THE ROLE OF FAMILY FIRMS' GENERATIONAL HETEROGENEITY IN THE ENTRY MODE CHOICE IN FOREIGN MARKETS

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ABSTRACT

This paper investigates how important sources of heterogeneity shape the way in which family firms (FFs) enter foreign markets. By integrating insights from International Business and Family Business literature, we claim that the interplay between the generation ruling the firm and the presence of non-family board members direct the choice between a greenfield investment vs. the acquisition of a local unit. FFs prefer to enter foreign markets through greenfield investments, especially when run by the founders, due to their emotional attachment to the firm and to the lack of adequate organizational capabilities to undertake and manage cross-border acquisitions. The bias towards greenfield investments is corrected by the presence of non-family members in the board. However, we claim that non-family directors' voice is on average more effective in second-generation FFs as they show an average lower SEW orientation, while FFs surviving in the long term are those ruled by the successors more authoritative in imposing attention on the preservation of family values. Therefore, third-and-beyond generation FFs present a higher SEW orientation as well as diversified organizational capabilities, which make them less incline to follow external advice. We test our hypotheses on a sample of 1,849 manufacturing initiatives undertaken abroad by 532 Italian FFs in the period 2000-2013.

Keywords: entry mode choice; internationalization; family firms; generations; SEW orientation; organizational capabilities.

1. Introduction

Internationalization of family firms (FFs) is a relevant phenomenon and a theory-challenging topic that has attracted increasing attention (De Massis, Frattini, Majocchi, & Piscitello, 2018; Debellis, Rondi, Plakoyiannaki, & De Massis, A. 2020). In examining FF internationalization, scholars have referred to different measures (Lahiri, Mukherjee, & Peng, 2020), such as export intensity (Calabrò, Mussolino, & Huse, 2009; Majocchi, D'Angelo, Forlani, & Buck, 2018; Merino, Monreal-Pérez, & Sánchez-Marín, 2015; Okoroafo & Perryy, 2010; Scholes, Mustafa, & Chen, 2016), foreign sales and foreign direct investments (FDIs) (Fang, Kotlar, Memili, Chrisman, & De Massis, 2018; Hennart, Majocchi, & Forlani, 2019; Liang, Wang, & Cui, 2014), internationalization level and scope (Casillas & Acedo, 2007, Davis & Harveston, 2000; Fernández & Nieto, 2006; Shi, Graves, & Barbera, 2019), and multinationality (Cesinger, Hughes, Mensching, Bouncken, Fredrich, & Kraus, 2016). Conversely, minor attention has been paid to the internationalization strategies implemented by FFs, and in particular to their entry mode choice in foreign markets, for which a strand of studies has only recently emerged (Boellis, Mariotti, Minichilli, & Piscitello, 2016; Ilhan-Nas, Okan, Tatoglu, Demirbag, Wood, & Glaister, 2018; Sestu & Majocchi, 2018; Xu, Hitt, & Miller, 2020; Yamanoi & Asaba, 2018).

In line with the focus of family business (FB) research dating back to the 1990s, the main question the aforementioned studies have addressed is the difference in internationalization between FFs and non-FFs (Sharma, Hoy, Astrachan, & Koiranen, 2007). However, meta-analytical reviews, such as those of Arregle, Duran, Hitt, & Van Essen (2017) and Pukall & Calabrò (2014), have shown that research surrounding FFs versus non-FFs internationalization processes have been rather inconclusive, thus calling for a finer-grained analysis (Arregle, Hitt, & Mari, 2019). Scholars have pointed to the various sources of heterogeneity that shape in different ways the FF international behavior (Arregle et al., 2019;

Eddleston, Sarathy, & Banalieva, 2019; Hennart et al., 2019; Majocchi et al., 2018). Indeed, investigating heterogeneity has become an imperative in the FB literature, whose various streams have coalesced around some key dimensions, such as goals, governance and resources (Chua, Chrisman, Steier, & Rau, 2012; Daspit, Chrisman, Sharma, Pearson, & Mahto, 2018; Mahto & Khanin, 2015).

In this vein, our paper aims at contributing to this stream of literature by investigating how governance heterogeneity – in terms of generation ruling the firm and the presence of non-family board members – affects the FF entry mode in foreign markets. Entry modes include non-equity modes (exports, licensing, franchising, and other cooperative agreements) and equity modes (setting up wholly or partially owned subsidiaries, such as joint ventures with local or foreign partners). Here we consider those equity modes involving the establishment of manufacturing activities in a foreign country and we distinguish between a greenfield investment and the acquisition of local assets. Compelling reasons motivate our choice.

First, the high commitment required (in terms of human, technological and financial resources) by FDI in manufacturing activities crucially challenges the company strategy and its asset endowment. The "greenfield vs. acquisition" choice is a key decision that threatens the firm's long-term flourishing, as it implies high risks due to the unfamiliar context and high costs of reversibility (Belderbos & Zou, 2009; Song, 2014). Thus, it represents an ideal testbed to examine the heterogeneity of FF strategy as well as to explain its sources (Mahto & Khanin, 2015). Second, despite the entry strategy in foreign markets has been widely investigated in international business (IB) literature (for recent reviews, see Dikova & Brouthers, 2016; Klier, Schwens, Zapkau, & Dikova, 2017), research is still needed to link the decision-making to preferences in firms with heterogeneous governance characteristics (Aharoni, Tihanyi, & Connelly, 2011). In this regard, looking at firm heterogeneity through the lens of family business is a fruitful way to respond to the call for more research on firm heterogeneity in the IB field (Xu et al., 2020).

When looking at FFs, we consider "familiness" as the most important factor[1]. Familiness is defined as the "interaction between the family, its individual members, and the business" (Habbershon & Williams, 1999: 11). FFs have different goals, risk-taking propensities, organizational behavior, and investment preferences compared to non-family counterparts (Kotlar, Fang, De Massis, & Frattini, 2014; Memili, Fang, Chrisman, & De Massis, 2015). However, familiness varies among FFs as it depends on the extent to which family members identify with, and are attached economically and socio-emotionally to, the company (Gómez-Mejía, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), and on the involvement of family and non-family members in the ownership and management of the firm (Chua et al. 2012).

Building upon insights from the IB literature on entry modes, and the FF literature on the evolution of socio-emotional wealth (SEW) and organizational capabilities across generations, our paper studies how these factors interact in determining FFs' entry choice in foreign markets. Specifically, we refer to: (i) the generation owning and ruling the firm (Sonfield & Lussier, 2004), and (ii) the composition of the board of directors, as it is the apical body in which family and non-family members interact, and decisions relevant to the firm strategy are elaborated and approved (Klarner, Yoshikawa, & Hitt, 2018).

We posit that generations have, on average, a different propensity towards the entry mode choice in foreign markets. A strong SEW orientation favors greenfield investment, whereas the availability of diversified and, therefore, more fungible organizational capabilities favors cross-border acquisitions. Moreover, a larger presence of non-family directors acting as strategic advisors contributes to enrich the FF's portfolio of capabilities (Bammens, Voordeckers, & Van Gils, 2011; Miller & Le Breton-Miller,

[1] It is worth noting that we distinguish FFs from 'lone founder firms', in which, beside the founders, there are no family members present as compelling constituents. According to Miller, Le Breton-Miller, & Lester (2011), the two typologies of firms exhibit a very different business logic, being the lone founder firms emotionally detached from the familial attitudes and agendas, and definitely more entrepreneurially and financially motivated. Our work refers only to FFs.

2006) and to reduce the family bias toward SEW goals, thus potentially lessening the proclivity of FFs to engage in greenfield investments and favoring international acquisitions.

We argue that the generational succession has a dual impact. On the one hand, thanks to experiential and congenital learning processes along the generational transition (Huber, 1991), the company's organizational capabilities develop, especially in terms of variety and, therefore, fungibility in diverse international contexts (Cruz & Nordqvist, 2012; Tsang, 2020). On the other hand, succession exposes FFs to a Darwinian selection process that affects the average SEW orientation characterizing each generational cohort. First-generation FFs exhibit a strong SEW orientation given the deep emotional attachment of the founders to the business, and their powerful influence. As the firm moves to the second-generation, offsprings may be attached to the family business like the founder, but also much less, depending on their attitudes, identification with the firm and disposition to business administration. In other words, the cohort of second-generation FFs shows greater SEW heterogeneity than the first-generation FFs. Thus, accordingly with the literature (Gómez-Mejía et al., 2007; Le Breton-Miller & Miller, 2013; Sciascia, Mazzola, & Kellermanns, 2014), second-generation FFs have, on average, a weaker SEW orientation than first-generation FFs do. Especially, the emotionally detached controlling successors are more likely to divest the business when facing market opportunities or difficulties, so that a selection occurs that gives stronger SEW-oriented firms more chances to survive as a family business. This selection mechanism goes on for generations, dynamically changing the average level of the SEW in the population of FFs governed by successive generations (Zellweger, Kellermanns, Chrisman & Chua, 2012). In particular, we argue that, due to the higher mortality of FFs with less emotionally attached heirs, the average SEW level of the population of surviving FFs steadily increases after third-generation.

We claim that implications for the entry mode choice of different cohorts of FFs are the followings:

(i) First-generation FFs are biased towards greenfield investments, as they feature a strong SEW orientation, and narrow organizational capabilities;

(ii) Second-generation FFs exhibit (compared to first generation FFs) a stronger orientation towards international acquisitions, as they are less SEW oriented and more receptive of external signals and advises from non-family board directors, as well as equipped with organizational resources of greater variety and fungibility to undertake and manage complex operations abroad;

(iii) Third-and-beyond generation FFs show (compared to second-generation FFs) a lower propensity towards acquisitions, as they present a stronger average SEW orientation and – consequently – are less open to listening to the voice of non-family directors.

We test our hypotheses on a sample of 1,849 manufacturing initiatives undertaken abroad by 532 Italian FFs in the period between 2000 and 2013. The period observed is particularly significant, given the massive expansion of FDI by Italian firms in those years, until the global financial crisis (Mariotti, Mutinelli & Sansoucy, 2015; UNCTAD, 2018). The results confirm our expectations, supporting that the factors we identified to account for FF heterogeneity are significant drivers of the entry mode choice in international markets.

Our article contributes to both FB and IB literature. With a few exceptions (Fang et al., 2018), past FF research does not consider the impact of heterogeneity existing between FFs run by different generations on internationalization. We do this by proposing an approach that also helps to reconcile different views on the role of SEW across generations (Schulze & Kellermanns, 2015). On the other hand, the study extends our understanding as to how firm's individual preferences influence entry mode choices (Xu et al., 2020).

The remainder of the paper is structured as follows. First, we illustrate our conceptual framework and develop our hypotheses on the relationship between governance heterogeneity of FFs and their entry mode choice in foreign markets. Then, we describe data, variables, and econometric models adopted to test our hypotheses, and present our empirical findings. The final sections provide the discussion of

results and limitations, and identify possible avenues for future research.

2. Conceptual framework and hypotheses development

2.1. The choice between greenfield versus acquisitions in foreign markets

IB literature broadly investigates costs and benefits associated with greenfield investments and acquisitions abroad (for a recent meta-analysis, see Klier et al., 2017). On the one hand, a greenfield investment is an internal growth strategy based on the firm's own resources, and on the replication of the domestic routines abroad. This mode allows the firm choosing strategy, organizational procedures, workforce, and the like from the outset, thus adapting the new entity to the idiosyncratic technical and economic features of the parent company. Compared to cross-border acquisitions, transaction costs involved in the transfer of firm-specific knowledge and assets are reduced, as well as the cost of integration and control of the foreign subsidiaries (Hennart & Park, 1993). Furthermore, greenfield investments allow an incremental commitment of resources that reduce the risk of incurring sunk costs[2] (Brouthers & Dikova, 2010). However, greenfield investments imply liability of newness (Kor & Misangyi, 2008) and substantial external conformity costs to adapt to the local environment (Slangen & Hennart, 2008). Further, the pure exploitation strategy involved in internal growth could lead to simplicity and rigidity, thus overlooking the local needs and opportunities (Vermeulen & Barkema, 2001).

On the other hand, acquisition is a quicker way to access privileged information and knowledge embedded in the acquired firm and its relevant business networks. When an investing company acquires a local firm, it gets a developed infrastructure already operating in the foreign market, thus reducing risks

[2] In fact, they initially allow using a lower amount of resources, while providing the option to correct the project and/or incrementally expand the investment as more information about the local market become available.

and liabilities of both foreignness and newness. However, acquisitions suffer from internal conformity costs, i.e., the costs of adaptation between subsidiaries and their parents (Slangen & Hennart, 2008). Organizational culture and procedures of the acquirer and an acquired firm may not fit each other, thus making difficult the transfer and integration of the competitive advantage (Vaara, Sarala, Stahl, & Björkman, 2012). Further, acquisitions are exposed to adverse selection and moral hazard relevant to the seller-acquirer relationship, which are amplified by the information barrier of operating in a foreign market. Acquisitions often require a large front-end payment and can excessively increase the FF's exposition over time, which may cause serious financial deterioration (Furfine & Rosen, 2011).

In this complex scenario, when evaluating the costs and benefits of entry mode, FFs face a trade-off that leaves large room to SEW considerations, i.e., relating to the preservation of the stock of affect-related values that the family has invested in the firm (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011; Gómez-Mejía et al., 2007).

The family principals' disposition to keep control and influence, as well as their identification and emotional attachment to the firm, make them averse to the risks associated with the external financing of acquisitions and the adaptation to new business environment settings, which could entail significant SEW losses (Koropp, Kellermanns, Grichnik, & Stanley, 2014). At the same time, cross-border acquisitions might lead to SEW gains, as they allow FFs to grow quickly in the global markets, thus heightening the family's international reputation and fostering the family members' identification with the successful firm (Deephouse & Jaskiewicz, 2013). However, the SEW losses due to internal conformity costs and the loss of control are perceived as definite and tangible by family principals, while potential SEW gains associated to acquisitions are deemed to be more volatile. Therefore, FFs weigh the SEW losses from acquisitions more than the corresponding gains (Boellis et al, 2016).

In conclusion, the more salient the SEW orientation and loss aversion, the more FFs prefer to enter foreign markets through greenfield investments (Boellis et al., 2016; Yamanoi & Asaba, 2018). Yet, our

research question remains unanswered. FFs are heterogeneous with respect to most of the aforementioned dimensions, so more theorizing is needed.

2.2. The role of generations

2..2.1. Generations and SEW

Research on the SEW evolution across generations have led to contradictory results and interpretations (Schulze & Kellermanns, 2015). On the one hand, some studies show that family attachment to the firm is highest when the FF is owned and managed by the founders, i.e., first-generation FF, whereas it weakens as the business is passed on to subsequent generations, as both the family involvement and the identification of the family with the firm declines with the dispersion of ownership (Gómez-Mejía et al., 2007; Le Breton-Miller & Miller, 2013; Sciascia, Mazzola, & Kellermanns, 2014). On the other hand, Zellweger et al. (2012) find that SEW increase through generational succession, i.e., with the age of the FF[3], as identification with the company and mutual trust between family members increases. Dynastic motivations and building commitment to the FF among successors would reinforce this trend (Parker, 2016).

We reconcile these opposite views, by arguing that the SEW orientation across generations is influenced by a Darwinian selection mechanism. When the FF is governed by the founder, the SEW orientation is dominant and pervasive. Indeed, the founder embraces and reinforces the family's identity and logics, rather than the market- and profit-orientation that is typical of other typologies of entrepreneurs, including the lone founder (Miller et al., 2011; Mullins & Schoar, 2016). As soon as the firm has succeeded and reached economic stability, the intention of passing on its healthy firm to later generations becomes the founder's strategic driver. Accordingly, the priority of the founder is to protect

[3] The authors adopt the age of the firm as a proxy for the generation of the family in control. Although firm age and firm stage are not identical, they are highly correlated.

the firm against failures that could undermine survival and control, and ultimately the SEW accumulated in the FF (Le Breton-Miller & Miller, 2013).

As the control of the FF is handed down to successive generations, SEW orientation depends on whether the successors are socially incentivized, and attitudinally able, to maintain cohesion, reciprocal trust, and the unity of ownership and action (Garcia, Sharma, De Massis, Wright, & Scholes, 2019; Mahto, McDowell, & Davis, 2020; Reay, 2019). After the founder has stepped down, poor entrepreneurial and managerial attitudes of the family members and/or the dilution of ownership between a multiplicity of heirs (with possibly conflicting interests and views) may cause an emotional detachment from the family business (Gómez-Mejía et al., 2007). In this case, the continuity of the family business is undermined and the family, in the event of internal disputes and/or business difficulties, may decide to sell the assets to other private investors, thus leading to an end the firm as "family business". This mechanism works across generations, resulting in a selection whereby, ceteris paribus, FFs with a higher SEW orientation are more likely to survive[4]. Consequently, each population of FFs governed by successive generations will be characterized by a mix of heterogeneously SEW-oriented firms.

Several academic and practitioner studies on the success rate in intra-family business succession document this selection process. They suggest that only 30% of firms survives as FF through the second generation (Davis & Harveston, 1998; Miller, Steier, & Le Breton-Miller, 2003; Ward, 1987). Although this percentage should not be taken literally (see the critical assessment by Stamm & Lubinski, 2011), the mortality rate in the population of FFs governed by the second generation is unquestionably high.

Such a drastic selection has two important consequences. First, the average value of the SEW orientation in second generation FFs will be lower than in first generation FFs. Second, given the documented low FFs' survival rate after the second generation, one will observe a re-increase in the

[4] Of course, the probability of death of a firm grows over time also for reasons completely unrelated to SEW orientation, but dependent on the evolution of the external competitive environment.

average value of the SEW orientation in the third- and-beyond-generation FFs (Zellweger et al., 2012), as the most likely surviving FFs will be those characterized by stronger emotionally attached families.

Summarizing, we claim that the FF population shows heterogeneity in SEW orientation. In particular, FFs governed by first and third and beyond generations give more salience to SEW gains and losses, while those governed by second generation are on average less SEW-oriented.

2.2.2. Generations and organizational capabilities

Strategic actions are shaped by the organizational capabilities, defined as the firm attributes that enable organizations to coordinate and utilize their tangible or intangible resources to perform a task (Barney, 2002). Organizational capabilities are path-dependent and developed in the long term. They persistently shape corporate performance and give firms a distinctive competitive edge, being often idiosyncratic and tacit in nature (Dosi, Nelson, & Winter, 2000). This is true for both FFs and non-FFs. However, these traits are particularly relevant for FFs, as their organizational capabilities originate from a unique overlap between family and business, and from the continuous interaction among family members and other stakeholders (Cabrera-Suarez, De Saa-Perez, & Garcia-Almeida, 2001; Carney, 2005; Habbershon, Williams, & MacMillan, 2003).

When looking at the FFs surviving the selection across generations, the organizational capabilities view provides some insights about their entry mode choice in foreign market. Experiential learning may reduce the proclivity to establish new foreign ventures as a clone of the parent company. Boellis et al. (2016) find that the FFs' propensity for greenfield initiatives decreases in favor of acquisitions when they accumulate international experience, providing that family principals and managers have adequate capability to absorb, assimilate and exploit it (Zahra & George 2002).

International experience absorption and exploitation by FFs, as well as organizational capabilities to deal with FDI improve over time along the learning curve (Tsang, 2020), allowing FFs to better access

and process business information, and to recreate fitting variations of the parent's organizational arrangement also in different business environment settings (Autio, Sapienza, & Almeida, 2000). Consequently, the FFs' capabilities to extract economic/financial gains from cross-border acquisitions are likely to increase, thus modifying the cost-benefit trade-off associated with the entry mode choice in favor of the acquisitions.

Specifically, we claim that different generations are differently endowed with those organizational capabilities that are needed to operate in international markets. When the first generation runs the firm, organizational culture is largely overlapping with the founder's business vision and assumptions. This founder-centric inclination makes the way of doing business hardly reproducible and adaptable to other pre-existing organizations (Eddleston, 2008; Kelly, Athanassiou & Crittenden, 2000; Nelson, 2003), thus pushing for an internal growth strategy, i.e., greenfield investments.

As the business is handed down to successive generations, FFs learn and develop new capabilities. Long-lived FFs are very likely to have experienced also external growth strategies, and contextually developed key capabilities to successfully transfer and integrate their way of doing business into diverse business environments. Due to environmental changes that force new responses, generational succession can also lead to improvements in the organizational setting (Kuo, Kao, Chang, & Chiu, 2012), introducing new assumptions that are more likely to fit resource re-adaptation purposes in pre-existing organizations (Schein, 1983; Aldrich & Cliff, 2003), and granting freedom to individuals in pushing for new ideas (Gersick, Davis, McCollom-Hampton, & Lansberg, 1997).

Furthermore, in addition to experiential learning, congenital learning, i.e., the knowledge and experience of the members of the ruling family (Huber, 1991), also evolves. Compared to first generation founders, successive generation owners and managers often possess more formal education and outside experience (Cruz & Nordqvist, 2012; Sonfield & Lussier, 2004), which gives them a greater ability to engage in analyzing the competitive environment and explore the opportunity offered by the international

market for corporate control. Therefore, by moving across generations, FFs will reduce the familiar original bias on greenfield investments, so that the entry mode choice could reflect more closely the environmental and structural imperative, leaving room for new strategies of external growth.

In sum, we expect that along the generational transition organizational capabilities increase in terms of variety, therefore becoming fungible to be adopted in diverse international contexts. In this way, the development of organizational capabilities throughout the generations unlocks new prospects for the FF on international markets, and facilitates the implementation of cross-border acquisitions.

2.2.3. Generations and entry mode choice

Figure 1 summarizes how FFs ruled by different generations are positioned along the dimensions of SEW orientation and variety of organizational capabilities.

First-generation FFs are more prone than the other FFs to undertake greenfield investments, because of the strong SEW orientation and the narrow organizational capabilities. As far as the following generations, second- and third-and-beyond-generation FFs are characterized by different levels of SEW orientation and variety of organizational capabilities. Compared to second-generation FFs, the third-and-beyond-generation FFs have a stronger SEW orientation, due to the Darwinian selection process, and, at the same time, diversified (and, therefore, more fungible) capabilities acquired through the experiential and congenital learning processes. As more SEW pushes for more greenfield, and more diversified capabilities lead to more acquisitions, we do not have any straightforward predictions on the differences between generations beyond the first in entry mode choice. Thus, our first hypothesis states as follows:

H1. First-generation FFs are more likely than other generation FFs to enter a foreign country through a greenfield investment (vs. acquisition).

INSERT FIGURE 1 ABOUT HERE

2.3. The composition of the board of directors

2.3.1. The presence of non-family members and entry mode choice

The board of directors plays a pivotal role in the firm's strategic decision-making. First, it is the governing body where different interests and views of the stakeholders (*in primis*, family owners and minority shareholders) are settled (Anderson & Reeb, 2004). Second, directors are expected to monitor top managers' decisions and actions, and advise them on strategy. To do so effectively, the board needs specific capabilities, ranging from organizing their expertise and knowledge and leveraging it for their governance of corporate strategic activities, to building relationships with the key stakeholders, to assessing new strategic approaches, and determining how to best allocate resources to respond to competitive market challenges (Klarner et al., 2018).

When considering FFs, the distinction between family and non-family directors is crucial. Family directors are family-centric stakeholders who convey family's interests, while non-family directors are professionals who can be either inside or outside directors, thus mixing different competences and capabilities. Inside directors are FF's managers, employees, or other stakeholders, while outside director are independent members who, beside protecting shareholders' wealth and favoring the reconciliation between the parties when facing conflicts, bring advices, skills, expertise and business information to the firm (D'Angelo, Majocchi, & Buck, 2016; Miller & Le Breton-Miller, 2006; Bammens et al., 2011).

The share of non-family members is likely to influence FFs' strategic decisions. On the one hand, non-family directors contribute to enrich the FF's organizational capabilities in terms of variety and fungibility, as they have often gained experience in other companies, institutions, sectors, and markets. They allow the firm to better evaluate the opportunities in the international markets (Datta, Musteen, & Herrmann, 2009), and may possess managerial skills and valuable information to reduce the *ex ante* and *ex post* acquisition costs (Graves & Thomas, 2008). On the other hand, non-family directors, even those

appointed by the family, are less emotionally involved in the SEW accumulation (Gómez-Mejía et al., 2011; Minichilli, Corbetta, & MacMillan, 2010). Among them, representatives of minority non-family shareholders can be very influential: industrial investors, banks, funds and private equity firms are likely to be interested in enhancing FF's economic and financial returns (Elston, 2019; Thomsen & Pedersen, 2000).

According to our conceptual framework, the concurrent increase in the variety of organizational capabilities and the reduction in SEW orientation imply a higher tendency of FFs toward acquisitions. Thus, our second hypothesis states as follows:

H2. The share of non-family directors on the board has a negative effect on the FFs' likelihood to enter a foreign country through a greenfield investment (vs. acquisition).

2.3.2. The interaction between generations and board composition

We claim that the effectiveness of non-family directors in influencing FFs' strategic choices also depends on the generation governing the FF.

In first-generation FFs, founders exert their authority and charisma to assure that the replication of their successful business model would guide the SEW-oriented strategy of the FF. They remain the pivotal decision makers, and they likely assign to the board just a monitoring role, thus weakening the effect of non-family directors in the decision making process (Kelly et al., 2000; Nelson, 2003; Eddleston, 2008).

Conversely, second-generation FFs show - on average - a weaker SEW orientation and diverse and more fungible organizational capabilities. Especially the most emotionally detached firms develop a cultural and managerial orientation more sensitive to signals from the external environment (Cruz & Nordqvist, 2012). Further, FFs governed by the founder's successors already partially covered the experiential learning curve on international markets, thus developing a sufficient absorptive capacity

(Zahra & George, 2002). Hence, by giving more room to experience and being more open to a wide-ranging scanning of the competitive environment to detect threats or opportunities, they are also more inclined to embrace the non-family directors' view and to leverage their competencies in implementing the internationalization strategy.

However, according to our selection model, survived FFs owned by third-and-beyond generations are, on average, more likely imprinted by the desire to preserve and accumulate the SEW. Accordingly, the relevant controlling family imposes limitations and constrains to the influence of non-family directors on the board's strategic decision making. To this end, family members are resourceful. On the one hand, they compensate for the possible absence of charisma by using the "family centrality" (i.e., power, independence and influence within the firm; see Kelly et al., 2000) and the reputation gained by a ruling dynasty that led the FF to success. On the other hand, their organizational capabilities translate in more professionalization, formal structures and strategic planning (Kellermanns & Eddleston, 2006), which make the family team more self-confident and independent of external directors.

In sum, we expect that generations interact with non-family board members when making strategic decisions about the entry mode in foreign markets. Specifically, our third hypothesis states as follows:
H3. The negative effect of the presence of non-family directors on greenfield (vs. acquisition) choice is stronger when the FF is governed by the second generation (rather than by other generations).

3. Methodology

3.1. Data and sample description

Our empirical analysis relies on Italian FFs. Namely, we refer to firms in which one or at most two families have the control of the business and a *set of family members* act as owners and/or board directors

and/or managers in the controlled company[5]. A further condition is that the family owners exert decisive influence over key governance choices and the strategic direction of the firm (Minichilli, Nordqvist, Corbetta, & Amore, 2014), we selected companies controlled by one or two families with a 50% (if unlisted) or 25% (if listed) stake (as in Miller, Minichilli, & Corbetta, 2013). The lower threshold for listed firms is due to the presence of dispersed shareholders that are not actively involved in the firms' governance, thus making possible for blockholders to control the firm with a lower equity share (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999).

Data on FFs come from the Observatory AUB of Italian Family Businesses - Bocconi University, while data on foreign entries come from the database Reprint - Politecnico di Milano that records information about the foreign initiatives of Italian firms (for further details, see Mariotti et al., 2015)[6].

Our sample consists of 1,849 entries undertaken in manufacturing industries across 62 countries by 532 Italian FFs, in the period 2000-2013. Entries include 1,459 (78.91%) greenfield investments and 390 (21.09%) acquisitions; both wholly-owned subsidiaries and joint ventures have been considered[7].

3.2. Dependent Variable

Coherently with previous literature (e.g., Dikova & Brouthers, 2016), our dependent variable *Greenfield* is a dummy taking value 1 if the foreign entry is a greenfield initiative, and 0 if it is an acquisition.

[5] Such definition allows us to distinguish first generation FFs from lone founder firms. Moreover, only 1% of the FFs in the sample is held by two families.

[6] Alternatively, to get information on Reprint database, see https://www.ice.it/it/statistiche/Ide.aspx.

[7] The sample seems to be skewed toward greenfield investments. Nonetheless, this is not due to the specific period observed or to other factors. Rather, it is the consequence of the entry mode preferences of FFs. In fact, Boellis et al. (2016), comparing FF and non-FF entry mode in a sample of Italian firms in a similar period (2003-2013) and subsidiaries operating in all activities (i.e., not just manufacturing), find a greenfield share of 65% for FFs, against 31% for non-FFs. As far as the geographic distribution is concerned, the sample is evenly distributed as none of the favoured host countries (i.e., United States, followed by Germany, China, the United Kingdom, France and Spain) presents a share higher than 10%.

3.3. Explanatory Variables

We operationalize the variable *First generation* as a dichotomous variable taking value 1 when at least one of the CEOs has founded the firm, and 0 otherwise. Likewise, the variable *Second generation* is a dummy taking value 1 when the founder retains only honorary positions (no longer having an active role in the firm), at least one of the CEOs is a family member belonging to the second generation, and the remaining family CEOs do not belong to the successive generations. In so doing, the baseline in the econometric analyses is the remaining category of FFs (i.e., those governed by the third generation and beyond), in line with the formulation of our hypotheses H1 and H3 that focus on the first and the second generations, respectively.

With regard to the presence of non-family directors on the board, we built the variable *Non-family board ratio* as the share of non-family members appointed to the board of directors. The variable ranges from 0 (no one is a non-family member) to 1 (each member is external to the controlling family).

3.4. Control Variables

Previous studies have already identified several country- and firm-level predictors that affect the entry mode (Klier et al., 2017). We insert them as control variables in our model in order to avoid any bias due to the omitted variable issue.

3.4.1. Country-level control variables

At the country-level, the cultural distance between the home and the host country has been shown to play a central role in the establishment mode studies (e.g., Kirkman, Lowe, & Gibson, 2006). Following Kogut & Singh (1988), we operationalize *Cultural distance* by using the five Hofstede (2001) cultural dimensions (power distance, individualism, uncertainty avoidance, masculinity, and long-term orientation).

Similarly, *Geographic distance* increases the firms' perceived uncertainty and transaction costs

relevant to acquisitions (Malhotra & Gaur, 2013). We collect air distance data between Italy and the foreign country's capital cities from the CEPII database on geographic distance. Data have been then log-transformed because of the right skewness of the distribution.

We also control for the *Economic freedom* and the *GDP growth* of the host country. Freer countries allow foreigners to do business without raising barriers, especially for acquisitions (Vermeulen & Barkema, 2001). Data come from the database jointly developed by the Heritage Foundation and the Wall Street Journal and range between 0 (the lesser free countries) to 1 (the freest countries). Additionally, the *GDP growth* of the host market indicates whether the aggregate demand is expanding. When this is the case, there is the opportunity to increase the aggregate supply. On the other hand, when the market is saturated, acquisition is preferred because of the little room for additional production units. Data come from the World Bank database.

3.4.2. Firm-level control variables

We take into account whether non-family shareholders are private equity firms. Among the institutional investors, which are less sensitive to the SEW and mainly aimed at maximizing the return on their investments, private equity firms are frequently well informed about the business and the most involved in the governance of FFs. Accordingly, they may play an important role in counterbalancing the conservative focus of families on greenfield investments. Therefore, the *Private equity* dummy variable equals 1 when a private equity is a shareholder of the FF, and 0 otherwise.

In order to rule out the possibility that our results are driven by firm heterogeneity in financial constraints, we also control for firms' financial structure by adding the variable *Debt to equity*.

The variable *Host country experience* accounts for the number of previous entries by the parent firm in the host country. Thus, it ranges between 0 and 22. Data come from the Reprint database. We expect that firms with a higher number of previous entries possess a better knowledge of the host-country market for corporate control, formal and informal institutions (Casillas & Moreno-Menendez, 2014).

Consequently, they face lower costs associated with target selection and post-integration process in acquisitions.

Firm size may have mixed effects on the establishment mode choice. On the one hand, larger firms may possess a wider range of internal resources to transfer abroad, thus having a weaker incentive to acquire complementary resources in international markets (Meyer & Estrin, 2001). On the other hand, larger firms are likely to possess more financial resources, allowing them to make heavy investments, such as acquisitions (Boellis et al., 2016). *Parent size* is computed as the aggregate sales of the parent firm in the year of the investment. Data have been retrieved from the AIDA – Bureau van Dijk database.

Additionally, we consider the dummy variable *Manufacturing*, to account for delocalization of manufacturing activities by FFs maintaining only the headquarters and correlated services and logistics at home. The variable is equal to 1 if the main sector in which the firm operates ranges between code 10 and code 33 of the 2-digit NACE classification, and 0 if the NACE code ranges between code 34 and code 63. Firms active in the financial, public and defense sectors are excluded from the analyses as their peculiarities make them hardly comparable to the others.

Firm-level controls include other governance-related variables. Though pivotal, the composition of the board of directors does not exhaust the features of corporate governance. Thus, we control for some characteristics of CEOs and other members of the board, as they may influence firm's behavior (Adams, Hermalin, & Weisbach, 2010).

First, FFs may have a multiple CEO structure. Thus, we consider whether at least one of the CEOs is a non-family member[8]. We expect that an outside CEO will be less committed to the family's strategies and more willing to adopt risky empire-building actions (Huybrechts, Voordeckers, & Lybaert, 2012), thus pushing towards international acquisitions. This also allows us to rule out the potential effect of

[8] Multiple CEO structure occurs in 54% of the sampled FFs. However, the percentage of FFs having at least one non-family CEO is only 26%.

confounding factors related to external authority, as more external directors make the presence of an external CEO more likely. *Non-family CEO* takes value 1 if one of the firm's CEOs does not belong to the owning family, and 0 otherwise.

We also control for individual characteristics of the CEOs that can influence the strategy and the risk-taking attitude of the firm, i.e., tenure (Luo, Kanuri, & Andrews, 2014), gender (Adams & Ferreira, 2009; Neneh, 2020), and the duality role (Finkelstein & D'Aveni, 1994; Krause, Semadeni, & Cannella, 2014). *CEO tenure* is measured by the number of years the CEO has been serving the firm (and using the longest tenured CEO when CEOs are more than one); *CEO woman* is equal to 1 when at least one CEO is a female, and 0 otherwise; *CEO duality* takes the value 1 if one of the CEOs also holds the position of chairman of the board, and 0 otherwise. We also consider the age of directors, as previous studies have found that lower average age is associated with a higher likelihood of firms to undergo changes in corporate strategy, because younger people tend to have more confidence in their decisions, while older people lack the conviction to provide the leadership for strategic change (Wiersema & Bartel, 1992). Thus, we include the variable *Board members' mean age*, which is the mean age of the directors at the investment's year. All the data come from the AUB Observatory.

We control also for the ownership mode choice of the subsidiary. It is measured through a dummy variable (*Wholly owned)* equal to 1 if the FF possesses more than 95 percent of the subsidiary's equity, and 0 otherwise (e.g., Chang, Chung, & Moon, 2013).

Finally, we insert a set of dummy variables controlling for the year fixed effect (*Year dummies*), which may affect the entry mode choice and are not captured by the other regressors.

3.5. Model

We start by acknowledging that both the board composition and the choice to enter via a greenfield investment (vs. an acquisition) are affected by latent variables, e.g., the owning family's preferences

about the strategy abroad, its power among other shareholders, and such. For instance, families may decide to appoint talented non-family directors in order to pursue an acquisition-driven international growth. In order to take into account such a potential endogeneity, we structure a two-stage model. In the first stage, we regress the share of non-family board members against some instruments that allow for the shareholder composition and the family power along with all of the remaining independent variables described in the previous subsection[9]. In the second stage (i.e., the entry mode choice), we employ the predicted values of board compositions obtained in the first stage to test our hypotheses.

4. Results

Table 1 shows the distribution of sampled firms by generations and the presence of non-family directors on the board (Panel A) and foreign entries by entry mode and ownership choice (Panel B). It can be noticed that the sample is fairly balanced in terms of generations governing the FF. Most of the FFs have appointed at least one non-family director on the board. Greenfield investments are predominant, with a share of joint ventures equal to that of acquisitions (just above a quarter of the total)[10].

INSERT TABLE 1 ABOUT HERE

[9] The first stage of the model (whose results are available upon request) is estimated through OLS. In order to be used as good instruments in the first step, we identify some predictors that influence the non-family board ratio and that should be weakly correlated with the entry mode choice. We include the equity share held by the owning family (*Family ownership*). Moreover, as the Italian regulation constrains the percentage of independent directors in listed companies, we control for this aspect by including the dummy variable *Listed*, which is 1 when the family firm is listed, and 0 otherwise. Further, the more the ownership is concentrated the more non-family members will be appointed. Indeed, the family already has a strong influence on the firm and, thus, the appointment of outside members may be an effective way to bring external resources to the firm, without jeopardizing the family leadership. We capture this effect with the *Herfindahl index* of the equity concentration. Finally, we control for changes in the firm leadership (*CEO change*), meaning that one of the CEOs has changed in the last year. We suppose that a change in the apical role in the firm may be followed by a wider restructuring of the FF's apical bodies, such as the board of directors.

[10] Panel A does not provide information on FFs that have only non-family members on the board. They are 5, out of a total of 532 firms.

Table 2 reports some descriptive statistics relative to the instruments employed in the first stage, the dependent variable, the main explanatory variables and the control variables along with the correlation matrix for the latter. No particular concerns emerge about the correlation values. We compute the single variance inflation factors (VIF) and observe that regressors do not suffer from multicollinearity as the single VIFs are never higher than 10 – the widely accepted threshold to detect collinearity – while the mean VIF is 1.51, well below the standard threshold of 6 (Hair, Black, Babin, & Anderson, 2010).

INSERT TABLE 2 ABOUT HERE

In Table 3, we report the coefficients and the standard errors of the regression models where the dependent variable is *Greenfield*. In Model (1), we consider only the two dummy variables identifying the successive stages of generational control, i.e., *First generation* and *Second generation* (the category of the third generation and beyond is assumed as the baseline), along with our control variables. In Model (2), we consider only the variable *Non-family board ratio* as main explanatory variable, while in Model (3), both the dummy variables identifying the successive stages of generational control and the composition of the board are included. Model (4) is the complete one as it includes *First generation, Second generation*, *Non-family board ratio* along with the interactions considered.

Results of Models (1) and (3) show that the coefficient of *First generation* is positive and statistically significant at the 1% level, whereas the coefficient of *Second generation* is not statistically significant, thus providing support for our Hypothesis H1.

The coefficient of the variable *Non-family board ratio* in Model (2) is equal to -1.13 and it is statistically significant at the 0.1% level, thus suggesting that, on average, non-family members on the board have a significant impact on the entry mode choice in foreign markets. In probability terms, when

the ratio of non-family members on the board[11] increases by 10%, coherently with our Hypothesis H2, the average probability that the FF opts for a greenfield initiative decreases by 3.07%.

INSERT TABLE 3 ABOUT HERE

We test our Hypothesis H3 through estimates of the most thorough specification, which is reported in Model (4). Consistent with results shown in columns (1) and (3), the coefficient of *First generation* is positive and statistically significant at the 1% level. When only family directors sit on the board, the probability of investing abroad through greenfield initiatives is 6.8% higher for first-generation FFs than for third-and-beyond- generations FFs (which works as our baseline). At the same time, the entry mode choice does not significantly differ for second-generation and third-and-beyond-generation FFs. In fact, the coefficient of *Second generation* is positive, but not statistically significant. These results confirm our Hypothesis H1.

As far as the effect of non-family directors on the board, since our baseline FF category is third-and-beyond-generations FFs, the coefficient of the variable *Non-family board ratio* represents the effect of increasing the non-family board ratio in third-and-beyond-generations FFs on the probability of undertaking greenfield investments. The coefficient is negative, but statistically not significant, thus suggesting that third-and-beyond generations-FFs do not reduce their reliance on greenfield investments by increasing the share of non-family directors on the board. In order to obtain the effect of changing the composition of the board on the probability of undertaking greenfield investments in the first-generation and second-generation FFs, we analyze the interaction effect between *Non-family board ratio* and the

[11] It is worth noting that we test whether Non-family board ratio is actually endogenous through both the Durbin and Wu-Hausman tests. Both tests reject the null hypothesis that this variable is exogenous with p-values of 0.019 and 0.021, respectively. Further, both the Sargan & Basmann test of over-identifying restrictions do not reject the null hypothesis that the instruments are both valid (uncorrelated with the error term) and correctly excluded from the second stage equation.

dummy variables *First generation,* and *Second generation.* However, as the interpretation of estimates for the interaction terms is not as straightforward as it is for linear models (Ai & Norton, 2003), we rely upon graphical analysis as an alternative method to coefficient testing (Hoetker, 2007).

In Figure 2a, we show the average marginal effects of *Non-family board ratio* on the probability of choosing a greenfield initiative when the FF is governed by the first generation (solid line), and by the second generation (dashed line). Confidence intervals at 90% show that the difference in probabilities is statistically significant irrespective of the value of non-family board ratio. However, it is evident that the non-family members' power to shift the FF's strategy towards international acquisitions is significantly lower, if not negligible, when the founder is the CEO of the FF. On the other hand, when the founder gives up her leading role, i.e., when the FF is handed down to the second generation, a 10% increase in the non-family board ratio is associated with an approximately 6% decrease in the probability of entering a foreign market via a greenfield initiative.

INSERT FIGURE 2 ABOUT HERE

Analogously, Figure 2b shows that the influence of non-family board directors on the entry mode choice is also very limited when the family members who run the FF belong to the third generation and beyond (dashed-dot line). The difference in probabilities of entering a foreign market through a greenfield initiative by FFs governed by second versus third generation and beyond is not statistically significant when non family directors represent less than 50% of the board. However, due to the strong effect exerted by non-family directors on the foreign entry decision when FFs are governed by the second generation, the difference is statistically significant for non-family board ratios higher than 50%.

Thus, our results fully support our Hypothesis H3, as the role played by non-family directors turns out to be very strong in the second-generation FFs.

5. Discussion and conclusions

The contention of our study is that the interplay between the generation ruling the FF and the presence of non-family members in the board directs the choice between a greenfield investment or the acquisition of a local unit in a foreign market. We argue that these governance dimensions are important sources of FF heterogeneity shaping its internationalization process (Steier, Chrisman, & Chua, 2017).

We respond to calls on how FF's engagement in the international markets changes across generations, a topic rarely studied (for a review, see Pukall & Calabrò, 2014). Furthermore, although considering multiple generational phases is by no means a novelty in FB literature (e.g., Cruz & Nordqvist, 2012; Sciascia et al., 2014; Sonfield & Lussier, 2004), it is more so in the field of FF internationalization, where only the distinction between the founding family and the second generation family (Shi et al., 2019), or between the first and all subsequent owner families, has been made (Fang et al., 2018).

At the same time, we investigated how non-family directors interact with different generations in defining the foreign market entry strategy. The literature on the influence of the board of directors and its composition on FFs' internationalization is also underdeveloped and mainly limited to export and foreign sales performances (Arregle, Naldi, Nordqvist, & Hitt, 2012; Calabrò et al. 2009; Sciascia, Mazzola, Astrachan, & Pieper, 2013).

Our econometric analysis based on 1,849 manufacturing initiatives undertaken abroad by 532 Italian FFs in the period between 2000 and 2013 yields interesting insights. First, we found that first-generation FFs, characterized by a strong SEW orientation and narrow organizational capabilities, prefer to enter foreign markets via greenfield investments, being not very tolerant of risks and costs of cross-border acquisitions. Second, the bias towards greenfield investments is in principle corrected by the presence on the board of non-family members, who enlarge the strategic horizon of FFs and make them better able to operate on the international market for corporate control. However, the voice of non-family directors is more effective when the second generation is in charge, while it is less or not listened to when the FF

is ruled by both the founder and the third generation and beyond. This seems to be consistent with the FF selection process we have stylized, according to which: (i) during the second generation a significant part of the family owners is emotionally detached from the firm and open to external advice; (ii) the surviving owners of successive generations are more authoritative and professional in imposing attention on SEW preservation.

These findings contribute to the FB literature. They shed light on an apparent paradox, as they show how first-generation and third-and-beyond-generation FFs have similar strategic behaviors, being distant from that of the second-generation FFs. Previous literature has argued the existence of a divide between the unique strategy of the first generation and that of subsequent generations, due to the strong SEW orientation of the founder, compared to its successors, whose emotional attachments, identification with the firm, and family bonds are expected to decrease over time. Indeed, as family influence and control are diluted through ownership dispersion among family members (Gómez-Mejía et al., 2007), coordination becomes more difficult and principal-principal agency conflicts can arise (Fang et al., 2018), thus causing a growing increasing detachment of heirs from the firm.

We do not dispute this argument, but we claim that this evolution is accompanied by a Darwinian-like selection process, especially taking place during the second generation phase, which drastically reduces the FF population, leaving alive those FFs more oriented to resolve conflicts and strengthen SEW. Thus, disentangling between first, second, and subsequent generations, our results highlight a surprisingly more similar entry mode choice by first and latest generations, leaving aside the intermediate one. These intriguing findings shed light on a specific trait of the FF heterogeneity, in line with other few studies illustrating the different attitude of second-generation FFs. For instance, Cruz & Nordqvist (2012) show that the second generation develops an entrepreneurial orientation more sensitive to the competitive environment, while such an orientation is weaker in the first and the third generation and beyond.

Our findings also enrich previous literature on the influence of the board of directors and its

composition on FFs' strategy (Bammens et al., 2011). Arregle et al. (2012) highlight that the appointment of non-family directors increases exports in foreign markets. Likewise, Anderson & Reeb (2004) find that non-family board members foster firm's growth, both when they are appointed by the family and by minority shareholders. Gu, Lu, & Chung (2019) report that the lower the family influence in the board of Taiwanese business groups the higher their growth through diversification. Our study goes a step further, highlighting how the influence of non-family directors is crucially contingent to the family generation that run the firm.

Finally, our study contributes to the IB literature, deepening our understanding of individual firm heterogeneous preferences in entry mode choice, an overlooked topic that scholars have incorporated in their studies only recently (e.g., Elia, Larsen, & Piscitello, 2019).

6. Limitations and future research directions

Our work is not exempt from limitations that, however, may pave the way to a rich future research agenda. First, although Italy is a particularly interesting context to study FFs, our single-country sample may restrict the generalizability of our findings in the global context. Thus the empirical setting can be fruitfully enlarged to other countries (e.g., advanced versus emerging countries), to test the role of local specificities and generalize the results.

Second, FF entry mode may vary depending on contingencies other than generation and board composition, e.g., management team, leadership and social capital, types of minority shareholders, and a host of other fine-grained characteristics of the FF's constituencies (Fang et al., 2018). Further, FFs do not operate in a vacuum, but they are embedded in a social environment, both at home and abroad. Thus, their decisions must be contextualized (Kostova, Nell, & Hoenen, 2018) with reference to location choice (Nielsen, Asmussen, & Weatherall, 2017) and home and host country institutional settings (Mariotti & Marzano, 2019). Although partially captured through our control variables, the interactions between FF

strategy and these antecedents and contingencies need to be analyzed in future research.

Third, the findings may vary depending on time. For example, after the global recession started in 2007-2008, FF preferences and strategies may have altered. Future research on different time periods are welcome.

Fourth, we model entry as a single event. Recent IB contributions have outlined that entry mode may involve a more complex and sequential decision process, through multiple stages of the decision-making (Xu et al., 2020). Further, studies could either leverage progresses in event methodologies and/or extend the interval period related to entry choices.

Finally, with regard to FB debate, we are aware that linking the observed entry strategy to measurable performance outcomes (survival, growth, profitability, etc.) for both the investing firms and the relevant foreign subsidiaries would be crucial. It would allow us to better understand the trade-off that FFs face between SEW-preserving *versus* economic performance-optimizing entry modes, as well as the "enigma of the family successor-firm performance relationship" (Ahrens, Calabrò, Huybrechts, & Woywode, 2019).

We hope this study will encourage future work to examine further these and other topics relevant to the strategic choices by FFs in foreign markets.

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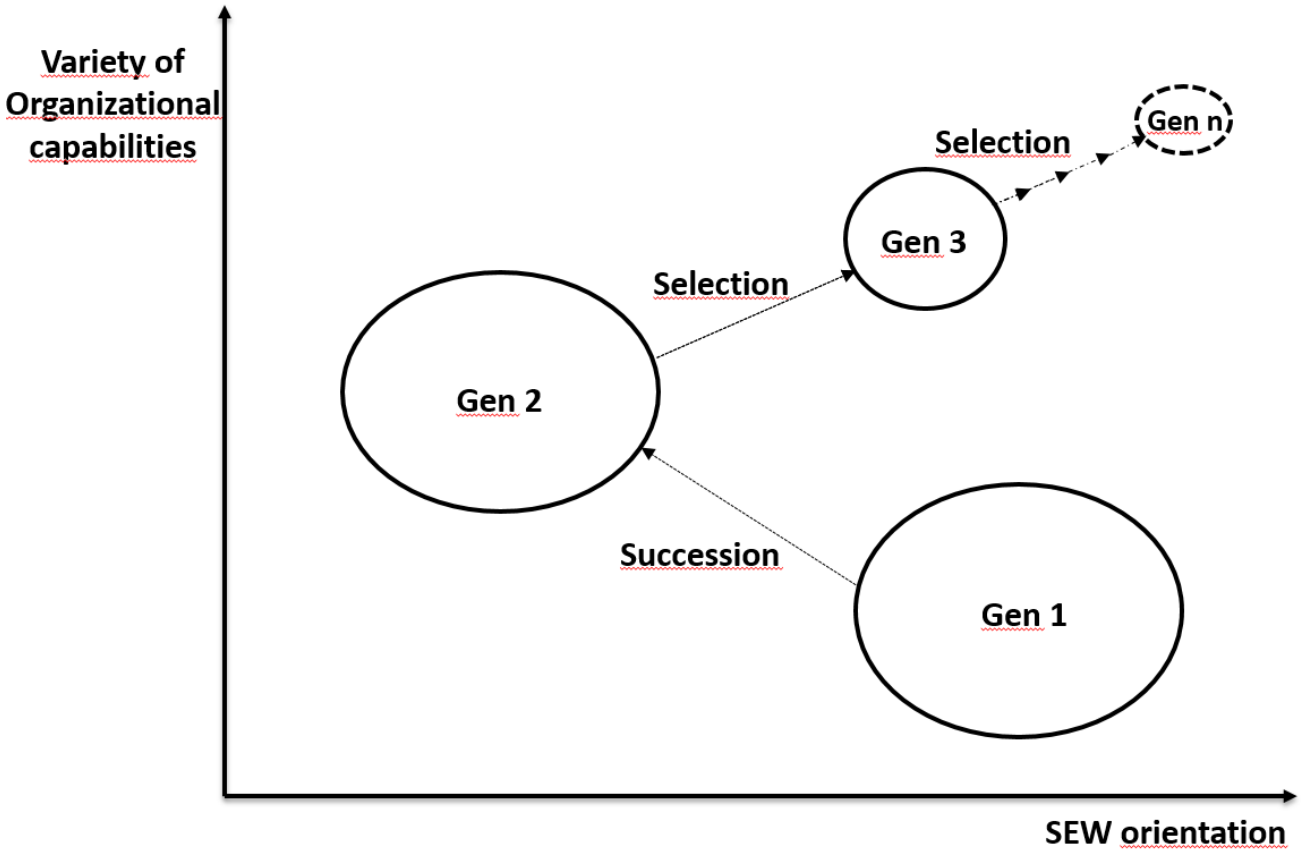
FIGURES

Figure 1 – FFs in the SEW orientation – Variety of organizational capabilities diagram

The figure illustrates how FFs governed by consecutive generations are positioned in the SEW orientation – Variety of organizational capabilities diagram (the ellipse areas give an idea of the number of FFs making up the generational cohorts)

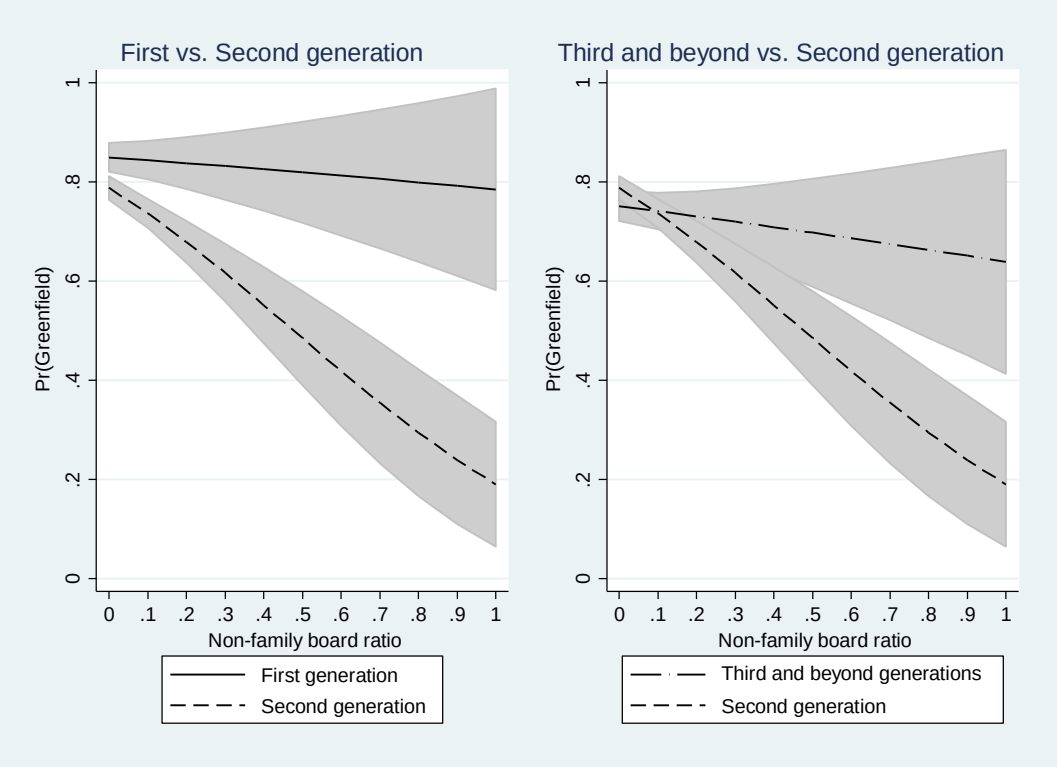


[2-column fitting image]

Figure 2 – Predicted probability of greenfield investment

The figure illustrates the predicted probability of choosing a greenfield investment (along with 90% confidence intervals) as a function of the non-family board ratio in FFs governed by the first and the third-and-beyond generation vs. the second generation.

(a) (b)



[2-column fitting image]

TABLES

Table 1. **Distribution of sampled firms by generations and presence of non-family directors (Panel A) and foreign entries by entry mode and ownership choice (Panel B)**

Panel A	Family directors only	At least one non-family director	Total
First generation	48	128	176
Second generation	50	178	228
Third-and-beyond generation	28	100	128
Total	126	406	532

Panel B	Wholly owned[a]	Joint venture[b]	Total
Greenfield	1,073	386	1,459
Acquisition	286	104	390
Total	1,359	490	1,849

Note:
[a] Equity stake higher than or equal to 95 percent.
[b] Equity stake lower than 95 percent.

Table 2. Descriptive statistics and correlation matrix (N = 1,849)

		Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Family ownership	0.80	0.22										
	Listed	0.36	0.48										
	Herfindahl index	0.50	0.29										
	CEO change	0.05	0.21										
(1)	Greenfield	0.79	0.41										
(2)	Non-family board ratio (predicted)	0.52	0.22	-0.08									
(3)	First generation	0.27	0.44	0.06	-0.32								
(4)	Second generation	0.43	0.49	-0.02	0.10	-0.52							
(5)	Cultural distance	1.29	0.76	0.07	0.05	-0.01	-0.01						
(6)	Geographic distance (log)	7.82	0.96	0.03	0.06	0.00	-0.01	0.44					
(7)	Economic freedom	0.68	0.10	-0.04	-0.04	-0.02	0.08	-0.15	-0.15				
(8)	GDP growth	0.03	0.04	0.09	0.02	-0.02	-0.01	0.24	0.30	-0.41			
(9)	Private equity	0.03	0.16	0.02	0.12	0.01	0.05	-0.01	0.02	0.04	-0.03		
(10)	Debt to equity	1.26	2.70	0.00	-0.15	0.04	-0.02	-0.01	-0.03	0.03	-0.05	-0.01	
(11)	Host country experience	0.96	2.46	0.02	0.38	-0.17	-0.08	-0.05	0.02	-0.03	-0.01	-0.00	0.03
(12)	Parent sales	3.38	11.55	0.03	0.42	-0.16	-0.18	-0.00	0.04	-0.06	0.04	-0.03	-0.01
(13)	Manufacturing	0.57	0.50	-0.04	-0.22	0.04	-0.04	0.01	0.06	-0.07	0.06	-0.07	-0.05
(14)	Non-family CEO	0.49	0.50	-0.04	0.61	-0.17	0.13	0.04	0.04	0.02	0.01	0.02	-0.05
(15)	Board members mean age	55.75	6.37	-0.03	0.39	-0.18	-0.01	0.03	0.05	-0.03	-0.00	0.07	-0.08
(16)	CEO tenure	10.31	7.38	-0.01	-0.38	0.37	-0.13	0.00	-0.01	-0.03	-0.02	.0.04	-0.00
(17)	CEO woman	0.04	0.19	-0.00	-0.16	-0.01	-0.00	-0.02	-0.04	0.05	-0.04	-0.03	-0.00
(18)	CEO duality	0.45	0.50	-0.00	-0.34	0.36	-0.18	-0.04	-0.01	-0.03	0.03	-0.04	-0.04
(19)	Wholly owned	0.74	0.44	0.00	0.09	-0.04	0.07	-0.02	-0.05	0.10	-0.05	0.02	-0.01

(continued)

	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	VIF

(1)	Greenfield									
(2)	Non-family board ratio (predicted)									3.18
(3)	First generation									1.86
(4)	Second generation									1.62
(5)	Cultural distance									1.28
(6)	Geographic distance (log)									1.31
(7)	Economic freedom									1.23
(8)	GDP growth									1.32
(9)	Private equity									1.04
(10)	Debt to equity									1.05
(11)	Host country experience									1.86
(12)	Parent sales	0.65								2.09
(13)	Manufacturing	-0.23	-0.28							1.23
(14)	Non-family CEO	0.13	0.24	-0.20						1.94
(15)	Board members mean age	0.16	0.11	-0.10	0.04					1.49
(16)	CEO tenure	-0.17	-0.18	0.23	-0.20	0.02				1.62
(17)	CEO woman	-0.07	-0.05	0.10	-0.09	-0.02	-0.04			1.06
(18)	CEO duality	-0.24	-0.23	0.18	-0.28	-0.17	0.42	0.01		1.44
(19)	Wholly owned	-0.04	0.01	0.00	0.05	-0.03	-0.03	-0.03	0.02	1.04
								Mean VIF		1.51

Note:
Correlation terms higher than |0.06| are significant at the two-tailed 5% statistical level.
Correlation terms higher than |0.09| are significant at the two-tailed 1% statistical level.
S.D. is standard deviation.

Table 3. **Probit models**

Dependent variable: Greenfield	(1)		(2)		(3)		(4)	
First generation	0.31*** (0.10)	.002			0.29*** (0.10)	.005	0.38*** (0.11)	.001
Second generation	0.08 (0.08)	.366			0.09 (0.09)	.291	0.13 (0.09)	.139
Non-family board ratio (predicted)			-1.13**** (0.27)	.000	-1.07**** (0.27)	.000	-0.344 (0.33)	.411
Non-family board ratio (predicted) *x* First generation							0.08 (0.51)	.873
Non-family board ratio (predicted) *x* Second generation							-1.44*** (0.43)	.001
Country-level controls								
Cultural distance	0.11** (0.05)	.031	0.12** (0.05)	.019	0.12** (0.05)	.019	0.11** (0.05)	.046
Geographic distance (log)	-0.04 (0.04)	.371	-0.04 (0.04)	.353	-0.04 (0.04)	.294	-0.03 (0.04)	.399
Economic freedom	0.04 (0.41)	.928	-0.06 (0.41)	.887	-0.05 (0.41)	.909	0.03 (0.41)	.948
GDP growth	4.36*** (1.33)	.001	4.50*** (1.33)	.001	4.62*** (1.34)	.001	4.73**** (1.34)	.000
Firm-level controls								
Private equity	0.09 (0.22)	.692	0.25 (0.23)	.267	0.22 (0.23)	.303	0.27 (0.23)	.250
Debt to equity	-0.00 (0.01)	.791	-0.01 (0.01)	.416	-0.01 (0.01)	.378	-0.01 (0.01)	.393
Host country experience	-0.01 (0.02)	.670	0.01 (0.02)	.771	0.01 (0.02)	.739	0.00 (0.02)	.903
Parent sales	0.01*** (0.00)	.007	0.01*** (0.00)	.002	0.02*** (0.00)	.001	0.01** (0.00)	.027
Manufacturing	-0.09 (0.08)	.228	-0.11 (0.08)	.136	-0.08 (0.08)	.314	-0.10 (0.08)	.187
Governance-level controls								
Non-family CEO	-0.19*** (0.07)	.010	0.05 (0.09)	.625	0.04 (0.09)	.694	0.04 (0.09)	.694
Board members' mean age	-0.01 (0.01)	.216	0.00 (0.01)	.666	0.01 (0.01)	.431	0.00 (0.01)	.588
CEO tenure	-0.01* (0.01)	.085	-0.01** (0.01)	.021	-0.02*** (0.01)	.003	-0.02*** (0.01)	.005
CEO woman	0.05 (0.18)	.794	-0.08 (0.18)	.657	-0.07 (0.18)	.690	-0.09 (0.18)	.632
CEO duality	-0.02 (0.08)	.848	0.04 (0.08)	.655	-0.00 (0.08)	.991	-0.01 (0.08)	.924
Wholly owned	0.06 (0.08)	.419	0.10 (0.08)	.183	0.10 (0.08)	.197	0.08 (0.08)	.323
Constant	0.39 (0.58)	.496	-0.09 (0.60)	.874	-0.21 (0.60)	.727	-0.31 (0.61)	.606
Year dummies	Yes		Yes		Yes		Yes	
Number of observations	1,849		1,849		1,849		1,849	
Ratio of correct classifications	79.23%		79.23%		79.39%		79.66%	
Efron's pseudo R^2	0.05		0.06		0.06		0.07	

Firm-level clustered standard errors in parentheses. P-values (*p*) in right-hand columns. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$.