Article

Family Firms and the Choice Between Wholly Owned Subsidiaries and Joint Ventures: A Transaction Costs Perspective

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Abstract

We examine the effects of family control on entry mode choice by integrating Transaction Costs Economics with the family business literature. Using a dataset of 951 foreign investments, we investigate the role of family involvement on entry modes. After controlling for endogeneity, we find that if both the investing and the local firm are family firms, forming a joint venture is preferred, while if only the investing firm is a family firm, a wholly owned subsidiary is more likely. Results show that family control has an important impact on entry modes, an hypothesis that has not yet been fully explored.

Keywords

family firms, entry mode, transaction cost economics, joint venture, wholly owned subsidiary

Family firm internationalization has been extensively investigated in recent years (Arregle, Duran, Hitt, & Van Essen, 2017; Feranita, Kotlar, & De Massis, 2017; Pukall & Calabrò, 2013). Although most studies have shown that family firms and nonfamily firms behave differently when they internationalize, many aspects of the difference are still open to debate (De Massis, Frattini, Majocchi, & Piscitello, 2018). One important issue is how much impact family involvement has on foreign entry strategy. While this has been addressed previously, the findings have been mixed (Boellis, Mariotti, Minichilli, & Piscitello, 2016; Filatotchev, Strange, Piesse, & Lien, 2007; Kao & Kuo, 2017). Using a Transaction Costs Economics (TCE) framework, Hennart (2009) has theorized that multinational corporations (MNC) enter foreign countries to acquire local complementary assets, assets often owned by local firms. Consequently, in addition to those of the MNC, the behaviors and characteristics of local firms are important determinants of entry mode choice. We investigate the entry mode decisions of family and nonfamily firms and explore the role of family involvement on both

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the MNC side and the local partner side. We contend that the mixed results produced to date are a consequence of a lack of attention to family or nonfamily involvement on both sides in general and on the local firm side in particular. In the present article, we address why and how family involvement affects entry strategy.

Integrating TCE with family business research, we argue that family firms develop some specific assets which are not easily tradable on the market (Gedajlovic & Carney, 2010; Memili, Chrisman, & Chua, 2011; Memili, Misra, Chrisman, & Welsh, 2017). We show that when firms decide to enter a foreign market in order to control such assets owned by a local firm, the choice between a wholly owned subsidiary (WOS)[1] and a joint venture (JV) depends on family involvement—both in the MNC and the local firm. Using a sample of 951 foreign investments in Italy by MNCs from 42 countries, we focus on the choice between a WOS and a JV by looking at the ownership and governance characteristics of the MNC and of the local firm.

Our contribution is threefold. First, and this is our core contribution, we widen the current entry mode debate by showing that the type of ownership of both investor and local firm is important. Second, in terms of theory, we provide further evidence that family involvement is an important determinant of entry mode choice (Boellis et al., 2016). This raises the question of which characteristics of family firms are the most relevant determinants of entry mode choice. And third, we contribute to the growing literature applying TCE to the internationalization of family firms (Verbeke & Kano, 2010, 2012).

Theoretical Framework

We use a TCE framework to study the effect of family control on entry mode choice. In fact, TCE has been widely applied to the study of entry modes (Zhao, Luo, & Suh, 2004) and is increasingly used in the family business context (Majocchi, D'Angelo, Forlani, & Buck, 2018; Pollak, 1985). Family business scholars have found TCE to be a suitable framework to analyze the idiosyncrasies of family firms and called for a deeper integration of TCE in the family business literature (Memili, Chrisman, Chua, Chang, & Kellermanns, 2011). The salient point in TCE theory is that the specificity of the asset to be traded increases transaction costs (Dyer, 1997), making market transactions less efficient and integration more attractive. We contend that family control increases the degree of specificity of firm assets (Chrisman, Chua, & Sharma, 2005). Therefore, family control is an important determinant of entry mode choice (Corbetta & Salvato, 2004; Memili et al., 2017).

Recent studies have acknowledged the role of family control in entry mode choice (Boellis et al., 2016; Kao, Kuo, & Chang, 2013; Kuo, Kao, Chang, & Chiu, 2012), but the results are mixed. Some scholars argue that the characteristic risk aversion of family firms increases their preference for JVs over WOSs. Similarly, their unwillingness to hire outside managers (Chrisman, Memli, & Misra, 2014) limits their access to international experience and increases their preference for sharing risk with a partner by forming a JV (Kuo et al., 2012). Using similar arguments, Boellis et al. (2016) argue that family firms prefer greenfield investment over foreign acquisition, which calls for specialized knowledge and managerial capabilities that family firms do not usually have. Abdellatif, Amann, and Jaussaud (2010), on the other hand, find that family firms are more likely to choose WOSs over JVs in order to maintain control over the business and to guarantee independence from external parties.

Overall, these contradictory results suggest the need for further research on the entry mode choices of family firms. In our view, there are two reasons for the mixed results: the lack of a unifying theory, and an implicit assumption that entry mode choice is a unilateral decision on the part of an MNC. In the present article, we address both.

The TCE Theory of Entry Mode

According to TCE theory, firms choose entry modes that minimize the transaction costs generated by the need to negotiate, monitor, and enforce transactions, thereby maximizing their net benefits. More specifically, firms prefer entry modes with a higher level of control when transaction costs are high (Anderson & Gatignon, 1986). When this occurs, vertical integration in the form of equity investments (a WOS or a JV) is preferred to arm's-length transactions in order to bypass the costs generated by markets or, within equity investments, full ownership is preferred to partial ownership (Majocchi, Mayrhofer, & Camps, 2013). Most previous studies have focused on the characteristics of the assets that MNCs transfer when they make foreign investments, and on the risk of opportunistic behaviors by partners (Anderson & Gatignon, 1986). Gomes-Casseres (1989) and Hennart (2009) plausibly argue that entry mode decisions are based on the transaction costs generated, not only by the assets held by the investing firm (the MNC), but also by the assets that it seeks to acquire from local firms in the host market. This view is consistent with the general theory of MNCs as set out by Rugman and Verbeke (1990), which stresses that to justify foreign direct investments (FDI), firms should bundle ownership-specific advantages (which they refer to as firm-specific advantages or FSAs) with location advantages (country-specific advantages or CSAs). However, local assets such as technical and consumer knowledge, stable relationships with local suppliers, and political connections are often location-bound (Rugman & Verbeke, 2001). Such local assets are usually not freely available in the host country; rather, they are owned by local firms. Hence, a comprehensive entry mode theory should consider both the rents of the investing firm and those of the local firm which owns the complementary assets. Hennart (2009) made this point in his seminal 2009 paper in which he presents a model that explains a firm's entry mode as being the result of the interaction between the MNC and the owner of the local assets. Thus, entry mode choice is also determined by the cost of accessing local inputs (Hennart, Sheng, & Pimenta, 2015), and it is fundamentally a question of defining which assets are difficult to trade.

So, for TCE theorists, determining which kinds of assets are difficult to transact is an essential step toward developing a comprehensive theory of entry mode. Many scholars maintain that knowledge is an asset difficult to trade, especially when it has an important tacit component (Arora, Fosfuri, & Gambardella, 2001). Indeed, Hennart (2009) in his model refers to knowledge as the archetypal example of an asset subject to market failure. Accordingly, he identifies two possible cases that lead to FDIs: when an asset owned by the MNC is difficult to transact but the local complementary asset can be efficiently bought in the host market, and when both assets are difficult to transact.

In the first instance, the foreign firm transfers the asset it owns internally and sets up a WOS in the host country, acquiring full ownership of the local asset. This is the classic FDI case in which a firm that owns specific knowledge acquires a firm that owns a distribution network in a foreign country. The recent acquisition of the Mexican wireless business Lusacell by AT&T, and also the acquisition of the Brazilian distribution network Oticas Carol by Luxottica, the Italian producer of luxury eyewear with prestigious brands such as Ray-Ban and Oakley, are two examples of this kind of FDI. However, if both the MNC and the local firm own assets that are difficult to transact, a full acquisition is not a viable solution. In that case, the MNC cannot acquire the necessary local complementary asset on the market. The most efficient solution is then to bundle the assets through a JV, either in a new legal entity (as in the case of a greenfield JV) or through a partial acquisition of the local firm. In such cases, both parties become residual claimants of the JV. The JV between Pfizer and the Chinese pharmaceutical firm Hisun is an example of this kind of arrangement, with Pfizer providing Research and Development knowledge and operational capabilities and Hisun supplying local market outreach.

MNCs that own high proprietary technical and scientific knowledge would prefer a WOS over a JV to protect their capabilities from the potential opportunistic behavior of local partners (Anderson & Gatignon, 1986). However, the tacit component is also relevant in the case of management and marketing skills. These capabilities reside in, and are fostered by, the workers and routines of the firm, making them difficult to disentangle and trade. We argue that family involvement fosters some abilities that can be firm-specific and difficult to transfer and replicate and therefore that family involvement has an impact on entry mode firm policies (Luo, Chung, & Sobczak, 2009).

Family Firm-Specific Assets and International Entry Mode

Gedajlovic and Carney (2010) argue that family firms have an advantage over nonfamily firms in developing, maintaining and exploiting certain firm-specific assets characterized by high transaction costs.[2] They identified four main types of such assets that are "sticky" and difficult or impossible to trade: bonding social capital; tacit knowledge; bridging social capital; and reputational assets.

The bonding form of social capital refers to all those "features of social organization such as network, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (Putnam, 1995, p. 67). Within family firms (Arregle, Hitt, Sirmon, & Very, 2007), coordination and cooperation are facilitated by the cohesion of the management team, since kinship encourages the development of common values and the forming of similar attitudes toward business and risk. Those attitudes, together with the preference for long-term employment relationships typical of family firms, promote deep firm-specific knowledge and unique managerial capabilities that are bound to the firm (Chrisman et al., 2005; Miller & Le-Breton-Miller, 2005). Therefore, as argued by Memili et al. (2017, p. 88), "in family firms, as compared to nonfamily firms, human asset specificity is expected to be higher owing to the involvement of the family in the business."

Involved since childhood in the family firm, family members develop an emotional attachment to it which leads them to be good stewards and to behave altruistically toward other family members (Miller, Minichilli, & Corbetta, 2013). This, in turn, promotes the second typology of asset, that is, the ability to transfer within the firm tacit knowledge. In family firms, the common cultural backgrounds and the shared code of communication facilitate common understanding and the transfer of tacit knowledge that is typically difficult to codify.

The third category of non-tradable assets is the bridging form of social capital. This external component of social capital consists in the relationships actors in the firm have with actors outside it. Family firms tend to be stable in terms of ownership and management so norms can be maintained across time and space, promoting the development of reciprocal trust. This allows family firms to build strong relationships with external stakeholders (D'Angelo, Majocchi, & Buck, 2016; Hitt, Lee, & Yucel, 2002).

Finally, the literature also shows that family firms actively promote their reputational assets. The blurred borders between families and their firms, often bearing the name of the owners, are an incentive to invest in and promote a positive image and to engage in corporate social responsibility (Deephouse & Jaskiewicz, 2013). Empirical evidence shows that family firms tend to act in a more socially responsible manner than businesses that are pressured by nonfamily owners and stakeholders to deliver immediate financial results.

The TCE characteristics of these four kinds of family assets are clearly identified by Gedajlovic and Carney (2010, p. 1157) who state that they are…very sticky to the party that has developed them, and their sale is often either impossible or subject to substantial trading hazards and transaction costs. Further, even when… [these assets] such as tacit

knowledge, bonding or bridging social capital, or reputational assets based upon perceived personal qualities can be effectively transferred, it is unlikely that they can flourish or be sustainable away from the organizational context in which they were developed.

In other words, these family business-specific assets are FSAs that are difficult—if not impossible—to trade because they cannot be separated from the family firms that have engendered them. Family-specific assets which are held by the investing firm, the local firm, or both, affect entry mode choices.

Development of the Hypotheses

In previous sections, we have shown that entry mode choices are influenced by, among other factors, the tradability of the assets owned by MNCs as well as those owned by firms in the host market (Brouthers & Hennart, 2007), and that family involvement engenders firm-specific assets that are non-tradable. We now develop a model that compares entries of firms with family involvement to those that do not involve family, that is, the usual case in previous research on entry modes. As shown in Figure 1, the combination of family status in the investing MNC and in the local firm generates four possible combinations. The unit of analysis is the transaction. On the *x-axis,* we distinguish between family and nonfamily investors (MNCs), and on the *y-axis,* we separate local family from nonfamily firms.

Cell 1 shows the case of both the MNC and the local firm being nonfamily businesses, our reference group. In this case, since neither the MNC nor the local firm own family-linked assets, standard entry mode theory applies. In the other three cells (Cells 2–4), family-specific assets are traded. We consider these cases in our three hypotheses. As reported previously, the entry mode is the result of a bilateral decision made by the MNC and the local firm. For the sake of clarity, in the development of our hypotheses, we adopt the point of view of the MNC.

Cell 2 shows the case of a family MNC interested in assets owned by a local nonfamily firm. In this case, the MNC owns family-specific assets that are difficult to transact, while the local firm does not. Therefore, the higher transaction costs generated by the transfer of family-specific assets internationally will, all other things being equal, favor a full acquisition; thus the MNC will choose a WOS over a JV. The full acquisition guarantees family control and the MNC will maintain and preserve the family characteristics of the business, assuring that its family-specific assets can be transferred internationally, and bundling them with the required complementary assets owned by the local firm. The view that family firms own the most

	MNC Non-family Firm	**MNC Family Firm**
Local Non-family Firm	1. Traditional entry mode theory *reference group*	2. WOS[a]
Local Family Firm	3. JV[b]	4. JV[c]

Figure 1. Theoretical model.

Note. [a]The MNC, being a family firm, owns the asset difficult to transact. [b]The local firm owns the asset difficult to transact. [c]Both firms own assets difficult to transact.

relevant and difficult-to-trade assets, and that this leads to their acquiring nonfamily firms, is in keeping with Grossman and Hart's argument that: ''Integration is... optimal when one firm's investment decision is particularly important relative to the other firm's, whereas non-integration is desirable when both investment decisions are 'somewhat' important'' (1986, pp. 716–717). In our model, the deciding elements of the entry mode decision are family-specific assets. The alternative to integration is not non-integration but joint ownership (i.e., JV). For all these reasons, when the MNC is a family business and the local firm is not, we predict that the MNC is more likely to fully acquire the local firm. Thus, we posit:

Hypothesis 1: *An MNC is more likely to fully acquire a local firm thereby establishing a WOS, rather than forming a JV, if the MNC is a family business and the local firm is not.*

Cell 3 shows our second hypothesis in which the MNC is a nonfamily firm and the local firm is family controlled. Following our previous arguments, an acquisition would not be the most efficient solution. The MNC cannot acquire only the firm-specific assets owned by the local family firm since these specific assets cannot be separated from the rest of the firm. Acquiring the entire firm and then selling the resources that are not needed is not a viable strategy since the family-specific assets cannot be separated from all the other assets of the firm.

Similarly, a full acquisition would change the nature of the acquired business causing it to lose its family character. On the other hand, a JV would not mean a change in the nature of the local business, but rather, would preserve some family firm characteristics. Moreover, the JV solution allows the local family owners to maintain some degree of control (Zellweger & Dehlen, 2012; Zellweger, Nason, & Nordqvist, 2012). Since the assets generated by family involvement are significantly linked to the motivation of family management, a JV presents the additional advantage of preserving the emotional attachment of local family managers (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). Thus, a JV ensures that the local family members will be motivated to continue to act in the interest of the family firm, sharing the bundle of tacit knowledge with the MNC. The little empirical evidence to date confirms this. Studying acquisition in a sample of continental European firms, Caprio, Croci, and Del Giudice (2011) found that family control of a local firm reduces the chances of it being acquired by a third party. Therefore, our second hypothesis is:

Hypothesis 2: *An MNC is more likely to establish a JV rather than a WOS if the MNC is a nonfamily business and the local firm is a family firm.*

Cell 4 illustrates the case of both the MNC and the local firm being family businesses. In this case, both firms own family-related assets that are difficult to evaluate and to transact (Gedajlovic & Carney, 2010), and mutual acquisition is not a viable alternative (Balakrishnan & Koza, 1993). Neither of the firms is able to sell and/or separate its reputation, social capital, and tacit knowledge from the rest of the firm. On the other hand, forming a JV is an efficient solution since it allows both to remain under family control and at the same time to bundle the complementary assets. The valuation problem is solved by allowing both firms to be remunerated through the residual profits generated by the JV. To sum up, family firms face difficulties in transacting the specific asset of familiness that makes a full acquisition difficult. Accordingly, we formulated our third hypothesis:

Hypothesis 3: *An MNC is more likely to establish a JV rather than a WOS if both firms in the transaction, that is, the MNC and the local firm, are family controlled.*

Methodology

Data and Sample

Our sample was collected using two different Bureau van Dijk databases: Zephyr for deals, and Orbis for firm-specific data. We considered only investments (full and partial acquisitions, and greenfield JVs) made by foreign MNCs in Italy, involving an Italian firm as target or partner.[3] We selected Italy as our main host country to study family firms as 75% of businesses in the country are family owned (Barontini & Caprio, 2006). From Zephyr, we collected all deals made by foreign firms in Italy between 2005 and 2015. Deals were selected according to two criteria: (a) the foreign firm had no initial stake in the Italian one; and (b) the deal allowed the MNC to take control of at least 10% of the firm (Cuypers, Ertug, & Hennart, 2015). Our initial sample comprised 1,710 deals, and for each we collected data on both the investor and the local Italian firm. To define whether a firm is family controlled or not, we collected data on ultimate ownership for both, and then classified every deal according to the type of entry mode choice.

In order to determine the identity of the controlling shareholder, we make two important distinctions. First, we differentiated first shareholders from ultimate owners. Data about first shareholder type can clearly be misleading, because mechanisms such as pyramiding, multi-control chains, and cross-holding are frequently used and they insert a wedge between ownership and control (Bertrand, Johnson, Samphantharak, & Schoar, 2008). Through these mechanisms, an individual or an entity may have greater power over a firm than that exerted by the first shareholder. Second, we trace the complete map of shareholders along the full chain of control, and distinguish cash-flow rights from voting rights (Faccio & Lang, 2002). Indeed, as reported by Faccio and Lang (2002, p. 369), "Corporate ownership is measured by cash-flow rights, and control is measured by voting rights. Ownership and control rights can differ…." To identify the ultimate owners and measure voting rights, we follow the well-established methodology of Faccio and Lang (2002), and identify all the links larger than 5% of voting rights. Then, to define the level of control (and not just cash-flow rights measuring ownership), we sum up the weakest links of each control chain.[4] This methodology allows us to find the identity of the owner that exerts the highest level of control over each firm (Caprio et al., 2011).

Furthermore, to distinguish firms owned by a specific shareholder from widely-held ones, we used the common threshold of 20% (Faccio & Lang, 2002). The example of the group Moët Hennessy—Louis Vuitton S.E. (LVMH), a world leader in luxury products with extensive investments in Italy, owning iconic brands such as Loro Piana, Fendi, Christian Dior, and Bulgari, can clarify the discrepancy between the first shareholder and ultimate owner, and between ownership and control rights. The first shareholder of LVMH is Financiere Jean Goujon, a financial firm that owns 57.31% of LVMH shares. However, Financiere Jean Goujon is not the ultimate owner. The ultimate owner is the Arnault family who has two links to LVMH: 5.28% directly and 57.31% through the weakest link in the pyramidal chain, making a total of 62.59%. Their ownership rights, that is, the multiplication of all their percentages along all chains, are much smaller and are equal to 34.16% [=5.28% + (57.31% × 100% × 68.80% × 99.74% × 73.44%)]. If we had relied only on first shareholder data, we would have classified this firm as one controlled by a holding company. Using more accurate data on ultimate ownership, we can determine that it is a family firm.

Using this methodology, we collected information on the ultimate owner for each side involved in each deal, that is, for both the MNC and the local firm. Data on the ultimate owner were collected from Orbis and complemented with information obtained using company websites, web sources, and Italian and international press sources as reported by the

Lexis-Nexis database. By defining the full chain of control for both, we are confident that we obtained a precise and accurate dataset that allows us to classify them as family or nonfamily firms. Observations with incomplete data were not included in the analysis, leaving us with a sample of 951 observations.

Dependent Variable

Our dependent variable is binary and takes the value of 1 when the deal is a JV,[5] that is, when the MNC acquires a stake of less than 95% of the local firm or owns less than 95% of equity in a greenfield JV, and 0 otherwise, which corresponds to a WOS (Yiu & Makino, 2002).

Independent Variables

The operational definition of a family business is a complex task requiring a solid theoretical basis on which to use the measurements taken (Chua, Chrisman, & Sharma, 1999; Sharma & Chrisman, 1999). Although the debate is still open, there is now a consensus among scholars that a family firm is one owned and managed by a family. Chua, Chrisman, and Chang (2004, p. 39) encapsulate this in writing that "dominant family ownership plus significant management involvement by family members may be sufficient to ensure that the vision of the firm is shaped and pursued by the family." This view has recently been confirmed by the meta-analysis review of Arregle et al. (2017). We follow the approach taken in previous studies (De Massis, Chirico, Kotlar, & Naldi, 2014; Kotlar & De Massis, 2013) and define family firms as those that are owned and managed by a family. We consider a firm to be family controlled when the ultimate owner is an individual or a family, and when at least one member of the family is an executive member, that is the CEO, honorary chairman, chairman, or vice-chairman or the director of the firm (Banalieva & Eddleston, 2011). The main independent variables testing our hypotheses are binary, and they identify the four possible combinations of family status for the firms involved in a deal (Chua et al., 2004; Gentry, Dalziel, & Jamison, 2013; Leitterstorf & Rau, 2014): (a) neither the MNC nor the local firm is family controlled (*Nonfamily Nonfamily*); (b) the MNC is a family firm while the local firm is not (*Family Nonfamily*); (c) the local firm is a family firm while the MNC is not (*Nonfamily Family*); (d) both the MNC and the local firm are family firms (*Family Family*); (Cell 1, Cell 2, Cell 3, and Cell 4 of Figure 1, respectively). We use the last three variables to test our hypotheses using the case of deals that do not involve a family firm as the reference group.

Control Variables

We controlled for several factors that, besides family involvement, may affect entry modes. Most previous studies focusing on the choice between WOS and JV test the role of knowledge using the R&D intensity of the MNC (Makino & Neupert, 2000). MNCs with higher R&D intensity develop specific knowledge and prefer WOS over JV in order to have full control of their knowledge assets. We verified this effect using the R&D intensity of the MNC, measured by its R&D expenditure over total sales (*MNC R&D intensity*).

Usually MNCs prefer JV when there are liabilities of foreignness (Johanson & Vahlne, 2009), but they tend to be temporary as the new entrant learns about market conditions. On the contrary, firms with country-specific experience tend to prefer a WOS over a JV because their need for a local partner decreases as they increase their own local experience. To measure the MNC's previous experience (*MNC Experience*), we use a binary variable coded 1 if the MNC had previous investments in Italy.

The literature is unanimous in arguing that larger firms prefer full acquisition to a JV (Chiao, Lo, & Yu, 2010). We measured the MNC's size using the natural logarithm of its number of employees (*MNC Size*). However, when the local firm is large or listed, JV tends to prevail. We verified these effects using the natural logarithm of the number of employees of the local firm (*Local Size*) and a dummy (*Local Listed*) for listed firms. We also controlled for the relative size of the two firms using the ratio of total sales between the two (*Relative Size*; Makino & Neupert, 2000). Checking for any difference in the measurements of size, both in absolute and relative terms, is crucial to ensure that results are driven exclusively by the family effect and not by the size of the firms involved in the deal (Brouthers & Nakos, 2004).

Previous studies of the impact of host country industry growth on the choice between WOS and JV obtained mixed results. We included a variable (*Local Industry Growth*) which is the percentage growth of gross value added in the NACE 2-digit industry entered. Since manufacturing firms tend to be the target of full acquisition more frequently than service firms (Dikova & Van Witteloostuijn, 2007), we also entered a dummy variable (*Local Manufacturing*) which takes the value of 1 when the local firm is active in the manufacturing sector. Firms entering into new businesses prefer a JV over a WOS given their lack of knowledge of the industry (Hennart, 1991). Thus, we included a dummy variable which takes the value of 1 if the local firm and the MNC are active in the same industry (*Same Industry*). Previous studies have used different measures of psychic distance between home and host markets (Puck, Holtbruegge, & Mohr, 2009). We used the Dow and Karunaratna (2006) index (*Psychic Distance*). To evaluate the effect of the MNC's home country, we used three dummy variables defining large geographical areas: *Europe* (our baseline dummy), *America*, and *the Rest of the World*. Finally, given the longitudinal nature of our data, ranging from 2005 to 2015, we checked for time effects. We constructed a dummy (*Crisis*) to measure the possible effect of the 2008–2009 international financial crisis. This variable is our baseline; the other two dummies refer to 2005–2007 (*Pre crisis*) and to the 2012–2015 (*Post crisis*). Tables 1 and 2 report the descriptive statistics for the continuous variables and the frequencies of the binary variables.

Table 3 presents the variance inflation factors (VIFs) and the correlation matrix. Both the VIF values and the low correlation coefficients suggest that multicollinearity is not a concern in this study.

Results

Given the binary nature of our dependent variable, we used logistic regressions to estimate five different models (see Table 4). Model 1, our baseline model, includes only the control variables. We enter in the succeeding models the variables defining the family status of the MNC and of the local firm. Hence, Model 4 shows our full model with all independent variables, with column 4B reporting the marginal effects. Our discussion of results is based on this model.

Hypothesis 1 argues that a family MNC is more likely to establish a WOS than a JV if the local firm is a nonfamily firm. The coefficient of the variable *Family Nonfamily* is negative and marginally significant ($p < .10$). Thus, our first hypothesis is only weakly supported. The probability of a JV, in this case, decreases by 8.67%. The second hypothesis is—in these runs—supported, since results in Model 4 show a positive and significant coefficient for the variable *Nonfamily Family* ($p < .001$), which is equal to 1 when the MNC is a nonfamily business and the local firm is family controlled, with a marginal effect equal to 11.72%. Hypothesis 3 argues that when both the MNC and the local firm are family firms then a JV is more likely. The coefficient of our dummy *Family Family* is positive and significant

Table 1. Descriptive Statistics of the Continuous Variables.

Variable	Mean	*SD*	Min	Max
MNC R&D intensity	0.113	0.619	0	5
MNC Size[a]	19025.760	52365.720	1	439401
Local Size[a]	1744.855	10483.430	1	147865
Relative Size	2.149	3.781	−0.004	18.280
Local Industry Growth	0.007	0.063	−0.600	0.480
Psychic Distance	1.175	1.175	0.450	7.790

Note. MNC = multinational corporation; R&D = research and development. [a]Untransformed values.

Table 2. Absolute and Relative Frequencies of the Binary Variables.

Variable	Absolute frequency	Relative frequency
Family Nonfamily	129	13.56%
Nonfamily Family	261	27.44%
Family Family	71	7.47%
MNC Experience	250	26.29%
Local Listed	44	4.63%
Local Manufacturing	415	43.64%
Same Industry	440	46.27%
America	122	12.83%
Rest of the World	62	6.52%
Pre crisis	235	24.71%
Post crisis	447	47.00%

Note. MNC = multinational corporation.

($p < .05$), supporting this hypothesis. The marginal effect shows that if a deal involves two family firms, the probability of a JV is 13.94% higher than an acquisition.

While some controls (*MNC Experience*, *MNC Size*, *Local Size*, *Relative Size, Same Industry,* and *Psychic Distance*) are not significant, the others are significant and confirm previous results. The *MNC R&D intensity* variable is negative and significant ($p < .05$), confirming that an MNC with strong technological capabilities will prefer a WOS over a JV so as to protect its valuable assets (Makino & Neupert, 2000). This result is consistent with previous TCE based studies on entry modes.

The positive and significant effect ($p < .001$) of the *Local Listed* coefficient confirms that listed firms have a higher probability of being involved in a JV than of being acquired.

The coefficient of *Local Industry Growth* variable is positive and significant ($p < .05$) confirming that firms investing in growing sectors tend to prefer JVs. The negative and significant coefficient ($p < .001$) of the variable *Local Manufacturing* confirms, as expected (Yiu & Makino, 2002), that if the local firm is a manufacturing firm, a JV is less likely.

The stability and the overall fit of the estimations across models are adequate. The Hosmer–Lemeshow tests for goodness of fit (Hosmer & Lemeshow, 2004) are reported at the bottom of Table 4, and all models show values confirming a good fit. The Hosmer–Lemeshow statistic for the full model has a χ^2 value with 8 degrees of freedom equal to

Table 3. Correlation Matrix.[a]

Variables	VIF	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. JV	1.14	1.													
2. Family Nonfamily	1.14	−0.07	1.												
3. Nonfamily Family	1.12	0.07	−0.24*	1.											
4. Family Family	1.26	0.03	−0.11*	−0.17*	1.										
5. MNC R&D intensity	1.08	−0.03	0.00	−0.00	0.07	1.									
6. MNC Experience	1.12	0.03	−0.02	−0.12*	0.03	0.05	1.								
7. MNC Size	1.51	0.00	−0.06	0.00	0.05	0.18*	0.24*	1.							
8. Local Size	1.57	0.10*	−0.01	0.03	0.02	0.11*	0.04	0.20*	1.						
9. Local Listed	1.33	0.22*	0.04	0.01	−0.04	0.12*	0.05	0.09*	0.42*	1.					
10. Relative Size	1.37	0.07	0.06	−0.03	−0.03	0.01	−0.14*	−0.36*	0.25*	0.11*	1.				
11. Local Industry Growth	1.07	0.08	0.01	−0.11*	−0.02	−0.01	0.06	0.06	0.01	−0.0	0.04	1.			
12. Local Manufacturing	1.19	−0.13*	−0.01	0.11*	0.03	0.02	−0.05	0.07	0.24*	−0.05	−0.02	−0.04	1.		
13. Same Industry	1.12	−0.02	−0.05	0.04	0.06	−0.01	0.04	0.25*	0.06	−0.00	−0.17*	−0.00	0.18*	1.	
14. Psychic Distance	2.05	0.09*	0.00	0.04	0.02	−0.03	0.01	0.03	−0.05	−0.06	−0.03	0.02	0.09*	0.05	1.

Note. MNC = multinational corporation; R&D = research and development; JV = joint venture.
[a]Geographical and Time effects included but not reported. The variance inflation factors for these variables are: America = 1.31; Rest of the World = 1.97; Pre crisis = 1.46; Post crisis = 1.54. *$p<0.1$.

6.50 ($p = 0.5918$) with all the expected frequencies greater than the threshold value of 5. All models show high predictability since the value of the observations correctly classified is stable and in Model 4 is equal to 70.87%, in line with similar studies (Slangen & Hennart, 2008). Overall, these results support the conclusion that the goodness of fit of the models is satisfactory.

Endogeneity Concerns and Robustness Tests

One major concern in family business research is endogeneity (De Massis et al., 2018). Research has shown that the probability of being a family firm is not randomly distributed (Villalonga & Amit, 2010). If the factors explaining family status of firms also affect entry mode choices, then endogeneity should be addressed in order to avoid a biased estimation. To solve this issue, we performed a two-stage logistic regression using instrumental variables as suggested by Semadeni, Whiters, and Certo (2014). Since we have two possible endogenous variables, namely the family status of the MNC and that of the local firm, we estimated two different regressions in our first stage (Angrist & Pischke, 2009) with three exogenous instrumental variables. To find variables strongly correlated with the endogenous variables but not with the error term in the second stage, we followed previous studies about family firm predictors. Villalonga and Amit (2010) argue that the level of tangible assets owned by the firm is a proxy for the external financing needs that dilute family ownership as the firm grows. When capital intensity grows, family ownership tends to decrease. Therefore, we used the value of the firm's tangible assets (*Tangible Assets*) as our first instrumental variable. Our second instrument is based on the argument that family ownership is more concentrated in sectors where the amenity potential is greater (Demsetz & Lehn, 1985). By amenity potential, they refer to the benefits generated to owners by the type of goods produced by the firms. Examples of these businesses are professional sports clubs, mass media, food, and fashion. We expect that firms operating in one of these industries are more likely to be family controlled and we define this variable as *Amenity*. Our third instrumental variable is a dummy (*Regulation*), which takes the value of 1 when the industry sector is a regulated sector

Table 4. Results of the Logistic Regression[a] (Dependent Variable JV = 1; WOS = 0).

Variables	Model (1)	Model (2)	Model (3)	Model (4)	Model (4B)[b]	Model (5)
Family Nonfamily		–0.697**	–0.544*	–0.452†	–0.0867	–0.061*
		(0.243)	(0.250)	(0.254)		(0.0250)
Nonfamily Family			0.490**	0.611***	0.1172	–0.007
			(0.177)	(0.184)		(0.0209)
Family Family				0.727*	0.1394	0.061†
				(0.307)		(0.0346)
MNC R&D intensity	–0.290*	–0.286*	–0.280*	–0.308*	–0.0590	–0.355**
	(0.129)	(0.126)	(0.128)	(0.133)		(0.132)
MNC Experience	0.102	0.0903	0.141	0.141	0.0270	0.256
	(0.174)	(0.176)	(0.177)	(0.179)		(0.209)
MNC Size	–0.0116	–0.0131	–0.0131	–0.0154	–0.0030	–0.0214
	(0.0253)	(0.0252)	(0.0254)	(0.0257)		(0.0257)
Local Size	0.0537	0.0482	0.0451	0.0426	0.0082	0.0323
	(0.0398)	(0.0397)	(0.0403)	(0.0405)		(0.0432)
Local Listed	2.076***	2.156***	2.121***	2.170***	0.4160	2.133***
	(0.397)	(0.400)	(0.400)	(0.408)		(0.412)
Relative Size	0.0211	0.0239	0.0263	0.0274	0.0052	0.0378
	(0.0222)	(0.0223)	(0.0226)	(0.0229)		(0.0244)
Local Industry Growth	2.171†	2.171†	2.395†	2.471*	0.4737	3.120*
	(1.217)	(1.215)	(1.229)	(1.247)		(1.327)
Local Manufacturing	–0.647***	–0.646***	–0.682***	–0.694***	–0.1331	–0.741***
	(0.160)	(0.161)	(0.162)	(0.162)		(0.177)
Same Industry	0.0419	0.0356	0.0362	0.0257	0.0049	–0.0668
	(0.156)	(0.156)	(0.158)	(0.158)		(0.161)
Psychic Distance	0.101	0.107	0.112	0.103	0.0197	0.0880
	(0.0898)	(0.0897)	(0.0881)	(0.0884)		(0.0984)
America	–0.0858	–0.0981	–0.118	–0.0937	–0.0180	–0.132
	(0.247)	(0.252)	(0.256)	(0.257)		(0.268)
Rest of the World	0.909*	0.908*	0.852*	0.902*	0.1729	0.849†
	(0.385)	(0.383)	(0.381)	(0.390)		(0.450)
Pre crisis	0.267	0.247	0.303	0.362†	0.0695	0.219
	(0.193)	(0.194)	(0.197)	(0.199)		(0.309)
Post crisis	–0.224	–0.252	–0.315†	–0.369†	–0.0707	–0.604*
	(0.184)	(0.184)	(0.188)	(0.190)		(0.304)
Constant	–0.955***	–0.831**	–0.970***	–1.028***		–0.0725
	(0.255)	(0.258)	(0.263)	(0.268)		(0.671)
Observations	951	951	951	951		951
Hosmer–Lemeshow χ^{2}***	2.06	5.14	6.91	6.50		4.68
AIC	1130.924	1123.865	1118.066	1114.054		1129.315
Overall % correct	70.77%	70.98%	71.19%	70.87%		70.45%
Log pseudo likelihood	–550.462	–545.933	–542.033	–539.027		–546.657

(continued)

Table 4. Continued.

Variables	Model (1)	Model (2)	Model (3)	Model (4)	Model (4B)[b]	Model (5)
LR	96.86***	105.92***	113.72***	119.73***		104.47***
Nagelkerke R^2	0.135	0.147	0.157	0.165		0.145

Note. MNC = multinational corporation; R&D = research and development; LR = likelihood ratio; JV = joint venture; WOS = wholly owned subsidiary.
[a]Robust standard errors in parentheses. [b]Marginal effects of Model 4.
***$p < .001$. **$p < .01$. *$p < .05$. †$p < .1$.

(telecommunications, utilities, and finance). Regulation limits the leeway of owners to consume on the job and limits the options available to managers; it tends therefore to discourage family ownership (Demsetz & Lehn, 1985).

Additionally, to meet the exclusion restriction, a good instrumental variable must not affect the dependent variable of the second stage regression other than through the independent variables. None of the three variables is correlated with the dependent variable of the second stage,[6] and none of them have been considered in the literature as a determinant of entry mode. In the first stage, we estimate the probability of being family-controlled for both the MNC and the local firm. We use these two different values to predict the probability of the three possible cases in which we are interested: the MNC is family controlled; the local firm is family controlled; and, using these two estimated values, we compute the joint probability that both firms are simultaneously family controlled. We then include these three estimates in the second stage.

The estimation results of the first stage are reported in Table 5. The first stage includes the controls of the second stage. The dependent variable is a binary variable measuring the family status for the MNC (Model 1, Table 5) and for the local firm (Model 2, Table 5). To assess the relevance of the instruments used in the first stages, we used the F test as suggested by Semadeni et al. (2014). The values of the F test for both models are higher than 10 and statistically significant, confirming the validity of our instruments, and we can therefore safely reject the null hypothesis of weak instruments (Stock & Yogo, 2005). The instruments used in the first stages are mostly significant and have the predicted signs. The variable *Tangible Assets* is negative and significant only in the model estimating the family status of MNCs. The *Amenity* potential is positive as expected and significant in the second model, while the variable *Regulation* is strongly significant and negative, as expected, in both models.

Our complete second stage model that controls for endogeneity is reported in Table 4 as Model 5. Our first hypothesis that family MNCs are more likely to form a WOS rather than a JV if the local firms are not family controlled, is supported. The variable *Family Nonfamily* is negative and significant ($p < .05$). On the contrary, the *Nonfamily Family* variable is not significant; hence we cannot claim that, after checking for endogeneity, our second hypothesis is confirmed. The probability that if both firms are family businesses JV is the more likely outcome is confirmed. The *Family* variable is positive and significant ($p < .10$), partially confirming our third hypothesis.

To assess the validity of our results, we also performed numerous robustness checks exploiting available data. First, we used a different definition of our dependent variable. We replaced our binary measure of entry mode by the percentage of ownership owned by the MNC; we used a Tobit specification because the dependent variable is censored with a minimum value of 10% and a maximum of 100%. Results confirmed our findings. We also experimented with a probit rather than a logistic model and a dependent binary variable and the results were unchanged. Results were also consistent when we change the dependent

Table 5 First Stages: Estimated Probability to Be a Family Firm: MNC and Local Firm.[a]

	Model (1) DV MNC	Model (2) DV local
Tangible Assets	−2.34e−08[†]	−2.14e−08
	(1.34e−08)	(1.47e−08)
Amenity	0.259	0.450*
	(0.210)	(0.192)
Regulation	−0.351**	−0.383**
	(0.111)	(0.143)
MNC R&D intensity	0.0928	0.0758
	(0.0728)	(0.0716)
MNC Experience	0.0742	−0.221*
	(0.111)	(0.107)
MNC Size	0.00411	0.0121
	(0.0168)	(0.0158)
Local Size	−0.00523	0.0350
	(0.0242)	(0.0235)
Local Listed	0.161	0.145
	(0.235)	(0.248)
Relative Size	0.0147	−0.0146
	(0.0139)	(0.0143)
Local Industry Growth	0.545	−0.703
	(0.687)	(0.690)
Local Manufacturing	−0.0289	0.00549
	(0.101)	(0.105)
Same Industry	−0.105	0.103
	(0.0999)	(0.0956)
Psychic Distance	0.0685	0.0182
	(0.0581)	(0.0529)
America	−0.226	−0.0107
	(0.162)	(0.146)
Rest of the World	−0.410	0.142
	(0.264)	(0.236)
Pre crisis	−0.307*	−0.533***
	(0.134)	(0.133)
Post crisis	0.0903	0.488***
	(0.111)	(0.104)
Constant	−0.714***	−0.718***
	(0.165)	(0.157)
Observations	951	951
Nagelkerke R^2	0.186	0.055

Note. MNC = multinational corporation; R&D = research and development; JV = joint venture; Dependent variable of Model (1): MNC is a family firm = 1; Dependent variable of Model (2): The local target firms is a family firm = 1.

[a]Robust standard errors in parentheses.

***$p < .001$. **$p < .01$. *$p < .05$. [†]$p < .1$.

variable definition and use 80% and 100% as the threshold to define a JV. We further test our hypotheses using the interaction term of the MNC and the local company family dummies; we also test the local and the MNC family dummies respectively on the subsamples of nonfamily MNCs and nonfamily local firms. Results are consistent with our previous findings.

We also used different sample definitions. Results were consistent when we excluded greenfield joint ventures and considered only the choice between partial and full acquisitions. Similar results were obtained excluding from the sample all observations from one country of origin at time. Results remain valid and so we can conclude that they were not driven by a specific country of origin. We estimated the model using the cluster option for the geographical area of origin and results were consistent. We also ran regressions using different thresholds from the standard 20% to define ultimate ownership.

Our hypotheses are not supported when we change the family firm definition to one based only on ownership. This further confirms the relevance of our definition of family firm based on ownership and management and not just on ownership. Without the direct involvement of family members in management, family firms seem to lack the peculiar firm-specific assets that affect entry mode choice. Finally, we checked the robustness of our results using different definitions of the control variables. We considered the number of employees rather than the total volume of sales in the *Relative Size* measure and we measured *Same Industry* at the 3-digit and the 4-digit Standard Industrial Classification (SIC) level. We also ran the regressions using a categorical variable for each year. All these supplementary regressions support our main results.

Discussion and Conclusions

Family business scholars have long argued that the particular characteristics of family firms call for a distinct theory. In this vein, many authors have explored the differences between family and nonfamily firm internationalization and drawn similar conclusions (De Massis et al., 2018; Fernández & Nieto, 2006; Majocchi & Strange, 2012). Nonetheless, recent work considering the impact of family firm characteristics on entry modes have yielded mixed results. In the present article, we argue that the reason for unsatisfactory findings is that the studies undertaken to date lack a proper theoretical framework and do not control for family involvement in both the MNC and the local firm. When a family firm owns local assets, the dynamic of the entry mode is affected. We show that whether the owner of the foreign assets is a family firm or not has an impact on the entry mode choice as family control is relevant on both sides of the transaction.

We believe that future research would be more fruitful if corporate governance characteristics were taken into account. We show that when both partners are family firms, the best option is a residual-sharing contract, namely a JV that allows both parties to be compensated for the assets transferred in the deal *ex-post*, that is, based on the profit generated by the deal. This is because familiness is an essential but non-tradable asset, and a greenfield JV or a partial acquisition preserves the family status of both.

When the MNC is family controlled and the local target is not, the preferred choice is rather a WOS as that entry mode allows the MNC to transfer its family-specific assets abroad while preserving full control. Indeed, in acquiring full ownership of the local firm, the newly merged entity remains family controlled. This is in our view an important result with implications for both family business and entry mode research. The different entry mode outcomes reported in Cell 2 (WOS) and 4 (JV) of Figure 1 and confirmed by our empirical analysis show that the same firm, if family owned, will choose a different entry mode based solely on the ownership characteristic of the target firm. Our results, after endogeneity

controls, do not allow us to draw any conclusion about the case of Cell 3 when a nonfamily MNC targets a local family firm. Hennart (2009) argues that when the MNC holds marketable assets such as technology or brand names and the local firm does not, the efficient solution is a licensing agreement that allows the local firms to use the transferable assets of the MNC. Our data did not allow us to test also this alternative hypothesis and this may explain our mixed results. A further possibility is that some MNCs manage to acquire the majority of the local family firms, and keep the family managers involved as executives in order to preserve in the new subsidiary some family-related assets. The empirical test of this case would have required information on the retention rate of family managers—data that unfortunately were not available for the analysis. We believe that the examination of these possibilities is a promising line of investigation that deserves additional research.

Overall, our results have different theoretical and practical implications. From a theoretical point of view, we argue that the integration of TCE theory into family business research offers a proper theoretical framework to investigate entry mode choice when family firms are involved in deals. In doing so, we respond to the call by Chrisman et al. (2005) to develop a rigorous theory of family firms. With this in mind, we identify a series of characteristics that are specific to family firms. These characteristics represent an asset that firms cannot easily sell on the market because they are difficult to define, codify, and assess, and also because they are intrinsically linked to the firm. In other words, under certain conditions, familiness can be a non-tradable asset.

While we discuss the consequence of the non-tradability of family assets on entry modes, the implications of these characteristics of family firms are much wider. For instance, our finding complements the arguments of Kano and Verbeke (2018, p. 178) in their effort to develop a TCE theory of family firms, and in particular their contention that the identification of specific family firm governance attributes "could also contribute to improved conceptual understanding of family firms' diverging internationalization paths, as expressed in strategic decisions on location choice and operating mode selection." More generally, this article contributes to the ongoing theoretical efforts to integrate TCE with the corporate governance and the family business literature (Kano & Verbeke, 2018; Majocchi, D'Angelo, Forlani, & Buck, 2018). We present a model of family firm entry mode choice, and we test our hypotheses based on the assumption that family firms differ from other firms. The results confirm our hypotheses that family firm behavior is affected by the particular assets they own.

The findings are also relevant for the development of a more comprehensive and solid entry mode theory (Hennart & Slangen, 2015). We show that future research on the subject should also consider the firm's family status and that, to avoid specification errors, future empirical studies should evaluate governance characteristics.

Moreover, while we recognize that family involvement between parties facilitates the formation of a JV, we focus our attention on the structural factors explaining entry mode choice. We frame our analysis in terms of transaction costs attributes that offer a consistent account of the determinants of JVs. More specifically, we show that when both partners are family firms, the best option for the parties involved is to set up a residual-sharing contract, namely a JV that allows both to be compensated for the assets transferred in the deal on an *ex-post* basis, that is, based on the profit generated by the deal. Since both partners are family firms, and since familiness is an essential but non-tradable asset, the optimal solution is to preserve the family status of both partners with a greenfield JV or a partial acquisition. We are, therefore, among the first to empirically prove that local firm characteristics should be included in entry mode models (Hennart, 2009; Hennart et al., 2015).

Future Research Directions and Limitations

Our findings provide family business scholars with promising new avenues of research. While we show that family control is an important element in entry mode decisions, we have only begun to identify which specific aspects of family control have the highest impact on the choice. There is significant room for further investigation of the role of family firm heterogeneity on entry mode choice. We have restricted the scope of our research to just some non-tradable assets and how they are likely to impact entry modes. Further study is needed to identify which specific family firm characteristics affect entry mode choice.

Without a doubt, our research has just begun to disentangle the far-reaching effects of family firm non-tradable assets. We focus on entry mode choice but future research should explore which non-tradable assets are developed in family firms and how they affect their size, borders, and competitiveness.

Furthermore, while we do not discuss the issue of cultural affinity, anecdotal evidence shows that family firms tend to cooperate with other family firms (Li, Lam, & Qian, 2001). There is extensive literature that argues that large cultural distance has a negative effect on JVs, while cultural similarity promotes JV survival. However, to date, the focus has been on psychic, institutional, and geographical distances, not on corporate governance. Our results suggest that sharing the same corporate culture, that is, being family firms, can facilitate the forming of a JV, corroborating the findings of Swinth and Vinton (1993) who argue that shared family firm values and goals can bridge the cultural barriers generated by other kinds of distances. Future studies might explore further this issue.

Despite the important implications of our study, it has limitations. First, lack of data did not allow us to explore the role of family firm heterogeneity. We acknowledge that different family firms have different characteristics (e.g., different degrees of family involvement, number of generations of family leadership, intention of maintaining the business in family hands, founding family histories) that may affect the intensity of family control, and consequently entry mode choice. More information on these dimensions of the family firm would help us establish the impact of such characteristics with more accuracy.

Second, we do not have data on management turnover after a deal has been done. Information on manager turnover after an acquisition or management composition after the establishment of a JV would perhaps provide support for our claim that acquisition and forming a JV have different effects when the local firm is family controlled.

Third, it is beyond the scope of this article to make clear predictions regarding the percentage of control rights in a resultant JV. Future research, also based on the work of Grossman and Hart (1986), could perhaps shed more light on how the ownership characteristics of the partners might impact the distribution of stakes in a JV.

Finally, our analysis is limited to just one host country. Further research using data on other countries may help to validate and generalize our findings.

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Notes

1. Following previous studies (Slangen & Dikova, 2014) throughout this article, the term wholly owned subsidiary (WOS) refers exclusively to full acquisition, and the term joint venture (JV) is used to refer to partial acquisition as well as a greenfield joint venture.
2. Family control can also be a liability hindering the firm's development. However, we do not consider this issue in our model since we claim that these limits do not directly impact on entry mode choices. For a review of the ambivalent role of family involvement, see Miller et al. (2013).
3. Since we are interested in investigating the role of corporate governance of both the foreign and the local firm on entry mode choice, greenfield WOSs are not included in our analysis.
4. Ownership is calculated using cash-flow rights multiplying all the percentages in each chain and summing up the value of all chains. Faccio and Lang (2002, p. 366) explain this difference in the following way: "We measure ownership and control in terms of cash-flow and voting rights. For example, if a family owns 25% of Firm X that owns 20% of Firm Y, then this family owns 5% of the cash-flow rights of Firm Y (the product of the ownership stakes along the chain) and controls 20% of Firm Y (the weakest link along the control chain)."
5. Following previous studies (Dikova & Brouthers, 2016), we consider greenfield JV and partial acquisitions as two different forms of the same kind of entry mode since, even if they have a different legal status, greenfield JV and partial acquisition are both residual sharing agreements where the return is defined by the residual claim on profit generated by the shared ownership.
6. The correlation of the three instrumental variables *Tangible Assets*, *Amenity*, and *Regulation* with the dependent variable entry mode is 0.127, 0.046, and 0.046, respectively, for the MNC, and 0.067, 0.075, and 0.178, respectively, for the local firm.

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