How family control influences FDI entry mode choice

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Abstract

This study investigates how family control influences entry mode choice between joint ventures and wholly owned subsidiaries. Based on past studies revealing family-controlled firms' unique concerns regarding the preservation of socioemotional wealth, the researchers posit that, firms with higher family control respond more drastically to perceived environmental uncertainty when choosing their entry mode. The researchers hypothesize that, when perceiving high environmental uncertainty, firms with higher versus lower family control are more likely to choose joint ventures. However, when perceiving low environmental uncertainty, firms with higher versus lower family control tend to choose wholly owned subsidiaries. The empirical results obtained from a sample of 1,644 investments undertaken by publicly listed companies in Taiwan support the hypotheses.

INTRODUCTION

The entry mode of foreign direct investments (FDIs) has been one of the most important research areas of international business. Drawing on various theoretical models and perspectives, numerous studies have explored the factors which influence multinational corporations' (MNCs') entry mode choice between joint ventures (JVs) and wholly owned subsidiaries (WOSs) (Anderson & Gatignon, 1986; Gatignon & Anderson, 1988; Madhok, 1998; Erramilli, 1991; Kim & Hwang, 1992; Delios & Beamish, 1999; Delios & Henisz, 2000; Brouthers & Brouthers, 2001; Meyer, 2001). However, the majority of studies have focused on firm characteristics, such as proprietary knowledge and assets (Williamson, 1985; Anderson & Gatignon, 1986; Dunning, 1993), capabilities (Madhok, 1998), and experiences of the investing companies (Erramilli, 1991; Delios & Beamish, 1999), leaving corporate governance factors mostly untapped, except for a few studies such as Filatotchev, Strange, Piesse, and Lien (2007).

The absence of such research is unusually surprising, because the study of corporate governance has had a long historical standing. Specifically, controlling shareholders and board members indeed influence corporate strategy and performance, as prior studies indicate, because they make or approve key decisions (see Zahra & Pearce 1989, for a review). Their risk preferences shape firms' strategic moves (La Porta, Lopoz-de-Silanes, Shleifer, & Vishny, 1999; Claessens, Djankov, & Lang, 2000; Thomsen & Pedersen, 2000; Douma, George, & Kabir, 2006), and they control critical resources

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that determine firms' resource endowment (Shrader & Simon, 1997). Both these factors have strong bearing on corporate internationalization strategies (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007).

Among various types of controlling shareholders, family owners may be one of the most important. The family enterprise is the world's oldest and most common form of economic organization and, as noted by La Porta et al. (1999), family-controlled corporations dominate the global economic landscape. Family ownership is pervasive in US firms across a broad range of industries (Schulze, Lubatkin, & Dino, 2003; Gómez-Mejía et al., 2007; Gomez-Mejia, Makri, & Kintana, 2010), as well as in MNCs from emerging countries (La Porta et al., 1999; Claessens, Djankov, & Lang 2000; Yeh, Lee, & Woidtke, 2001; Peng & Jiang, 2010). Despite family control's prevalence and economic significance, few international business scholars so far have addressed how family control influences MNCs' FDI decisions. This study aims to fill this gap.

Prior studies have found that family-controlled firms are more averse to risks, while at the same time demonstrate higher desire to control, due to their unique concerns regarding the preservation of socioemotional wealth (Gómez-Mejía et al., 2007; Gomez-Mejia, Makri, & Kintana, 2010). To understand the influence of family control on FDI decision making, one has to take both characteristics – risk aversion and high desire to control – into consideration. Reckoning with these essential characteristics, the researchers use a sample of 1,644 investments from publicly listed companies in Taiwan to investigate how family control influences MNCs' entry mode choice. Family business owners' risk aversion and high desire to control, the researchers posit, will make their firms more responsive to environmental uncertainty. That is, when perceiving high environmental uncertainty, firms with higher versus lower family control tend to choose JVs. Nevertheless, when perceiving low environmental uncertainty, firms with higher family control tend to choose WOSs.

This study makes several contributions. First, it finds that family control plays an important role in MNCs' FDI decision making – it makes firms respond more drastically to environmental uncertainty. When perceiving high environmental uncertainty, all firms generally tend to choose JVs, but firms with higher family control are more likely than firms with lower family control to choose JVs. However, when perceiving low uncertainty, firms tend to choose WOSs in general, but firms with higher versus lower family control are more likely to choose WOSs.

Second, to the research stream of family business, the current study extends from traditional wisdom to provide an alternative point of view on the internationalization of family businesses. Extant studies in family businesses' internationalization have mostly found that, compared with firms controlled by other types of shareholders, family-controlled firms exhibit a lower degree of internationalization, which reflects in their preference of the choice of lower commitment entry mode (e.g., Kumar & Subramaniam, 1997; Filatotchev et al., 2007; see Kontinen & Ojala (2010) for a review). Our study suggests that this traditional wisdom may only tell half of the story. Indeed, when family-controlled firms encounter high uncertainty, they are inclined to avoid internationalization, as earlier research predicted. However, our research finds firms controlled by family members behave differently when they perceive low uncertainty – they act more aggressively than other types of firms to assume full equity ownership of their foreign subsidiaries.

Third, examining the influence of family control on entry mode choice, this study finds that the investing firms' corporate governance matters in their internationalization decision making. Specifically, this study confirms the influence of a specific type of controlling shareholders – family members – on firms' internationalization. The finding fills the gap created by the scarcity of entry mode studies exploring the influence of corporate governance factors and opens a new window for future research to explore other corporate governance factors that may possibly influence internationalization.

In the following sections, the researchers will first review past literature and develop hypotheses. Then the researchers will describe the sample and our methodology, followed by research findings, discussion, and conclusion.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Choosing an entry mode between WOSs and JVs

When undertaking FDIs to enter a foreign country, MNCs have to choose an entry mode – either JV or WOS. Forming a JV to collaborate with local partners allows MNCs to lower their resource commitment and share risks with their partners, while establishing a WOS enables MNCs to fully control their subsidiary and reap all the returns from their foreign operations. Each choice brings different benefits, but both also suffer from certain drawbacks. Among various theories addressing the pros and cons of each entry mode, the transaction cost economics is one of the most widely adopted (Hennart, 1988, 1993; Dikova & Van Witteloostuijn, 2007).

Based on the behavioral assumptions of bounded rationality and opportunism, the transaction cost economics perspective considers the emergence of 'institutions of capitalism' (Williamson, 1985) to solve problems of opportunism. To economize on bounded rationality and simultaneously safeguard transactions against opportunism calls for an appropriate governance structure (Williamson, 1985; Coombs, Bierly, & Gallagher, 2012). International business scholars apply the transaction cost economics perspective to the choice between JVs and WOSs (Hennart, 1988; Kim & Hwang, 1992; Brouthers & Brouthers, 2001). International operation incurs significant administrative costs, they argue. When MNCs enter a foreign country, the costs of monitoring, dispute settling, and reward refining are especially high (Hennart, 1988), making the management of foreign subsidiaries costly and uncertain. Collaborating with local partners via the JV arrangement (typically with a formal contractual agreement) allows foreign MNCs to leverage partners' local knowledge and resources and thus reduces such costs and related risks (Teece, 1981; Hennart, 1988).

Furthermore, sharing the ownership of the foreign affiliate with a local partner to form a JV also allows MNCs to enter that specific country with lower resource commitment and shift certain risks to the local partner (Kim & Hwang, 1992). With the JV entries, firms can withdraw from the host country when unpredictable environmental changes affect them adversely and redirect the investment elsewhere to seize new market opportunities (Hill, Hwang, & Kim, 1990). Therefore, when encountering high uncertainty, JVs appear to be a good choice for firms to avoid risks.

However, the JV choice is not without cost. Foreign partners may behave opportunistically if given the chance (Hennart, 1988). Since human beings are subject to bounded rationality, acquiring sufficient information to foresee partners' behaviors and safeguard against partners' potential opportunism is quite unlikely. Thus, the shared equity arrangement of JV bears the *ex ante* transaction costs of discovering a proper partner, drafting an agreement, and bonding contractual arrangements, as well as the *ex post* transaction costs of haggling, adaptation, monitoring, enforcement, termination, and the residual loss of cheating and shirking (Williamson, 1985).

In a foreign country, the problem of partners' opportunism is especially severe. Unfamiliar culture creates difficulties in understanding local partners' thinking, consequently limiting the accuracy of predicting their behavior (Gatignon & Anderson, 1988; Kogut & Singh, 1988; Brouthers & Brouthers, 2001; Soares, Farhangmehr, & Shoham, 2007). When MNCs endeavor to select local partners, the cultural gap blurs the existing criteria of selecting an appropriate partner. Evaluating partners' potential for opportunism also becomes difficult. Even after a partner is selected, MNCs still need to deal with the challenges of negotiating, monitoring, and enforcing contractual agreements with the partner, and these challenges may incur intolerably high costs for MNCs (Brouthers and Brouthers, 2001). Under such circumstances, the need to control increases and the WOSs choice appears to be appealing.

Even if the local partners do not behave opportunistically, the JV arrangement still calls for MNCs to share profit with their local partners. However, the WOS choice offers the benefits of full control over foreign operations. Within its own organization, an MNC has full control and makes decisions at its discretion, without worrying about the partners' potential opportunistic behavior. MNCs can also

appropriate all the returns generated from their foreign operations without the need to share with anybody. As a result, the WOS mode of entry is preferred when the costs of arranging, monitoring, and enforcing a collaborative agreement are high (Kim & Hwang, 1992; Brouthers & Brouthers, 2001).

In short, JV mode of entry allows MNCs to leverage partners' local knowledge to reduce risks and share risks with them. On the contrary, the WOS choice provides the opportunity for MNCs to maintain full control of their foreign subsidiaries and reap all the returns from these subsidiaries. To choose between a WOS or a JV depends to a large extent on how high the investing firm perceives the environmental uncertainty (Anderson & Gatignon, 1986; Brouthers, Brouthers, & Werner, 2000).

A firm's perceived environmental uncertainty is determined by its internal endowments, as well as external conditions (Milliken, 1987). Past research has found that organization capabilities and experiences highly influence perceived environmental uncertainty (Duncan, 1972; Lorenzi, Sims, & Slocum, 1981). Specifically, Milliken (1987) pointed out that learning facilitates organizations to improve their capability of assessing the environmental changes and better predict future status of the environment. When managers in an organization can foresee the future more accurately, they know how to react and hence perceive lower uncertainty (Duncan, 1972). In FDI studies, scholars discovered similar determinants. Anderson and Gatignon (1986) and Fisch (2008) found that international experience help mitigate uncertainty and risks, arguing that MNCs with more international experience perceive lower uncertainty and risks than MNCs with less international experience.

On the other hand, the host country's institutional environment also plays an important role when MNCs assess uncertainty. Inquiries on FDI decisions have indicated that quality of a country's institutional environment signifies uncertainty and thus affects an MNC's willingness to enter that country (Brouthers, Brouthers, & Werner, 2000; Yiu & Makino, 2002; Puck, Holtbrügge, & Mohr, 2008; Slangen & Van Tulder, 2009; López-Duarte & Vidal-Suárez, 2010). Poor quality of the country's institutions, typically characterized by political instability, capricious policies, ambiguous regulations, corruption, anarchy, or terrorism, brings high risks and discourages MNCs from conducting business there, while outstanding institution quality increases foreign MNCs' willingness to invest and commit longer (Globerman & Shapiro, 2003; Gani, 2007).

In sum, when MNCs posses abundant international experience, or when they are entering a country with good institutions, they perceive lower uncertainty, and thus tend to choose WOSs to enter. However, firms with high family control may act differently when they choose entry mode, because they have distinctive risk preferences and different degrees of desire to control. Compared with firms with low family control or without any influences of family owners, firms with high family control appear to be more risk averse and show a higher desire to control (Gómez-Mejía et al., 2007; Gomez-Mejia, Makri, & Kintana, 2010). These characteristics may also reflect in their entry mode choice. Below the researchers elaborate details on the two characteristics and how they impact family-controlled firms' entry mode choice.

Risk aversion

Firms with high family control are dominated by family members who possess the right to make key decisions. Family members usually have their specific objectives – they establish and operate companies not only to make profit but also to maintain socioemotional wealth (e.g., Gomez-Mejia, Makri, & Kintana 2010). For family members, their firm provides, in addition to economic benefits, socioemotional functions such as personal attachment, commitment, and identification with the company (De Vries, 1993; Habbershon & Williams, 1999; Thomsen & Pedersen, 2000; Anderson & Reeb, 2003).

For the reason of socioemotional wealth, family business owners consider their firm the family's patrimony (Miller & Rice, 1967; Hollander, 1983) or a mechanism to provide employment and financial security for their family (Liebowitz, 1986). Hence, they attempt to preserve their firm's

'familiness' by recruiting family members and relatives (Bruton, Ahlstrom, & Wan, 2003) or handing over their businesses to their offspring (Beckhard & Dyer, 1983). Those nepotic endeavors exclude non-family members from entering the company or purchasing the firms' shares. Consequently, managers in firms with high family control are often suffering from lacking diversity, making these firms more vulnerable to environmental changes (Liebowitz, 1986).

Previous studies on finance and corporate governance also suggest that family-controlled firms are more averse to risks (Yeh, Lee, & Woidtke, 2001; Anderson & Reeb, 2003, 2004). Family equity holdings are usually more concentrated, resulting in a relative lack of financial portfolio diversification and limited liquidity (Anderson and Reeb, 200). Consequently, family shareholders may be affected more adversely by the company's specific risks than other types of dominant shareholders (e.g., institutional investors) with diversified portfolios of shares (Maug, 2002). Of course, family shareholders may try to mitigate the risks via strategic moves such as product diversification (Chang, 2003), but such moves cannot reduce firm-specific financial risks associated with concentrated shareholdings since the company's failure may imply the loss of all returns (Yeh, Lee, & Woidtke, 2001; Douma, George, & Kabir, 2006). Hence, firms with high family control, compared with firms with low family control or without any family influences, are less tolerable to risks, and 'their strategic behavior is rather conservative' (Donckels & Fröhlich, 1991).

Family-controlled firms' risk aversion reflects in their prudence in resource commitment. For example, they are less likely to invest in research and development (R&D) and undertake innovation (Jensen & Meckling, 1976). The same tendency has also been frequently found in family-controlled firms' FDI decision. When encountering uncertainty in FDI, a risky investment, family businesses appear to be more conservative and risk averse (Wiseman & Gomez-Mejia, 1998; Chatterjee, Lubatkin, & Schulze, 1999; Anderson & Reeb, 2004). Specifically, Filatotchev et al. (2007) empirically find that firms with high family control tend to avoid resource commitment and hold lower equity stake in their overseas affiliates when they undertake FDI activities.
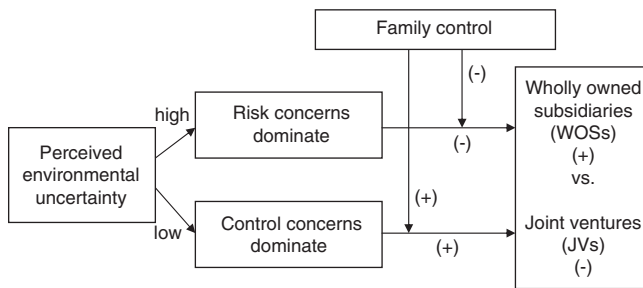
The phenomenon that family-controlled firms are more risk averse may also reflect in these firms' entry mode choices. As elaborated earlier, when perceiving high environmental uncertainty in a foreign country, firms tend to choose JV, the shared ownership arrangement, to reduce risk. Since firms with high family control are more risk averse, they may be even more likely than firms with low family control to choose JV. Hence, the researchers predict that:

> Hypothesis 1: When perceiving high environmental uncertainty, firms with higher versus lower family control are more likely to choose JV as their entry mode.

High desire to control

Family members' socioemotional motive also reflects in family-controlled firms' tendency to maintain a high equity stake in their affiliates (Gomez-Mejia, Makri, & Kintana, 2010). Once outside shareholders buy out a majority of shares of a family-controlled firm, the firm's 'familiness' will be attenuated, and the controlling family will no longer be able to dominate the firms' strategy to meet their family needs. Hence, family shareholders frequently use practices such as 'pyramidal ownership structures' (e.g., La Porta et al., 1999; Claessens, Djankov, & Lang, 2000) (in which firm A owns the majority of shares of firm B, firm B owns the majority of shares of firm C, and so on) and 'cross holding' (Peng & Jiang, 2010) (in which firm A owns equity in firm B, and at the same time firm B holds equity in firm A) to exercise their control over a group of firms through a chain of ownership relations (Gomez-Mejia et al., 2007; Gomez-Mejia, Makri, & Kintana, 2010).

Meanwhile, being the ultimate owners located at the apex of the ownership relations enable family members to allocate and distribute resources available from these successive layers of firms to fulfill their family objective. This rationale partly, if not totally, explains why 'tunneling' (the transfer of

assets and profits out of firms for the benefits of those who control them) are widespread in family business groups (Bae, Kang, & Kim, 2002; Bertrand, Mehta, & Mullainathan, 2002).

For family-controlled firms, layers of firms in the pyramid or firms bonded by cross-holding structure are part of their overall asset portfolio, even these firms are in foreign countries. When undertaking FDI activities, family-controlled firms also regard their foreign subsidiaries as part of their asset portfolio. Compared with firms with low family influence, firms with high family control usually have higher desire to control their foreign subsidiaries, especially via equity ownership. When they invest in a foreign country where environmental uncertainty is considered high, their high desire to control via equity ownership may be suppressed by their risk aversion. Nonetheless, when perceiving low uncertainty, they will be more likely to choose WOSs, the full ownership arrangement. Hence, the researchers predict that:

> Hypothesis 2: When perceiving low environmental uncertainty, firms with higher versus lower family control are more likely to choose WOSs as their entry mode.

Figure 1 summarizes the detailed influence of perceived environmental uncertainty and family control in firms' entry mode choices between WOSs and JVs.

METHODOLOGY

Data and sample

The study analyzes Taiwanese firms' overseas investments in 13 countries from 1999 to 2008. Financial data and information are taken from the *Taiwan Economic Journal* database. *Taiwan Economic Journal* was founded in 1990, and its database contains all overseas investments carried out by publicly listed firms in Taiwan. The regulation of Taiwan requires all publicly listed firms to seek *ex ante* approval or to carry out *ex post* filing for all overseas investments, including both JVs and WOSs, so the data is complete and does not place any threshold of investment. The complete dataset contains 12,399 entries. The researchers then set a threshold of investment – at least 5% of the property of the venture located in the host country – to rule out trivial equity holdings. The researchers further exclude investments in China, due to its high cultural similarities with Taiwan, to avoid statistical bias. Investments in tax heavens, such as Cayman Islands and British Virgin Islands, and investments in Hong Kong and Singapore are also excluded due to ambiguousness of investment intention.

After eliminating observations with missing data, the final sample consists of 1,644 observed investments of overseas investments from 505 firms. The data were then triangulated with data from annual reports and the Market Observation Post System of Taiwan Stock Exchange to ensure data reliability. Table 1 lists the overall sample distribution by country. Table 2 reports the industry breakdown of the sample set.

TABLE 1. COUNTRY BREAKDOWN OF THE SAMPLE

Country	Number	Percentage	Ranking	Country	Number	Percentage	Ranking
United States	684	41.61	1	Korea	59	3.59	8
Japan	165	10.04	2	Philippines	49	2.98	9
Vietnam	152	9.25	3	India	46	2.8	10
Malaysia	131	7.97	4	France	31	1.89	11
The Netherlands	109	6.63	5	Indonesia	27	1.64	12
Germany	102	6.2	6	Finland	9	0.55	13
Thailand	80	4.87	7	Total	1,644	100	

TABLE 2. INDUSTRY BREAKDOWN OF THE SAMPLE

Industry	No. of Firms	No. of investments	Percentage (investments)[a]
Cement	2	2	0.12
Food	8	31	1.89
Plastic	14	50	3.04
Textile	20	46	2.80
Electronic machinery	27	59	3.59
Electrical and cable	5	11	0.67
Glass and ceramics	3	4	0.24
Paper and pulp	5	8	0.49
Iron and Steel	16	34	2.07
Rubber	6	20	1.22
Automobile	3	16	0.97
Building material and construction	5	13	0.79
Shipping and transportation	11	56	3.41
Tourism	1	1	0.06
Trading and consumers' goods	8	25	1.52
Others	27	98	5.96
Chemical	15	27	1.64
Biotechnology and medical care	11	45	2.74
Oil, gas and electricity	1	5	0.30
Semiconductor	42	158	9.61
Computer and peripheral equipment	67	385	23.42
Optoelectronics	42	99	6.02
Communications and internet	28	75	4.56
Electronic parts and components	69	148	9.00
Electronic products distribution	15	26	1.58
Information services	15	25	1.52
Other electronics	39	177	10.77
Total	505	1,644	100

[a] Percentage is calculated based on the number of investments.

Variables and measurements

Dependent variable

Entry mode. Our dependent variable is *entry mode*. A WOS is defined as a subsidiary with 95% or higher percentage of shares owned by the parent (investing) company from Taiwan. The distinction between WOS and JV has been inconsistent. In previous studies, some researchers

have used an 80% cutoff, following conventional accounting practices that identify the minimum necessary equity level to assume control as 20% (Makino & Beamish, 1998). However, most researchers (Anderson & Gatignon, 1986; Hennart, 1991; Makino & Neupert, 2000; Mani, Antia, & Rindfleisch, 2007) have adopted a stricter criterion, 95% equity ownership, as the cutoff point to differentiate between a WOS and a JV. On the other hand, 100% ownership for a foreign subsidiary to be defined as wholly owned is not appropriate for Taiwanese firms, since most Taiwanese computer and electronics firms grant certain stock ownership to their employees as part of their employee reward schemes (Han, 2003; Chen & Huang, 2006). Therefore, in this study, we follow the 95% cutoff point to differentiate between a WOS and a JV. A dummy variable is created, taking the value of 1 to represent WOSs and the value of 0 to represent JVs. We then use binary logistic regression to analyze various factors' influences on *entry mode*.

Independent variables

Family control. This variable measures the degree of family control in sample firms. In many institutional contexts, family owners may gain control rights that deviate significantly from cash-flow rights (La Porta et al., 1999). In such circumstances, a family member can exert influence over a firm beyond what its fractional share ownership would indicate. Hence, family members' fractional share ownership does not fully reflect family control in a firm. Instead, family members holding seats in the board of directors are crucial to the firms' key decisions, because legally the board is the highest authority in the firm, the 'fountain of power' (Demb & Neubauer, 1992: 13–16). Therefore, the researchers measure family control with family board presence in the investing firms. This measure has been widely adopted by prior studies to measure family control (e.g., Yeh, Lee, & Woidtke, 2001; Anderson and Reeb, 2003, 2004). Family board presence refers to the percentage of board seats held by family members (i.e., the number of board seats held by family members divided by the total number of board seats). This variable is mean centered before running regression.

Perceived environmental uncertainty. The researchers construct the measure of *perceived environmental uncertainty* with a composite index – *Totalindex*. This composite index is comprised of two indices – *Index_E* and *Index_L*. The former (*Index_E*) measures the firm's specific aspects of perceived environmental uncertainty, and the latter (*Index_L*) measures location-related aspects of perceived environmental uncertainty. As elaborated earlier, an MNC's perceived environmental uncertainty is determined by its international experience and the quality of target location's institutional environment. MNCs with rich international experience perceive low uncertainty, and their counterparts with little international experience perceive high uncertainty (e.g., Anderson and Gatignon, 1986; Fisch, 2008). Moreover, the quality of target location's institutional environment also signifies uncertainty – the better the target location's institutions, the lower the uncertainty (Yiu & Makino, 2002; Puck, Holtbrügge, & Mohr, 2009; Slangen & Van Tulder, 2009; López-Duarte & Vidal-Suárez, 2010). Therefore, the researchers construct *Index_E* and *Index_L* to measure the two different aspects of perceived environmental uncertainty.

Index_E is composed of three factors – the breadth of international experience (i.e., the number of host countries an MNC has already invested in), the depth of international experience (i.e., the number of an MNC's foreign subsidiaries), and the duration of international experience (i.e., the accumulated number of years an MNC has been

undertaking its overseas investments). The researchers define *co*, *subs* and *iexp* to measure the breadth of an MNC's international experience, the depth of an MNC's international experience, and the duration (accumulated number of years) of international experience, respectively. Since these measures have different scales, the researchers standardize all of them. After standardization, the three measures share with the common mean of 0 and standard deviation of 1. Finally, the researchers define *Index_E* as the average of *co*, *subs*, and *iexp*. That is, *Index_E* = $(co + subs + iexp)/3$. Larger value of *Index_E* denotes higher overall international experience and consequently lower perceived environmental uncertainty.

Index_L is constructed based on the 'Governance Indicators' developed by the World Bank to measure host countries' governance quality. Starting in 1996, the World Bank has conducted ongoing surveys on the governance quality of 212 countries worldwide. Using an unobserved components model, the team identified six dimensions of governance quality: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann, Kraay, & Mastruzzi, 2007). Each dimension is assigned a score, with higher values indicating better governance quality of the country measured. In this study, the researchers define six variables, *dg1*, *dg2*, *dg3*, *dg4*, *dg5*, and *dg6*, for the six dimensions of governance quality. The six variables have also been standardized (mean = 0 and standard deviation = 1 after standardization). Finally, the researchers define *Index_L* as the average of *dg1* through *dg6*. The final *Index_L* value denotes how good each country's governance quality is, with larger value indicating better governance quality and consequently lower perceived environmental uncertainty.

Finally, the researchers define the composite index – *Totalindex*– as the average of *Index_E* and *Index_L* (i.e., *Totalindex* = $0.5 Index\_E + 0.5 Index\_L$) to measure the *perceived environmental uncertainty* of each investment. Larger value of *Totalindex* denotes better perceived quality of environment and consequently lower perceived environmental uncertainty.

To differentiate between the impact of high perceived environmental uncertainty and low perceived environmental uncertainty, the researchers further define two dummy variables – *High Perceived Uncertainty* and *Low Perceived Uncertainty*. The researchers ranked the perceived environmental uncertainty of all investments based on their scores of *Totalindex*, and they define the top-ranking quartile as *Low Perceived Uncertainty* and the lowest-scoring quartile as *High Perceived Uncertainty*. The researchers set higher thresholds (the upper quartile and the lower quartile) for high and low perceived environmental uncertainty to avoid possible bias of sample firms' arbitrary criteria in judging the uncertainty of a specific country. In the binary logistic regression, the researchers examine how the two interaction terms – *Family control* × *Low Perceived Uncertainty* and *Family control* × *High Perceived Uncertainty*– influence entry mode choice.

Control variables
Cultural distance. Prior research has found that cultural distance influences MNC's entry mode choice (Gatignon & Anderson, 1988; Kogut & Singh, 1988; Brouthers & Brouthers, 2001; Soares, Farhangmehr, & Shoham, 2007).The researchers therefore include this variable to control its possible effect and follow Kogut and Singh (19 to construct this variable as a composite index based on the four cultural dimensions from Hofstede (1980, 2001) (i.e., power distance, uncertainty avoidance, masculinity/femininity, and individualism).

Firm size. Firm size is measured with the firm's total asset, coded by taking the log value. Larger firms usually have abundant resources and better management capabilities and thus

have lower needs for resources provided by local partners when entering a foreign country (Gatignon & Anderson, 1988). The researchers therefore control for possible effects of parent firm size on entry mode choice.

Firm age. Firm age is measured in years, coded by taking the log value. It is expected that older, more established firms are more likely to gather information about international operations (Zahra, 2003) and sophisticated management skill (Thornhill & Amit, 2003). These intangible resources will affect the firms' entry decisions.

R&D intensity. R&D intensity is calculated as the ratio of the firm's R&D expenditure to its revenue. Companies with high R&D intensity tend to choose WOSs as their entry mode (Demirbag, Glaister, & Tatoglu, 2007). Therefore, the researchers include this variable to control for its possible influence on entry mode choice.

Advertising intensity. Past research has found that advertising intensity influence multinational enterprises (MNEs') entry mode choice (e.g., Demirbag, Glaister, & Tatoglu, 2007). Advertising intensity is calculated by the ratio of the firm's advertising expenditure to its revenue. MNEs with higher advertising intensity are found to prefer WOSs or high equity entry mode to exploit their competitive advantages in foreign markets (Demirbag, Glaister, & Tatoglu, 2007). Consequently, the researchers included this variable to control for its possible effects on entry mode choice.

Debt ratio. Debt ratio is calculated by dividing total debt by total assets. A company's debt ratio reflects its degree of financial leverage and signals its current status of riskiness. Li and Meyer (2009) find that debt ratio is an influential factor to a firm's entry mode. In their study, companies with high debt ratio prefer JV. For this reason, the researchers include debt ratio as a control variable.

Export intensity. Export intensity is defined as the ratio of the firm's export revenue to its total revenue. Prior research has found that export intensity influences MNEs' FDI decisions – export intensity is positively associated with the choice of WOSs (Chang, 1995; Terpstra & Yu, 1988; Li & Meyer, 2009). The researchers thus included this variable to control for its possible effects on entry mode choice.

Legal restriction. Legal restrictions on share ownership by foreign firms have frequently been investigated in entry mode research. The results have rather consistently shown that companies are much less likely to establish a WOS in a country with legal restrictions (e.g., Gatignon & Anderson, 1988). Sometimes local governments may not even allow foreign MNEs to do so. In addition, a correlation is likely to exist: some countries with poor governance quality may also have high legal restrictions. Therefore, the researchers included this variable to control for its possible effects on entry mode choice. This variable is a dummy variable, with the value 1 representing legal restrictions imposed on foreign investments by local government and the value 0 representing no legal restrictions.

Industry. The researchers created dummy variables to represent the industry in which a firm participates. Industry categories controlled include electronics, plastics, automobile, and shipping and transportation. (The electronics industry includes semiconductor, computer and

peripheral equipment, optoelectronics, communications and internet, electronic parts and components, information services, and other electronics in Table 2.) Electronics firms account for the largest proportion of the sample (67%), and Chiao, Lo, and Yu (2010) find that electronics firms in Taiwan typically put more effort on protecting proprietary assets and thus tend to choose WOSs as their entry mode, so the electronics industry is included. In addition, regulations in the automobile industry, plastic industry, and transportation industry are generally stricter. The researchers thus include these industries as control variables for possible influence on entry mode choice.

METHOD

Since the dependent variable (entry mode) is dichotomous, we used binary logistic regression to test our hypotheses. This statistical method is commonly used in the research of entry mode (Canabal & White, 2008). The regression models are formally expressed as $P(y_i = 1) = 1/(1 + \exp(\alpha + X_i \beta))$, where y_i is the dependent variable, X_i is the vector of independent variables for the ith observation, α is the intercept parameter, and β is the vector of regression coefficients (Amemiya, 1994). The dependent variable takes a value of 1 if an observed investment is undertaken via a WOS. Hence, a positive coefficient in the regression models indicates that the specific independent variable increases the probability of the WOS choice.

RESULTS

In the following sections, the researchers first describe the correlations and then report results of the binary logistic regression and family control's effect on entry mode choice.

Descriptive statistics and correlations

The result of descriptive statistics shows that 72% of the observed investments were undertaken via the WOS arrangement. The high proportion of WOS entries is in accordance with Child and Tse (2001), who found that the majority of outward investments carried out by emerging-market multinationals were via WOSs. In addition, in our sample, the average percentage of board seats held by family members is 53%, which indicates commonly high family control among Taiwanese firms. The result is in line with the findings of Claessens, Djankov, and Lang (2000), La Porta et al. (1999), and Yeh, Lee, and Woidtke (2001).

Table 3 reports the means, standard deviations, and the correlations matrix for the variables. To prevent multicollinearity, the continuous variable used to construct interaction terms, *family control*, is mean-centered (Aiken, West, & Reno, 1991). We report non-centered means and standard deviations in the correlation matrix to simplify interpretation. The correlations between variables are all low, with the greatest value of 0.34.

The influence of family ownership on entry mode choice

Using binary logistic regression, the researchers further analyze the influence of family control on *entry mode*. The results are shown in Tables 4–5.

Models in Table 4 test the entry mode preference when firms with different degrees of family control perceive high uncertainty. Model 1 considers the direct impact from independent variables without including control variables. The LR χ^2 value of Model 1 is 89.63 ($p < .001$), indicating high explanatory power of the model. The coefficient of the term *High Perceived Uncertainty* in Model 1 is −0.48 ($p < .001$), showing a negative impact on entry mode. The result indicates that all firms tend to choose

TABLE 3. MEANS, STANDARD DEVIATIONS, AND CORRELATIONS

Variables	Mean	SD	1	2	3	4	5	6	7	8
1 Entry mode	0.72	0.45	1.000							
2 Family control (before centering)	53.86	23.79	−0.019	1.000						
3 Total assets (natural log)	16.48	1.77	0.081***	0.336***	1.000					
4 Firm age (natural log)	3.03	0.58	−0.168***	0.284***	0.199***	1.000				
5 Cultural distance	2.01	0.83	0.194***	−0.019	−0.013	−0.183***	1.000			
6 R&D intensity	2.92	4.82	0.030	−0.155***	−0.199***	−0.257***	0.110***	1.000		
7 Advertising intensity	0.01	0.01	−0.032	−0.011	−0.054**	0.093***	−0.010	0.092***	1.000	
8 Debt ratio	39.89	14.28	−0.060**	0.118***	0.141***	0.064***	−0.038	−0.288***	−0.044*	1.000
9 Export intensity	62.14	35.37	0.138***	−0.081***	0.078***	−0.249***	0.145***	0.031	−0.173***	−0.022

R&D = research and development.
*$p < .1$; **$p < .05$; ***$p < .01$.

TABLE 4. THE INFLUENCE OF FAMILY CONTROL ON ENTRY MODE CHOICE

	Model 1			Model 2		
	β	p	Wald	β	p	Wald
Constant	0.83	***	192.90	−0.63		0.47
Family control × HPU	−0.01	**	5.19	−0.01	*	3.13
HPU	−0.48	***	64.96	−0.13		2.20
Family control	0.00		0.49	0.00		0.72
Firm age				0.16	***	15.78
Total assets				−0.46	***	10.87
Cultural distance				0.26	**	8.22
R&D intensity				−0.02		2.14
Advertising intensity				−1.19		0.10
Debt ratio				−0.01	**	5.40
Export intensity				0.00		0.29
Legal restriction				−16.11		0.00
Electronics industry				0.09		1.31
Plastics industry				−0.72	***	18.37
Automobile industry				0.46		1.79
Transportation industry				−0.13		0.57
Observations	1,644			1,644		
Pseudo R^2	0.05			0.14		
LR χ^2	89.63	***		248.39	***	
−2Log likelihood	1,958.41			1,958.41		
VIF	1.08–1.51			1.08–2.03		

HPU = high perceived uncertainty; R&D = research and development.
*$p < .1$; **$p < .05$; ***$p < .01$.

JVs when perceiving high uncertainty. The coefficient of the interaction term *Family control × High Perceived Uncertainty* in Model 1 is −0.01 ($p < 0.1$), showing a negative impact on entry mode (i.e., more likely to choose JV). The result still holds when including all control variables as shown in Model 2. The results indicate that, when perceiving high uncertainty, firms with higher family control are more likely than firms with lower family control to choose JVs. Hypothesis 1 is thus supported.

Models in Table 5 test the entry mode preference when firms with different degrees of family control perceive low uncertainty. Model 1 considers the direct impact from independent variables without including control variables. The LR χ^2 value of Model 1 is 78.45 ($p < .001$), indicating high explanatory power of the model.

The coefficient of the term *Low Perceived Uncertainty* in Model 1 shows a positive impact on entry mode, indicating that all firms tend to choose WOSs when perceiving high uncertainty. The coefficient of the interaction term *Family control × Low Perceived Uncertainty* in Model 1 is 0.02 ($p < .01$), showing a positive impact on entry mode (i.e., more likely to choose WOS). The result still holds when including all control variables as shown in Model 2, confirming that, when perceiving low uncertainty, firms with higher versus lower family control are more likely to choose WOSs. Hypothesis 2 is thus supported.

DISCUSSION

This study finds that family control indeed influences the entry mode choice – firms with higher family control respond more drastically to environmental uncertainty, in brief. With higher perceived environmental uncertainty, they are more likely than firms with lower family control to choose JVs.

TABLE 5. THE INFLUENCE OF FAMILY CONTROL ON ENTRY MODE CHOICE

	Model 1			Model 2		
	β	p	Wald	β	p	Wald
Constant	1.15	***	249.59	0.29		0.09
Family control × LPU	0.02	***	7.76	0.01	**	4.15
LPU	0.45	***	38.64	0.25	***	8.77
Family control	−0.01	***	9.59	0.00		1.35
Total assets				0.11	***	7.66
Firm age				−0.49	***	12.36
Cultural distance				0.30	***	18.16
R&D intensity				−0.02		1.68
Advertising intensity				−2.75		0.51
Debt ratio				−0.01	**	5.59
Export intensity				0.00		0.01
Legal restriction				−16.14		0.00
Electronics industry				0.07		0.87
Plastics industry				−0.67	***	16.07
Automobile industry				0.43		1.61
Transportation industry				−0.17		0.96
Observations	1,644			1,644		
Pseudo R^2	0.05			0.15		
LR χ^2	78.45	***		260.70	***	
−2Log likelihood	1,958.41			1,958.41		
VIF	1.2–1.75			1.08–1.81		

LPU = low perceived uncertainty; R&D = research and development; VIF = variance inflation factor.
**$p < .05$; ***$p < .01$.

However, they have a higher propensity than firms with lower family control to choose WOSs when they perceive low uncertainty. This finding brings a different perspective to the conventional wisdom of the influence of family control on firms' internationalization.

Extant research has mostly found that family control leads to more conservative or risk-averse decisions in internationalization. For example, family-controlled firms are found to be in favor of countries that are culturally and geographically close (Johanson & Vahlne, 1977), choose the lower commitment entry mode (Kumar & Subramanian, 1997), or hold lower equity ownership stakes of their foreign subsidiaries (Kumar & Subramanian, 1997; Filatotchev et al., 2007). Compared with firms controlled by other types of shareholders, family-controlled firms appear to shy away from internationalization (see Kontinen & Ojala, 2010 for a review).

However, our study suggests that this traditional wisdom may only tell half of the story. Indeed, when uncertainty is high, family control drives the firm to choose the lower commitment entry mode – our empirical results suggest the same as earlier research predicted. However, our research further finds, family control facilitates internationalization when uncertainty is low – firms controlled by family shareholders act more aggressively than their non-family counterparts to assume full equity ownership of their foreign subsidiaries. This finding reveals the unexplored aspect of family control's influence on internationalization decisions.

Gomez-Mejia, Makri, and Kintana (2010) have also found similar patterns in family-controlled firms' internationalization decision making. They examined diversification decisions of firms controlled by family members, finding that on average, family firms diversify less internationally than non-family firms. However, in contrast, family-controlled firms are more likely than non-family firms

to engage in international diversification as business risk increases. Both Gomez-Mejia, Makri, and Kintana (2010) and this study find that family-controlled firms, under certain circumstances, appear to make more aggressive internationalization decisions than firms with other controlling shareholders. This commonality brings significant implications to the research of family businesses, which we will elaborate further later.

CONCLUSION

This study brings implications and contributions to both family business research and international business studies, but it has limitations as well. The researchers discuss the details below.

Implications for family business research and future research directions

For the research stream of family businesses, the current study takes into consideration both risk preference and desire to control, providing a more comprehensive view on family businesses' internationalization. Past research on family businesses has focused primarily on the risk factor, finding that family firms are more conservative (i.e., risk averse) (e.g., Filatotchev et al., 2007) when making their internationalization decisions. This study contributes to family business research by finding the unexplored aspect of family firms' internationalization – family members' high desire to control, in addition to risk aversion, has a significant effect on internationalization decision making as well. When perceiving low uncertainty, family-controlled firms make more aggressive decisions than their non-family counterparts to assume full equity ownership of their foreign subsidiaries.

The phenomenon deserves further inquiries. For example, it will be of great interest to explore in what contexts family-controlled firms act more aggressively, or, on the contrary, act more conservatively? Will we observe similar behavioral duality brought by family control in other internationalization decisions, besides international diversification and entry mode choices? Whether the behavioral duality can also be observed when family-controlled firms make other strategic decisions? Further research in this direction will benefit our understanding of the influence of family control on internationalization and on other strategic decisions.

Furthermore, whether high responsiveness to environmental uncertainty is beneficial or detrimental to a firm's performance is still unclear. Responsiveness to environmental uncertainty may arise from two different sources – better capabilities of sensing the environmental conditions or over-emphasis on the socioemotional objectives. If the former is the cause, responsiveness to environmental uncertainty may have a positive influence on firm performance. However, if the latter is the reason, then responsiveness to uncertainty may shadow the rationality of decision making and hurt firm performance.

For family-controlled firms and policy makers, responsiveness to environmental uncertainty brought by family control has profound managerial implications. Firms controlled by family shareholders have to trace the root cause of their responsiveness to uncertainty, then they will be able to improve their performance, either by maintaining their sharpness of sensing the environmental conditions or, on the contrary, by avoiding emphasizing socioemotional motives to reduce their side effects. For policy makers, especially government officials who wish to attract family-controlled MNCs to invest in their country, it is especially important to improve the institutional environment to tackle these firms' concerns on uncertainty.

On the other hand, the current study's contribution is also limited due to insufficient inquiries on family members' desire to control. Currently, studies on family firms' desire to control have primarily focused on the socioemotional motives (Gomez-Mejia et al., 2007; Gomez-Mejia, Makri, & Kintana, 2010), arguing that family firms maintain high control over their companies because they intend to

preserve socioemotional wealth (De Vries, 1993; Habbershon & William, 1999; Thomsen & Pedersen, 2000; Anderson & Reeb, 2003). The researchers expect that motives other than socioemotional wealth, economic motives for instance, can also lead to family shareholders' high desire to control. The researchers thus call for further inquiries on this aspect to advance our understanding of family control.

Implications for international business studies

This study also contributes to international business studies. Examining family control's influence on MNCs' entry mode decision, the researchers found that investing company's corporate governance matters. Specifically, the researchers found that investing firms' controlling shareholders and board members are influential to the firm's internationalization decisions. The majority of past studies on internationalization decisions, including entry mode, location choices, and subsidiary ownership strategy, have focused on the influence of firm characteristics related to resources and capabilities (e.g., firm size, R&D intensity), leaving corporate governance variables mostly untapped. This study fills the gap.

However, the researchers only examine the influence of family control, leaving other aspects of corporate governance unexplored. The influence of other types of controlling shareholders, such as government bodies, institutional investors, etc. has yet been investigated. It will also be intriguing for future research to examine the influence of other corporate governance variables on firms' internationalization. Factors such as board composition, board structure, and top management team demography may also affect a firm's internationalization decisions and consequently the firm's performance. There is vast room for these factors to be fully probed.

Using a sample of 1,644 publicly listed companies in Taiwan, this study examines how family control influences MNCs' entry mode choice. The empirical results indicate that firms with higher family control react more drastically to environmental uncertainty when choosing their entry mode. This study makes contributions, but it is just a beginning. Nonetheless, the researchers hope the current study will inspire more related inquiries. After all, we IB scholars know too little of how corporate governance influences MNCs' internationalization.

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