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The influence of international experience on entry mode choice: Difference between family and non-family firms

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Summary International experience plays a crucial role in the choice of foreign entry mode, but its influence may vary across firms. This study investigates the difference of such an influence between family and non-family firms.

The TCE perspective sees the foreign entry mode choice of a joint venture (JV) or a wholly owned subsidiary (WOS) as a trade-off between administrative costs of managing an organization and costs of safeguarding against partner's potential opportunism. From the TCE perspective, we hypothesize that inexperienced firms would rather relinquish control of foreign subsidiaries in exchange for local partners' help and thus will tend to choose a JV vs. a WOS. Family firms, however, have unique concerns regarding the preservation of socioemotional wealth and tend toward nepotism. Thus they often suffer from relatively scant management capabilities, relying more on partners' help to manage foreign subsidiaries jointly. We then hypothesize that inexperienced family firms, compared with inexperienced non-family firms, are more likely to choose JVs rather than WOSs.

As firms accumulate international experience, they rely less and less on partners' help. We further hypothesize that ceding control to partners eventually will no longer be worthwhile, making the WOSs choice more favorable. Family firms, due to their socioemotional wealth concerns, have a higher desire to control their affiliates and tend to maintain higher ownership levels than do non-family firms. We thus hypothesize that experienced family firms are more likely to choose WOSs, compared with experienced non-family firms.

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We used a sample of publicly listed computer and electronic companies in Taiwan entering the China market to test our hypotheses. The empirical results support our hypotheses. The heterogeneity in the influence of international experience has profound implications for both family business research and international business studies.

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Introduction

When MNCs enter a foreign market, international experience plays a crucial role (Erramilli, 1991). Past studies have found that international experience facilitates internationalization by enabling firms to assess local market conditions more accurately (Anderson & Gatignon, 1986; Johanson & Vahlne, 1977, 1990), to estimate costs and returns more precisely (Davidson, 1980), and to mitigate environmental uncertainty by coping with risks associated with environmental uncertainties (Hoskisson, Eden, Lau, & Wright, 2000). The importance of experience is indisputable. However, the influence of experience may not be the same for all MNCs. With sufficient experience, some firms become confident and bold, but others may be prudent and vigilant. Yet the majority of prior studies appear to assume that the influence of international experience is homogeneous across firms, with a few exceptions such as Li and Meyer (2009). This study aims to fill this gap.

In response to family firms' increasing importance in the global economy (e.g. Claessens, Djankov, & Lang, 2000; La Porta, Lopez-De-Silanes, & Shleifer 1999), we focus on the comparison between family firms and non-family firms. Family firms usually differ from non-family firms in their strategic decision-making, particularly in internationalization decisions (Gomez-Mejia, Makri, & Kintana, 2010; Luo & Tung, 2007). We argue that international experience influences family and non-family firms differently, due to family firms' unique concerns regarding preservation of their affective needs-the socioemotional wealth (Anderson & Reeb, 2003; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Gomez-Mejia, et al., 2010; Habbershon & Williams, 1999; Kets de Vries, 1993; Thomsen & Pedersen, 2000). We use a sample of 1550 observed investments from 492 computer and electronic companies publicly listed in the Taiwan Stock Exchange to examine the influence of international experience on family and non-family firms' entry mode choices, respectively. The empirical results show that international experience indeed influences family and non-family firms differently.

This study has implications for both family business research and international business (IB) studies. First, this study contributes to the research of family business. Prior research on family business has found that family firms, compared with non-family firms, exhibit lower levels of international diversification (Gomez-Mejia et al., 2010) or are less capable of internationalization (e.g. Fernández & Nieto, 2006; Graves & Thomas, 2006, 2008) than non-family firms. However, with adequate experience, as our study suggests, family firms behave more aggressively than non-family firms. International experience not only offsets the constraints of family firms' internationalization, but also makes them more aggressive. The phenomenon deserves further inquiries.

Second, this study finds that international experience does not influence all firms equally-the degree of its influence differs between family firms and non-family firms. The heterogeneity in the effects of international experience has profound implications for international business studies. IB Scholars have stressed the role of international experience in facilitating internationalization (e.g. Anderson & Gatignon, 1986; Davidson, 1980; Fisch, 2008; Johanson & Vahlne, 1977, 1990), but seldom investigated the heterogeneity level of its impact. This study finds that the influence of international experience differs between family firms and non-family firms, resulting in differences in their internationalization decisions. Whether the influence of international experience varies across other types of controlling shareholders (e.g. state-owners, institutional investors, etc.), firm characteristics (e.g. size, age, culture, etc.), or industries is still unknown, and is worth studying.

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

Literature review and hypothesis development

The equity-based entry mode choice between JVs and WOSs

When entering a foreign country with equity investment, MNCs must make an entry mode choice-either JV or WOS. They will either form a joint venture to collaborate with local partners, or establish a wholly owned subsidiary to fully control their foreign operations. Each entry mode brings different benefits, but MNCs cannot select them simultaneously. Therefore, MNCs have to weigh the pros and cons of each choice. Among various theories addressing the trade-offs, the transaction cost economics (TCE) is one of the most widely accepted (e.g. Hennart, 1988, 1993, 2000; Zhao, Luo, & Suh, 2004).

Based on the behavioral assumptions of bounded rationality and opportunism, the TCE perspective considers the emergence of "institutions of capitalism" (Williamson, 1985) to solve problems of opportunism. To economize on bounded rationality and simultaneously safeguard transactions against opportunism, an appropriate governance structure is needed (Williamson, 1985). International business scholars apply the TCE perspective to weigh pros and cons of JVs against those of WOSs (e.g. Anderson & Gatignon, 1986; Brouthers & Brouthers, 2001; Hennart, 1988; Kim & Huang, 1992). These scholars assert that international operations pose considerable challenges in the process of communication and management and incur significant administrative costs. When MNCs enter an unfamiliar foreign country, the costs of monitoring, dispute settling, and

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