captures the roles of explanation, interpretation, emotion, values, and belief in organizations. Organizational level institutions are based on a closed systems perspective marked by the explanation of organizational life with reference to intra-organizational factors and characterized by a focus on internal learning and socialization processes in the organizational search for identity. Thus, organizational level institutions influence identity construction through collective sense making.

The difference between country level institutions and organizational level institutions is that country level institutions lead to the isomorphism and conformity among organizations while organizational level institutions produce similarities in behavior across individuals within organizations. Firms conform to the country level institutions in order to gain external legitimacy; individuals in firms conform to the

organizational level institutions to obtain internal legitimacy. Organizations tout their uniqueness by creating identity. Identity and practice are intentionally created anew and celebrated by actors within organizations. Actors in organizations create organizational institutions in order to establish unique identity and internal legitimacy, to distinguish their organizations, and to symbolize and affect the goals of rationality and justice.

It is critical for individuals within firms to create and maintain organizational institutions that are consistent with their identities. For instance, if a firm decides to create an identity of caring for its stakeholders, it needs to build the organizational level institutions that incorporate these stakeholder groups into the normal part of organizational life. Accordingly, not only are employees are motivated to include external stakeholders into their daily routines, but the external stakeholders are also encouraged to behave as members of the organization. For example, investors are encouraged to align their personal values with the firm, whereas customers who join customer loyalty programs are intended to consider themselves as organizational members. Suppliers, unions, and local communities become partners with the firm. In this way, the organizational institutions convey the organization's identity.

Family Firm Identity and Organizational Level Institutions

Specific to organizational identity, the culture, norms and policies that support family firms' family or economic identities are family identity institutions or economic identity institutions. Scott (2008) described identity as one of the principal "carriers" that sustain the cognitive pillar of institutions. Organizational identity links an organization to the institutions in its environment, and establishing an organizational

identity is a crucial element of gaining legitimacy and forming an organization as a viable entity. The stream of literature on ecological categories, markets, and organizational forms (Hannan, 2005; Hsu & Hannan, 2005; Polos et al., 2002) asserts that external audiences hold "identity codes" or perceptions about what it means to be a prototypical member of a category and, consequently, have expectations about how the organization will and should act. Institutional pressures to conform to this identity become pronounced (Benner, 2007; Porac Wade, & Pollock, 1999; Zuckerman, 1999). When the organization's identity meets the expectations that are perceived by external stakeholders, the organization is rewarded with legitimacy, thereby improving its chances of acquiring and mobilizing resources. When organizations deviate from these identity codes which means they update their organizational institutions, it causes confusion among audiences thus evoking disapproval, devaluation and sometimes even bringing long-term survival into question (Hannan, 2005).

For example, Czarniawska and Wolff (1998) focused on the issue of how identity could facilitate (or undermine) legitimacy and success for newcomers. They found that the university that is able to attune to its institutional environment and construct an identity similar to the other universities in its organizational field has a better chance to survive. Similar to Czarniawska and Wolff (1998), Clegg et al. (2007) found that organizations form identities that afford them a unique position within an industry. A different approach by Corley and Gioia (2004) emphasized the perceptions and actions of organization members experiencing a profound identity change. They found that when the spun-off organization attempted to establish its identity as an

independent entity in a different industry than its parent, its members were presented with a major challenge.

However, research from an institutional theory perspective has most often tended to investigate particular aspects of organizational identity formation rather than the overall processes through which it occurs. Scholars did not explicitly account for internal processes that affected the specifics of organizational identity features (Gioia et al., 2013). I propose in this study that the identity formation is supported by internal culture, norms and institutions which define "rules of game" inside the firms. Suchman (1995: 576) claims that the culture system provides "cultural definitions that determine how the organization is built, how it is run, and simultaneously, how it is understood and evaluated." These internal culture, norms and institutions help form a firm's identity. In family firms, the different internal culture, norms and institutions that provide support to either family identity or economic identity constitute organizational level institutions.

In family firms, especially the later stage of the family firms (Gersick, 1991; Romanelli & Tushman, 1994; Ward, 1987), family identity has been developed as a prototype. Once a firm is recognized as a family firm by internal and external stakeholders, the behavior conformity to the expectation from those stakeholders not only improves firms' legitimacy, but also constrains the firms' decision making. The family identity formation creates the organizational culture, organizational policies, and routines that help the organization determine the strategy and structure that preserve the family identity.

Identity Conflict and Organizational Level Polycentricity

The conflict between family and economic identities, the addition of economic identity to family identity, or the strengthening of family identity and the weakening of economic identity can dramatically change firms' organizational institutions.

The norms, culture, policies and routines related to economic identity and those related to family identity often are contradictory to each other. For example, because of family nepotism, altruism, and CEO entrenchment, family executives are sometimes less competent, more likely to appropriate firm assets for personal use (Morck et al., 2005, Morck & Yeung, 2003), more risk averse (Le Breton-Miller et al., 2011, Schulze et al. 2001), and less motivated to invest in innovation and training programs (Bertrand & Schoar 2006, Bloom & Van Reenen 2007, Gomez-Mejia et al. 2010). These practices are contrary to maintaining an economic identity. In order to solve this problem, family firms have to choose to emphasize one identity and pay less attention to another identity.

However, because the family firms can only survive when they achieve the economic profitability, the co-existence of family and economic identities is inevitable. The integration of economic identity and family identity means family firms have to integrate the institutions supporting economic identity and institutions that support family identity. The advantage of integrating the two identities is that decision-making can be centralized. In turn, the efficiency and privacy of the decision-making process are increased. Because of the ownership control and the availability of financial information and family information, decision-makers can quickly and discretely act in the best interest of both the economic and family identities.

While the integration of economic and family identities could be beneficial, decision-making can be especially efficient, loyalty is high and cooperation is abundant, there are negative outcomes when economic and family identities are emphasized simultaneously. In general, institutions, such as norms, policies and culture, supporting family identity and economic identity are normally contradictory. For example, family identity traditionally seeks internal unity and tries to suppress or deny rivalry among members, whereas economic identity often strives for a healthy level of internal competition. In this framework of double-identity, either competitiveness within the firm, or family unity may be sacrificed if the family firm attempts to preserve both the economic and the family identities simultaneously. Also, the family firms could be suffering from "norm confusion" (Tagiuri & Davis, 1996), and finally the norm confusion may threaten family firms' legitimacy and survival.

Hence, a better choice for many family firms is to substitute one identity for the other instead of integration of them. The substitution of identities could solve the "norm confusion" problem, but it creates other problems. According to organizational imprinting theory, organizations are shaped by their founding institutional environment (Stinchcombe, 1965; Kogut & Zander, 2000). Imprinting research has found long-lasting effects of norms and operating practices of firms (Bamford, Dean, & McDougall, 2000; Boeker, 1989; Kimberly, 1979). Family firms will be constrained in their ability to adapt to new environments due to imprinted structures and practices established for their original identity.

Given the advantages and disadvantages of identity integration and identity substitution, the two identities of family firms usually exist simultaneously, but one identity is dominant during a period of time. The balance of family and economic identities is very important and the co-evolving, co-existing, and integrative nature of family and economic identity represent a form of organization level institutional polycentricity.

When a family firm invests in a foreign country, the possibility of conflict between economic and family identity is intensified and the need for economic identity and family identity to co-exist and co-evolve is urgent. The liability of foreignness forces the family firms to pay more attention to their economic identity. The ignorance of the economic identity could threaten the subsidiaries survival. On the other hand, operating in a foreign country may make the control and family identity preservation more difficult, especially when acquisition is chosen as the mode of entry. Family firms need to develop strategies and structures to maintain their family identity. Further, the local government may encourage the family firms to choose family identity as their primary identity because family identity prompts the firms to perform higher levels of corporate social responsibility, better community citizenship (Berrone et al., 2010; Dyer & Whetten, 2006; Post, 1993), and stronger commitment to philanthropic activities (Deniz-Deniz & Cabrera-Suarez, 2008). The conflict and trade-off between family and economic identities creates a complex organizational level institutional environment that influences the behavior of the family firms (Tagiuri & Davis, 1996). The authorities

from organizations and local government interact to determine the balance of family and economic identities.

Country Level Institutions

The theory of institutional polycentrism suggests that different types of rules originate from and are situated in multiple rule-making "centers" but their effects occur in configurational and integrated manners (Ostrom, 2005; Batjargal et al, 2013). For example, economic rules originate from and are situated in multiple monetary and fiscal institutions; regulatory rules originate from and are situated in numerous regulatory forces; political institutions based on rules and standards established by governments. The economic, regulatory, and political institutions are developed and co-evolve in combinative ways. This creates a complex and configured institutional environment that influences the behavior of organizations, groups, and individuals (North, 2005; Ostrom, 2005). The country level institutional polycentricity represents a system of national governance in which authorities from different and overlapping jurisdictions interact to determine the overall conditions and constraints under which units of governance, e.g., organizations and citizens, are authorized to act (McGinnis, 2011). Thus, country level institutional polycentricity is represented through a set of multiplicity, configurational, and context-specific institutional rules, norms and prescriptions. MNEs operate in polycentric institutional settings in which they are influenced by the combination of country level institutions (Oakerson & Parks, 1999; Ostrom, 1990; 2005).

Country Level Institution Type

Three formal institutions--regulatory, political, and economic--were identified in previous research as three prominent national formal institutions (Holmes, Miller, Hitt, & Salmador, 2013).

Economic institutions are primarily composed of a country's monetary and fiscal policies (e.g., Fischer, 1993; Lucas, 2003), and entails the rules and standards that shape the availability and accessibility of the country's financial resources, which in turn support financial investments. Such "financial factors are an integral part of [a country's] growth process" (Levine & Zervos, 1998: 554). The money supply and investment funds in a host country determine the financial resources a MNE has access to in the host country. Further, the money market illiquidity and inflexible exchange rates disadvantage MNEs disproportionately.

Regulatory institutions are important for a governmental body's effort to monitor and control the activities and behaviors of local and foreign organizations operating within a country. Regulatory institutions establish rules and policies to reduce uncertainty about the operating activities of organizations by standardizing practices and implementing enforcement. Although the scope and content of regulations vary in countries, they represent society's expectations and preferences (North, 1990; Scott, 1995). For example, regulatory institutions enact and enforce protect property rights laws and restrict or promote the activities of foreign organizations (Bekaert, Harvey, & Lundblad, 2005; Spicer, McDermott, & Kogut, 2000). When the regulatory institutions such as contract and property rights and monetary policies are less effective, MNEs are

more likely to suffer from the opportunistic behavior of the local partners, suppliers, customers, and so on. MNEs need to find other ways to obtain permission and licenses, re-enforce contracts, and curb predatory practices of the “grabbing hands” of governments which used to describe the corrupt behavior occurring in a disorganized way that leads to the personal enrichment of government officials, to the detriment of the rule of law and private business development (Batjargal, 2003; Frye, 2000; Frye & Shleifer, 1997).

Political institutions are rules and standards established by governments that define the nature of the political process (Hillman & Keim, 1995). Political institutions include how power is distributed within government (such as the power distribution between legislation and enforcement) (Henisz, 2000), which group of individuals are allowed to participate in it, and how the political rights are exercised (Persson, 2002). More importantly, the political institutions also constitute the rules and standards for institutional evolution establishing new institutions and altering existing ones. It is a critical function because it influences the stability of the political institutional environment and the expectation and predictability of changes in that environment (DiMaggio & Powell, 1991). MNEs from less democratic economies are accustomed to operating in environments with weak formal institutions. In environments where formal institutions such as laws, rules and regulations are weak, informal institutions commonly play a major role in economic activities (Peng & Heath, 1996). Moreover, even with the existence of formal institutions (such as certain regulations), MNEs may question the logic and efficiency of the regulations. When the subsidiaries of these MNEs are forced

to operate in economies in which institutions are clear and officially articulated, they need to collect, and interpret the information about the formal institutions and their nuanced effects on business practices. MNE subsidiaries' performance is significantly influenced by how effectively they learn to interpret institutional requirements when they do business in countries with well-developed institutions.

Institutional Distance

Kostova (1999) defines institutional distance as the difference between two countries' institutional environment profiles. Institutional distance is perhaps the main cause of liability of foreignness. The liability of foreignness caused by institutional distance takes effect in four ways (Eden & Miller, 2004). First, foreign firms generally have less information than domestic firms about the host country institutions. The unfamiliarity of the institutional environment creates costs of acquiring this information. Second, foreign firms may sometimes receive biased and injustice treatment from the host country government and/or buyers and suppliers compared to domestic firms. Lastly, foreign firms may face foreign exchange risks because foreign firms do not receive and pay foreign currencies simultaneously. Again, local firms do not face the possible foreign exchange risks.

Kostova (1999) argues that when institutional distance is high, the transfer of practices is difficult. Similarly, the main conclusion from the mode of entry research is that when the institutional distance between home and host country is high, MNEs will not choose a Greenfield investment (Hennart & Larimo, 1998; Xu & Shenkar, 2002). It is difficult for MNEs to manage their foreign affiliates when institutional distance is

high. Such management will be more difficult to achieve if the subsidiary is a locally acquired firm. Hence, previous work suggests a positive relationship between institutional distance and utilization of Greenfield investment as a mode of entry into a foreign market (Kostova, 1999; Luo & Shenkar, 2011).

This study contributes to the institutional distance-mode of entry literature by differentiating economic, regulatory, and political institutional effects on family firm internationalization when they are facing family-economic identity conflict. Actually, the institutional distance increases the family-economic identity conflict. Moreover, by choosing between Greenfield investment and acquisition, family firms can enhance or reduce the conflict.

In addition, despite the distinct characteristics of economic, regulatory, and political institutions, the concept of institutional polycentricity suggests that attention should be given to their integrated effects and those of the country level and organizational level institutions as well. Barkema, Bell, and Pennings (1996) coined the term “double layered acculturation” to describe the conflict between foreign national and corporate culture. They argue that MNEs are required to calibrate themselves to a foreign national culture and gain internal (the culture consistency of parents and the subsidiaries) and external legitimacy (the culture conformity when home and host country cultures are different) simultaneously. This study was based on the experience of 13 Dutch firms and their 225 foreign ventures between 1966 and 1988. As expected, entry was more successful when the target country’s culture was similar to the company’s domestic culture. The study also found that dealing with both country and company cultural

differences diminished entry success. Although such double-layered acculturation was difficult for a firm's immediate expansion, the intensified learning improved future expansion efforts. In other words, these firms learned about foreign cultures, and then applied that learning to increase future success.

Extending the notion of "double layered acculturation," this study focuses on the internal and external legitimacy conflicts caused by internal identity and their supported internal norms, values and routines and the external host and home country institutional distance. The empirical results show that by choosing a specific mode of entry, the family firms might achieve internal and external legitimacy when they implement internationalization strategies.

The Direction of Institutional Distance

Previous literature has focused on the influence of absolute institutional distance on internationalization (Xu & Shenkar, 2002; Xu, Pan, & Beamish, 2004). However, the direction of institutional distance matters, not only the absolute value of that distance. Increasing numbers of MNEs from emerging markets are now investing in foreign countries. The effect of institutional distance on MNEs from a developed country investing in emerging markets is dramatically different from the effect of institutional distance on MNEs from emerging markets investing in developed countries. Therefore, the direction of institutional distance needs to be considered in addition to the absolute institutional distance. For example, US regulatory institutions are more favorable to foreign firms than in China. While the absolute institutional distance between the United States and China is the same, the liability of foreignness associated with a

Chinese MNE investing in the United States (moving from a less favorable institutional environment to a more favorable institutional environment) should differ from those associated with a US MNE investing in China (moving from a more favorable institutional environment to a less favorable institutional environment).

More likely, the MNEs from countries with less favorable institutions face higher liabilities of foreignness when they invest in countries with more favorable institutions (Xu & Hitt, 2012). Unlike their counterparts from countries with more favorable institutions, MNEs from countries with less favorable institutions face greater challenges in obtaining legitimacy when entering the highly competitive global markets. In addition to liability of foreignness, which is a universal problem for all MNEs, MNEs from countries with less favorable institutions often suffer from two additional problems: liability of newness (Luo & Rui, 2009; Luo & Tung, 2007) and the lack of operational experience in environments with more favorable formal institutions. Most of the MNEs from countries with less favorable institutions are smaller and more resource-constrained than their counterparts in the developed countries. The resource constraints make it more difficult for them to engage in some costly activities such as information collection and a learning process that is long, in order to mitigate the liabilities. MNEs from countries with less favorable institutions also are accustomed to operating in country environments where informal institutions are more influential than formal institutions (Peng & Heath, 1996). Learning about how to navigate in environments with strong formal institutions, therefore, is crucial to the survival of MNEs from emerging markets when these MNEs enter global markets.

In sum, the direction of institutional distance is more important than absolute institutional distance in the current global environment.

Having conceptualized family firm identities and country level institutions, I now move to develop the hypotheses in my proposed model. I first develop the hypotheses of the interactive effects of family firm identities and economic identity and economic institutional distance. Following this, I develop the hypotheses of the interactive effects of family firm identities and regulatory and political institutional distance.

HYPOTHESES

Economic Identity and Mode of Entry

From the economic identity perspective, the choice of entry mode is determined by the comparative costs between a Greenfield investment and an acquisition. Transaction cost theory has been primarily used to analyze the relationship between mode of entry choice and financial performance. Transaction costs related to the choice between a Greenfield investment and an acquisition involve the costs of building a brand new firm as compared to the costs of acquiring an existing firm in a foreign country. Transaction costs refer to the costs of searching and negotiating with a potential target and the costs of monitoring the acquirees (Agarwal & Ramaswami, 1992; Erramilli & Rao, 1993; Gatignon & Anderson, 1988; Hennart, 1991; Hill, 1990; Makino & Neupert, 2000; Williamson, 1985).

However, a firm may encounter increased costs in searching, negotiating or monitoring a target either (1) because it is difficult to estimate and include all contingencies in the acquisition contract beforehand, or (2) because it is impossible to receive a fair price due to information asymmetry and opportunism (Taylor et al., 1998; Williamson, 1985). Furthermore, it is difficult to monitor and enforce the acquisition contracts due to geographical distance, communication problems or the lack of reliable measurable outputs (Hill, 1990; Williamson, 1985). Scholars find that when the transaction costs associated with searching, negotiating and monitoring a potential target are low, firms tend to rely on the acquisition as their mode of entry to realize the economic objectives. But as these transaction costs increase, firms will switch their

preference to modes which they have more control, such as a Greenfield investment (e.g., Taylor et al., 1998; Erramilli & Rao, 1993; Hennart, 1991; Gatignon & Anderson, 1988; Anderson & Gatignon, 1986).

Therefore, the mode of entry choice is contingent on other factors. However, specific to family firms, their intention to preserve the economic identity and financial performance determines that family firms prefer to exclusively use internal financial sources and the limited liquidity thereof make them find that acquisitions provide better opportunities either because (1) they do not increase the number of competitors in the market, hence not severely affecting rivalry's competition strategies, (2) can reduce the resource commitment, or (3) reduce the market exit costs which is related to lower resource commitment (Kim & Hwang, 1992). Therefore,

Hypothesis 1: There is a negative relationship between economic identity and the choice of Greenfield investment as mode of entry.

Family Identity and Mode of Entry

There are two main reasons to expect a negative relationship between family ownership and acquisition. First, many scholars (e.g., Gómez-Mejia et al. 2007; Anderson & Reeb, 2003) have argued that family firms have different values and goals than non-family ones, and these differences may affect these firms' international strategy. In general, family firms perceive longer time horizons than non-family firms because the current generation owners feel an obligation to preserve wealth for the future generations (Casson, 1999; Chrisman, et al., 2005; Bruton, Ahlstrom, & Obloj, 2008; Eddleston, Kellermanns, & Sarathy, 2008). Claver, Rienda, and Quer (2009) have drawn

attention to the general reluctance of family firms to embrace change that comes with the internationalization process, preferring stability and direct control. Gómez-Mejia, Makri, and Larraza-Kintana (2010) suggest that family firms may be reluctant to implement an international strategy because internationalization typically involves higher debt levels which may mean a higher risk of loss of control. Internationalization may require resources and expertise from external stakeholders (Pfeffer & Salancik, 1978), and this can also dilute family control. In order to maintain family identity and preserve SEW, family firms are reluctant to engage in internationalization. Fernández and Nieto (2006) suggest that the more centralized decision-making in family firms may negatively affect the likelihood of international strategies being pursued.

Second, previous studies on finance and corporate governance indicate that family firms' equity holdings are usually more concentrated, resulting in limited liquidity (e.g. Anderson & Reeb, 2003; Demsetz & Lehn, 1985; Faccio, Lang, & Young, 2001; Shleiffer & Vishny, 1986, 1997). Consequently, family shareholders may be affected more severely by the company's non-systematic risks than other types of investors who invest to diversified portfolios (e.g., institutional investors) (Maug, 1998). Family shareholders may try to undertake certain corporate level strategies, such as internationalalization, to mitigate the risks (Chang, 2003). Sirmon, Arregle, Hitt, and Webb (2008) suggest that internationalization allows family firms to leverage their current resources in foreign, more favorable international markets, and provide a source of key knowledge and capabilities usable to leverage existing resources or create new resources. But such endeavors cannot reduce firm-specific financial risks created by

undiversified portfolios (Douma, George, & Kabir, 2006; Yeh, Lee, & Woidtke, 2001). The company's failure may lead to the loss of all returns for family firms. Hence, family firms are less tolerant of risks, and exhibit higher prudence in resource commitment. Compared with non-family firms, family firms tend to shy away from risky investments and the strategies through which control might be lost (Anderson & Reeb, 2003; Chatterjee, Lubatkin, & Schulze, 1999; Wiseman & Gomez-Mejia, 1998). Arregle, Naldi, Nordqvist, and Hitt (2012) suggest that the higher the environmental uncertainty faced by a family firm, the more costs it experiences in accessing resources for internationalization, resulting in a reluctance to internalize the firm's operations.

In sum, applying the behavioral agency model to the analysis (Wiseman & Gomez-Mejia, 1998; Gomez-Mejia, Welbourne & Wiseman, 2000; Larraza-Kintana et al., 2007), family owners are willing to bear greater financial risk when alternative, more conservative international strategy, such as the choice of acquisition as the mode of entry, may result in diminished socioemotional wealth (SEW) and family control. Therefore, when family firms are engaging in international strategy, preserving the family control is their primary goal. Therefore, I propose a positive relationship between family identity and the choice of Greenfield investment instead of acquisition.

Hypothesis 2: There is a positive relationship between family identity and the choice of Greenfield investment as mode of entry.

Institutional Distance, Family Firm Identity, and Mode of Entry

Three institutions--economic, regulatory, and political-- are examined in this study as three types of formal institutions.

Positive Institutional Distance (Institutions in Host Country Are More Favorable Than Institutions in Home Country). Institutional voids (e.g., weak legal protection for property rights or intellectual property rights, poor enforcement of commercial laws, lack of transparency of judicial and litigation systems, inefficient factor markets, and underdeveloped market intermediaries) and political hazards (e.g., political instability, unpredictable regulatory changes, government interference, and corruption in public service and government sectors) in the home country erode firms' competitiveness in domestic markets, thus influencing family firms to contemplate using strategies to enter international markets. Although it is possible for firms to develop the skills and networks to handle such institutional constraints, it is always costly for a firm to deal with the institutional voids and political hazards, especially in a foreign country. By selecting to operate in an institutionally more efficient, transparent and munificent environment without such constraints and hazards, family firms could avoid the costly process and thus be able to concentrate on building, exploiting and upgrading their capabilities (and hopefully competitive advantages) in international markets.

When family firms invest in host countries with more favorable institutions, such as emerging market firms entering developed markets, the family firms enjoy the advantage of more developed local institutional environments than they have at home (Witt & Lewin, 2007). The liability of foreignness is lower in the favorable institutional

environment, compared to firms from countries with a favorable institutional environment investing in countries with less favorable institutional environments. The well-established institutions in the host country provide supportive services to foreign firms. The efficient infrastructure promotes economic transactions (McEvily & Zaheer, 1999). The favorable economic institutions also help foreign family firms to access critical resources for their foreign operations (Meyer, Esrin, Bhaumik, & Peng, 2009). So, this environment facilities family firms use of a Greenfield investment as a mode of entry (and preserve family identity as well as to realize economic identity). Under such circumstances, the choice of a Greenfield investment as the mode of entry demonstrates clear Pareto improvement over the choice of an acquisition as the mode of entry because a Greenfield investment can preserve both economic identity and family identity (SEW thereof). Family firms do not have to sacrifice one identity in order to improve another identity. Figure 2 shows that family firms are able to preserve family and economic identities simultaneously when institutional environment is favorable in host country.

Positive Economic Institutional Distance (Economic Institutions in Host Country Are More Favorable Than Economic Institutions in Home Country). Economic institutions are mainly composed of a country's monetary and fiscal policies (e.g., Fischer, 1993; Lucas, 2003), and embody the rules and standards that determine the availability and value of the country's financial resources. It is important to a foreign firm because economic institutional environment also supports capital investments and spending. More developed financial infrastructure and capital markets reduce transaction costs for local financial services, such as the multiple options of the payment

system. Moreover, they facilitate access to complementary local finance, which can reduce foreign investors' exposure to exchange rate risk. Local customers are also more likely to gain access to bank credit, which can accelerate the demand for consumer goods that often are bought on credit. Thus, developed financial institutions boost business opportunities and at the same time facilitate the functional entry for foreign investors. Similarly, more developed market institutions reduce institutional uncertainty if bureaucratic interference in business transactions is subject to clear rules and regulation. This applies notably to competition policy, which is important to protect consumers but can also be used to influence foreign entry mode. For family firms, the favorable economic institutions allow them to reduce transaction costs, enhance business opportunities, obtain financial resources in the host country, and more importantly, compete with local rivals on a more equal basis. Although family firms prefer internal financing and are facing limited liquidity because of their priority of protecting family control and family influence and preserving SEW, favorable economic institutions in the host country provide family firms abundant financial resources without the demand of family control. Thus, advantages of using acquisition are weakened. Therefore, family firms prefer a Greenfield investment to an acquisition because the Greenfield investment helps preserve their family identity and SEW and economic identity simultaneously. Thus, I propose:

Hypothesis 3a: Economic institutional distance negatively moderates the relationship between economic identity and Greenfield entry mode when economic institutions are more favorable in the host country than in the home country.

Hypothesis 3b: Economic institutional distance positively moderates the relationship between family identity and Greenfield entry mode when economic institutions are more favorable in the host country than in the home country.

Positive Regulatory Institutional Distance (Regulatory Institutions in Host Country Are More Favorable Than Regulatory Institutions in Home Country). Foreign entry-mode choice is a reflection of conformity of a foreign firms to the regulatory institutional environment in the host country. The elements of the regulatory institutions include laws, rules, and standards that construct and constitute the standards and expectation of organizational and industrial action as well as ensure stability and order in societies (North, 1990, Scott & Meyer, 1994; Williamson, 1975, 1991). Regulatory institutions can enact policies that facilitate or hinder economic growth, such as providing or constraining public goods and creating or banning laws to protect private property. Thus, some government actions can promote a positive environment for MNE activities.

When the regulatory institutions of the host country are more favorable than the regulatory institutions in the home country, there are two reasons for family firms to choose Greenfield investment as entry mode. First, the liability of foreignness is lower in the favorable regulatory institutional environment. When the institutional constraints are relatively low, family firms do not have to incorporate the local institutions to satisfy the regulatory requirements and achieve their legitimacy. Second, because the local regulatory institutions are favorable to the foreign family firms, they do not have to deal with the biased institutions against foreign companies and other institutional

infrastructure; this will significantly reduce the transaction costs in the host country. Therefore, the favorable regulatory institutions make the acquisition to be an inferior choice for family firms even from economic point of view.

As the SEW concept argues, in order to keep family control and family influence, the favorable regulatory institutional environment allows family firms to achieve this goal and use Greenfield investment as mode of entry. Further, the acquisition of a local firm could be costly because family firms have to build the internal legitimacy when they try to transfer their family identity into the local subsidiaries. Therefore,

Hypothesis 4a: Regulatory institutional distance negatively moderates the relationship between economic identity and Greenfield entry mode when regulatory institutions are more favorable in the host country than in the home country.

Hypothesis 4b: Regulatory institutional distance positively moderates the relationship between family identity and Greenfield entry mode when regulatory institutions are more favorable in the host country than in the home country.

Positive Political Institutional Distance (Political Institutions in Host Country Are More Favorable Than Political Institutions in Home Country). In some emerging economies, autocratic political institutions foster instability and unpredictability in the institutional environment. Policies are subject to the self-interests of a small number of individuals (Henisz, 2000) and, as such, often produce institutional voids because of the weak monitoring mechanisms available (Puffer, McCarthy, & Boisot, 2010). On the contrary, in most countries with more favorable political institutions, democratic political institutions provide opportunities to influence government decisions through

interest groups, election donations, and lobbying (Hillman, Keim, & Schuler, 2004). Furthermore, although there is a possibility for firms to influence the political institutions in both political environments; however, the ways they influence it are totally different. In countries with institutional voids, firms usually turn to informal means such as networks and guanxi (Peng & Luo, 2000) to influence political institutions instead of using interest groups, elections and lobbying which are more common with democratic political institutions. The political institutional distance between home and host countries suggests MNEs based in one type of political institution, need to have a good understanding of the political institutions in the host country that they enter.

The ability of a government to credibly commit to and consistently enforce a given set of policies is of substantive interest to a firm's international diversification strategy (Kobrin, Basek, Blank, & La Palombara, 1980). Where policy reliability and credibility is low, firms are more likely to minimize commitments to a market, or fully avoid investment (Henisz & Delios, 2001). Uncertainty from the political institutional environment magnifies difficulties in searching, interpreting, and utilizing the information necessary for a successful entry by foreign firms, increasing the relative costs of foreign investment, and decreasing the return on investment. When political institutions have high reliability and certainty, it is easier for a legislature and judicial branch to provide support their actions. Consequently, future policies are likely to be particularly flexible in response to exogenous shocks. When a firm from a country with autocratic political institutions enters into a country with democratic political

institutions, the future policies are more predictable and it is easier to collect and interpret the information. Therefore, when family firms choose a Greenfield investment as the entry mode, they are operating in a more predictable, supportive, and less risky political environment while still maintaining family control. Following the SEW concept, Barney, Clark, and Alvarez (2002) use social network theory and propose that family ties reduces family members' ability to build and maintain other strong social ties. The democratic political institutions considerably reduce the importance of social ties with the local political powers compared to autocratic political environment, and make Greenfield investment even more attractive from the family identity standpoint. Thus, favorable political institutions in the host country supports family identity and family SEW and also increases the economic opportunity of a Greenfield investment.

Hypothesis 5a: Political institutional distance negatively moderates the relationship between economic identity and a Greenfield entry mode when political institutions are more democratic in the host country than in the home country.

Hypothesis 5b: Political institutional distance positively moderates the relationship between family identity and Greenfield entry mode when political institutions are more democratic in the host country than in the home country.

Negative Institutional Distance (Institutions in Host Country Are Less Favorable Than Institutions in Home Country). When the institutions of the host country are less favorable than the institutions of home country, there are two economic reasons for family firms to mitigate threats and achieve market legitimacy by acquiring a local firm. First, the family firm can mitigate the liability of foreignness by working with local

employees. As institutions are biased on foreign rather than domestic firms, acquisition can lessen some of the institutional bias more than if the subsidiary is Greenfield investment. Second, family firms can benefit from “spillover effects” of their local employees. Not only do family firms benefit from local employees’ knowledge about and skills for handling the local government and other institutional organizations, they can also benefit from the reputational capital of their local employees. In other words, these local knowledge, skills, and reputational capital spill over to the foreign subsidiaries. Family firms can then signal their legitimacy to conduct business in the foreign market to the host countries’ institutional constituents. Previous empirical studies have found that more acquisitions are completed than Greenfield investments when the host country institutions are more restrictive (Contractor, 1990; Fagre & Wells, 1982; Gomes-Casseres, 1989; Lecraw, 1984).

From the SEW standpoint, family firms try to retain control of their firms for the long term, and intend to concentrate their investment in their core business (Miller, Le-Breton Miller, & Lester, 2010). However, the concentration of the operation also gives them incentives to diversify their portfolio through international diversification to retain control of the core business and spread the risks by international diversification. In this way, the family owners will be able to pass on the family business to later generations (Arregle, et al., 2007; Casson, 1999; Fiss & Zajac, 2004; Gomez-Mejia et al., 2007; Palmer et al., 1987). In an unstable and less favorable institutional environment, acquisition is a better mode of entry to reduce risk than Greenfield investment.

So, the family identity conflicts with economic identity when the institutions are less favorable in host country than in home country. In the less favorable institutional environment, the transaction costs are high. So, for the economic consideration, family firms should choose acquisition as their entry mode. On the other hand, in order to preserve the family identity, SEW and retain family control, family firms have to sacrifice their economic identity. There is no pure Pareto improvement, because pursuing economic identity will lead to the loss of family identity. Figure 3 shows the substitution between family and economic identities when family firms invest to a foreign country with a less favorable institutional environment.

Negative Economic Institutional Distance (Economic Institutions in Host Country Are Less Favorable Than Economic Institutions in Home Country). The less developed economic institutions in the host country produce lower capital availability and market liquidity problems. An extensive literature has shown that the economic institutions in the host country influence the mode of entry choice. Most of these studies have identified that domestic economic environment (Lehmann, 1999), market size (Cheng & Kwan, 2000; Tuman & Emmert, 1999), quality of infrastructure, labor cost, economic openness, and return on capital are some key variables that determines the MNEs' mode of entry.

When economic institutions are of poor quality, social actors have to rely on other sources to mitigate negative consequences of that dysfunctional institution (Herrmann, 2008). For example, the tight money supply and shortage of investment funds in a less developed economic environment force firms to search for tangible

resources from diverse sources such as business angels, neighborhood lending groups, and other informal financial networks (McMillan & Woodruff, 1999; Tsai, 2002). Further, the money market illiquidity and inflexible exchange rates disadvantage foreign firms disproportionately. Therefore, the foreign firms mobilize bridging ties in their networks to overcome these difficulties (Stam & Elfring, 2008; Batjargal et al., 2013). In order to have a better access to these informal financial resources, foreign firms will choose acquisition instead of Greenfield investment as their entry mode. By choosing acquisition as an entry mode, foreign firms establish the bridging ties with the help of their local employees.

Although the preservation of SEW requires family control and influence, it also shows family owners' intention to retain control of the core business and to pass it on to next generation (Arregle, et al., 2007; Casson, 1999; Fiss & Zajac, 2004; Gomez-Mejia et al., 2007; Palmer et al., 1987). In order to avoid risky investment and build enduring relationships with internal and external stakeholders of the firm and sustain the core business and reduce risk, family firms will find international diversification to be a viable choice to achieve that goal. Among the mode of entry choices, acquisition is a superior choice. The less resource commitment helps family firms spread the risks in an unfavorable economic institutional environment. In addition, the acquired subsidiaries need not be tightly integrated into the family core business, and the necessary adjustment that the foreign subsidiaries have to make to the local economic institutions is less likely to disrupt its strategic focus or core business (Miller & Le Breton-Miller, 2005), especially when the economic institutions are less favorable in the host country.

In sum, when economic institutions are less developed in the host country, family firms will choose acquisition in order to boost their economic identity, although the acquisition could also dilute their family identity. This decision can be regarded as a compromised decision. If family firms choose Greenfield investment as their entry mode, they are more likely to lose their economic identity because of the underdeveloped economic institutional environment. Further, a Greenfield entry mode decision may also threaten the survival of their subsidiaries. One of the disadvantages of being a family firm is limited access to resources compared to non-family firms, the underdeveloped economic institutions in the foreign country makes the resource constraints more urgent. As Sirmon et al (2008) argue, one important motivation for family firms to implement an international strategy is to acquire resources from foreign countries, in order to utilize financial resources and survive in the underdeveloped economic environment, an acquisition instead of a Greenfield investment is a viable entry mode.

Hypothesis 6a: Economic institutional distance positively moderates the relationship between economic identity and Greenfield investment when economic institutions are less favorable in the host country than in the home country.

Hypothesis 6b: Economic institutional distance negatively moderates the relationship between family identity and Greenfield investment when economic institutions are less favorable in the host country than in the home country.

Negative Regulatory Institutional Distance (Regulatory Institutions in Host Country Are Less Favorable Than Regulatory Institutions in Home Country). When

family firms invest in a country with less favorable regulatory institutions, the host country regulations create an environment that discourages foreign firm activities. In particular, highly regulated institutional environment often lead to inefficient allocation of financial resources to satisfy special interests and can distort or discourage private incentives through taxes (Browning, 1976; Levine & Renelt, 1992). Taxes on certain value-creating activities, for example, can cause firms to engage in fewer such activities and/or to move to locations where taxation on these activities is more favorable (e.g., Ballard, Shoven, & Whalley, 1985; Oates, 1999; Trostel, 1993). Furthermore, regulatory institutions sometimes impose unnecessary costs, are ineffective or counterproductive. When they produce such negative outcomes, they are harmful to a country's economy (Collin, 1998; Hill, 1995).

Under these circumstances, acquisition becomes an attractive choice for family firms when they invest in a foreign country. If a family firm enters into a less favorable regulatory institutional environment without the help of the local employees, the ignorance or misinterpretation of government regulation may create direct incompliance costs as well as indirect costs associated with distorted interpretation and incentives (Guthrie, 2006; Tirole, 2003). For example, government regulations such as minimum wage and price controls limit MNEs' flexibility, increase product prices, and increase their exposure to unfavorable competition conditions. Similarly, many governments have specific requirement on foreign ownership levels, thereby disallowing the use of Greenfield investment by foreign firms and limiting the options of MNE managers to locate certain business in the country (Hennart, 1989). Although it creates extra costs for

foreign firms, such regulations can reduce domestic firms' exposure to foreign markets and innovations and help local firms' to compete with foreign MNEs by restricting the product and service options available to consumers. If the foreign firms do not have a good understanding of the host country regulatory institutions, their operations are unlikely to perform well in the country. In addition, it is even more critical for family firms to enter the market with an acquisition instead of a Greenfield investment for the consideration of either economic identity or family identity. Family firms intend to use internal financial sources and have limited liquidity thereof. The foreign investment is more risky when regulatory institutions are less favorable in the host country than in the home country. Therefore, family firms are more likely to choose acquisition as their entry mode to reduce their resource commitment and protect their economic identity.

At the same time, the desire to preserve family identity and SEW also encourages family firms to use acquisition as their entry mode. In order to maintain family control and family influence, certain proportion of top managers in family firms are selected from family members. The assets of top managers tend to be less valuable in a foreign country because of their lack of foreign operation experience. The unfavorable regulatory environment demands more experiences and the unstable and unpredictable local environment make the knowledge spillover from local employees more valuable and urgent. As a result, acquisition is a viable mode of entry to maintain economic identity, and even family identity because without external legitimacy, the survival of the subsidiary is threatened while the survival of the firm is the necessary condition to preserve the family identity. Therefore,

Hypothesis 7a: Regulatory institutional distance positively moderates the relationship between economic identity and Greenfield investment when regulatory institutions are less favorable in the host country than in the home country.

Hypothesis 7b: Regulatory institutional distance negatively moderates the relationship between family identity and Greenfield investment when regulatory institutions are less favorable in the host country than in the home country.

Negative Political Institutional Distance (Political Institutions in Host Country Are Less Favorable Than Political Institutions in Home Country). When the political institutions are less favorable in the host country, acquisition will be more beneficial than Greenfield investment for market entry. Local employees with superior local knowledge and local connections can help foreign subsidiaries reduce unfamiliarity with the local political environment and enhance their local legitimacy. Also, local employees provide the opportunity to establish harmonious relationships with local government officials (Luo, 2001) and influence officials' decisions thereby receiving fair or even preferential treatment (Boddewyn, 1988; Hillman & Hitt, 1999).

Although previous research find that experience gained in specific settings such as previous international experiences minimizes the deterring influence of institutional voids and political hazards on entry modes (Delios & Henisz, 2000), international experience, however, does not diminish the negative influence of institutional voids and political hazards when the political institutions are less favorable in the host country (Henisz & Delios, 2000). One possible solution to institutional voids and political hazards is to detect and safeguard against opportunistic behavior of the host country

government by building relationships with partners, buyers, suppliers, and competitors that may have an influence on a host country government (Henisz & Williamson, 1999; Henisz, 2000). Even the family firms anticipate the opportunistic behavior of the host country government before the investment, acquisition is a better choice as such learning can be less costly by choosing acquisition as their mode of entry because the learning from their local employees is more effective and efficient. In addition, acquisition also help to preserve family identity and SEW in parent firms if the foreign subsidiary have to make necessary adjustment to obtain the local legitimacy. The use of acquisition as their mode of entry is less likely to disrupt its strategic focus or core business in parent firms (Miller & Le Breton-Miller, 2005), especially when the political institutions are less favorable in the host country. In addition, since family owners cannot sell much ownership without losing control of the firm, a primary option family firms may choose is to diversify the investment risk by international diversification. Acquisition is a critical way family firms may consider, especially when family firms intend to avoid the possible negative impact in their core business in their home country.

Hypothesis 8a: Political institutional distance positively moderates the relationship between economic identity and Greenfield investment when political institutions are less favorable in the host country than in the home country.

Hypothesis 8b: political institutional distance positively moderates the relationship between family identity and Greenfield investment when political institutions are less favorable in the host country than in the home country.

METHODS

Sample

The family dataset is compiled from the Orbis database, which contains information on over 19 million public and private companies from 105 countries, including most of the countries in the world. Orbis is not a historical database and strives for recent information. Financial data for companies within Orbis is retained for a rolling period of 4 years. When a new year of data is added, the oldest year is dropped. So the dataset provides us with the data from the period of 2009-2012. The family firm is identified using two criteria. First, following standard criteria used in previous research, I identify a firm as a family firm if family members own or control at least 20 percent of the voting stock (La Porta, Lopez-De-Silanes & Shleifer, 1999). I use 20 percent ownership as the cutoff for two reasons.[3] First, the 20 percent benchmark is consistent with the basic of control concept in the governance research on ownership structure, especially for European countries (La Porta et al., 1999) and has been widely used in the family business literature (see review by Miller et al., 2007). Second, 20 percent ownership is also an indicator of controlling and managing the company,[4] such as the presence on the board of directors or even the majority of the board especially for the large companies (La Porta et al., 1999).

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[3] I have rerun the analysis using thresholds of 10 percent as La Porta et al did (1999) and compare the changes in the hypothesized effects. I also used the type of ownership identified by Orbis database to differentiate the family and non-family firms, and analyze the data as a robustness test. The firms with one or more known individuals or families, the firms which are owned by employees, managers, or directors are considered as family firms.

[4] Although the 20 percent ownership is used as a cutoff to differentiate family firms and non-family firms, it is only used to select the sample. The family identity is measured by the exact family ownership.

I use the Holmes et al. (2013) institutional dataset to obtain data on a country's country level institutions. Holmes et al.'s (2013) institutional dataset includes extensive institutional data on 50 countries/geographic areas for the period of 1995-2004. I updated the dataset and increase the sample to 113 countries/geographic areas from 1995-2012. Holmes et al. (2013) obtained the data from various sources including Euromonitor International, Index of Economic Freedom (IEF), Freedom House's annual survey of political rights and civil liberties, the Political Constraint Index (POLCON) Dataset (Henisz, 2000), International Country Risk Guide (ICRG), Political Risk Services, World Bank's World, Development Indicators (WDI) and the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project (House, Hanges, Javidan, Dorfman, & Gupta, 2004).

I also use the Zephyr database to differentiate acquisition and Greenfield investments. Zephry includes financial summaries and structures on companies involved in the M&A deals. The data include the parent firms in 113 countries and their subsidiaries (both acquisition and Greenfield investments) all over the world from 2007-2012. I only focused on the completed M&A deals.

I also use the World Development Indicators database for some country level control variables, such as GDP, GDP per capita, and inward and outward FDI. The World Development Indicators database includes the primary World Bank collection of development indicators. It is compiled from officially-recognized international sources. It provides the most current global development data. After combining these four datasets, the final sample includes 2,595 family firms from 70 countries invested in

38,014 subsidiaries from 89 countries for the period of 2007-2013 (Table 4). This dataset provides comparatively large variances in country institutions and a representative sample.

Measures

Dependent variable. I use a dummy variable to measure the mode of entry for the subsidiaries (1=greenfield investment; 0=acquisition). The dependent variable is measured with several steps. First, I retrieved the ownership data from Orbis and excluded the subsidiaries which are joint ventures. Then I matched the parent ID with the parent ID I obtained from Zephyr to ensure the sample firms are included in both databases. Then, the mode of entry was coded as 0 if the investment is included in Zephyr M&A database, and 1 if it is not.

Economic identity/Financial performance. Financial performance is measured by ROA. I followed the behavioral agency model in constructing this variable. The behavioral agency model suggests performance relative to a reference point affects risk preferences (Wiseman & Gomez-Mejia, 1998; Gomez-Mejia, Welbourne & Wiseman, 2000). Thus, the financial performance is current performance compared with the last years' performance (Chen, 2008).

Family identity/Socioemotional Wealth. Although the prior research has used a dummy variable to differentiate family firms from non-family firms, in this study I use a more fine-grained measure to capture SEW which is a reflection of family identity. This is also a company level variable. SEW is measured by the family ownership in the firms as a continuous variable. Family ownership has been widely used to measure SEW and

family identity in the previous literature (Berrone, et al., 2010). The family ownership includes all shares held by family representatives. Other studies may use additional measure of family control-such as the CEO being a member of the family, number of top managers being family members, or the presence of family members on the board of directors or board chair (Anderson & Reeb, 2003). However, these measures are usually highly correlated with the percentage of ownership held by family. I chose family ownership as the measure of family firm because it is a widely used measure in family firm literature (McEachern, 1975, 1976; Salancik & Pfeffer, 1974; Dyl, 1988, 1989; Tosi & Gomez-Mejia, 1989; Werner, Tosi & Gomez-Mejia, 2005; Miller, et al., 2007). Additionally, the continuous measure give us a better understanding of the conflict between family identity and economic identity because the identities coexist and the continuous measure vividly illustrates the process of strengthening one identity and the weakening of another identity. The value gained by using discreet variables would also be substantially reduced compared to the continuous measure.

Regulatory institutions. Regulatory institutions establish rules and standards and enforce laws and policies that govern business activities. This is a country level variable. Following Holmes et al. (2013), seven items are used to represent regulatory institutions, including regulatory burden, trade policy, contract and property rights, foreign investments restrictions, government intervention in banking, monetary policy, and informal market (Holmes, et al., 2013).

Political institutions. Political institutions reflects the possibility and easiness of government officials and other individuals enacting changes in institutions, including

political constraints (reverse coded), executive political restrictions (reverse coded), civil liberties, and political rights (Holmes, et al., 2013). High scores on the four items of political institutions represent more democratic political systems and low scores represent more autocratic systems. This is also a country level variable.

Economic institutions. Economic institutions affect the capital investment decisions of individuals and organizations by determining both their accessibility to capital and its value. Capital investments, money supply, total foreign debt, nominal GDP, trade balance, debt service, and budget balance reflect the availability of capital in an economy and are used to measure *capital availability*.

The second type of economic institutions, *market liquidity*, is measured by the credit transfer, net reserves, and liquidity. Through increasing national debt and declining liquidity, the value of the country's currency is diminished as evidenced by a rising exchange rate. Both of the economic institutions are country level variable (Holmes et al, 2013).

A number of data sets are used as sources of formal institutions in Holmes et al. (2013), such as Euromonitor International, Index of Economic Freedom (IEF; Gwartney, Lawson, & Block, 1996), Freedom House's annual survey of political rights and civil liberties, the Political Risk Services (PRS), and the World Bank's World Development Indicators (WDI). The data time period is from 1995 to 2003. The principle components analysis supported four factor results. The four factors are regulatory control, political democracy, capital availability, and market liquidity. Capital availability and market liquidity are considered as two components of economic institutions.

Following Holmes et al. (2013) work, I updated their data to 2012. Table 5 shows the results of the confirmatory factor analysis of the four-factor solution. The results showed that the four constructs were stable in the composition and magnitude of factor scores. Therefore, the four constructs are a good representation of the individual items, and the constructs relate well to the three types of institutions predicted by the theory.

To accurately test the institutional distance, I utilize spline method in my data analysis. The spline method is a useful tool in testing theories that suggest a continuous relationship changes slopes at critical thresholds (Greene, 2002; Marsh & Cormier, 2002). The spline method helps identify differences in a construct above and below the threshold level (Greve, 1998, 2003; Sirmon & Hitt, 2009). In this study, I examine mode of entry choice when economic, regulatory, and political institutional distance above and below 0. Instead of splitting the sample and modeling various subsamples individually, which would disrupt the continuity of the function, the spline method allows continuous relationships to meet and change slopes at theoretically determined threshold points (Greene, 2002; Marsh & Cormier, 2002). In this study, the threshold point is theoretically determined to be no institutional distance (Audia & Greve, 2006). More specifically, the spline method splits a single institutional distance into two separate distances, allowing one to model the positive institutional distance, while the other models the negative institutional distance.

Control variables. At the firm level, I control for the possible effects of both parents' and subsidiaries' attributes. Parent *firm size* was measured as logged assets,

including all assets in their subsidiaries. I also control for *public/private companies* by a dummy variable. The variable is coded 1 if the company is listed and 0 otherwise.

At the country level, following the literature, I measure *global connectedness* using three indicators: international tourism expenditures as a percentage of GDP, international tourism receipts as a percentage of GDP, and the percentage of Internet users in the population (Berry et al., 2010). I use *GDP per capita* to measure the average economic growth. The literature has predicted a positive relationship between the level of economic development and FDI activities, so I also control for *inward FDI* and *outward FDI*. Because the inward FDI and outward FDI are highly correlated, I only control for the inward FDI for the host countries and outward FDI for the home countries, considering they are more likely to influence the family firms' foreign investment. I log the variables to correct for skewness. I also include 4 dummy variables to control *year* effects. Additionally, I control for *geographic distance* between home and host country because trade between two countries is inversely related to geographic distance (Anderson, 1979; Deadorff, 1998). The calculation of geographic distance follows the great circle method. It is the shortest distance between two countries, the capitals of two countries specifically.

Analysis

I use restricted penalized quasi likelihood model of hierarchical linear modeling (HLM) because it can model nested data (Raudenbush et al., 2004). In particular, HLM enables us to simultaneously explore different level relationships while correcting for the standard errors at each level. HLM takes into account the lack of independence among

firms within the same country institutional environment by partitioning and modeling variance into between-country and within-country variance. The traditional ordinary least squares (OLS) analytic technique does not take the dependency into account. The underestimation of standard errors in OLS regression inflates Type I error which means we are more likely reject the null hypothesis that there is no relationship between two variables when there is no relationship between these two variables (false positive).

The resultant multilevel model addresses and accounts for the fact that each foreign subsidiary is nested within a family firm and that family firm is nested in home-host country dyads. The aggregated statistical figures of the subsidiaries were not separate conceptually or empirically and had cross-level influences on one another (Lindsley et al., 1995). The family firms involved the same home and host country are treated as same level 3 cluster.

Because the dependent variables are dichotomous, I use multilevel logistic regression. I model the impact of regulatory, political, and economic institutional distance on family firm entry strategies with three associated submodels. At each level, I model relations at that level as well as residual variability at that level. In its simplest form, the model is as follows[5]:

Level-1 model: $\textit{Entry strategies}_{ijk} = \pi_{0jk} + e_{ijk}$

Level-2 model: $\pi_{0jk} = \beta_{00k} + V_{0jk}$

Level-3 models: $\beta_{00k} = \gamma_{000} + \gamma_{00k}\,\textit{Regulatory Institutional distance}_{00k} + U_{00k}$

[5] Control variables are eliminated for the simplification reason.

Or $\beta_{00k} = \gamma_{000} + \gamma_{00k}$ *Political Institutional distance*$_{00k}$ $+ U_{00k}$

Or $\beta_{00k} = \gamma_{000} + \gamma_{00k}$ *Economic Institutional distance*$_{00k}$ $+ U_{00k}$

Where γ_{000} = the average intercept;

β_{00k} , γ_{00k} = The average slope/regression coefficient;

V (U_{00k}) = Between-country variance; V(e_{0jk}) = Within-country variance;

V(e_{ijk}) = Within-country within-company variance.

In these analyses, I examine outcomes for *i*-th subsidiary nested within *j*-th MNE which is nested in *k*-th home-host country dyad. The level-1 coefficients are represented by π_{0jk}. These become an outcome variable in the level-2 model, where β_{00k} are the level-2 coefficients. The level-2 coefficients become an outcome variable in the level-3 model, where γ_{000} *and* γ_{00k} are the level-3 intercept and coefficients.

RESULTS

Descriptive Statistics and Regression Results

Table 6 provides the correlations and descriptive statistics for the variables included in this study.

Table 7 shows the results of hierarchical linear models estimating the effects of family ownership and family financial performance on mode of entry choices, and the moderating effects of economic, regulatory, and political institutional distances on the two main relationships.

Hypothesis 1 predicted that there is a negative relationship between economic identity and the choice of Greenfield investment as the mode of entry. As Model 2 shows, there is a negative and statistically significant relationship between the log odds ratio of financial performance and choosing Greenfield investment as the mode of entry (β=-0.00, p<0.05). Transforming the log odds ratio to the odds, for a one-unit increase in ROA, I expect to see about 0.004% decrease in the odds of choosing Greenfield investment. Thus, Hypothesis 1 receives support.

Hypothesis 2 suggested that there is a positive relationship between family identity and the choice of Greenfield investment as the mode of entry. As Model 2 shows, there is a positive and statistically significant relationship between the log odds ratio of family ownership and Greenfield investment (β=0.03, p<0.001). Converting the log odds ratio to the odds ratio, for a one-unit increase in family ownership, we expect to see about 0.02% increase in the odds of choosing a Greenfield investment. These results provide support for Hypothesis 2.

Hypothesis 3a and 3b suggested that economic institutional distance negatively/positively moderates the relationship between economic identity/family identity and Greenfield entry mode when economic institutions are more favorable in the host country than in the home country. As Model 3 shows, there is a negative but not statistically significant relationship between the log odds ratio of the interaction of financial performance and positive economic institutional distance and the Greenfield investment (β=-0.00, *n.s*), thereby providing no support for Hypothesis 3a. Model 4 shows that there is a negative and statistically significant relationship between the log odds ratio of the interaction of family ownership and positive economic institutional distance and the Greenfield investment (β=-0.00, p<0.05). To enrich our understanding, I convert the log odds ratio to the odds ratio which shows one unit change in the interaction term decreases the odds ratio of the use of Greenfield investment by 0.003; this means family firms are less likely to use Greenfield investment when economic institutions are favorable in the host country, thereby providing no support for Hypothesis 3b.

Hypothesis 4a and 4b suggested that regulatory institutional distance negatively/positively moderates the relationship between economic identity/family identity and Greenfield entry mode when regulatory institutions are more favorable in the host country than in the home country. As Model 5 shows, there is a positive but not statistically significant relationship between the log odds ratio of the interaction of financial performance and positive regulatory institutional distance and the Greenfield investment (β=0.01, *n.s.*), thereby providing no support for Hypothesis 4a. Model 6

shows that there is a negative but not statistically significant relationship between the log odds ratio of the interaction of family ownership and positive regulatory institutional distance and the Greenfield investment (β=-0.01, *n.s.*); thereby providing no support for Hypothesis 4b.

Hypothesis 5a and 5b suggested that political institutional distance negatively/positively moderates the relationship between economic identity/family identity and Greenfield entry mode when political institutions are more favorable in the host country than in the home country. As Model 7 shows, there is a negative and statistically significant relationship between the log odds ratio of the interaction of financial performance and positive regulatory institutional distance and the Greenfield investment (β=-0.02, p<0.01). The result suggests that one unit change in the interaction term increases the odds of the use of Greenfield investment by 0.047; this means family firms are more likely to use Greenfield investment, thereby providing support for Hypothesis 5a. Model 8 shows that there is a positive and statistically significant relationship between the log odds ratio of the interaction of family ownership and positive regulatory institutional distance and the Greenfield investment (β=0.03, p<0.001). The result suggests that one unit change in the interaction term increases the odds of the use of Greenfield investment by 0.034; this means family firms are more likely to use Greenfield investment, thereby providing support for Hypothesis 5b.

Hypothesis 6a and 6b suggested that economic institutional distance positively/negatively moderates the relationship between economic identity/family identity and Greenfield entry mode when economic institutions are less favorable in the

host country than in the home country. As Model 9 shows, there is a positive but not statistically significant relationship between the log odds ratio of the interaction of financial performance and negative economic institutional distance and the Greenfield investment (β=0.00, *n.s.*), thereby providing no support for Hypothesis 6a. Model 10 shows that there is a positive but not statistically significant relationship between the log odds ratio of the interaction of family ownership and negative economic institutional distance and the Greenfield (β=0.00, *n.s.*), thereby providing no support for Hypothesis 6b.

Hypothesis 7a and 7b suggested that regulatory institutional distance positively/negatively moderates the relationship between economic identity/family identity and Greenfield entry mode when regulatory institutions are less favorable in the host country than in the home country. As Model 11 shows, there is a positive and statistically significant relationship between the log odds ratio of the interaction of financial performance and negative regulatory institutional distance and the Greenfield investment (β=0.03, p<.001). The result suggests that one unit change in the interaction term increases the odds of the use of Greenfield investment by 0.031; this means family firms are more likely to use Greenfield investment, thereby providing support for Hypothesis 7a. Model 12 shows that there is a negative and statistically significant relationship between the log odds ratio of the interaction of family ownership and positive regulatory institutional distance and the Greenfield investment (β=-0.01, p<0.01); thereby providing support for Hypothesis 7b. The result suggests that one unit

change in the interaction term decreases the odds of the use of Greenfield investment by 0.01; this means family firms are less likely to use Greenfield investment.

Hypothesis 8a and 8b suggested that political institutional distance negatively/positively moderates the relationship between economic identity/family identity and Greenfield entry mode when political institutions are less favorable in the host country than in the home country. As Model 13 shows, there is a positive yet not statistically significant relationship between the log odds ratio of the interaction of financial performance and positive regulatory institutional distance and the Greenfield investment (β=0.02, *n.s.*), thereby not providing support for Hypothesis 8a. Model 14 shows that there is a positive and statistically significant relationship between the log odds ratio of the interaction of family ownership and positive regulatory institutional distance and the Greenfield investment (β=0.01, p<0.01). The result suggests that one unit change in the interaction term increases the odds of the use of Greenfield investment by 0.01; this means family firms are more likely to use Greenfield investment, thereby providing support for Hypothesis 8b.

In sum, Hypothesis 1, 2, 3b, 5b, 7a, and 8b were supported by the empirical results but Hypothesis 3a, 4a, 4b, 5a, 6a, 6b, 7b, and 8a did not receive support (Table 7).

Robustness Tests

Family firm definition. I identified a firm as a family firm if family members own or control at least 20 percent of the voting stock, following La Porta, Lopez-De-Silanes and Shleifer (1999). Many studies also use other cutoff points, such as 5 percent and 10 percent (Anderson & Reeb, 2003; Gomez-Mejia, Larraza-Kintana, & Makri, 2003;

Villalonga & Amit, 2006). Five percent ownership is used to define family firms for publicly traded American firms because the ownership of these firms is highly diversified and 5 percent ownership gives the families enough voting power to control the firms. Although my sample consists of both public and private firms, 51 percent of them are public firms. Considering the large amount of public firms in the sample, I used 5 percent and 10 percent as cutoffs for the purpose of robustness checks. The 5 percent and 10 percent cutoffs provide more observations and therefore provide more power for the analysis and most of the relationships remain the same (Table 8 and Table 9). Specifically, the signs and statistical significance have not changed for all the statistically significant results when I used 10 percent as the cutoff compared to the sample using 20 percent as the threshold point. The moderating effect of positive economic distance between financial performance and the odds ratio of Greenfield investment (Hypothesis 3a) becomes statistically significant (β=-0.10, p<0.10). The moderating effect of negative economic distance between financial performance and the odds ratio of Greenfield investment (Hypothesis 3b) also becomes statistically significant (β=-0.10, p<0.01).

In addition, the signs and statistical significance have not changed for all the statistically significant results when I use 5 percent as the cutoff compared to the sample using 20 percent as the cutoff. The moderating effect of positive economic distance between financial performance and the odds ratio of Greenfield investment (Hypothesis 3a) becomes statistically significant (β=-0.00, p<0.05). The moderating effect of negative economic distance between financial performance and the odds ratio of

Greenfield investment (Hypothesis 3b) is also statistically significant (β=-0.00, p<0.05). The moderating effect of positive regulatory distance between financial performance and the odds ratio of Greenfield investment (Hypothesis 4a) also becomes statistically significant (β=0.02, p<0.05). Then, the moderating effect of positive regulatory distance between family ownership and the odds ratio of Greenfield investment (Hypothesis 4b) also becomes statistically significant (β=0.12, p<0.05).

The greater number of hypothesized relationships that are supported may due to the increased sample size and statistical power when the less conservative criteria for family ownership are used to select the sample of family firms. Thus, the original approach used appears to provide a conservative estimate.

Financial performance compared to industry average. I used current financial performance compared to the previous year's performance as a reference point to predict family firms' risk taking behavior (Cyert & March, 1963), especially the choice of Greenfield investment as an entry mode when economic identity is considered to be the family's primary identity. Previous literature also suggests that industry median performance (Chen, 2008) or the performance of comparable companies (Cyert & March, 1963) can also considered as reference points. For example, Chen (2008) finds that firms will increase R&D expenditure if their performance is above past performance levels, but firms will decrease R&D expenditure if their performance is above the industry median. Considering the possible contradictory conclusion based on different reference points, I also analyze the data using industry median performance as a reference point (Table 10). The direction and statistical significance of the results only

slightly changed. For example, the moderating effect of negative economic distance between financial performance and the odds ratio of Greenfield investment (Hypothesis 3b) become marginally statistically significant (β=0.00, $p<0.10$).

The overall institutional distance effect. The concept of institutional polycentricity denotes spontaneous interactions of multiple institutional rules and norms, and mutual adjustments among institutional actors (Batjargal, et al., 2013). The polycentric nature of institutions suggests that firms will carefully examine the whole institutional system before they invest in a certain country. The investment decision is the tradeoff between the benefits and the costs of operating in the institutional system. Therefore, I also tested the effects of overall institutional distance on the mode of entry choice.

I first performed a principle components analysis to extract the single institutional distance variable. The economic, regulatory, and political institutional distance loaded on one institutional distance variable (factor loadings are 0.88, 0.92, and 0.75, respectively). Then, I analyzed the model using the single institutional distance variable as moderator. As Table 11 shows, when the overall institutional distance is positive, family firms are less likely to use Greenfield investment as their entry mode if their primary goal is to protect their financial performance (β=-0.016, $p<.05$). On the contrary, when the overall institutional distance is negative, family firms are more likely to use Greenfield investment as their entry mode if their primary goal is to protect their financial performance (β=0.010, $p<0.10$). When the overall institutional distance is positive, family firms are expected to use Greenfield investment as their entry mode if

their primary goal is to preserve their family ownership, but the result is not statistically significant (β=-0.004, *n.s.*). On the contrary, when the overall institutional distance is negative, family firms are less likely to use Greenfield investment as their entry mode if their primary goal is to preserve their family ownership (β=-0.013, $p<0.001$). Again, the results provide additional support for the basic theoretical logic I proposed in the theory section.

Sample selection bias. Beside the wholly owned subsidiary, there are some other non-wholly owned subsidiary modes of entry, such as joint venture, exporting, and licensing. The family firms which use the wholly owned subsidiary as their mode of entry may self select to choose such type of mode of entry. In order to rule out the possibility of sample selection bias, I modeled the impact of financial performance and ownership of family firms on mode of entry choice using two two-stage Heckman (1979) models. The first Heckman model tests the self selection of family firms that invest domestically or globally. In stage one of Heckman model, the dependent variable equals one if the MNE have a foreign subsidiary, and zero otherwise. Then, the first stage Heckman model generates the first inverse Mills ratio, which captures strategy self-selection from stage one. In stage two of Heckman model, the dependent variable equals one if the MNE chose a Greenfield investment and zero if it chose an acquisition. In this model, I include the first inverse Mills ratio, which is a proxy for strategy self-selection from the foreign investment decision.

Model 1 and Model 2 in Table 12 shows the results of Heckman models estimating the effects of financial performance and ownership of family firms on foreign

entry decisions, using the Heckman's selection procedure. The results suggest that family firms do self select themselves to invest to foreign countries. The higher financial performance leads to lower possibility of investing to a foreign country (inverse mill's ratio=0.002, $p<0.001$), which provides the empirical support for the prediction that family firms are less likely to implement an international strategy when their financial performance is high (Gomez-Mejia, et al., 2010).

The second Heckman model tests the self selection of family firms to use wholly owned subsidiary or joint venture. In stage one of Heckman model, the dependent variable equals one if the MNE chose wholly owned subsidiary, and zero otherwise. Then, the first stage Heckman model generates the first inverse Mills ratio, which captures strategy self selection from stage one. In stage two of Heckman model, the dependent variable equals one if the MNE chose a Greenfield investment and zero if it chose an acquisition. In this model, I include the first inverse Mills ratio, which is a proxy for strategy self selection from the wholly owned subsidiary/joint venture decision.

Model 3 and Model 4 in Table 12 shows the results of Heckman models estimating the effects of financial performance and ownership of family firms on wholly owned subsidiary/joint venture decision, using the Heckman's selection procedure. The results suggest that family firms self select themselves to use wholly owned subsidiaries. The higher financial performance leads to higher possibility of using wholly owned subsidiaries as their mode of entry (inverse mill's ratio=-0.07, $p<0.05$), which provides

the empirical support for the prediction that family firms are more likely to use a wholly owned subsidiary when their financial performance is high.

The influence of cultural distance. Prior studies suggest that cultural distance may affect mode of entry choice (Kogut & Singh, 1988). I did not control for cultural distance between the home and host countries in the main data analysis because the inclusion of cultural distance will significantly reduce the sample size and sample variance from 90 countries to 57 countries, if I used country culture scores obtained from the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project (House, Hanges, Javidan, Dorfman, & Gupta, 2004). The Hofstede's (1980) cultural distance measure may cause even more sample reduction because it only covers cultural data from 46 countries. However, cultural distance is still one of the most influential factors to firms' international strategy (Holmes, et al., 2013). I further tested the models with a subsample as a robustness test, including cultural distance as a control variable.

Unlike the institutional distance which shows clear direction of the distance, cultural distance is not directional. Measurement of cultural distance was calculated through an adaptation of Kogut and Singh's (1988) cultural distance index. The formula to measure institutional distance is

$$CD_j = \sum_{i=1}^{n} \{(I_{ij} - I_{iu})^2 / V_i\} / n$$

Where I_{ij} is the index of the ith cultural dimension of each culture category and jth home country (such as assertiveness, institutional collectivism, in-group collectivism, future orientation, gender egalitarianism, humane orientation, performance orientation,

power distance, and uncertainty avoidance), I_{iu} is the index of the ith cultural dimension of each culture category in uth host country, V_i is the variance of index of the ith cultural dimension of each culture category, and CD_j is the cultural distance of the jth country from the host country.

Table 13 shows that although culture distance significantly increases the probability of a family firm to use a Greenfield investment as its mode of entry, it has little influence on the hypothesized relationships. The only change is the moderating effect of negative political distance between family ownership and the likelihood of choosing a Greenfield investment as mode of entry. The relationship changed from statistically significant to nonsignificant.

All in all, I tested the robustness of the primary results by using different measures of variables (the different cut-off of ownership and different measure of financial performance), by aggregating effect of variables (institutions), by testing the sample selection bias, and by including more control variable (cultural distance). The consistent findings suggest that the primary results are robust and sample selection bias is not a concern in this study.

SUMMARY AND CONCLUSION

Based on organizational identity theory, institutional theory, and research on international strategy and socioemotional wealth, I proposed that identity conflicts (the conflicts between economic identity and family identity) in family firms influence family firms' international strategies. Additionally, the institutional environments in host countries moderate those relationships.

There are two conflicting findings regarding the international strategies of family firms. On the one hand, the behavioral agency model suggests that to preserve socioemotional wealth, loss-averse family firms usually invest less internationally than nonfamily firms (Gomez-Mejia, et al., 2010). Other scholars believe that international diversification has become a critical way to protect family wealth (Kachaner et al., 2012). I reconcile the conflicting conclusions by integrating insights from the organizational identity theory, institutional theory, and mode of entry research. I propose that whether family firms are able to achieve the economic benefits from internationalization as well as to preserve their family identity is partly dependent on the priority they give to economic identity versus family identity. The institutional distance between home and host countries also plays an important role (moderator) in the mode of entry choice.

Based on these theoretical underpinnings, a model is developed proposing that the mode of entry choice can reduce the risk of loss of family identity. Specifically, family firms are more likely to choose Greenfield investment as their mode of entry into a foreign country, if their primary identity is family identity. Family firms are less likely

to choose Greenfield investment to enter into a foreign country if they try to protect their economic identity. In addition, the distance for three formal institutions--economic, regulatory, and political—can either create extra costs or mitigate the liability of foreignness, thus encourage or discourage family firms to choose Greenfield investment as their entry mode.

This research makes a number of contributions to our understanding of organizational identity, family firms, and institutional theory. First, I focus on the family firm internationalization strategy, and determine under what circumstances the two dominant identities (economic identity and family identity) of a family firm converge and under which they diverge when the reference points are changed. The emphasis on family identity in family firms constrains family firms' mode of entry choice under some circumstances. The convergence and divergence of organizational identities contribute to the organizational identity theory because it partly solve the long time debate regarding the changability of organizational identity. When Albert and Whetten (1985) first introduced the organizational identity theory, they summarized attributes of organizational identity as central, distinctive, and enduring. Based on these three attributes, they argued that organizational identity is unchangeable. The attempt to change the organizational identity often creates psychological and social costs. Because individuals have the needs for stability and also because organizational identity partly determines individuals' social identification, the organizational identity change "confuses—and often angers—internal and external constituencies" (Hannan, Baron, Hus, & Kocak, 2006: 756). Additionally, organizational identity serves as the center of

the organizations' strategic focus. Often structural inertia prevents the change of identity. The organization identity is also embedded in the organizational practices. The change of organizational identity "raise[s] fundamental questions about the nature of the organization" (Hannan & Freeman, 1984: 156). Therefore, Albert and Whetten (1985) argue that organizational identity is nonchangeable.

However, we do witness changes in organizational identity. Other scholars argue that organizations have multiple identities and organizational identity changes over time (Gersick, 1991; Romanelli & Tushman, 1994). Organizations could substitute the old identity with the new identity or add a new identity to the old identity. Organizational identity is more likely to change in a dynamic environment than in a stable environment because the environment changes often require organizations to change their identity accordingly in order to be synchronized with the environment and thus to achieve legitimacy.

This study contributes to organizational identity theory by showing the possibility of possessing more than one identity in a changing environment—investment in a foreign country. Even if family firms consider preserving the family identity as their primary goal, they may change their goals in a foreign environment, depending on the expectation and constraints of the local institutional environment. The addition of economic identity to the family identity or even substitution of family identity with economic identity shows that organizations may have multiple identities and identities change in a dynamic environment.

Second, this study contributes to the current institutional distance-mode of entry research by introducing the institutional polycentricity concept. The effect of individual institutional distance on mode of entry choice has been widely examined in the previous institutional distance literature (e.g. Xu & Shenkar, 2002; Yiu & Makino, 2002). However, the institutional environment is a complex and configured system (Batjargal, et al., 2013), and the different types of institutions independently and mutually adjust with each other (Polanyi, 1951). In this study I mainly focus on three types of formal institutions: economic, regulatory, and political institutions. Each type of institution each plays an important role in a society by setting up the expectations and rules for social behaviors. More importantly, the three types of institutions are co-evolving, co-existing, and integrating. Thus, I contribute to the institutional distance literature by pointing out that mode of entry choice of a family firm is the result of the evaluation of the integrated institutional environment, not each individual institution.

Relatedly, this study also contributes to the institutional polycentricity concept by examining the two level of institutions and their interactions. In addition to the country level institutions (economic, regulatory, and political institutions), the organizational identities also regulate organizational behaviors and can be considered as organizational level institutions. By definition, organizational level institutions provide “rules of games” inside the organizations. They determine the internal learning and socialization process in the organizational search for identity. Organizational level institutions also influence identity construction through collective sense making. Finally, the conformity to organizational level institutions and identity creates internal legitimacy. Therefore,

organizational identity of family firms cultivates different internal culture, norms and institutions that provide support to either family identity or economic identity (or both), thus organizational identity constitutes a set of organizational level institutions. In family firms, family identity has been developed as a prototype (Gersick, 1991; Romeanelli & Tushman, 1994; Ward, 1987). The behavioral conformity to family identity not only improves firms' legitimacy, but also constrains the firms' decision making.

The conflict between family and economic identities demonstrates the organizational level polycentricity. The preference to family or economic identities generates contradictions in norms, culture, policies and routines for three reasons. First, the organizational identity is an influential in how family firms will appropriate firm assets. The preference to preserve family identity may encourage the top managers to appropriate firm assets for personal or family use or to ensure that the use of those resources supports or at least does no harm to that identity (Morck et al., 2005; Morck & Yeung, 2003). Some of the time, the decisions based on family needs can harm financial performance of the firm. Second, family firms are intended to be risk averse in order to protect their family names and family reputation (Le Breton-Miller et al., 2011; Schulze et al., 2001). The risk preference prevents family firms from objectively evaluating a potential investment when risks are involved. Again, the risk-averse alternative preferred over a promising investment is likely to be negatively related to financial performance (Henkel, 2009). For example, family firms are less apt to invest in innovation and new capabilities creation (Bertrand & Schoar, 2006; Bloom & Van Reenen, 2007; Gomez-Mejia et al., 2010). The inadequate investment in innovation and new capabilities

creation constrains family firms to the use of novel knowledge and capability exploration which may increase the short-term financial performance, but is more likely to harm long-term financial performance (March, 1991; Uotila, et al., 2009). Therefore, the identity conflicts between family and economic identities suggest that family firms are facing the issues related to the challenges of organizational level polycentricity (multiple institutions with conflicting requirements) and the preference for family or economic identities has a major influence on the decision making behaviors of family firms.

What makes the situation more challenging is the simultaneous consideration of organizational level institutional polycentricity (the tradeoff between family and economic identity) and country level institutional polycentricity (the co-evolving and mutual adjustment of economic, regulatory, and political institutions) when making decisions about which strategy to use (foreign investment decision) and/or decisions about how to implement chosen strategies (mode of entry choice). The moderating effects show that organizational and country level institutions integratively influence family firms' foreign investment decisions. Thus, I contribute to the current polycentricity literature by examining the simultaneous effects of organizational and country level institutional polycentricity.

This study also contributes to our understanding of the effects of institutional distance by examining the three dimensions of institutional distance: type, magnitude, and direction of institutional distance. Previous literature has focused primarily on the influence of absolute institutional distance on internationalization (Xu & Shenkar, 2002;

Xu et al., 2004). For example, Xu et al. (2004) suggest that greater regulative and normative distances are associated with a lower level of equity ownership, while Gaur and Lu (2007) show that in institutional distant countries, subsidiaries have higher survival rates if foreign parents have greater ownership. However, the basic assumption beneath these findings is that institutional distance is symmetric. However, in reality, institutional distance is asymmetric. For example, US formal institutions are stronger than in China. While the absolute formal institutional distance between the United States and China is the same, the costs and liability of foreignness associated with a Chinese MNE investing in the United States (moving from a weak to a strong institutional environment) should differ from those associated with a US MNE investing in China (moving from a strong to a weak institutional environment). Thus, the consideration of the directional institutional distance in this study contributes to the institutional distance literature.

In the section that follows, I discuss each hypothesis, related findings and implications. I then discuss the implications of the study, outline its limitations, and offer suggestions for future research.

Specific Hypotheses and Contributions

One of the major contributions of this study is to show how identity conflicts influence the international strategies of family firms. First, I hypothesize that family firms are more likely to choose M&A as their mode of entry if they consider the gains or losses of economic identity as their primary reference point. The hypothesis is strongly supported by the empirical results. The prior literature finds that firms financially prefer

acquisitions because they do not increase the market capacity, they minimize the resource commitment, and they reduce exit costs (Kim & Hwang, 1992). This study extends our knowledge on this point to a special research setting: family firms. The research background of family firm adds special value to the current literature because family firms are unusually constrained by internal financial sources and limited liquidity (e.g. Anderson & Reeb, 2003; Demsetz & Lehn, 1985; Faccio, Lang, & Young, 2001; Shleiffer & Vishny, 1986, 1997). However, because family firms cannot sell many shares without losing controls, acquisition is a primary means for family firms to diversify their investment risk than Greenfield investment, considering the limited liquidity of the family firms. The choice of acquisition as their mode of entry helps family firms to spread the risks and reduce volatility of earnings (Faccio, et al., 2001).

On the contrary, if family firms prefer to protect their family identity and socioemotional wealth, they are more likely to choose Greenfield investment as their mode of entry as Hypothesis 2 predicted. The empirical results also support this hypothesis thereby contributing to the family firm literature by reconciling two conflicting findings regarding family firm international strategies. Kachaner and his associates argue that family firms can boost their family reputation and extend family sustainability by investing overseas (Kachaner et al., 2012). However, other scholars believe that family firms will lose their family control and dilute family identity if they decide to implement international strategies because of the requirement of more external funding, the lack of international experience of family members, and the recruitment of outside managerial talent (Gomez-Mejia, Makri & Kintana, 2010). Hence, family firms

show lower levels of international diversification than nonfamily firms. The statistically significant relationship between family ownership and the use of Greenfield investment suggests that family firms can protect their family control as well as extend family sustainability and family reputation by choosing an appropriate mode of entry--Greenfield investment.

In addition to the above two hypotheses, the robustness test of sample selection bias shows a more complete picture of risk preferences of family firms when they engage in international strategies (Table 3). The primary conclusion of the behavioral agency model is that risk preferences of an individual change with the reference point (Wiseman & Gomez-Mejia, 1998; Gomez-Mejia, Welbourne & Wiseman, 2000). The concept of loss aversion indicates that individuals will take risks when confronting the prospect of a loss and will avoid risks when confronting the prospect of a gain (Tversky & Kahneman, 1986). The sample selection bias tests provide full support for behavioral agency model. When both the financial performance and family ownership are low, family firms are more willing to take risk and choose a joint venture as their mode of entry. When family identity is high but economic identity is low (i.e., family identity is primary), family firms are more risk averse and more likely to choose Greenfield investment as their mode of entry. When economic identity is high but family identity is low (i.e., economic identity is primary), family firms are more financially risk averse and choose acquisition as their mode of entry. Finally, when both family and economic identities are high, family firms will prefer conservative actions and they will not engage in international strategies.

Bromiley (2010) and Holmes et al. (2011) criticize the behavioral agency model by pointing out that behavioral agency researchers only focus on single decisions, not the logic of mixed gambles, even though the mixed gambles exemplify most management decisions. Thus, the sample select bias tests contribute to the behavioral agency model in two ways: (1) the models empirically test the situation when two dimensions (the gains and losses of economic identity and family identity) are involved in a decision; (2) the models include the mixed gambles related to four scenarios: high economic identity-high family identity; low economic identity-low family identity; high economic identity-low family identity; and low economic identity-high family identity.

Hypothesis 3a and 3b predict the effects of favorable economic institutions on the two main relationships between family and economic identities and the likelihood of choosing Greenfield investment as mode of entry. The results show that there is no observable preference regarding the mode of entry choice when family firms consider economic identity as their primary reference point in a favorable economic institutional environment while family firms are less likely to choose Greenfield investment as their mode of entry when they pay more attention to the preservation of family identity and invest in a country with more favorable economic institutions.

Similarly, Hypothesis 6a and 6b predict the effects of less favorable economic institutions on the two main relationships between family and economic identities and the likelihood of choosing Greenfield investment as mode of entry. The results show that there is no observable preference regarding the mode of entry choice when family

firms consider either economic identity or family identity as their primary reference point and enter into a less favorable economic institutional environment.

A possible explanation for the four unsupported hypotheses is that family firms are less likely to use external sources of financial capital compared to nonfamily firms (e.g. Anderson & Reeb, 2003; Demsetz & Lehn, 1985; Faccio, Lang, & Young, 2001; Shleiffer & Vishny, 1986, 1997). The external monetary and fiscal policies have less influence on family firms' mode of entry decisions. The statistics from McKinsey's corporate performance analysis tool (CPAT) lends support for the findings. The data from CPAT shows that the average yield spread on corporate bonds is 32 percent lower for family firms than non-family firms (Caspar, Dias, & Elstrodt, 2010). The internal capitals are the major financial source in family firms.

Hypothesis 4a and 4b predict the effects of favorable regulatory institutions on the two main relationships between family and economic identities and the likelihood of choosing Greenfield investment as mode of entry. The results show that there is no observable preference regarding the mode of entry choice when family firms consider either economic or family identity as their primary reference point in a favorable regulatory institutional environment.

Hypothesis 7a and 7b predict the effects of less favorable regulatory institutions on the two main relationships between family and economic identities and the likelihood of choosing Greenfield investment as mode of entry. The results show that family firms are less likely to choose Greenfield investment when they consider economic identity as their primary reference point in a less favorable regulatory institutional environment.

Alternatively, family firms are less likely to choose Greenfield investment when they try to preserve their family identity in a less favorable regulatory environment, providing support for both Hypothesis 7a and 7b.

The non-observable preferences in the favorable regulatory environment suggests that the favorable regulatory environment gives family firms more freedom when they make the foreign investment decisions in such way that it lowers the liability of foreignness and reduce transaction costs. Family firms can achieve their financial goals even though they choose Greenfield investment or preserve their family identity even if they choose acquisition.

Hypotheses 5a and 5b hypothesize the effects of favorable political institutions on the two main relationships between family and economic identities and the likelihood of choosing Greenfield investment as mode of entry. The empirical results show that family firms are less likely to choose Greenfield investment when they consider economic identity as their primary reference point in a more favorable political institutional environment. At the same time, family firms are more likely to choose Greenfield investment when they try to preserve their family identity in a more favorable political environment, providing support for both Hypothesis 5a and 5b.

Hypothesis 8a and 8b predict the effects of less favorable regulatory institutions on the two main relationships between family and economic identities and the likelihood of choosing Greenfield investment as mode of entry. The results show that there is no obvious mode of entry preference when family firms consider economic identity as their primary reference point in a less favorable political institutional environment. Similarly,

family firms are more willing to use Greenfield investment as their entry mode when they try to preserve their family identity in a less favorable political environment, providing support to Hypothesis 8b, but providing no support to Hypothesis 8a.

A potential explanation to the observed non-preference in a more autocratic political environment when economic identity is the primary identity in a family firm is that autocratic institutions represent the countries with less limited governments, governments are less open to competition, especially in some autocratic countries where governments believe central planning is better than competition, and firms in the environment have less political rights. The autocratic governments have more influence on property rights and firm performance (Djankov, S., La Porta, Lopez-de-Silanes, & Shleifer, 2002). Therefore, an alliance with the state and local government is a more viable option for MNEs in autocratic countries (Li & Resnick, 2003), if economic identity is the primary identity for family firms.

Comparing the effects of the three types of formal institutions, some institutions are more impactful in the less favorable institutional environment, such as regulatory institutions, while other institutions are more influential of family firms' international strategy in a favorable institutional environment, such as economic institutions. Political institutions have a significant influence in both favorable and less favorable environments. Duran, Heugens, and Kostova (2013) categorize institutions into constraining institutions and enabling institutions. Constraining institutions are all "constitutions, statutes, regulations, norms, enforcement, and sanctions" that constrain and direct human decision makers (Eggertsson, 1996: 8). Enabling institutions allow

human decision makers to acquire the specialized resources needed to initiate and sustain entrepreneurial activities and to expand the scope of their action alternatives (Carney, 2012). Applying the concept of constraining and enabling institutions to the types of formal institutions, economic institutions and favorable regulatory institutions can be classified as enabling institutions (or less enabling institutions for less favorable economic institutions), these institutions broaden family firms' mode of entry choice. Thus they do not lead to a certain type of mode of entry choice. The political institutions and less favorable regulatory institutions, on the other hand, fit the description of constraining institutions. The political rules (either democratic or autocratic) and strong regulations constrain and direct human decision making, thus strengthen or attenuate a certain type of mode of entry choice. This study thus contributes to institutional theory by demonstrating the different effects of enabling and constraining institutions on mode of entry choice.

The robustness test using overall institutional distance also contributes to the current institutional distance literature. The polycentric nature of institutions suggests that firms carefully examine the institutional system as a whole before they invest in a certain country. The investment decision is the tradeoff between the benefits and the costs of operating in an institutional system. Therefore, the test of the effects of overall institutional distance variable on the mode of entry choice is a meaningful supplement to the current findings and conclusions.

Managerial Implications

The family firm is a dominant business form in the world (La Porta, et al., 1999). One-third of companies in the S&P 500 index and forty percent of the 250 largest companies in France and Germany are considered as family business. More importantly, family firms have some unique characteristics compared to non-family firms. One of the major characteristics of family firms is their dual identities: family identity and economic identity. The uniqueness of family firms urges a more careful examination of this specific type of business form.

Family firms possess two identities: economic identity which refers to their financial performance orientation and family identity which is accurately defined by the preservation of socioemotional wealth. The combination of the two identities is unique in practice. Oftentimes, family firms weigh family identity more than economic identity. For example, in the mission statement of Mars Inc., it says "As a family-owned company for nearly a century, we are guided by our five principles: quality, responsibility, mutuality, efficiency and freedom." The mission statement of Mars clearly shows that family identity is more important to family firms than economic identity. Comparatively, non-family firms normally pay more attention to their customers which directly lead to their profitability. For example, the mission of Advance Auto Parts is to "provide personal vehicle owners and enthusiasts with the vehicle related products and knowledge that fulfill their wants and needs at the right price. Our friendly, knowledgeable and professional staff will help inspire, educate and problem-solve for our customers." The different foci of family and non-family firms show the dual identity of family firms.

The emphasis on family identity influences mode of entry choice when family firms decide to invest internationally. Besides the financial concerns, such as strategic planning, financing, tax implications, operational effectiveness, institutional environment, human resource management concerns, technology and infrastructure, the international strategy in general and mode of entry choice in specific also embed the unique needs of the family. The specific concerns include the lack of international experiences of top managers and family members, internal financing planning, longer term orientation, and the preservation of family control. Because of the special concerns of family firms, they are more likely to choose wholly owned subsidiaries as their mode of entry to maintain the family control and transfer the family culture to the foreign subsidiaries.

The local institutional environment is another issue family firms need to consider when family firms invest overseas. When family firms home-based in a favorable institutional environment invest in a less favorable institutional environment, the local institutional environment creates both benefits and costs for the family firms. The market potential in the host countries help family firms spread the risks globally and leverage the foreign buying power with the saturated domestic markets. The less favorable institutional environment may also have weaker property right protection and more regulations (reasons for the lower favorability). Thus, mode of entry matters in the balancing of the benefits and the costs. A good example is the worldwide operations of Wal-Mart. Since 1991, when Wal-Mart started its global expansion, it has built thousands of stores in Mexico, Brazil, Argentina, Canada, China, India, and so on. Wal-

Mart entered several developing countries by acquisition, including Mexico (acquisition of Cifra), Chile (acquisition of Distribucion y Servicio D&S S.A.), and South Africa (acquisition of Massmart Holding Limited). The mode of entry choice by Wal-Mart reflects the consideration of family and economic identities under less favorable institutional conditions, partly in line with this study's predictions.

Another recent and extreme example is the bribery of Mabey and Johnson, a family firm located in UK. In 2009, Mabey and Johnson became the first major British company to be convicted of foreign bribery. As a bridge-building company, the company had paid bribes to the host country politicians and officials to win contracts in Angola, Ghana, Madagascar, Mozambique, Bangladesh, and Jamaica. For those family firms that prefer to operate legally, the weak regulatory and political institutions make the acquisition more viable for family firms in order to protect their family control and property rights. Some scholars even argue that an alliance of the state, local, and multinational capital is a more viable option for MNEs in less favorable institutional environment (Li & Resnick, 2003). For example, foreign companies that partner with Chinese State-Owned Enterprises (SOEs) may be able to work in regulated or restricted industries, apply for special projects or fundings, and receive preferential treatment or policy incentives. Foreign companies that choose to partner with SOEs can also minimize risks and operational conflicts caused by under-developed institutional environment, such as protecting intellectual property rights.

On the contrary, when a family firm from a less favorable institutional environment invests in a favorable institutional environment, the local institutions

provide more freedom in the mode of entry choice. As the empirical results show, the family firms from less favorable institutional environment could use different types of mode of entry to take full advantage of the favorable institutional environment in the host countries. For example, 93 percent of Alibaba's earnings come from its home country operations in China. However, it chose the New York Stock Market for its initial public opening and became the largest initial stock sale in US history. The favorable U. S. institutional environment is one of the undeniable driving forces that led to Alibaba's initial success with its IPO. Specific to Alibaba's international strategies in the United States, Alibaba used a joint venture as the mode of entry and paid more than $200 million for a 39 percent stake in Shoprunner, which competes with Amazon Prime. It also acquired ride-sharing mobile app Lyft, among others. Additionally, in June, Alibaba chose a Greenfield investment as the mode of entry to launch its own U.S. shopping website (11Main.com) to test the U.S. online retail market. The freedom of choice for Alibaba among different types of mode of entry supports to the efficacy of the empirical results of this study suggesting that favorable economic, regulatory, and political institutions in the United States provide Alibaba more freedom to choose different modes of entry for this market.

Limitations and Future Research Directions

Future research should attempt to overcome the limitations of the present study. One of the major limitations of this study is the underlying assumption of family ownership. In the family firm literature, there are two competing opinions regarding the relationship between family ownership and family firms' efficiency and competencies.

Some studies show that when family members have excess control rights, they pay more attention to gaining efficiency and to building capabilities and outperform the non-family firms (Anderson & Reeb, 2003; McConaughy, Matthews, & Fialco, 2001; Simon, 1996; Villalonga & Amit, 2006). In this context, a family's control rights and the intention to preserve the socioemotional wealth positively influence a firm's operations and the success as well as its long-term survival. Therefore, family members who are also the TMT members most of the time are intended to make decisions aligned with the firm's long-term interests. Based on this argument, the basic is that the family ownership is positively related to family firms' financial performance.

However, other scholars find that after a family has ownership for unchallenged control, it will create agency problem. Family members will use their excess control rights for their own personal benefit at the expense of non-family shareholders (Claessens, et al., 2002). Aligned with this argument, family firms are often viewed as the firms that suffer from the lack of professional management (Chandler, 1990), destructive nepotism (Schulze, Lubatkin, & Dino, 2001; Schulze, Lubatkin, Dino, & Buchholtz, 2003), and exploitation of minority shareholders' interests (Morck & Yeung, 2003). In these firms, the primary goal of family firms is not to increase the financial performance, but to take resources out of the firm, a process known as tunneling (Johnson, La Porta, Lopez-de Silanes, & Schleifer, 2000). Tunneling behavior can cause numerous problems in family firms, such as entrenched managers and CEOs (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001), few new product development (Ellington &

Deane, 1996), little investment in R&D activities (Chandler, 1990), and a reallocation of wealth from stakeholders to the family (Burkart, Panunzi, & Shleifer, 2002).

Tunneling can cause more serious problems if family firms invest overseas. Family members can use cost allocation to pass expenses down to foreign subsidiaries in which they have the lowest financial and emotional interests and take advantage of transfer pricing to move revenues up to the parent firms in which they have the highest financial and emotional interests. Furthermore, because long-term investment can cannibalize existing businesses, family firms have less incentives to invest to long-term projects in the subsidiary. Applying these research findings to the current study, we could argue that family firms are less likely to invest globally as it shows in one of the robustness check because foreign investment involves more resource commitment, thus cannibalizing the resources the family members take out of the firms. Therefore, future research focusing on the negative outcomes of family ownership could add valuable knowledge on the potentially different effects of family ownership on family firms' mode of entry choice.

Another major limitation is the definition of family firms. Although the classification of family firms in this study is based on previous literature (La Porta, et al., 1999), and I used the more conservative cut-off of 20 percent to determine whether a firm should be included in the sample of family firms, other studies have used additional indicators of family control-such as the CEO being a member of the controlling family, top managers being the family members, or the presence of family members on the board of directors or board chair (Anderson & Reeb, 2003). CEOs or directors who are also family members are more likely to embed family's interests in firms' operations.

For the external stakeholders, they are more likely to align the wealth and reputations of the families to the success and survival of the firms if CEOs or directors are also family members. Due to data inaccessibility, I was unable to include such variables. Future studies that use multiple indicators to select the sample of family firms and focus on family control could add valuable knowledge to understanding the family firms' international strategies. Relatedly, the percentage of ownership possessed by the family may change constantly. In order to take into consideration of such changes, especially a decrease in the level of family ownership, it should be examined periodically. Again, due to data inaccessibility, I was not able to examine the family ownership over time. Future studies which examine whether the companies identified as family firms in earlier years still meet the criteria during the entire period of the study would be more accurate in defining family firms and in understanding their effects, especially for those in which changes occurred.

The empirical results of this study could also be biased because of the measure of family identity that is presented by socioemotional wealth. Socioemotional wealth is a general concept that describes a family's affective value gained from a firm (Berrone et al., 2010; Gomez-Mejia, et al., 2010). It embodies the emphasis on belonging, affect, and intimacy (Kepner, 1983), the importance of family values through the business (Handler, 1990), the fulfillment of family obligations (Athanassiou et al., 2002) and the altruism to family members (Schulze et al., 2003), and the attention paid to satisfy the demands of external stakeholders, such as local society (Adams, Taschian, & Shore, 1996; Dyer & Whetten, 2006), suppliers and customers (Carney, 2005), and employees. Thus, the

socioemotional wealth concept is a very broad construct that describes many aspects of family firms. Although family ownership has been used as a legitimate proxy for socioemotional wealth (Berrone et al., 2010), there are a variety of options to capture the different aspects of socioemotional wealth. The possible dimensions of socioemotional wealth include family members' identification with the firm, bonding social ties, emotional attachment, preservation of family bonds inside of the firm through dynastic succession, etc. (Berrone, Cruz, & Gomez-Mejia, 2012). Although most of the current studies have used secondary proxies (e.g., percentage of shares owned by a family) to measure socioemotional wealth when using large archival databases, the proxies are unlikely to capture the full spectrum of the construct. Different approaches for addressing this methodological gap, such as, surveys, content analysis, laboratory experiments, and case studies could make meaningful contributions to our understanding of socioemotional wealth.

CEO succession and CEO duality are two widely discussed corporate governance problems in family firm literature and may potentially influence family firms' international strategies. The average CEO tenure at family-run businesses ranges between 15 and 25 years, while that of the typical public, non-family firms leader now three to four years (Le Breton-Miller et al., 2004). Thus, family CEOs usually exhibit longer term planning horizons (Miller & Le Breton-Miller, 2005; Miller, Le Breton-Miller, & Scholnick, 2008; Sirmon & Hitt, 2003). The longer-term view fosters the building of the family dynasty, the embeddedness of family values through the business, and the preference of passing the business to subsequent generations to foster a

“generational investment strategy that creates patient capital” (Sirmon & Hitt, 2003: 343), commitment to building sustainable capabilities, and learning. Therefore, CEO tenure is a potential factor which could influence family firms’ mode of entry choice. The future research focusing on this line is promising.

CEO succession can also influence family firms’ international strategy. When a family firm transfers ownership/control to second and later generations, there is the potential for major changes in the top management team and strategic orientation in the years immediately before or after the succession (Finkelstein & Hambrick, 1996). A bias in favor of family candidates may lead to a narrow selection pool and less competent successors. The less competent successors can curb valuable investment or make mistakes on investment, thus cause the family firms lose family control (Ward, 2004). As a major investment decision, international strategies of family firms could be significantly influenced by CEO succession, providing a promising research direction for future studies.

In addition, informal institutional distance also affects MNEs’ entry mode choices and control of their subsidiaries. As Holmes et al (2013) identified, the country’s informal institutions are critical components, along with the formal institutions, of a country’s institutional environment. In general, the greater the informal institutional distance between home and host countries, the more control firms will need to deal with information asymmetries, uncertainty and risks associated with foreign operations (e.g., Boyacigiller, 1990; Erramilla & Rao, 1993; Hamilton & Kashlak, 1999; Padmanabhan & Cho, 1994; Pan, 1996). Although I included cultural distance as a control variable in one

of the robustness tests, the investigation of the interrelationships of formal and informal institutional distance and their potential influence on mode of entry choice is a promising direction for future research.

Batjargal and associates (2013) investigated the effect of institutional polycentrism on new venture growth. These scholars proposed the main theoretical postulates of institutional polycentrism, namely, institutional multiplicity, institutional configuration, and institutional context. Their study suggests that the combination of less-effective political, regulatory and economic institutions has a negative effect on the revenue growth of new ventures. Yet, structural holes and entrepreneurs' social network as an informal institution positively influenced new venture growth. The future research which focuses on the interrelationship between formal and informal institutional distance would extend the work of Batjargal et al (2013) by offering a different form of institutional complexity, showing the integrative and potential configurational effects of both formal and informal institutions.

Lastly, the examination of the impact of firm identity as well as country level institutions on mode of entry choice can be regarded as the first step in the research. The performance implications of entry mode choice should be examined (Brouthers, Brouthers, & Werner, 1999; Woodcock, Beamish, & Makino, 1994). Several studies have examined performance differences when firms choose wholly owned modes (acquisitions or Greenfield investment), or joint ventures as their mode of entry (e.g., Nitsch, Beamish, & Makino, 1996; Pan & Chi, 1999; Pan, Li, & Tse, 1999; Shrader, 2001; Simmonds, 1990; Woodcock et al., 1994). However, Shaver (1998) points out that

these studies may suffer from an endogeneity problem, i.e., different entry mode performance is compared without considering the characteristics of the investment decision. This study only examined how the characteristics of the parent firms and institutional environments affect firms' mode of entry choice; the future research which further investigated the consequential financial performance of certain type of mode of entry could make contributions to this research area.

In conclusion, this study has conceptualized the polycentric characteristics of institutional distance and demonstrated the importance of institutional integration and understanding of the firm level and country level institutional influences on the mode of entry choice. From these theoretical underpinnings, a model is developed proposing that the mode of entry choice may mitigate the risk of loss of family identity. Specifically, family firms are more likely to choose Greenfield investment as their mode of entry to a foreign country. In addition, the distance between home and host countries for three formal institutions--economic, regulatory, and political—may create extra costs if family firms choose Greenfield investment as their entry mode. The sample including 2,595 family firms from 70 countries invested in 38,014 subsidiaries from 89 countries for the period of 2007-2013 provides support for several of the hypotheses. The theoretical models and empirical tests provide a strong catalyst for future research drawing on family firm research and institutional theory and using an institutional polycentric lens to understand how each international strategy is shaped in a dominant business form: family firms.

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APPENDIX

Table 1: Benefits and costs of internationalization for family firms

	Economic Identity	Family Identity
Benefits from Internationalization	Disperse the investment risk geographically	Preserve family identity by protecting family wealth and ensuring firm survival
Costs from Internationalization	Costs caused by liability of foreignness	Dilute family identity by bringing in professional executives

Table 2: The relationship between mode of entry and family firm identities

Mode of entry	Identity
Acquisition	High economic identity, low family identity
Greenfield investment	High family identity, low economic identity

Table 3: The application of behavioral agency model to the mode of entry choice

Family identity		Economic identity: Low	Economic identity: High
	High	Family identity is the primary identity Mode of entry: Greenfield	Conservative decision Mode of entry: No international diversification
	Low	Risk taking decision Mode of entry: Joint Venture	Economic identity is the primary identity Mode of entry: Acquisition

Table 4: Subsidiary countries in the sample

Countries			
United Arab Emirates	Germany	Japan	Portugal
Argentina	Denmark	Kenya	Romania
Austria	Ecuador	Kuwait	Russian Federation
Australia	Egypt	Kazakhstan	Saudi Arabia
Barbados	Spain	Sri Lanka	Sudan
Bangladesh	Finland	Mexico	Sweden
Belgium	France	Malaysia	Singapore
Bulgaria	United Kingdom	Nigeria	Syrian Arab Republic
Algeria	Greece	Netherlands	Slovakia
Bolivia	Croatia	Lithuania	Thailand
Brazil	Hungary	Norway	Tunisia
Botswana	Indonesia	New Zealand	Turkey
Canada	Ireland	Oman	Trinidad And Tobago
Switzerland	Israel	Panama	Taiwan
Chile	India	Peru	United States
China	Iraq	Papua New Guinea	Uruguay
Colombia	Iran	Philippines	Venezuela
Costa Rica	Italy	Pakistan	Viet Nam
Czech Republic	Jamaica	Poland	South Africa

Table 5: Results of Factor Analysis

	Factor 1: Regulatory Control	Factor 2: Political Democracy	Factor 3: Capital Availability	Factor 4: Market Liquidity
Regulatory burden	0.867			
Contract and property rights	0.933			
Trade policy	0.801			
Informal markets	0.885			
Government intervention in banking	0.879			
Foreign investment restrictions	0.884			
Monetary policy	0.633			
Political constraints		0.978		
Political rights		0.961		
Civil liberties		0.966		
Executive political restrictions		0.860		
Money supply			0.637	
Capital investments			0.855	
Total foreign debt			0.913	
Nominal GDP			0.982	
Budget balance			0.963	
Debt service			0.951	
Trade balance			0.872	
Liability			0.718	
Credit transfer				0.660
Net reserve				0.924
Liquidity				0.789
Total proportion of variance explained	0.714	0.888	0.755	0.637

Table 6: Means, standard deviations, and correlations

		Mean	SD	1	2	3	5	6	7	8	9	11	12	13	14	15	16
1	Greenfield	0.97	0.18	1.00													
2	Firm size	14.50	2.87	0.04	1.00												
3	Listed	0.51	0.50	-0.03	0.06	1.00											
4	Geo distance	6.91	1.71	0.02	-0.02	-0.01	1.00										
5	Host inward FDI	-0.23	0.84	0.01	-0.01	0.02	-0.06	1.00									
6	Host GDP	1.85	2.91	-0.02	-0.06	0.01	0.30	-0.17	1.00								
7	Host GDP per capita	1.15	1.12	-0.05	-0.17	-0.11	-0.12	0.00	0.21	1.00							
8	Home outward FDI	0.05	0.60	-0.02	-0.07	-0.06	-0.13	0.31	-0.04	0.04	1.00						
9	GDP per capita	1.34	1.05	-0.04	-0.22	-0.09	0.14	-0.01	0.10	0.66	0.18	1.00					
10	Connection	2.28	1.99	-0.02	-0.07	-0.08	0.17	-0.08	0.44	0.20	-0.13	0.24	1.00				
11	ROA	1.35	13.35	-0.01	0.27	0.06	-0.03	0.01	-0.06	-0.12	0.00	-0.13	-0.07	1.00			
12	Family ownership	27.54	26.19	0.08	0.04	-0.42	0.01	0.00	0.03	0.07	0.03	0.02	0.24	0.05	1.00		
13	Economic distance	0.03	1.34	-0.01	-0.02	0.05	0.04	-0.10	0.59	0.22	0.05	-0.02	-0.31	-0.02	-0.06	1.00	
14	Regulatory distance	-0.18	0.81	-0.01	0.05	0.01	-0.21	0.05	0.01	0.37	-0.11	-0.20	-0.03	0.00	-0.03	0.28	1.00
15	Political distance	0.11	0.60	0.01	-0.01	-0.02	0.24	0.12	-0.02	-0.27	-0.01	0.16	0.09	0.01	0.03	-0.13	-0.52

Table 7: Hierarchical linear regression results

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
year2	-0.71***	-0.60***	-0.56***	-0.60***	-0.56***	-0.60***	-0.59***	-0.60***
	(-10.37)	(-6.76)	(-6.37)	(-6.80)	(-6.32)	(-6.77)	(-6.72)	(-6.81)
year3	0.08	0.26***	0.29***	0.28***	0.33***	0.25***	0.26***	0.25***
	(1.25)	(3.37)	(3.78)	(3.65)	(4.15)	(3.30)	(3.45)	(3.31)
year4	-0.24***	-0.19**	-0.17*	-0.17*	-0.13+	-0.19**	-0.19**	-0.20**
	(-4.27)	(-2.77)	(-2.40)	(-2.49)	(-1.78)	(-2.72)	(-2.68)	(-2.83)
Firm size	0.06***	0.03**	0.03**	0.03**	0.03**	0.03**	0.03**	0.03**
	(10.07)	(3.02)	(3.06)	(3.03)	(2.81)	(2.87)	(2.96)	(2.97)
Listed	-0.62***	0.08	0.03	0.06	0.06	0.09	0.09	0.08
	(-10.90)	(0.90)	(0.36)	(0.63)	(0.65)	(0.92)	(0.91)	(0.90)
Geographic distance	0.07***	0.09***	0.05*	0.13***	0.07**	0.08***	0.09***	0.09***
	(4.61)	(4.61)	(2.01)	(5.71)	(3.10)	(3.79)	(4.06)	(4.51)
Host inward FDI	0.04	0.11**	0.11**	0.11**	0.11**	0.11**	0.11**	0.11**
	(1.26)	(2.72)	(2.68)	(2.75)	(2.76)	(2.82)	(2.71)	(2.69)
Host GDP	-0.07	-0.07	-0.12*	-0.10+	-0.07	-0.06	-0.07	-0.07
	(-1.34)	(-1.32)	(-2.14)	(-1.91)	(-1.22)	(-1.16)	(-1.29)	(-1.32)
Host GDP per capita	-0.12	-0.07	-0.10	-0.08	-0.10	-0.05	-0.05	-0.06
	(-1.64)	(-0.92)	(-1.33)	(-1.18)	(-1.33)	(-0.62)	(-0.63)	(-0.89)
Home outward FDI	-0.01	-0.05	-0.06+	-0.05	-0.05	-0.06+	-0.05	-0.05
	(-0.52)	(-1.64)	(-1.74)	(-1.54)	(-1.47)	(-1.77)	(-1.54)	(-1.53)
Home GDP per capita	-0.02	-0.04	-0.03	-0.03	-0.01	-0.05	-0.05	-0.04
	(-0.62)	(-1.05)	(-0.73)	(-0.67)	(-0.34)	(-1.33)	(-1.32)	(-1.09)
Home connection	0.04***	0.00	0.06**	0.04*	0.01	0.00	0.00	0.00
	(3.67)	(0.23)	(2.95)	(2.26)	(0.65)	(0.31)	(0.23)	(0.23)
Firm performance		-0.00*	-0.00+	-0.00+	-0.00*	-0.00	-0.00+	-0.00+
		(-2.07)	(-1.87)	(-1.88)	(-2.15)	(-0.75)	(-1.68)	(-1.88)
Family ownership		0.03***	0.03***	0.03***	0.03***	0.03***	0.03***	0.03***

		(20.76)	(19.63)	(20.35)	(20.34)	(20.71)	(20.72)	(20.72)
Positive economic			0.18***					
distance			(3.92)					
Negative economic				0.17***				
distance				(3.53)				
Positive regulatory					0.28**			
distance					(3.17)			
Negative regulatory						-0.15*		
distance						(-1.99)		
Positive political							0.14	
distance							(1.32)	
Negative political								-0.03
distance								(-0.19)
Financial performance×			-0.00					
Positive economic distance			(-0.60)					
Financial performance×				0.00				
Negative economic distance				(0.07)				
Financial performance×					0.01			
Positive regulatory distance					(0.61)			
Financial performance×						0.03***		
Negative regulatory distance						(4.95)		
Financial performance×							-0.02**	
Positive political distance							(-2.83)	
Financial performance×								0.02
Negative political distance								(1.22)
Constant	3.18***	1.63***	1.91***	1.43***	1.77***	1.68***	1.65***	1.62***
	(17.18)	(6.55)	(7.35)	(5.60)	(6.99)	(6.69)	(6.58)	(6.47)
chi2	468.3	702.7	718.8	714.2	710.4	732.1	713.2	704.9
chi2_c	959.8	399.9	413.2	388.3	410.3	399.5	379.0	398.1
ll	-14659	-8921	-8913	-8915	-8915	-8910	-8917	-8920

Table 7: Hierarchical linear regression results (Cont.)

VARIABLES	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14
year2	-0.57***	-0.60***	-0.57***	-0.60***	-0.59***	-0.59***
	(-6.39)	(-6.77)	(-6.40)	(-6.82)	(-6.69)	(0.09)
year3	0.29***	0.28***	0.32***	0.24**	0.26***	0.26***
	(3.72)	(3.68)	(4.09)	(3.17)	(3.33)	(0.08)
year4	-0.17*	-0.17*	-0.13+	-0.21**	-0.20**	-0.19**
	(-2.42)	(-2.44)	(-1.86)	(-2.99)	(-2.87)	(0.07)
Firm size	0.03**	0.03**	0.03**	0.03**	0.03**	0.03***
	(3.07)	(3.03)	(2.80)	(3.04)	(3.09)	(0.01)
Listed	0.04	0.05	0.07	0.08	0.07	0.09
	(0.40)	(0.56)	(0.70)	(0.89)	(0.72)	(0.09)
Geographic distance	0.04+	0.13***	0.07**	0.08***	0.08***	0.09***
	(1.85)	(5.73)	(3.04)	(3.94)	(3.72)	(0.02)
Host inward FDI	0.11**	0.11**	0.11**	0.11**	0.10**	0.11**
	(2.67)	(2.75)	(2.73)	(2.75)	(2.60)	(0.04)
Host GDP	-0.12*	-0.10+	-0.07	-0.07	-0.06	-0.07
	(-2.12)	(-1.91)	(-1.23)	(-1.24)	(-1.15)	(0.05)
Host GDP per capita	-0.10	-0.08	-0.10	-0.05	-0.04	-0.07
	(-1.37)	(-1.17)	(-1.35)	(-0.65)	(-0.47)	(0.07)
Home outward FDI	-0.05+	-0.05	-0.05	-0.06+	-0.05	-0.05
	(-1.71)	(-1.53)	(-1.42)	(-1.74)	(-1.64)	(0.03)
Home GDP per capita	-0.03	-0.03	-0.01	-0.05	-0.06	-0.04
	(-0.72)	(-0.68)	(-0.30)	(-1.37)	(-1.41)	(0.04)
Home connection	0.06**	0.04*	0.01	0.00	-0.00	0.00
	(3.01)	(2.29)	(0.68)	(0.07)	(-0.05)	(0.01)
Firm performance	-0.00*	-0.00*	-0.00*	-0.00*	-0.00*	0.00*
	(-2.21)	(-2.01)	(-2.08)	(-2.04)	(-1.97)	(0.00)
Family ownership	0.03***	0.03***	0.03***	0.03***	0.03***	0.03***
	(19.10)	(19.44)	(19.68)	(18.78)	(19.28)	(0.00)
Positive economic	0.22***					
distance	(4.46)					
Negative economic		0.15**				
distance		(2.87)				
Positive regulatory			0.36**			
distance			(3.19)			
Negative regulatory				0.01		
distance				(0.12)		
Positive political					-0.05	
distance					(-0.46)	
Negative political						-0.18
distance						(0.17)
Family ownership×	-0.00*					
Positive economic distance	(-2.34)					

Family ownership×		0.00				
Negative economic distance		(0.91)				
Family ownership×			-0.00			
Positive regulatory distance			(-1.12)			
Family ownership×				-0.01**		
Negative regulatory distance				(-2.72)		
Family ownership×					0.03***	
Positive political distance					(4.98)	
Family ownership×						0.01**
Negative political distance						(0.01)
Constant	2.71***	2.23***	2.58***	2.50***	2.51***	2.43***
	(10.89)	(9.02)	(10.60)	(10.34)	(10.42)	(0.24)
chi2	725.1	715.2	715.9	700.9	703.7	707.22
chi2_c	413.7	386.6	408.4	396.6	382.6	399.17
ll	-8910	-8914	-8915	-8916	-8903	-8917

Table 8: Hierarchical linear regression results (10% cutoff)

VARIABLES	Model1	Model2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
year2	-0.71***	-0.63***	-0.61***	-0.63***	-0.59***	-0.63***	-0.63***	-0.63***
	(-10.37)	(-9.29)	(-8.95)	(-9.29)	(-8.72)	(-9.30)	(-9.28)	(-9.34)
year3	0.08	0.31***	0.33***	0.30***	0.37***	0.30***	0.31***	0.31***
	(1.25)	(4.96)	(5.32)	(4.87)	(5.83)	(4.88)	(4.98)	(4.93)
year4	-0.24***	-0.21***	-0.20***	-0.21***	-0.15**	-0.21***	-0.21***	-0.21***
	(-4.27)	(-3.82)	(-3.62)	(-3.84)	(-2.65)	(-3.83)	(-3.80)	(-3.84)
Firm size	0.06***	0.07***	0.07***	0.07***	0.07***	0.07***	0.07***	0.07***
	(10.07)	(10.54)	(10.58)	(10.50)	(10.01)	(10.49)	(10.53)	(10.48)
Listed	-0.62***	0.06	0.02	0.06	0.04	0.06	0.06	0.06
	(-10.90)	(0.72)	(0.28)	(0.78)	(0.47)	(0.72)	(0.72)	(0.68)
Geographic distance	0.07***	0.06***	0.01	0.05**	0.03*	0.05***	0.05***	0.05***
	(4.61)	(4.22)	(0.51)	(3.28)	(2.18)	(3.55)	(3.73)	(3.76)
Host inward FDI	0.04	0.11**	0.11**	0.11**	0.11***	0.11**	0.11**	0.11**
	(1.26)	(3.23)	(3.21)	(3.24)	(3.32)	(3.26)	(3.19)	(3.25)
Host GDP	-0.07	-0.06	-0.09+	-0.05	-0.05	-0.05	-0.05	-0.06
	(-1.34)	(-1.04)	(-1.71)	(-0.95)	(-0.88)	(-0.90)	(-1.03)	(-1.04)
Host GDP per capita	-0.12	-0.17**	-0.21**	-0.17*	-0.21**	-0.16*	-0.16*	-0.18**
	(-1.64)	(-2.59)	(-3.08)	(-2.57)	(-3.07)	(-2.34)	(-2.37)	(-2.65)
Home outward FDI	-0.01	-0.05*	-0.06*	-0.05*	-0.05+	-0.05*	-0.05+	-0.05*
	(-0.52)	(-1.98)	(-2.22)	(-2.01)	(-1.88)	(-2.01)	(-1.87)	(-2.04)
Home GDP per capita	-0.02	0.01	0.03	0.01	0.05	0.00	0.00	0.02
	(-0.62)	(0.43)	(0.88)	(0.37)	(1.54)	(0.07)	(0.12)	(0.65)
Home connection	0.04***	0.01	0.06***	0.00	0.01	0.01	0.01	0.01
	(3.67)	(0.59)	(4.31)	(0.11)	(1.02)	(0.60)	(0.57)	(0.75)
Firm performance		-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***
		(-5.29)	(-4.82)	(-5.48)	(-5.59)	(-4.09)	(-5.01)	(-5.12)
Family ownership		0.03***	0.03***	0.03***	0.03***	0.03***	0.03***	0.03***

		(29.27)	(27.92)	(29.03)	(28.79)	(29.23)	(29.26)	(29.25)
Positive economic			0.17***					
distance			(5.44)					
Negative economic				-0.01				
distance				(-0.47)				
Positive regulatory					0.28***			
distance					(3.92)			
Negative regulatory						-0.10+		
distance						(-1.67)		
Positive political							0.08	
distance							(1.02)	
Negative political								-0.17
distance								(-1.25)
Financial performance×			-0.00					
Positive economic distance			(-0.47)					
Financial performance ×				-0.00				
Negative economic distance				(-1.58)				
Financial performance ×					0.02*			
Positive regulatory distance					(2.40)			
Financial performance ×						0.01**		
Negative regulatory distance						(3.14)		
Financial performance ×							-0.01	
Positive political distance							(-1.26)	
Financial performance ×								0.02
Negative political distance								(1.36)
Constant	3.18***	1.39***	1.66***	1.39***	1.52***	1.38***	1.38***	1.40***
	(17.18)	(6.89)	(7.97)	(6.68)	(7.42)	(6.87)	(6.85)	(6.90)
chi2	468.3	1488	1513	1489	1503	1502	1491	1490
chi2_c	959.8	833.4	857.4	831.7	849.8	817.9	789.1	833.8
ll	-14659	-14751	-14736	-14750	-14740	-14746	-14750	-14750

Table 8: Hierarchical linear regression results (10% cutoff, Cont.)

VARIABLES	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14
year2	-0.61***	-0.63***	-0.59***	-0.63***	-0.62***	-0.62***
	(-8.96)	(-9.29)	(-8.71)	(-9.28)	(-9.20)	(-9.24)
year3	0.33***	0.30***	0.37***	0.30***	0.31***	0.31***
	(5.31)	(4.90)	(5.82)	(4.91)	(5.05)	(5.02)
year4	-0.20***	-0.21***	-0.15**	-0.21***	-0.20***	-0.20***
	(-3.63)	(-3.83)	(-2.67)	(-3.87)	(-3.74)	(-3.74)
Firm size	0.07***	0.07***	0.07***	0.07***	0.07***	0.07***
	(10.59)	(10.50)	(10.05)	(10.59)	(10.60)	(10.52)
Listed	0.03	0.04	0.04	0.06	0.05	0.06
	(0.31)	(0.51)	(0.44)	(0.72)	(0.65)	(0.72)
Geographic distance	0.01	0.06***	0.03*	0.05***	0.05***	0.05***
	(0.49)	(3.39)	(2.16)	(3.59)	(3.69)	(3.67)
Host inward FDI	0.11**	0.11**	0.11***	0.11**	0.11**	0.11**
	(3.20)	(3.23)	(3.30)	(3.26)	(3.16)	(3.27)
Host GDP	-0.09+	-0.06	-0.05	-0.05	-0.06	-0.06
	(-1.71)	(-1.02)	(-0.88)	(-0.96)	(-1.03)	(-1.02)
Host GDP per capita	-0.21**	-0.18**	-0.21**	-0.16*	-0.15*	-0.18**
	(-3.09)	(-2.67)	(-3.04)	(-2.32)	(-2.27)	(-2.67)
Home outward FDI	-0.06*	-0.05*	-0.05+	-0.05*	-0.05+	-0.05*
	(-2.20)	(-1.99)	(-1.83)	(-2.07)	(-1.93)	(-2.09)
Home GDP per capita	0.03	0.01	0.04	0.00	0.00	0.02
	(0.86)	(0.43)	(1.43)	(0.00)	(0.09)	(0.73)
Home connection	0.06***	0.00	0.01	0.01	0.01	0.01
	(4.36)	(0.33)	(1.04)	(0.60)	(0.59)	(0.79)
Firm performance	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***
	(-5.42)	(-5.32)	(-5.24)	(-5.29)	(-5.26)	(-5.30)
Family ownership	0.03***	0.03***	0.03***	0.03***	0.03***	0.03***
	(26.17)	(28.02)	(27.13)	(27.29)	(28.09)	(29.25)
Positive economic	0.17***					
distance	(5.47)					
Negative economic		0.01				
distance		(0.29)				
Positive regulatory			0.28***			
distance			(3.89)			
Negative regulatory				-0.07		
distance				(-1.17)		
Positive political					0.11	
distance					(1.31)	
Negative political						-0.19

distance						(-1.46)
Family ownership×	-0.00					
Positive economic distance	(-0.73)					
Family ownership×		0.00**				
Negative economic distance		(3.14)				
Family ownership×			0.00			
Positive regulatory distance			(0.24)			
Family ownership×				-0.00		
Negative regulatory distance				(-0.99)		
Family ownership×					0.01**	
Positive political distance					(2.78)	
Family ownership×						0.01*
Negative political distance						(2.37)
Constant	2.44***	2.21***	2.31***	2.17***	2.17***	2.19***
	(12.11)	(10.89)	(11.65)	(11.158)	(11.10)	(11.17)
chi2	1517	1495	1498	1488	1485	1494
chi2_c	856.5	819.7	848.8	818.8	792.8	834.4
ll	-14736	-14747	-14743	-14750	-14746	-14749

Table 9: Hierarchical linear regression results (5% cutoff)

VARIABLES	Model1	Model2	Model3	Model4	Model5	Model6	Model7	Model8
year2	-0.78***	-0.64***	-0.61***	-0.64***	-0.62***	-0.64***	-0.64***	-0.64***
	(-15.10)	(-10.87)	(-10.45)	(-10.84)	(-10.43)	(-10.87)	(-10.87)	(-10.84)
year3	0.06	0.29***	0.31***	0.28***	0.32***	0.28***	0.29***	0.29***
	(1.27)	(5.23)	(5.61)	(5.09)	(5.56)	(5.10)	(5.25)	(5.25)
year4	-0.37***	-0.18***	-0.16***	-0.19***	-0.16**	-0.19***	-0.18***	-0.18***
	(-8.68)	(-3.84)	(-3.43)	(-3.95)	(-3.23)	(-3.91)	(-3.85)	(-3.81)
Firm size	0.04***	0.06***	0.06***	0.06***	0.06***	0.06***	0.06***	0.06***
	(9.80)	(11.04)	(11.24)	(10.91)	(10.73)	(11.19)	(11.06)	(11.04)
Listed	-0.85***	0.07	0.04	0.08	0.06	0.07	0.07	0.07
	(-16.42)	(0.90)	(0.53)	(1.02)	(0.76)	(0.94)	(0.90)	(0.88)
Geographic distance	0.04***	0.06***	0.02	0.05***	0.05***	0.05***	0.06***	0.06***
	(3.54)	(5.29)	(1.59)	(3.32)	(4.01)	(4.21)	(4.88)	(5.02)
Host inward FDI	0.06*	0.12***	0.12***	0.12***	0.12***	0.12***	0.12***	0.12***
	(2.47)	(3.99)	(4.07)	(4.02)	(4.05)	(4.04)	(3.93)	(4.00)
Host GDP	-0.03	0.01	-0.02	0.02	0.01	0.02	0.01	0.01
	(-0.49)	(0.12)	(-0.30)	(0.34)	(0.23)	(0.33)	(0.09)	(0.13)
Host GDP per capita	-0.11+	-0.08	-0.10	-0.08	-0.09	-0.05	-0.07	-0.08
	(-1.71)	(-1.15)	(-1.50)	(-1.12)	(-1.36)	(-0.74)	(-1.03)	(-1.16)
Home outward FDI	0.00	0.00	-0.01	-0.00	0.00	-0.00	0.00	-0.00
	(0.07)	(0.02)	(-0.40)	(-0.05)	(0.03)	(-0.09)	(0.09)	(-0.02)
Home GDP per capita	-0.04	0.02	0.03	0.02	0.04	-0.00	0.02	0.03
	(-1.62)	(0.95)	(1.32)	(0.76)	(1.49)	(-0.11)	(0.64)	(0.99)
Home connection	-0.02**	-0.00	0.04***	-0.01	-0.00	-0.00	-0.00	-0.00
	(-2.77)	(-0.35)	(3.64)	(-1.40)	(-0.26)	(-0.21)	(-0.38)	(-0.33)
Firm performance		-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***
		(-8.48)	(-7.23)	(-8.59)	(-8.74)	(-7.51)	(-8.57)	(-8.51)
Family ownership		0.02***	0.02***	0.02***	0.02***	0.02***	0.02***	0.02***

		(31.48)	(30.18)	(31.30)	(31.16)	(31.51)	(31.48)	(31.46)
Positive economic			0.13***					
distance			(5.57)					
Negative economic				-0.04				
distance				(-1.51)				
Positive regulatory					0.11+			
distance					(1.79)			
Negative regulatory						-0.16**		
distance						(-3.01)		
Positive political							0.05	
distance							(0.69)	
Negative political								-0.01
distance								(-0.11)
Financial performance×			-0.00*					
Positive economic distance			(-2.16)					
Financial performance ×				-0.00*				
Negative economic distance				(-1.97)				
Financial performance ×					0.02**			
Positive regulatory distance					(2.65)			
Financial performance ×						0.01+		
Negative regulatory distance						(1.87)		
Financial performance ×							0.01	
Positive political distance							(1.47)	
Financial performance ×								-0.01
Negative political distance								(-0.91)
Constant	3.93***	1.50***	1.69***	1.55***	1.54***	1.47***	1.48***	1.48***
	(25.73)	(8.11)	(8.91)	(8.12)	(8.21)	(7.98)	(8.02)	(7.97)
chi2	896.7	1782	1807	1785	1791	1791	1784	1783
chi2_c	1971	1093	1117	1090	1099	1063	1024	1093
ll	-26299	-20142	-20124	-20139	-20137	-20137	-20141	-20142

Table 9: Hierarchical linear regression results (5% cutoff, Cont.)

VARIABLES	Model9	Model10	Model1	Model2	Model3	Model4
year2	-0.62***	-0.64***	-0.62***	-0.64***	-0.63***	-0.64***
	(-10.46)	(-10.85)	(-10.43)	(-10.88)	(-10.81)	(-10.85)
year3	0.31***	0.28***	0.32***	0.28***	0.29***	0.29***
	(5.64)	(5.09)	(5.62)	(5.13)	(5.32)	(5.26)
year4	-0.16***	-0.19***	-0.15**	-0.19***	-0.18***	-0.18***
	(-3.44)	(-3.97)	(-3.15)	(-3.93)	(-3.75)	(-3.83)
Firm size	0.06***	0.06***	0.06***	0.06***	0.06***	0.06***
	(11.29)	(10.94)	(10.84)	(11.23)	(11.10)	(10.99)
Listed	0.04	0.07	0.05	0.07	0.06	0.07
	(0.50)	(0.82)	(0.63)	(0.93)	(0.82)	(0.93)
Geographic distance	0.02	0.05***	0.05***	0.05***	0.06***	0.06***
	(1.54)	(3.41)	(4.17)	(4.20)	(4.80)	(4.87)
Host inward FDI	0.12***	0.12***	0.12***	0.12***	0.12***	0.12***
	(4.04)	(4.01)	(4.02)	(4.03)	(3.95)	(3.99)
Host GDP	-0.02	0.02	0.01	0.02	0.01	0.01
	(-0.36)	(0.28)	(0.19)	(0.30)	(0.16)	(0.13)
Host GDP per	-0.10	-0.08	-0.09	-0.05	-0.06	-0.08
capita	(-1.52)	(-1.18)	(-1.29)	(-0.75)	(-0.89)	(-1.18)
Home outward FDI	-0.01	-0.00	0.00	-0.00	0.00	0.00
	(-0.37)	(-0.00)	(0.08)	(-0.12)	(0.02)	(0.02)
Home GDP per	0.03	0.02	0.03	-0.00	0.02	0.03
capita	(1.31)	(0.82)	(1.25)	(-0.09)	(0.65)	(1.06)
Home connection	0.04***	-0.01	-0.00	-0.00	-0.00	-0.00
	(3.67)	(-1.21)	(-0.20)	(-0.24)	(-0.38)	(-0.21)
Firm performance	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***
	(-8.61)	(-8.52)	(-8.47)	(-8.56)	(-8.48)	(-8.45)
Family ownership	0.02***	0.03***	0.02***	0.02***	0.02***	0.02***
	(27.85)	(29.98)	(28.59)	(29.62)	(30.23)	(31.33)
Positive economic	0.13***					
distance	(5.51)					
Negative economic		-0.01				
distance		(-0.41)				
Positive regulatory			0.12*			
distance			(2.00)			
Negative regulatory				-0.14**		
distance				(-2.76)		
Positive political					0.14+	
distance					(1.73)	
Negative political						-0.06

distance						(-0.54)
Family ownership×	-0.00					
Positive economic distance	(-0.01)					
Family ownership×		0.00*				
Negative economic distance		(2.39)				
Family ownership×			0.01*			
Positive regulatory distance			(2.24)			
Family ownership×				-0.00		
Negative regulatory distance				(-0.26)		
Family ownership×					0.01**	
Positive political distance					(2.71)	
Family ownership×						0.01
Negative political distance						(1.64)
Constant	2.42***	2.33***	2.27***	2.23***	2.22***	2.24***
	(13.331)	(12.530)	(12.583)	(12.521)	(12.404)	(12.501)
chi2	1806	1786	1776	1786	1782	1786
chi2_c	1116	1075	1102	1061	1029	1092
ll	-20127	-20138	-20137	-20138	-20138	-20141

Table 10: Hierarchical linear regression results (Industry Average)

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
year2	-0.68***	-0.63***	-0.68***	-0.62***	-0.68***	-0.69***	-0.68***
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
year3	0.12*	0.17**	0.14*	0.23***	0.15*	0.12+	0.13*
	(0.06)	(0.06)	(0.06)	(0.07)	(0.06)	(0.06)	(0.06)
year4	-0.21***	-0.19***	-0.19***	-0.12*	-0.20***	-0.21***	-0.21***
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Firm size	0.08***	0.08***	0.08***	0.08***	0.08***	0.08***	0.08***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Listed	-0.66***	-0.68***	-0.68***	-0.68***	-0.67***	-0.67***	-0.66***
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Geographic distance	0.08***	-0.00	0.12***	0.04*	0.11***	0.11***	0.07***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Host inward FDI	0.04	0.03	0.04	0.04	0.04	0.05	0.04
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Host GDP	-0.09	-0.17**	-0.13*	-0.08	-0.11+	-0.10+	-0.09
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Host GDP per capita	-0.11	-0.17*	-0.13+	-0.16*	-0.16*	-0.17*	-0.12
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
Home outward FDI	-0.01	-0.01	-0.01	-0.00	0.00	-0.02	-0.02
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Home GDP per capita	-0.02	-0.00	-0.00	0.03	0.04	0.05	-0.00
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Home connection	0.03**	0.13***	0.07***	0.04***	0.03**	0.03**	0.03**
	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Firm performance	0.00*	0.00	0.00*	0.00+	0.01**	0.00**	0.00*
Positive economic	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
distance		0.29***					

Negative economic		(0.03)					
distance			0.22***				
Positive regulatory			(0.04)				
distance				0.47***			
Negative regulatory				(0.08)			
distance					0.27***		
Positive political					(0.06)		
distance						-0.42***	
Negative political						(0.07)	
distance							-0.23*
Financial performance×		0.00					(0.107)
Positive economic distance		(0.00)					
Financial performance ×			0.00+				
Negative economic distance			(0.00)				
Financial performance ×				0.01			
Positive regulatory distance				(0.01)			
Financial performance ×					0.01**		
Negative regulatory distance					(0.00)		
Financial performance ×						-0.02***	
Positive political distance						(0.01)	
Financial performance ×							0.01
Negative political distance							(0.018)
Constant		3.31***	2.68***	3.10***	2.85***	2.83***	2.95***
	0.00*	(0.20)	(0.19)	(0.19)	(0.19)	(0.19)	(0.190)
chi2	526.2	595.1	562.9	558.6	558.1	576.2	530.7
chi2_c	947.6	1008	941.6	984.5	967.3	980.4	950.8
ll	-14407	-14368	-14389	-14385	-14391	-14384	-14404
	*** p<0.001, ** p<0.01, * p<0.05, + p<0.1						

Table 11: Hierarchical linear regression results (Overall institutions)

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5
Year dummy	-0.516***	-0.536**	-0.428*	-0.548**	-0.452*
Year dummy	0.299***	0.175	0.391*	0.162	0.370*
Year dummy	-0.087	-0.212	0.038	-0.220	0.005
Firm size	-0.015	-0.074***	-0.020	-0.074***	-0.020
Prior experience	0.001***	0.001***	0.001***	0.002***	0.001***
Listed	-0.225*	-0.513*	-0.292	-0.502*	-0.225
Geographic distance	0.078***	0.125*	0.063	0.122*	0.056
Host inward FDI	0.084**	-0.093	0.122**	-0.094	0.121**
Host GDP per capita	-0.157***	-0.015	-0.120*	-0.013	-0.118*
Home outward FDI	0.013	-0.101	0.070	-0.110	0.076
Home GDP per capita	-0.028	-0.242*	-0.035	-0.232*	-0.046
Connection	-0.025	-0.127	-0.097	-0.140	-0.099
ROA	-0.004*	0.018+	0.002	-0.001	-0.004
Family ownership	0.024***	0.018***	0.022***	0.022***	0.014***
Positive institutional distance		-0.275**		-0.220+	
Negative institutional distance			-0.215+		-0.042
Financial performance × Positive institutional distance		-0.016*			
Financial performance × Negative institutional distance			0.010+		
Family ownership × Positive institutional distance				-0.004	
Family ownership × Negative institutional distance					-0.013***
Constant	2.466***	3.874***	2.885***	4.366***	3.678***
Observations	77,450	15,869	22,145	15,869	22,145
Chi square	823.9	187.3	205.4	182.1	197.1

*** $p<0.001$, ** $p<0.01$, * $p<0.05$, + $p<0.1$

Table 12: Heckman model regression results

Variables	Mode l	Model 2	Model 3	Model 4
Dependent Variable	Foreign subsidiary	Greenfield	WOS	Greenfield
Firm size	0.03***	0.00***	-0.04***	0.00**
	(18.71)	(3.83)	(-28.77)	(2.65)
Listed	0.63***	0.00	0.30***	-0.01
	(42.17)	(-1.10)	(25.96)	(-1.02)
Year	0.10***	0.00***	-0.06***	0.00*
	(20.23)	(3.37)	(-16.02)	(2.27)
Geographic distance	0.96***	0.01***	0.04***	0.00
	(198.76)	(4.35)	(16.94)	(0.21)
Host inward FDI	0.24***	0.00***	0.09***	0.00
	(38.11)	(4.07)	(19.30)	(-0.77)
Host GDP per capita	-0.17***	-0.01***	-0.01	0.00***
	(-26.26)	(-10.65)	(-1.40)	(-5.81)
Home outward FDI	0.31***	-0.01***	0.11***	-0.01***
	(25.81)	(-3.61)	(11.55)	(-5.24)
Home GDP per capita	0.49***	0.00*	0.00	0.00+
	(61.67)	(-2.46)	(-0.02)	(-1.88)
Home connection	-0.20***	0.00**	-0.14***	0.00
	(-96.31)	(-2.76)	(-87.15)	(1.56)
Firm performance	-0.00***	-0.00*	-0.00***	0.00
	(-6.94)	(-2.40)	(-7.60)	(0.43)
Family ownership	-0.01***	0.00***	0.01***	0.00*
	(-46.89)	(13.75)	(38.78)	(2.50)
Constant	-216.24***	-4.18**	126.10	-5.81**
	(-21.02)	(-2.78)	(16.04)	(-1.96)
Inverse Mill's Ratio	0.02***		-0.07*	
	(5.01)		(-1.98)	

Table 13:Hierarchical linear regression results (with culture control)

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
year2	-0.77***	-0.67***	-0.65***	-0.67***	-0.64***	-0.67***	-0.67***	-0.68***
	(0.07)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
year3	0.11	0.33***	0.36***	0.35***	0.39***	0.33***	0.34***	0.33***
	(0.07)	(0.08)	(0.08)	(0.08)	(0.09)	(0.08)	(0.08)	(0.08)
year4	-0.26***	-0.19**	-0.17*	-0.17*	-0.14+	-0.19*	-0.19*	-0.20**
	(0.06)	(0.07)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Firm size	0.06***	0.03**	0.03**	0.03**	0.03**	0.03**	0.03**	0.03**
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Listed	-0.64***	0.00	-0.04	-0.02	-0.01	0.00	-0.00	0.00
	(0.0610)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
Geographic distance	0.01	-0.00	-0.03	0.04	-0.01	-0.01	-0.00	0.00
	(0.02)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Host inward FDI	0.03	0.13**	0.13**	0.13**	0.13**	0.13**	0.14**	0.13**
	(0.03)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Host GDP	-0.06	-0.05	-0.09	-0.08	-0.05	-0.04	-0.05	-0.05
	(0.06)	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.05)
Host GDP per capita	-0.11	-0.07	-0.11	-0.10	-0.11	-0.05	-0.09	-0.07
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Home outward FDI	-0.03	-0.12**	-0.13**	-0.11**	-0.11**	-0.12**	-0.12**	-0.11*
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Home GDP per capita	-0.12**	-0.09+	-0.06	-0.06	-0.04	-0.10+	-0.06	-0.09+
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)	(0.06)	(0.05)	(0.05)
Home connection	0.05***	0.01	0.07**	0.05*	0.02	0.02	0.02	0.01
	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Culture	0.16***	0.19***	0.16***	0.19***	0.15**	0.19***	0.21***	0.19***
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)

Financial performance		-0.01**	-0.01**	-0.01**	-0.01**	-0.00+	-0.01**	-0.01**
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Family ownership		0.03***	0.03***	0.03***	0.03***	0.03***	0.03***	0.03***
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Positive economic			0.16**					
distance			(0.05)					
Negative economic				0.16**				
distance				(0.05)				
Positive regulatory					0.26**			
distance					(0.10)			
Negative regulatory						-0.16+		
distance						(0.09)		
Positive political							-0.11	
distance							(0.12)	
Negative political								-0.03
distance								(0.17)
Financial performance×			-0.00					
Positive economic distance			(0.00)					
Financial performance ×				-0.00				
Negative economic distance				(0.00)				
Financial performance ×					-0.00			
Positive regulatory distance					(0.01)			
Financial performance ×						0.02***		
Negative regulatory distance						(0.01)		
Financial performance ×							-0.02*	
Positive political distance							(0.01)	
Financial performance ×								0.01
Negative political distance								(0.01)
Constant	3.64***	2.21***	2.40***	2.01***	2.23***	2.24***	2.22***	2.20***
	(0.22)	(0.30)	(0.31)	(0.30)	(0.30)	(0.30)	(0.30)	(0.30)

chi2	486.5	687.5	697.8	694.2	692.8	711.5	697.9	689.3
chi2_c	850.6	324.5	333.3	310.1	331.5	325.0	324.1	323.4
ll	-12980	-7628	-7623	-7624	-7625	-7619	-7625	-7628
*** p<0.001, ** p<0.01, * p<0.05, + p<0.1								

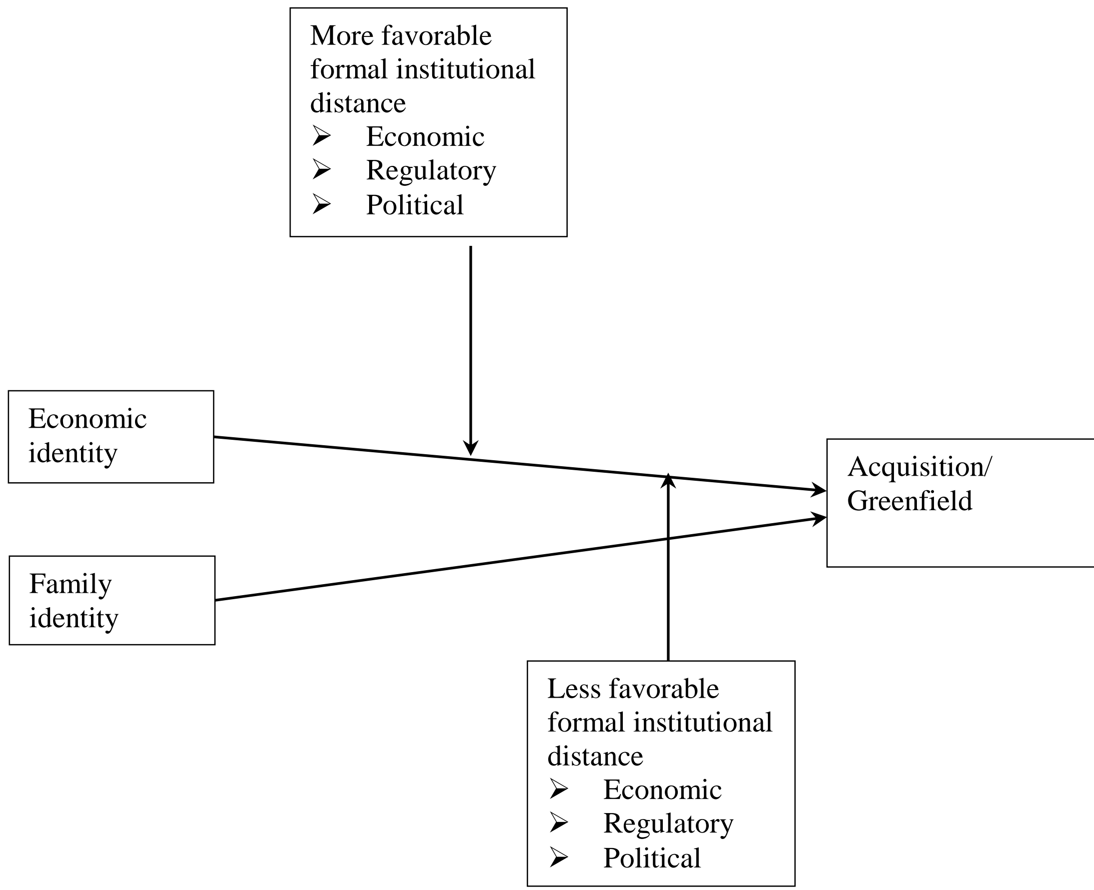

Figure 1: Hypothesized model of relationships for family firm identity, institutional distance and mode of entry

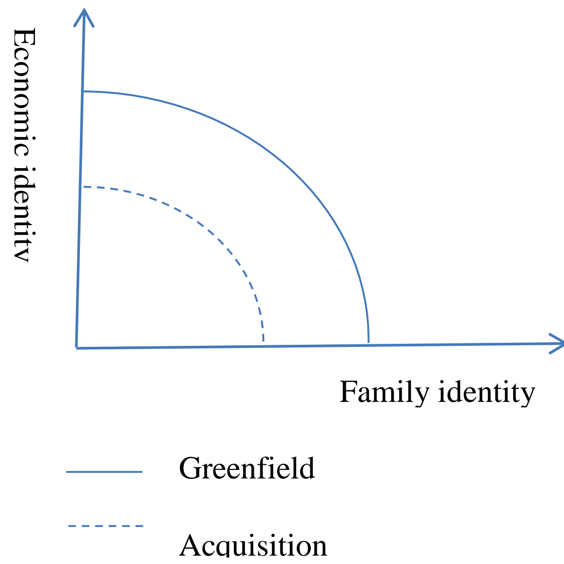

Figure 2: The convergence of family identity and economic identity when formal institutions are stronger in host country than in home country

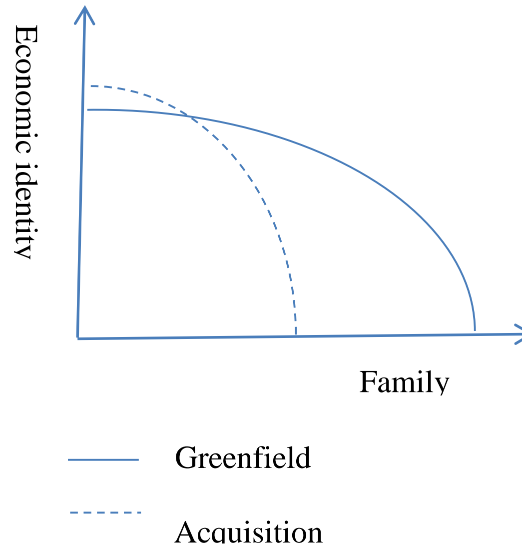

Figure 3: The divergence of family identity and economic identity when formal institutions are weaker in host country than in home country