Asian Bus Manage
https://doi.org/10.1057/s41291-018-00053-z

FAMILY BUSINESSES FROM EMERGING MARKETS AND CHOICE OF ENTRY MODE ABROAD: INSIGHTS FROM INDIAN FIRMS

Laura Rienda; Enrique Claver; Diego Quer; Rosario Andreu

University of Alicante

Abstract Internationalization of family businesses (FBs) is an interesting topic that has received extensive attention in the literature during the last decades. Prior studies emphasized the conservative attitude toward risk of FBs. However, studies addressing international decisions of emerging-market FBs (EMFBs) are still scarce. We investigate whether home and host countries matter when EMFBs choose the entry mode abroad. By doing so, we discern whether they follow the same behavioral pattern as developed-country multinational enterprises (MNEs) or they show a distinctive strategic behavior. Drawing on a sample of 298 foreign market entries carried out by Indian MNEs, our results show that Indian FBs prefer acquisitions instead of greenfield investments. Moreover, host country factors matter, since outward foreign direct investment (OFDI) of Indian FBs in developed markets is associated with a preference for acquisitions, whereas OFDI in developing countries is associated with greenfield investments.

Keywords Family business, entry mode, emerging markets, Indian MNEs.

Introduction

Research on the internationalization of family businesses (FBs) has increased considerably since the last two decades. Nevertheless, the main drivers, challenges, and constraints regarding international activities of FBs are still under-studied (Pukall & Calabrò, 2014). Thus, it would be interesting to deepen into decision-making processes of FBs doing business abroad (Abdellatif, Amann, & Jaussaud, 2010).

Past studies focused on different international decisions of FBs, such as entry modes (Claver, Rienda, & Quer, 2009; Liang, Wang, & Cui, 2014), location (Hernández, Nieto, & Boellis, 2018) and establishment mode

[illegible] 2015; Yamanoi & Asaba, 2018). However, research about international strategies of FBs has mostly been conducted in developed economies (Claver et al., 2009; Fernández & Nieto, 2005).

Entry mode choice distinguishes between two decisions that may be separate: ownership modes—joint-ventures and wholly-owned subsidiaries—and establishment modes—acquisitions and greenfield investments (Brouthers & Hennart, 2007). Regarding the latter, acquisitions are one of the ways to implement growth strategies

https://doi.org/10.1057/s41291-018-00053-z

in FBs, and they may be considered as one of the main challenges for these firms (Feito-Ruiz & Menéndez-Requejo, 2010). Boellis et al. (2016) reported that FBs and non-family businesses (NFBs) differ in their establishment mode abroad, although they focused on companies from a developed country. Studies analyzing entry modes abroad by emerging-market FBs (EMFBs) could provide new insights on this topic because the characteristics of their home country may lead them to behave differently compared to their developed-country counterparts (Cuervo-Cazurra, 2012).

We focus on Indian multinational enterprises (MNEs). There are several reasons why we have chosen this home country. First, India has been characterized by its great potential, being the second emerging economic power after China. The opening up of its economy started in 1991 through a series of measures promoting liberalization. Second, there has been a rapid expansion of India's outward foreign direct investment (OFDI) since the 1990s. As a result, a large number of Indian firms are aggressively carrying out cross-borders acquisitions in order to access foreign markets or to acquire existing world-class brands (Buckley & Munjal, 2017; Buckley, Munjal, Enderwick, & Forsans, 2016b; Hoskisson, Wright, Filatotchev, & Peng, 2013; Rienda, Claver, & Quer, 2011). Third, Indian FBs have a long history and they have a very important presence in the country, with large FBs being listed in stock markets and becoming key players in several industries (Ray, Mondal, & Ramachandran, 2018). The role played by FBs in nation building, wealth creation and employment generation is both significant and commendable (PwC, 2016).

Thus, our research aims to know how the idiosyncratic characteristics of Indian FBs may influence their entry mode choice in foreign countries, focusing on the specific mode used for establishing in each host country. More precisely, our purpose is to analyze how the country of origin could affect and alter the traditional conservative behavior of FBs. Institutions in emerging markets provide an interesting contextual perspective because they could explain: the competitive advantages of their enterprises at home; and the need to access complementary assets from abroad (Buckley, Munjal, Enderwick, & Forsans, 2016a). In addition, we analyze if host country characteristics also matter. Due to the existence of institutional differences, we examine if establishment mode decisions by Indian FBs differ depending on the host country. That is, if the location of OFDI may influence the way in which the firm establishes abroad. Therefore, our motivation is to link internationalization and FB characteristics in emerging markets.

This paper addresses the need to know the behavior of FBs in a specific context—emerging markets—and about a specific entry decision—acquisitions instead of greenfield investments—thus filling a gap in the literature. Entry mode choice by EMFBs is a key decision for two reasons. First, due to the importance of cross-border acquisitions for emerging-market MNEs to accelerate their internationalization process and improve their competitiveness. Second, because FBs show particular characteristics regarding risk attitude when making international decisions.

Drawing on the socio emotional wealth (SEW) perspective and the institutional theory, we investigate whether the family character of EMFBs affects risk aversion when managing the uncertainty associated with host markets. The SEW perspective helps us to know why EMFBs should accept more or less risk in their international decisions. Risk and international decisions are linked with the need of these FBs to obtain long-term benefits. The institutional theory allows us to explain how different norms, governments and legal constraints of home and host countries may affect entry mode choice by emerging-market MNEs. We address this issue by analyzing a sample of 298 OFDIs carried out by Indian MNEs. Given the importance of FBs among Indian MNEs, the influence of family control on their international decisions deserves further research efforts.

This study aims to contribute to our understanding of the internationalization process of FB and their risk-taking in different host countries. First, we explore the influence of the family dimension of emerging-market MNEs on entry mode choice. Second, we compare the results obtained here with those of prior studies focusing on developed-country MNEs. Third, taking into account that the firms are located in an emerging market, we compare the influence of the family dimension depending on the destination, namely, a developed or a developing economy. Fourth, we provide empirical evidence from a large sample of MNEs based in India, one of the world's largest emerging economies.

The paper is structured as follows. The next section sets out the theoretical background for proposing several hypotheses related to the behavior of Indian FBs when making decisions on entry mode choice abroad. In doing so, we analyze how the characteristics of home and host countries may have an impact on such decisions. Later, we explain the methodology used, we report the main findings and we provide a discussion of them. In the last section, we present the conclusions, limitations and future lines of research on this topic.

Theory and hypotheses development

Theoretical background

The SEW perspective is one of the main theoretical approaches in the FB field, and helps to explain the distinctive behavior of some FBs. This perspective suggests that family owners take advantages from the socio emotional aspect of the business (Gómez-Mejia, Cruz, Berrone, & De Castro, 2011). In this context, a FB usually chooses strategies that fulfil its motivations to preserve and enhance the SEW (Liang et al., 2014). Nowadays, the SEW approach is a dominant perspective in FB research. However, the influence of SEW on long-term decisions seems to be inconsistent (Chiu, 2015; Strike et al., 2015). Hence, a more in-depth analysis about SEW's propositions becomes necessary to explain FB behavior (Kraus, Mensching, Calabrò, Cheng, & Filser, 2016).

International decisions create uncertainty for both FBs and NFBs (Mensching, Calabrò, Eggers, & Kraus, 2016). Most studies consider that FBs try to preserve family SEW by avoiding risky international strategies (Gómez-Mejia, Makri, & Larraza, 2010; Kraus et al., 2016; Pukall & Calabrò, 2014). These past studies focus only on the aware of potential SEW losses for FBs. Following this approach, FBs tend to be less favorably disposed than NFBs toward risky strategies when going abroad (Ray et al., 2018). Nevertheless, family ownership has an influence on risk preferences and long-term orientation, thus affecting international strategies in different ways (Liang et al., 2014). As we explain below, the type of risk-taking practices in FBs is not the same depending on several factors.

Cross-border acquisitions by emerging-market MNEs have attracted significant academic attention (Buckley et al., 2016b). Most of this evolving body of literature posits that emerging-market MNEs prefer to undertake OFDI through acquisitions. This is because acquisitions allow these MNEs to obtain the strategic assets they need to catch up with MNEs from developed economies (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Luo & Tung, 2007; Mathews, 2002). Acquired firms, in particular those from developed markets, can provide emerging market-MNEs with important assets (i.e., brands, technology and distribution channels) that are needed for global competition (Cantwell & Barnard, 2008; Buckley, Munjal, Enderwick, & Forsans, 2016c; Haasis, Liefner, & Garg, 2018; Luo & Bu, 2018). Entry through acquisitions allows MNEs to exploit local business opportunities and discover potential yet unknown resources and services in host countries that could add value to acquirers (Sirmon, Hitt, & Ireland, 2007). Moreover, from an institutional standpoint, OFDI may be considered an escape response to home country institutional pressures (Witt & Lewin, 2007).

Anyway, this argument does not take into account the fact that acquisitions involve inherent risks and firms need significant knowledge to manage cross-border acquisitions (Boermans & Roelfsema, 2013; Buckley et al., 2016c). Decisions on international acquisitions may involve substantial costs in the short-term and may not enhance firm value in the long-term (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Compared to greenfield investments, acquisitions allow a speedy establishment of local presence but may be associated with post-acquisition difficulties derived from the integration of the acquired company (Dikova & Van Witteloostuijn, 2007). Therefore, entry mode choice could be a risky decision if the firm wishes to effectively enter the market by acquiring an existing firm and access local complementary assets (Buckley et al., 2016a). By contrast, MNEs could reduce financial and business risks through more cautious entry modes using a greenfield investment (Boellis et al., 2016). This is because a greenfield investment allows MNEs to replicate the exiting organizational structure, thus reducing the uncertainty derived from interactions with a foreign firm (Rienda, Claver, & Quer, 2018).

Given the limited research on international acquisitions carried out by FBs, it is unclear whether FBs really differ from NFBs when they choose between acquisitions and greenfield investments. One of the most important distinctive features of FBs is their long-term orientation. This orientation underlies decisions regarding all aspects of the firm and supports the implementation of an optimal investment policy in the long run (Claver et al., 2009; Habbershon & Williams, 1999).

Several studies suggest that FBs may be either risk-averse or risk-willing in order to protect their SEW (Fernández & Nieto, 2005). From the first viewpoint, FBs may be risk-averse in order to protect the family wealth (Miller, Le Breton-Miller, & Lester, 2010). Owners evaluate strategic decisions based on risks against financial returns, avoiding risks in order to preserve the family's SEW (Gómez-Mejia et al., 2010). The reason is that "family principals prefer to avoid risk because the costs of negative outcomes more than outweigh any benefits that might accrue through the pursuit of a high-risk/high-return strategy" (Gómez-Mejia et al., 2011, p. 665). Families act to preserve the business and, for this reason, they may become significantly risk-averse (Faccio, Marchica, & Mura, 2011). FBs have less incentive to undertake large-scale investments in distant countries due to worries about managerial control (Chen, Huang, & Chen, 2009). Using acquisitions as the entry mode may carry greater risks of losing SEW owing to the inclusion of external agents which could represent a challenge to the firm (Gómez-Mejia et al., 2010). As a consequence, from this viewpoint we might expect that FBs will prefer greenfield investments rather than acquisitions of existing firms.

However, as stated above, the SEW perspective also suggests an alternative viewpoint, i.e., that FBs could make long-term decisions even though doing so implies greater financial risk (Strike et al., 2015). In this case, we refer to potential SEW gains of FBs. Some prior studies reported that FBs with risk-willing make high-risk decisions in order to create family value (Peng & Jiang, 2010). As Gómez-Mejia et al. (2010, p. 225) point out, "loss aversion concerns the avoidance of loss even if this means accepting a higher risk". Hence, loss aversion explains a preference for riskier actions. This is why FBs may make decisions that are not justified from an economic point of view. Decisions about internationalization are a mixed gamble: sometimes they are perceived as risky for the wealth and independence of the family, but other times these decisions are considered as a gain when they lead to lower domestic market-related risks, higher financial returns, and a better firm reputation

(Gómez-Mejia et al., 2011). Consequently, following this approach, FBs could select acquisitions instead of greenfield investments.

Apart from the above, the choice between acquisitions and greenfield investments is also influenced by institutional factors. Thus, several scholars have used institutional theory to investigate how institutions affect foreign market entry mode choice (Eden & Miller, 2004). Institutional theory posits that political, social, and economic systems that surround firms shape their behavior (North, 1990). In multiple international contexts, institutional differences are highly significant for MNEs (Meyer, Estrin, Bhaumik, & Peng, 2009). With regard to emerging-market MNEs, it is also argued that they perceive fewer difficulties to enter other emerging countries because they possess experience with similar institutional environments at home (Cuervo-Cazurra & Genc, 2008).

Altogether, family involvement, attitude toward risk, and home/host country institutional framework are factors that may affect the entry mode choice of FBs. Therefore, drawing on the SEW perspective and the institutional theory, next we propose several hypotheses regarding EMFBs' entry decisions in foreign markets.

EMFBs and entry mode choice

As stated above, emerging-market MNEs often consider international expansion as a springboard to obtain strategic assets in order to catch up with competitors (Luo & Tung, 2007). Emerging-market MNEs usually lack the competitive advantages required to out-compete local firms in foreign markets such as those based on human, entrepreneurial, technological, marketing, and managerial resources (Buckley et al., 2016b). As latecomers, they have to accelerate their internationalization process in order to access resources and capabilities that are not available at home (Mathews, 2002). In other words, emerging-markets MNEs try to overcome their latecomer disadvantages through acquisitions in foreign markets.

Family involvement may reinforce this tendency. As pointed out above, with the aim of preserving SEW, FBs may act without a pure economic or financial logic (Zellweger, Kellermanns, Chrisman, & Chua, 2012). Family members are preoccupied with assuring the longevity of the business and the benefit of future generations, rather than maximizing short-term profits (Miller, Le Breton-Miller, & Scholnick, 2008). Hence, they show a characteristic long-term vision as an internal competitive advantage (Claver et al., 2009).

Although international acquisitions may entail substantial risks, SEW of EMFBs could be enhanced with such acquisitions. A new growth opportunity allows the firm to continue in the future, providing new chances for next generations (Fernández & Nieto, 2005; Liang et al., 2014). EMFBs with a long-term vision seek the resources they lack through an acquisition although this establishment mode is considered a riskier decision. Long-term vision makes these firms more committed with the business, the family and its prosperity, and more willing to take greater risk in different institutional contexts, in order to increase their SEW.

As a result, we suggest that EMFBs will assume a greater risk when making entry mode decisions abroad, thus opting for acquisitions. Therefore, we propose:

Hypothesis 1: The likelihood of choosing acquisitions instead of greenfield investments in foreign markets is higher for EMFBs.

Developed versus emerging markets as destinations

Emerging-market firms have been traditionally presented as targets rather than as acquirers in cross-border acquisitions. However, they are increasingly becoming active players as they are acquiring firms in developed markets (Cantwell & Barnard, 2008). Emerging-market MNEs could expand their activities through south-north acquisitions (Luo & Peng, 1999; Wright, Filatotchev, Hoskisson, & Peng, 2005). Although these target contexts have some costs, related to new rules, procedures, conventions and different ways of doing business, emerging-market MNEs are aggressively pursue cross-border investments to access strategic resources (Dunning, 2006). Acquisitions in developed markets can benefit emerging-market MNEs' reputation as global players (Cantwell & Barnard, 2008).

In addition, taking into account that high environmental heterogeneity increases the diversity and complexity of FB's activities, it is expected that FBs will adopt a high-risk attitude in formal institutional environments with great political stability, governance effectiveness, regulatory quality, rule of law, and control of corruption (Chiu, 2015). From an institutional perspective, it is argued that well-developed institutional frameworks are relevant for the reduction of uncertainty. This uncertainty is lower in developed economies with strong formal institutions than in emerging economies with underdeveloped institutional structures. Thus, in a generally favorable context and as latecomers to world markets, EMFBs will buy the resources from developed markets through acquisitions (Buckley et al., 2016b). Accordingly, the threshold for accepting risk will be higher (Kahneman & Lovallo, 1993). The aim of continuity because of the long-term vision by family members may lead the FB to assume a greater risk compared to NFBs (Claver et al., 2009). As a consequence, the need to gain SEW over time may lead EMFBs to consider acquisitions as the only way to be competitive in developed markets. Hence, we propose:

Hypothesis 2: The likelihood of choosing acquisitions instead of greenfield investments is higher for EMFBs when they enter developed markets.

https://doi.org/10.1057/s41291-018-00053-z

Transaction costs and risk level tend to be higher when firms invest in weak institutional contexts. (Demirbag, Tatoglu, & Glaister, 2008). Emerging economies have underdeveloped capital markets, hindering the efforts to secure financial resources for internationalization (Liang et al., 2014). Weak institutional environments are associated with low economic development, low corruption control, limited protection of property rights, inefficient regulations, and irregular political systems (Feito-Ruiz & Menéndez-Requejo, 2010; Luo & Bu, 2018). Firms tend to adapt entry modes to the institutional characteristics of the host environment with the aim of protecting assets and reducing risks (Delios & Beamish, 1999).

As a result, we may expect that EMFBs will adopt a more conservative attitude regarding risk in other emerging markets, since they perceive a higher uncertainty compared to that of a developed market. Consequently, they will avoid a riskier decision such as the acquisition of a local firm. Furthermore, the expertise gained in dealing with weak institutions at home allows emerging-market MNEs to achieve an advantage when carrying out OFDI in emerging economies with similar weak institutions (Buckley & Munjal, 2017; Wright et al., 2005). In the case of south-south transactions, managers develop an ability to deal with underdeveloped institutions in the home country and to manage uncertainty regarding rules and regulations (Chang, 2007; Cuervo-Cazurra & Genc, 2008). As a consequence, they are in a better position to exploit these advantages by replicating the same business model in the host country through a greenfield investment. Therefore, EMFBs entering other emerging markets will not need to assume high risks when they establish there in order to preserve their SEW. Thus, we propose:

Hypothesis 3: The likelihood of choosing greenfield investments instead of acquisitions is higher for EMFBs when they enter emerging markets.

Methodology

Sample and data

FBs are considered the most common organization around the world (Gómez-Mejia et al., 2011). Moreover, empirical research highlights the predominance of family-owned firms in emerging markets (Hoskisson et al., 2013), playing an important role among large firms in Asia (Jiang & Peng, 2011).

We have focused on large Indian MNEs, excluding small- and medium-sized firms whose internationalization strategies might be more restrictive by the lack of financial and human resources, and could distort our analysis of entry modes (Boellis et al., 2016). To collect the data we have used different sources. First, we selected the Indian MNEs listed in the ranking Forbes 2000 for the year 2015. This ranking included 54 Indian MNEs. Then we examined the foreign entries carried out by each MNE. With a view to reduce the possible "missing" decision about establishment abroad, an exhaustive work was done revising the corporate websites of each MNE and several secondary sources such as *Centre for Monitoring Indian Economy*, *Financial Times*, and *Business Standard*. We analyzed the news and events reported by each MNE in its corporate website and those reported by the above-mentioned sources. The starting point of our data collection was the year 2000 because, prior to that year, acquisitions undertaken by Indian MNEs may have been negligible (Buckley et al., 2016c). After completing this process, we obtained a total of 298 OFDIs in 71 countries between 2000 and 2014.

Dependent variable

The dependent variable is the entry mode that Indian MNEs used in each foreign market. In particular, we focus on the *establishment mode* chosen: dummy variable with a value 1, if the firm uses acquisitions to establish abroad; and with value 0, if it uses greenfield investments (Barkema & Vermeulen, 1998; Hennart & Park, 1993; Rienda, Claver, & Quer, 2013; Strike et al., 2015).

Explanatory variable

Family business. It is difficult to reach a consensus on the most appropriate definition of a family firm (Abdellatif et al., 2010). From a theoretical standpoint, it is argued that FBs' owners exert much influence over the firm, even when non-family shareholders are present—as in publicly traded firms—and/or the firm is managed by non-family or professional managers (Gómez-Mejia et al., 2011). Following previous empirical research, we define a FB as a firm in which at least two family members are involved in the firm—e.g. as executives—and in which family members own at least 5% of the shares (Liang et al., 2014; Strike et al., 2015). Holding a 5% of the company's shares is considered a sufficient percentage for companies listed in rankings of largest global corporations, as those covered by our sample (Gómez-Mejia et al., 2011).

To classify the firms, we examined their corporate websites—company history, annual reports, and other contents—to verify if they accomplish the above criteria. We also checked the family control of the firm in other databases: *Moneycontrol*, an India's leading financial information source; and *Surperformance SAS*, a financial big data specialist. We created a dummy variable that takes the value of 1 if the firm was family-controlled and 0 if it was non-family-controlled (Boellis et al., 2016; Chiu, 2015; Miller et al., 2008).

Moderator variable

OFDI destination. We considered a dummy variable. If the host country is a developed market, i.e., a member of the Organization for Economic Cooperation and Development (OECD), the variable takes the value of 1, and 0 otherwise. Since the OECD list comprises 35 highly industrialized countries, several authors use membership to this list as a proxy for being a developed country (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Gubbi et al.,

https://doi.org/10.1057/s41291-018-00053-z

2010). We have taken into account the year of accession to this organization. That is, we have considered a country as an OECD member if that country was a member of this organization when the firm made the OFDI. Our dataset includes 71 host countries, 23 of them being members of the OECD, whereas the remaining 48 countries were not members.

Control variables

We included several variables that, according to prior studies, may also influence establishment mode choice.

Cultural distance. Cultural distance is a very important factor influencing decisions in international markets (Demirbag et al., 2008). In different cultures, executives perceive high uncertainty, and transaction costs could be reduced when home and host countries share cultural values. Following the index of Kogut and Singh (1988), we measured the cultural distance between India and each host country drawing on the dimensions of culture. Countries with values close to 0 for cultural distance are culturally similar to India. This index has been widely used in prior international business research (Barkema & Vermeulen, 1998; Demirbag et al., 2008) and FB studies (Strike et al., 2015).

Political risk. Political risk is an important part of the institutional environment and influences MNE's choice between acquisition and greenfield investments (Demirbag et al., 2008). We measured political risk with the ratio of the International Country Risk Guide (PRS Group). We focus on the Political Risk Rating, inverting the score of the data to facilitate the interpretation of the results. After that, higher scores are associated with a higher political risk. This ratio was also used previously (Buckley et al., 2007; Quer, Claver, & Rienda, 2012).

Geographic distance. Geographic distance between home and host countries could generate a greater unfamiliarity with foreign market. This increases the liability of foreignness and the risk that the firm perceives (Eden & Miller, 2004). We calculated the distance between India and each host country using the geographic coordinates of the countries (The World Factbook). The final variable, geographic distance between each host country and India, was calculated using a logarithmic transformation as follows (Ojala & Tyrväinen, 2007):

LogGDistj = log [distance in thousands of kilometers from country j to India]

Institutional distance. Institutional differences between countries increase uncertainty and may also affect establishment mode decisions (Chen, Cui, Li, & Rolfe, 2017). To control for institutional distance, we used a procedure similar to that of Kogut and Singh (1988), but including the 6 items of the Worldwide Governance Indicators (WGI) project of the World Bank (Kaufmann, Kraay, & Mastruzzi, 2009). These 6 dimensions are: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality,

https://doi.org/10.1057/s41291-018-00053-z

rule of law, and control of corruption. We calculated the institutional distance between India and each host country as follows (Zhang & Xu, 2017):

$$IDj = \sum_{i=1}^{6} \{ (Iij - Iii)^2 / Vi \} / 6$$

where IDj is the institutional distance between country j and India, Iij is country j's score on the i^{th} institutional dimension, Iii is the score of India on this dimension, and Vi is the variance of the score of the dimension.

Commonwealth. India shows peculiarities in bureaucratic patterns due to colonial ties, language, and legal system (Berry, Guillen, & Zhou, 2010). Past studies found that these factors are associated with the occurrence of cross-border acquisitions (Berry et al., 2010; Guler & Guillen, 2010). We controlled for these issues by considering if the host country is a member of the Commonwealth, as India. Some policy, political, social and developmental aspects are common for all members of this association. We used a dummy variable that takes the value of 1 if the host country is a member of the Commonwealth, and 0 otherwise (Buckley, Forsans, & Munjal, 2014).

State-owned enterprise (SOE). After the economic crisis of 1991, several SOEs were partially privatized in India (Choudhury & Khanna, 2014), but we still can find large state-owned Indian MNEs listed in several rankings. We used a dummy variable to control for state ownership: (1) if the investing firm is a SOE; (0) otherwise (Cui & Jiang, 2012).

Host country-specific experience. Previous experience in the host country may also influence entry mode decisions (Hennart & Park, 1993). Experience about a particular country creates important knowledge to operate in that country. In such case, it is not necessary to make an acquisition to obtain this tacit knowledge. We measured host country-specific experience using the number of previous investments of each firm in the focal host country (Barkema & Vermeulen, 1998; Kogut & Singh, 1988). This information was obtained from firms' annual reports and several secondary sources.

International acquisition experience. If a firm has experience with a particular establishment mode, this firm is more likely to use the same establishment mode for future entries. By accumulating this kind of experience, the firm could gradually obtain the skills and routines needed to manage that establishment mode. Hence, prior experience in managing acquisitions increases the probability of choosing acquisitions in future entries (Buckley et al., 2016b). We measured international acquisition experience using the total number of prior acquisitions of each firm in each host country (Barkema & Vermeulen, 1998; Kogut & Singh, 1988). Annual reports and several secondary data sources have provided us with this information.

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Firm size. Firm size could influence international activity (Caves, 1996). Although firm size may have a positive effect on location choice (Kumar, 2007), empirical evidence is not conclusive regarding establishment modes. Hence, we controlled for the influence of firm size using firm employees as a measure (Williams & Grégoire, 2015). We performed a logarithmic transformation to enhance the normality of the distribution.

Market size. Acquisitions are more likely in large markets where there are more consolidated firms and corporate control is easier. We used host country GDP, with a logarithmic transformation, as a measure of market size. We collected this information from the World Development Indicators of The World Bank (Buckley et al., 2007).

Industry. Past research suggests that acquisitions are preferred in some industries (Kogut & Singh, 1988; Morosini, Shane, & Singh, 1998). In the case of Indian MNEs, empirical evidence reports that acquisitions abroad are positively related to firm's technological resources (Buckley et al., 2016a). Thus, we controlled for industry effects by focusing on technological intensity, using the OECD classification, based on the International Standard Industrial Classification (ISIC-revision 3). Other studies also used this variable (Rienda et al., 2013). We classified industries into four categories: low-technology, medium-low technology, medium-high technology, and high technology.

Entry year. We finally controlled for time fixed effects using dummy variables. The time dummies amounts to 15, being the year 2000 the benchmark. Control for the time effect was necessary because changes over time may have an impact on firm's entry mode choice (Buckley et al., 2016b).

Data analysis method

Given the dichotomous nature of the dependent variable, we employed a binomial logistic regression. The dependent variable represents the differential probabilities of choosing one alternative (acquisition) relative to another (greenfield investment). Logistic regression is the most common method used to model binary response data. We have used this method in both the full sample (N=298) and when we split the sample according to OFDI destination (N=165, for developed markets, and N=133, for emerging markets).

Results

Table 1 reports some descriptive statistics of our sample. About 30% of firms are FBs. Among the remaining 70% that are NFBs, the majority of them are SOEs (26 out of 38 NFBs). FBs in our sample are more active in foreign markets, since they carried out more than 50% of the total 298 OFDIs covered by our sample. However, FBs have a lower experience in foreign markets in terms of number of years compared to NFBs.

Insert Table 1 about here

As for the distribution between greenfield investments and acquisitions, Table 2 shows that FBs prefer acquisitions: 90 cases out of their total 159 foreign entries (56.6%). This percentage differs from that of NFBs (34.5%), thus providing some preliminary evidence in line with hypothesis 1. Moreover, the number of OFDIs is similar for both groups of firms, although the number of FBs is lower. This descriptive evidence provides some insights on the role of family control in emerging-market MNEs' international growth. This preference for acquisitions by EMFBs is inconsistent with prior research that link liability of foreignness, information costs and risk-aversion with FBs from developed economies (Boellis et al., 2016). If we consider the foreign entry distribution by destination, it emerges that the share of acquisitions is higher in developed countries in the case of FBs (71.9%), whereas greenfield investments are more frequent for NFBs (78.9%). In developing economies, FBs prefer greenfield investments (62.9%), whereas NFBs prefer acquisitions (50.8%).

Insert Table 2 about here

Furthermore, our dataset shows that the majority of acquisitions (about 41%) were targeted at medium-low technology industries, followed by about 34% targeted at high technology industries. Regarding other variables, the distribution of the OFDIs covered by our sample is as follows. Eight firms concentrate 50% of OFDIs (only one of them being a SOE). Infosys, a NFB, is the company with the largest number of OFDIs, accounting for 11% of the total. As for destinations, the US (with 29 OFDIs) leads the ranking, followed by Australia (20), the UK (16), and China (17). Finally, 2008 was the year with the highest number of OFDIs (38).

Table 3 details descriptive statistics, variance inflation factor (VIF) tests, and pairwise correlations. An examination of VIFs showed that all values ranged between 1.51 and 4.82, which are well below the standard cut-off level of 10 (Kutner, Nachtsheim, & Neter, 2004). Thus, no serious multicollinearity problems are found.

Insert Table 3 about here

Table 4 reports the results of our analysis. Model 1 includes only control variables. Model 2 tests hypothesis 1, showing that EMFBs are more likely to make acquisitions than their NFBs counterparts, although with a low statistical significance ($\beta=0.76$, $p<0.1$). Thus, hypothesis 1 is partially supported. Model 3 includes OFDI destination as a moderator variable, also reporting that EMFBs prefer acquisitions as the entry mode, with a similar low statistical significance ($\beta=0.77$, $p<0.1$). Model 4 adds the interaction between FB and OFDI destination, which turns out to be positive and highly significant ($\beta=3.07$, $p<0.001$). This result suggests that EMFBs choose acquisitions in developed markets, thus supporting hypothesis 2. In models 5-8 we split the sample into two subsamples depending on OFDI destination. Models 5 and 6 report the results for the subsample of India's

https://doi.org/10.1057/s41291-018-00053-z

OFDI in developed markets (165 observations). Model 5 includes only control variables, whereas Model 6 includes the explanatory variable, which turns out to be positive and highly significant (β=3.21, $p<0.001$). This result allows us to consider that Indian FBs prefer acquisitions in developed markets, thus providing additional support for hypothesis 2. Models 7 and 8 report the results for the subsample of India's OFDI in emerging markets (133 observations), Model 7 including only control variables and Model 8 including the explanatory variable. Model 8 shows a negative effect of family ownership, suggesting that Indian FBs prefer greenfield investments instead of acquisitions when they enter emerging economies, although with a low statistical significance (β=-1.83, $p<0.1$). This result provides partial support for hypothesis 3.

Insert Table 4 about here

Robustness checks

We performed several robustness checks in order to examine how certain core regression coefficient estimates behave when the regression specification is modified. If the coefficients do not change much, it is considered evidence that the coefficients are then robust (Lu & White, 2014). To check the robustness of the model, we consider various alternatives. First, we excluded Infosys, the firm that accumulates the largest number of investments covered by our sample. After removing the OFDIs of this company, we performed the regression analysis and the results were consistent with those reported in Table 4. Second, we also excluded OFDIs in the US, since this country received the most investments. As in the previous case, the results of the regression analysis support our three hypotheses with similar levels of statistical significance.

Finally, we changed the ownership threshold for FBs from 5% to 20%. After including the same variables in the model, the results were very similar to those reported in Table 4. Moreover, by considering this higher percentage of family ownership, the statistical signification of the explanatory variable in Model 8 increased ($p<0.01$), thus providing stronger support to hypothesis 3.

Discussion

Over the past decade, emerging-market MNEs are becoming outstanding global players and drivers of global growth. Among them, Indian MNEs play an increasingly key role in several industries. Indian firms, as emerging-market MNEs, use OFDI to overcome home country's lack of infrastructure and factor market development (Hoskisson et al., 2013). Advantages in their firm-specific resources and a better understanding of market institutions have allowed Indian MNEs to establish subsidiaries abroad (Majumdar, Vora, & Nag, 2012). Moreover, prior research shows that Indian MNEs have carried out cross-border acquisitions mainly in developed

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markets. These markets are less risky than emerging ones (Chen, 2012). If the firm wants to be competitive in a developed market, it needs to consider acquisitions as the preferred mode of entry (Wright et al., 2005). In this case, the MNE seeks to "explore" the developed market by assuming a short-term risk to obtain a long-term benefit.

A large number of firms from emerging markets are FBs. One of the distinctive characteristics of these firms is that family members exert control over strategic decisions (Abdellatif et al., 2010; Miller et al., 2010; Purkayastha, Manolova, & Edelman, 2018). Prior studies focusing on firms from developed markets found that risk aversion, SEW, and lack of information lead FBs to prefer greenfield investments as the establishment mode abroad (Boellis et al., 2016). The reasoning we propose for EMFBs is the opposite. Firms from emerging markets lack some strategic resources and not acquiring external resources is riskier, if they want to remain competitive and continue with the business in the future.

Our findings suggest that Indian FBs may make high-risk decisions for preserving family value and long-term gain (Peng & Jiang, 2010). Accordingly, the second viewpoint we proposed in our theoretical background from the SEW perspective seems more appropriate to explain EMFBs' behavior. As Miller et al. (2008) suggest, the business may be also considered as a vehicle to develop the family in the future. Indian FBs may have a different behavioral pattern compared to that of developed-country FBs. In this study we have found that establishment mode choice abroad is influenced by family involvement in firm ownership. Hence, our findings suggest that Indian FBs entering a foreign country prefer acquisitions instead of establishing a new venture, although we obtained a low statistical significance for that preference.

Nevertheless, the host country also matters and the validity of this viewpoint from the SEW perspective may also depend on the institutional characteristics of the host country. Therefore, it is necessary to emphasize the importance of host country institutional factors when analyzing establishment mode choice by EMFBs. The SEW perspective posits that EMFBs opt for risk-willing decisions in developed markets, which allow firms to gain SEW in the long-term due to the competitive advantages they could generate through acquisitions.

Extant literature reveals that emerging-market MNEs invest overseas by acquiring strategic assets, thus trying to overtake their latecomer disadvantages (Mathews, 2006). When the destination is a developed country, we obtained that Indian FBs prefer acquisitions. In these destinations, emerging-market MNEs may be driven by a central motivation on exploration instead of exploitation (Wright et al., 2005). In the case of Indian MNEs, they have the ability to absorb foreign technology. Acquisitions of technological firms in developed markets allow these MNEs to complement their technological capabilities from abroad (Buckley et al., 2016c).

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In addition, acquisitions are the preferred establishment mode abroad for companies belonging to technology-intensive industries when they establish in a developed market, whereas greenfield investments are used in emerging markets with poor institutional environments. Acquisitions of technological targets in developed countries have been used by Indian firms as an opportunity to overcome technology gaps and to complement their know-how (Aggarwal, 2000).

Drawing on the SEW perspective, we argue that EMFBs may also consider acquisitions as a good option to establish abroad. Although being a risky decision, acquisitions allow FBs to perpetuate the family dynasty, thus providing them with a competitive advantage in the long-term (Purkayastha et al., 2018). Hence, Indian FBs, looking for business continuity, may gain advantages through strategic asset-seeking OFDI and cross-border acquisitions become a springboard for growth.

Besides, EMFBs opt for establishing through a greenfield investment in other emerging markets, thus making a less risky decision. Weak institutional environments are characterized by limited strategic capabilities and critical resources, which are needed for organizing geographically dispersed operations. This limitation could impede emerging-market MNEs from obtaining ownership-specific advantages (Elango & Pattnaik, 2007). Firms that seek strategic resources in a weak institutional environment with limited protection of property rights, cumbersome regulations, and unstable political systems perceive a greater level of risk (Demirbag et al., 2008; Luo & Bu, 2018). Thus, in countries with less protection for individuals, instability and unpredictability, MNE's managers prefer to minimize this uncertainty.

Furthermore, emerging-market MNEs may have accumulated at home the required expertise and managerial capabilities to do business in other emerging markets also characterized by poor institutions (Buckley et al., 2007). Wright et al. (2005) propose that firms moving from emerging markets to other emerging destinations are more likely to emphasize exploitation instead of exploration because their resources and capabilities may be more easily transferable to an institutional setting similar to that of their home country (Luo & Peng, 1999). This reasoning applies in the case of Indian MNEs. They have the ability to deal with issues such as high levels of bureaucracy and corruption, inherent to institutional environments in emerging countries (Buckley & Munjal, 2017).

According to the SEW perspective, emerging markets could be a risky destination for FBs because of the high uncertainty. Acquisitions of strategic assets are limited in those countries and greenfield investments seem to be a more appropriate establishment option. With regard to Indian FBs, they may have accumulated institutional skills to operate in these markets and are more confident to handle those skills alone through a greenfield

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investment. Consequently, they do not need to assume the risks associated with an acquisition. Our results support this preference for greenfield investments by Indian FBs in emerging markets, although with a lower significance compared to the preference for acquisitions in developed countries.

As for control variables, geographic distance is only statistically significant with a positive sign when the OFDI is carried out in a developed market. Actually, the global spread of Indian OFDI looking for strategic assets is characterized by acquisitions in more distant Western countries (Buckley, Munjal, Enderwick, & Forsans, 2017). Regarding state ownership, we have found that it only has a positive effect on acquisitions when the OFDI destination is a developed market. In this case, we found differences with firms from other emerging markets like China. Chinese SOEs usually invest in both developed and emerging markets with a risk-willing attitude (Gao, Liu, & Lioliou, 2015). Similarly, the positive effect of being part of the Commonwealth is only statistically significant when the OFDI is carried out in a developed market, thus suggesting that it does not mitigate the liability of foreignness in emerging markets.

Other control variables turned out to be significant with a similar sign in both developed and emerging destinations. Hence, international acquisition experience has a positive influence on the likelihood of choosing acquisitions, suggesting that this kind of experience reduces the liability of foreignness and mitigates risk aversion. Conversely, prior host country-specific experience and firm size seem to be associated with a preference for greenfield investments. This suggests that large firms with extensive experience about the focal host country may not need the acquisition of a local target for establishing there.

Conclusions

Our objective has been to examine the international behavior of EMFBs, focusing on Indian firms, a topic that has received scant attention in the literature. In addition, we have investigated whether the institutional characteristics of home and host countries may condition MNEs' decisions. As the SEW perspective posits, our results show that Indian FBs may make high-risk decisions for preserving family value, although the institutional development of the host country also matters. These results differ to some extent from those reported by prior studies analyzing developed-country FBs. Moreover, our findings suggest the need to consider the characteristics of both the home and the host country when choosing between acquisitions and greenfield investments abroad. With this study, we add light to the under-explored topic of EMFBs going global. In doing so, we put together insights from three research fields that are considered essential for today's global economy: FBs, international business and emerging markets.

Contributions, limitations and future research

The contributions of our paper are as follows. First, this study supports the influence of family ownership on foreign market entry mode choice, more precisely, regarding establishment modes. Our findings suggest that the goal of firm continuity over generations and long-term vision predominate when Indian FBs make that decision.

Second, our paper provides new empirical evidence on the extensive current debate about the value of studying emerging-market MNEs as a distinct type of MNEs compared to those from developed markets (Cuervo-Cazurra, 2012; Ramamurti, 2012).

Third, this study enriches our understanding of international decisions by FBs in an emerging-market context. An in-depth analysis of environmental conditions needs to be considered in entry mode decisions of FBs (Chiu, 2015). We introduce the relevance of OFDI destination to better address the family firm effect when making decisions in diverse international contexts. Our results show that formal and informal host country institutional factors have a different influence on Indian FBs when choosing the establishment mode.

Fourth, from a theoretical point of view, our study helps to integrate knowledge from both the international business and the FB literature enriching each domain. Our paper contributes to the institutional theory by providing new evidence on the role of institutional factors in explaining establishment mode choice by FBs, thus adding new insights on this topic. Regarding FB theories, we contribute to the SEW perspective from a strategic viewpoint. More precisely, we extend the SEW perspective by including a novel approach for international decision-making by EMFBs. In doing so, we highlight the importance of host country institutional factors when choosing the establishment mode in order to preserve family values and increase long-term viability. Finally, with regard to managerial and practical implications, this study provides an interesting perspective to FBs' owners about their strategic decisions in different international destinations, distinguishing between developed and developing markets. Our findings may allow them to better understand the factors that influence entry mode choice abroad.

Despite these contributions, our study has some limitations. First, we collected data from secondary sources that might have underestimated the perception of family owners about risk in international markets. Moreover, we focused on Indian MNEs listed in Forbes 2000 ranking, thus analyzing only a total of 54 large firms. Further research could overcome this limitation by considering family owner perceptions and expanding the number of firms included in the analysis. Second, although India is a particularly interesting context to compare FBs and NFBs, the focus on a single country limits the generalization of the results. Thus, future studies could analyze MNEs from other emerging markets, with different uncertainty avoidance levels, to assess home country

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specificities. Besides, it could be interesting to compare FBs and NFBs from developed and developing economies with the aim to identify differences and/or similarities between them. Third, our study considered FBs as a homogeneous group. Future research could explore divergences among FBs in terms of ownership configurations, involvement of the founder, generation running the company or "familiness"—bundle of resources derived from the interaction between the family, its individual members, and the business (Habbershon & Williams, 1999). Fourth, we considered the role of specific institutional factors only as control variables, some of them turning out to be statistically significant. These results seem to indicate a potential moderating role of institutions that deserves further research efforts.

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Table 1 Sample descriptive statistics

	FBs	%	NFBs	%	Total
Firms (no.)	16	29.6	38	70.4	54
Foreign entries (no.)	159	53.4	139	46.6	298
Firm international experience (average no. years)	3.59		6.45		
Firm age (average no. years)	61		60		
Firm size (average no. employees)	72,514		64,570		

https://doi.org/10.1057/s41291-018-00053-z

Table 2 Sample distribution (establishment mode of FBs and NFBs by destination)

	Acquisitions		**Greenfield investments**	
	FBs	**NFBs**	**FBs**	**NFBs**
All countries	90 (56.6%)	48 (34.5%)	69 (43.4%)	91 (65.5%)
Developed countries	64 (71.9%)	16 (21.1%)	25 (28.1%)	60 (78.9%)
Emerging countries	26 (37.1%)	32 (50.8%)	44 (62.9%)	31 (49.2%)

Table 3 Descriptive statistics and correlations

	VIF	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Establishment mode		.46	.49													
(2) Family business	1.59	.53	.49	.22**												
(3) OFDI destination	4.15	.55	.49	.04	.01											
(4) Cultural distance	1.59	1.16	.63	.21**	.07	.47**										
(5) Political risk	2.54	23.31	7.51	.01	.08	-.69**	-.28**									
(6) Geographical distance	1.51	3.79	.24	.11	.14**	.11	.31**	.03								
(7) Institutional distance	4.82	2.02	1.54	.04	-.04	.80**	.49**	-.68**	.23**							
(8) Commonwealth	1.51	.34	.47	.09	-.13*	.02	.01	.01	.06	.25**						
(9) SOE	1.77	.44	.49	-.00	-.19**	-.27**	-.14*	.16**	-.13*	-.16**	.09					
(10) Host country-specific experience	1.94	6.24	7.07	-.23**	-.23**	-.01	.05	-.04	.16**	.05	.08	.08				
(11) International acquisition experience	1.70	2.45	3.09	.14*	.30**	-.01	.00	.01	.05	-.07	-.00	.04	.39**			
(12) Firm size	2.02	4.58	.50	-.29**	-.04	-.04	.00	-.06	.05	.00	-.08	.20**	.40**	.07		
(13) Market size	1.90	12.89	2.21	.16**	.11*	.50**	.35**	-.43**	.34**	.38**	-.29**	-.20**	.02	.12*	.03	.
(14) Industry	2.51	2.82	.95	-.08	.26**	.14*	.20**	-.09	.23**	.08	-.18**	-.44**	.18**	.00	.45**	.21**

Table 4 Binomial logistic regression results

	All destinations of OFDI				Destination of OFDI: Developed markets		Destination of OFDI: Emerging markets	
Variables	**Model 1 (N=298)**	**Model 2 (N=298) H1**	**Model 3 (N=298)**	**Model 4 (N=298) H2**	**Model 5 (N=165)**	**Model 6 (N=165) H2**	**Model 7 (N=133)**	**Model 8 (N=133) H3**
Explanatory variable								
Family business		0.76† (0.43)	0.77† (0.43)	-0.68 (0.55)		3.21*** (1.00)		-1.83† (1.12)
Moderator variable								
OFDI destination (developed country)			-0.33 (0.66)	-2.42** (0.85)		--		--
Interaction								
Family business * OFDI destination (developed country)				3.07*** (0.71)		--		--
Control variables								
Cultural distance	1.02*** (0.29)	1.04*** (0.30)	1.06*** (0.30)	0.96** (0.33)	1.07* (0.54)	0.62 (0.59)	1.09 (0.81)	1.23 (0.89)
Political risk	0.01 (0.03)	0.01 (0.03)	0.01 (0.03)	0.00 (0.03)	-0.14 (0.13)	-0.10 (0.13)	-0.16 (0.11)	-0.18 (0.11)
Geographic distance	1.13 (0.73)	0.88 (0.74)	0.78 (0.76)	1.19 (0.79)	6.00* (2.65)	5.60* (2.79)	-0.25 (1.49)	0.45 (1.69)
Institutional distance	-0.26 (0.18)	-0.27 (0.18)	-0.19 (0.23)	-0.01 (0.25)	-0.80 (0.52)	-0.57 (0.54)	-0.20 (1.02)	-0.25 (1.12)
Commonwealth	1.13** (0.40)	1.21** (0.41)	1.19** (0.41)	1.05** (0.44)	1.52† (0.87)	1.63† (0.95)	-0.54 (1.39)	-1.44 (1.53)
SOE	1.15** (0.43)	1.17** (0.43)	1.14** (0.44)	1.11** (0.46)	1.77* (0.82)	2.27* (0.98)	1.09 (1.16)	0.35 (1.36)
Host country-specific experience	-0.09*** (0.03)	-0.07* (0.03)	-0.07* (0.03)	-0.07* (0.03)	-0.13* (0.59)	-0.03 (0.06)	-0.26** (0.09)	-0.32** (0.10)
International acquisition experience	0.24*** (0.06)	0.18** (0.07)	0.19** (0.07)	0.20** (0.07)	0.34** (0.11)	0.21† (0.12)	0.30* (0.12)	0.50** (0.20)
Firm size	-2.18*** (0.53)	-2.19*** (0.53)	-2.21*** (0.53)	-2.09*** (0.56)	-2.28* (0.99)	-2.85** (1.16)	-3.84** (1.25)	-4.21** (1.38)
Market size	0.20* (0.10)	0.22* (0.10)	0.24* (0.10)	0.20† (0.11)	0.15 (0.31)	0.12 (0.33)	-0.35 (0.41)	-0.51 (0.43)
Industry	0.39 (0.25)	0.25 (0.26)	0.25 (0.26)	0.16 (0.28)	1.75*** (0.49)	1.58* (0.56)	-1.17* (0.58)	-1.22* (0.64)
Entry year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Intercept	-0.41 (3.37)	0.55 (3.42)	0.85 (3.49)	0.82 (3.65)	-17.69* (7.79)	-14.59 (7.95)	29.47* (14.70)	34.14* (14.53)
Chi-square	129.367***	132.583***	132.844***	153.000***	111.408***	124.429***	105.022***	107.998***
Pseudo R^2	0.359	0.366	0.367	0.409	0.493	0.532	0.563	0.573

Dependent variable: (1) Acquisition; (0) Greenfield investment
Robust standard errors in parentheses
†p<0.1, *p<0.05, **p<0.01, ***p<0.001