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**THE ASYMMETRIC EFFECT OF INSTITUTIONAL DISTANCE ON
INTERNATIONAL LOCATION: FAMILY VERSUS NON-FAMILY FIRMS**

Running title: INTERNATIONAL LOCATION CHOICE IN FAMILY FIRMS

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Research summary

This study examines international location choice by considering the potential effects of institutional distance on this decision comparing family and non-family firms. We argue that the magnitude and direction of institutional distance matter, and that institutional distance has an asymmetric effect on the location choice. However, we argue that family involvement has a moderating effect on this relationship, because family firms manage institutional distance differently than non-family counterparts. Our results, using a sample of Italian firms (2000–2013), reveal that firms are more likely to choose locations for which the positive institutional distance is greater. Additionally, when compared to non-family firms, family firms are more likely to choose locations with greater negative institutional distance, and less likely to enter countries with greater positive institutional distance.

Managerial abstract

Institutional distance between countries is an important dimension that firms take into account when deciding the location of their foreign investments. We show the importance of the magnitude and direction of this distance for choosing the destination country and the different impact that distance has for family firms. Institutional distance has an asymmetric effect on the international location choice. Specifically, greater positive institutional distance makes firms more likely to choose a location; on the contrary, greater negative institutional distance makes the location less attractive. Family firms, however, present some peculiarities that fine-tune the effect of institutional distance on the location decision. Thus, family firms are more (less) likely to choose locations involving lower (higher) levels of institutional development than their home-country, compared to non-family counterparts.

Keywords:

Institutional distance; Family firms; International location choice; Asymmetry of distance; Family-managed firms.

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INTRODUCTION

The choice of FDI location has been traditionally explained by examining host country factors and the differences between home and host countries (Flores and Aguilera, 2007; Ma, Delios, and Lau, 2013; Majocchi and Strange, 2007). Specifically, the literature has found institutional differences to be a significant factor when explaining location choice because it generates uncertainties and the liability of foreignness (Jiang, Holburn, and Beamish, 2014; Williams and Grégoire, 2015).

Firms, however, may not face the same levels of uncertainty when entering countries for which the institutional difference is of the same magnitude but has a different direction (Håkanson and Ambos, 2010). On the contrary, the institutional distance may have an asymmetric effect on firm decisions which will depend on the direction of the distance (Shenkar, 2001) and the exploration of these asymmetric effects should be completed (Hutzschenreuter, Kleindienst, and Lange, 2016). Additionally, the way country-level factors affect location decision is far from being fully explained, as firm characteristics may alter it, and organizational and managerial aspects have only been considered in recent studies (Duanmu, 2012; Lei and Chen, 2011; Lien and Filatotchev, 2015; Ramasamy, Yeung, and Laforet, 2012). One of these organizational aspects is related to the firms' ownership structure. Ownership structure matters with respect to FDI location decisions, and in particular family insider shareholders influence the choice of location (Strange et al, 2009). We therefore posit two research questions in this paper. On the one hand, we wonder whether institutional distance may have an asymmetric effect on firms' location decisions and how this effect is depending

on the direction of the distance. On the other, we consider the possibility that this asymmetric effect may depend on a firm-level characteristic, such as family involvement.

In order to answer the first research question, we focus on examining the differences between the institutional quality of the home and host countries, which we will refer to as the institutional distance (Tomio and Amal, 2015). Previous research has explained the effect of cultural distance (Gomez-Mejia and Palich, 1997; Tihanyi, Griffith, and Russell, 2005) but there are few which have considered other institutional factors, such as the differences between the quality of governance in the home and host countries. The direction of the distance for this factor is especially important, as firms may not only face differences, as in the case of cultural distance, but may also encounter higher or lower levels of development of governance, when compared to their home country. According to recent literature, greater institutional distance does not always constitute a disadvantage, as both the magnitude and direction of the distance have to be taken into account (Cuervo-Cazurra and Genc, 2011; Zaheer, Schomaker, and Nachum, 2012). Although some research has examined the asymmetric effect of distance on certain international decisions, we know less about how institutional distance can have also an asymmetric effect on an important decision, such as the location choice (Hutzschenreuter *et al.*, 2016).

Additionally, in order to answer the second research question we examine the moderating effect of family involvement on the above relationship. It has been demonstrated that, due to their characteristics, family firms do not respond to institutional pressures in the same way as non-family firms (Arregle *et al.*, 2016; Berrone *et al.*, 2010). We argue that, when choosing locations, family and non-family firms are influenced differently by institutional factors. Specifically, we point out that family firms have resources –such as autonomy in decision-making, relational capabilities, and social capital– that may make them more likely to

develop a sense of place (Zaheer and Nachum, 2011) and an institutional advantage (Martin, 2014).

In order to test our hypotheses, we develop our empirical models using a database of Italian firms with more than 50 million euros in revenues, operating internationally between 2000 and 2013, in which we examine their location decisions abroad. This database includes information gathered from AIDA, the Italian branch of the Bureau van Dijk data provider, the Italian Chamber of Commerce, and the Reprint data set. This database therefore provides information about individual characteristics, such as whether or not a company is a family firm, and the locations in which it has invested.

The study contributes to the literature in several ways. First, we contribute to international business literature by analyzing the impact of the distance, taking into account both its magnitude and its direction, on international business decisions –an issue that remain unexplored (Ambos and Håkanson, 2014; Hutzschenreuter *et al.*, 2016). In particular, we extend the research by considering that the difference between the institutional quality levels of the host and home countries is a factor that should be analyzed in terms of both its magnitude and its direction. Previous research has examined the asymmetric effect of institutional distance on: entry mode choices (Hernández and Nieto, 2015); the ownership stake in acquisitions (Chikhouni, Edwards, and Farashahi, 2017); and on affiliates' performance (Trapczynski and Banalieva, 2016). We focus on examining this issue in order to explain the decision on location choice, about which there is hardly any evidence.

Second, by considering family ownership and management, we add to the international location choice literature by including firm factors in the analysis (Duanmu, 2012; Jain, Kothari, and Kumar, 2016; Strange *et al.*, 2009). Only recently certain studies have taken into account the effect of firm factors, such as experience, together with the asymmetrical effect of distance

(Trapczynski and Banalieva, 2016). Given that foreign direct investment (FDI) decisions are influenced by family ownership and control (Bhaumik, Driffield, and Pal, 2010; Filatotchev *et al.*, 2007), we consider it important to introduce the effect of family involvement. We therefore aim to fill the gap identified in the literature on the importance of interactions between internal firm characteristics and external factors in location choice (Nielsen, Asmussen, and Weatherall, 2017) and respond to studies calling for a more thorough examination of location choice, including aspects such as governance structure (Jain *et al.*, 2016). Additionally, our conclusions lead us to align with other studies that consider that the value of location depends on firm capabilities (Kim and Aguilera, 2016; Zaheer and Nachum, 2011).

Moreover, we broaden the literature on family firms' internationalization. Although this field has been increasingly explored in recent years, many questions still remain underexplored (Fernández and Nieto, 2014; Mitter *et al.*, 2014). This is the case for market selection (Kontinen and Ojala, 2010; Pukall and Calabrò, 2014). Certain aspects, such as differences in the international location decision between family and non-family firms need further research (Jain *et al.*, 2016; Lien and Filatotchev, 2015). Moreover, although cross-country institutional differences are critical for explaining family firms' internationalization strategies, their analysis has been overlooked (Arregle *et al.*, 2016). Our examination of the impact of family involvement as a moderator in the relationship between institutional factors and location choice allows us to move forward on these underdeveloped lines.

Empirically, since we have data on Italian firms entering 49 host countries, we can therefore go further than other studies that have focused on location choices within a single host country or region (Kuo and Fang, 2009; Lei and Chen, 2011; Lien and Filatotchev, 2015; Ma *et al.*, 2013). We may therefore consider the analysis of country choice from a global perspective.

The paper is structured as follows. The next section reviews the existing literature on family-firm factors affecting internationalization strategy. We then develop our hypotheses, and continue by providing a detailed description of the data and the methodology applied. In the last part of the paper, we report on the empirical results, and end with a discussion of these results and the conclusions we have drawn from them.

THEORETICAL BACKGROUND

The effect of institutional distance on internationalization decisions

The differences between countries' institutional dimensions, such as their differences in cultural, formal and informal terms, have been traditionally considered in internationalization studies (Tihanyi *et al.*, 2005; Hutzschenreuter *et al.*, 2016). The examination of these issues is central to the international business literature, as some scholars posit that international management is, in fact, the management of distance (Zaheer *et al.*, 2012). The literature has therefore analyzed institutional distance in order to evaluate its effects on different internationalization decisions, such as where, when and how to internationalize (Berry, Guillén, and Zhou, 2010; Gaur and Lu, 2007; Williams and Grégoire, 2015; Xu *et al.*, 2004). Traditionally, the argument has been clear: differences between institutional settings implies friction (Shenkar, Luo, and Yeheskel, 2008), uncertainty (Makino and Tsang, 2011) and complexity in a firm's operations (Vermeulen and Barkema, 2002). Firms may therefore take decisions in order to prevent or diminish the effect of the liability of foreignness resulting from these differences (Zaheer, 1995).

However, the direction of the distances must be taken into account, because otherwise an illusion of symmetry might result (Shenkar, 2001). Recent research develops this issue by arguing that the way institutional distance is managed may change depending on the relative development of the firm's home and host countries (Cuervo-Cazurra and Genc, 2011; Phillips

et al., 2009). Specifically, one of the institutional factors for which it is most important to take the effect of asymmetry into account is related to the differences between the national institutional qualities of two countries. This dimension determines the framework for economic, legal and social relationships in a country (Globerman and Shapiro, 2003). Objectively, countries differ in the quality or level of development of their formal institutions –the country’s rules, laws, policies and governance systems, which may promote or restrict firm behavior (Scott, 2001)–, and which can only be changed by that country’s regulators and legislators (Estrin *et al.*, 2009; North, 1990). Firms may therefore encounter greater or less difficulty in understanding and complying with the governance infrastructure of a host country depending on the relative positions of the home country and host country (Cuervo-Cazurra and Genc, 2011; Håkanson and Ambos, 2010). Thus, when considering home and host countries, it is possible to establish the distance between each pair of locations (Kostova and Zaheer, 1999), and also to determine the direction of this distance by comparing the institutional quality of the home and host countries (Zaheer *et al.*, 2012). For example, consider two countries for which the institutional difference from the home country is the same, but these differences are in opposite directions (i.e. one is more developed than the home country, and the other is less developed, but to the same extent). Would the decision and decision-making process be the same in these two cases? Some scholars have found that these distances have differing impacts on internationalization decisions. Thus, the effect of asymmetry of distance has been shown in decisions such as: entry mode choice (Hernández and Nieto, 2015); the amount of ownership acquired in the host country (Chikhouni *et al.*, 2017); the level of the firm’s product innovation (Wu, 2013); the influence of headquarters over subsidiaries (Brock *et al.*, 2008; Drogendijk and Holm, 2012); and even affiliates’ performance (Trapczynski and Banalieva, 2016). We are focusing on the asymmetric effect on a decision about which there has been less research –the location decision (Hutzschenreuter *et al.*, 2016).

The asymmetric effect of institutional distance on international location choice

Considering the arguments above, institutional distance can have one of two directions: there may be a positive distance, when the firm enters a host country with higher level of institutional quality than its home country; or a negative distance, when the firm enters a host country with a lower level of institutional quality than its home country (Hernández and Nieto, 2015; Trapczynski and Banalieva, 2016). In line with previous authors, we argue that firms face different challenges depending on whether they are entering a country with higher or lower institutional quality than their country of origin (Håkanson and Ambos, 2010; Kim and Gray, 2008). Firms compare host and home country institutions in order to see how familiar they are with them and to evaluate their position relative to that new environment. Differences in regulations imply uncertainty, because the firm lacks knowledge about the host country (Hutzschenreuter *et al.*, 2014). However, firms do not have a symmetric preference for countries with worse or better institutional systems (Aleksynska and Havrylchuk, 2013).

Weak regulations and governance systems may create higher levels of risk and increase the level of uncertainty associated with doing business (Coeurderoy and Murray, 2008; Kraus *et al.*, 2015). When the distance is negative, because it involves entering a country with a weaker regulatory body, unstable rules and poorly-enforced property rights when compared to the home country, the level of uncertainty derived increases (Håkanson and Ambos, 2010) and the chances of adapting to that environment are reduced (Phillips *et al.*, 2009). Additionally, as institutions are less developed, firms may feel that their transactions are less well protected and supported (Globerman and Shapiro, 2003). Thus, in these situations, greater negative distance would imply higher levels of uncertainty in the transactions and lower levels of institutional support, which might result in less likelihood of this location being chosen.

When institutional distance is positive, however, it may act as a driving force (Aleksynska and Havrylchyk, 2013). Entering countries with higher levels of institutional quality than their countries of origin may imply that firms have to deal with that distance and their lack of knowledge about that environment (Zaheer, 1995). However, in those situations they are accessing countries with clearer rules, more secure systems and more transparent institutions that are easier to understand (Håkanson and Ambos, 2010; Kraus et al., 2015). In fact, extant literature highlights how reducing institutional factors such as political uncertainty or country risk, increases the likelihood of choosing a location (Demirbag and Glaister, 2010; Henisz and Delios, 2001). Firms entering countries with higher levels of institutional quality than their home countries will therefore not perceive greater differences as drawbacks, but as conditions that allow them to operate easily and with institutions that support their operations compared with their conditions in their countries of origin (Cuervo-Cazurra and Genc, 2011). As the institutional environment improves, firms perceive that transactions become more secure and that lower levels of uncertainty exist in their international operations, which will make this location more attractive.

All in all, we can therefore assume that institutional distance has an asymmetric effect when firms enter countries with higher or lower levels of institutional quality than their countries of origin (i.e. positive institutional distance or negative institutional distance, respectively). We therefore formulate the following hypothesis:

Hypothesis 1: Firms are more likely to invest in a country with greater positive institutional distance, and less likely to invest in countries with greater negative institutional distances.

The asymmetric effect of institutional distance on international location choice for family firms

Although firms entering foreign countries face a liability of foreignness, which may condition their choices, not all organizations respond to the institutional pressures in the same way (Berrone *et al.*, 2010; Mensching *et al.*, 2016). Firms' resources and internal factors may also influence how they operate in foreign markets, and make certain risky operations easier to manage (Berry, 2006). Additionally, not all locations have the same value to all firms; quite the contrary, some firms may develop location capabilities that allow them to extract value from a location that others do not (Zaheer and Nachum, 2011) and even develop an institutional advantage (Martin, 2014). Firms' specific characteristics may sometimes even help them to transform disadvantages into advantages (Cuervo-Cazurra and Genc, 2008). When entering a destination, firms have to consider whether they have the complementary resources, capabilities, relationships and/or social capital necessary to deal with the difficulties that internationalization may involve (Cuervo-Cazurra, Maloney, and Manrakhan, 2007). Internal firms' characteristics may therefore moderate the asymmetric effect of institutional distance on internationalization decisions (Hutzschenreuter *et al.*, 2016).

We are interested in examining family involvement in the firm, because it is a factor which exerts influence over internationalization decisions (Arregle *et al.*, 2016; Filatotchev *et al.*, 2007) and, in particular, over the choice of location (Strange *et al.*, 2009). Family firm literature posits that such firms are different from other organizations in terms of their goals, governance structures, and strategies (Carney, 2005; Kotlar and De Massis, 2013; Miller, Le Breton-Miller, and Lester, 2010). Family firms have special characteristics that may allow them to evaluate institutional distance when entering a location differently compared to non-family counterparts and, as a result, take different location decisions. Previous studies have adopted different perspectives to show the differences between family and non-family firms when making internationalization decisions, mainly the resource-based view, agency theory, and the socio-emotional wealth approach.

In locations with institutional voids, family firms' social capital facilitates access to, and the screening of, new business opportunities (Carney, 2005). In these contexts, family firms may exploit their relational capabilities –the ones that make them better positioned than non-family firms to benefit from the favors of politicians and other networks (Bertrand and Schoar, 2006). Faccio (2006) argues that family firms are consequently more adept at dealing with corrupt environments than non family ones. Families are particularly effective at accumulating social capital, which can translate into capabilities such as building informal networks and giving a long-term orientation to such relationships (De Massis, Kotlar, and Frattini, 2013). These capacities can be exploited in other locations, in which family firms may develop relationships and connections with different stakeholders. When these relationships are developed with politicians –especially in environments characterized by high levels of corruption– they allow family firms to benefit from public resources, such as subsidized credit, government contracts, and privileged treatment (Bertrand and Schoar, 2006). Furthermore, politicians from these countries prefer to deal with family firms because of their long-term orientation that assures long-lasting relationships and their network of social capital, which can serve as an electoral constituency (Morck and Yeung, 2004). In environments with higher levels of institutional quality, markets are efficient, institutions are market-supporting, information flows smoothly, property rights are respected, and competition is fostered (McMillan, 2007). In those contexts, therefore, the exploitation of the family's relational capabilities is more difficult, as politicians can hardly interfere arbitrarily in business life.

Family firms also have specific capabilities that allow them to differ from other organizations in their strategic processes and in the way location conditions affect them (Chang *et al.*, 2008). Specifically, we argue that family firms may be more likely to operate in countries with higher levels of negative institutional distance than non-family firms. According to agency theory, they are considered to have superior monitoring capabilities when compared to firms

with diffused shareholders, and these capabilities allow them to mitigate principal-agent conflicts (Miller, Minichilli, and Corbetta, 2013). Family firms may better respond to those environments where there is a lack of market mechanisms for guaranteeing effective management (La Porta, Lopez-De-Silanes, and Shleifer, 1999). In these countries, ownership rights tend to be concentrated in family groups (La Porta *et al.*, 1998; Young *et al.*, 2008). Specifically, as Peng and Jiang (2010) explain, family ownership –an internal corporate governance mechanism– emerges as a substitute for legal structures –an external governance mechanism– that work poorly. When this is the case, a family firm is a governance choice that allows owners to take advantage of weak institutions. Additionally, when entering countries with lower institutional quality, family firms may exploit characteristics such as their autonomy in decision-making (La Porta *et al.*, 1999). They can make decisions without regard to internal and external accountability processes; they may arrange opportunistic investments that can only be rationalized by particularistic or intuitive criteria, and which other types of firms could not undertake (Carney, 2005). On the other hand, in countries with higher quality institutions, there are more mechanisms protecting shareholders, alternative organizational forms are possible, and family ownership is irrelevant or even detrimental to the acquisition of more value from the context.

We therefore posit that family involvement moderates the firm’s reluctance to enter markets with greater negative institutional distance (i.e., locations with lower levels of institutional quality than the firm’s home country). Conversely, family involvement moderates the firm’s preference to enter markets with greater positive institutional distance (i.e., locations with higher levels of institutional quality than the firm’s home country). We therefore formulate the following hypothesis:

Hypothesis 2: Family involvement moderates the relationship between institutional distance and location choice. Family firms are more likely to invest in countries with

greater negative institutional distance than non-family firms, and less likely to invest in countries with greater positive institutional distance than non-family firms.

DATA AND METHOD

Sample

We study the location choices of manufacturing subsidiaries of Italian firms operating in manufacturing industries (NACE codes: 10 to 33). We select those firms legally incorporated in Italy that undertake at least one FDI in the period, and have revenues of over 50 million euros. The revenue threshold of 50 million euros excludes small and medium firms, and limits the sample to large firms. The average sales revenues are 430 million euros approximately (319 million euros in family firms and 510 million euros in non-family firms). Furthermore, we focus on large firms because we are studying equity entry modes, and small firms may face constraints in terms of lacking the financial and managerial resources to undertake FDIs.

We use several sources to build the dataset. First, accounting and financial data are retrieved from AIDA, the Italian branch of the Bureau van Dijk data provider. We then match financial data with governance information obtained from official public filings held at the Italian Chamber of Commerce (Amore, Garofalo, and Minichilli, 2014). Finally, we gather data on foreign investments from the Reprint Database (Mariotti, Mutinelli, and Sansoucy, 2015), which lists information on foreign entries undertaken by large Italian firms worldwide. The Reprint Database is based on information obtained from companies' annual reports, and crosschecked with press releases, newspapers, and company websites, assuring a high availability of information about both the firm and the foreign entry. The time span of the analysis is 2000–2013. Accordingly, for a firm to be included in the sample, it must have undertaken at least one foreign entry during that period. Furthermore, the countries included as

location choices are those that have received at least three FDIs in the time window¹. As a result, we obtain 751 foreign entries in 49 different countries, of which 281 investments are undertaken by family firms, and 470 are run by non-family firms.

Model and variables

To test the hypotheses, we use mixed logit models, as recent advancements in location choice studies suggest (Basile, Castellani, and Zanfei, 2008). Mixed logit models allow greater flexibility than the other models employed in location choice, such as the conditional or nested logit (McFadden and Train, 2000; Revelt and Train, 1998). Indeed, mixed logit models may include both location- and firm-specific variables that can estimate firm-specific parameters. Specifically, we adopt the random intercept application of mixed logit models. This means that we allow the intercept to vary across firms, and thus the model estimates the value of the intercept for each firm in the sample. As a result, variability in location choices across firms is captured by firm-specific controls and varying levels of intercepts. Coefficients in mixed logit models show if each independent variable has a predicted capability on the dependent variable, i.e. choosing a location. However, coefficients in non-linear models do not have a simple interpretation because it does not predict directly the probability but the log odds that an observation will have an indicator equal to 1. In order to interpret the results, it is more useful to discuss marginal effects –i.e. how much a change in a variable changes the probability of the outcome– and explain them graphically (Hoetker, 2007). The regression tables will report the standard deviation of the values of the estimated intercepts. And the results will be interpreted calculating marginal effects which are represented graphically.

¹ The reason for this choice will become clearer when we describe the model. Indeed, since we will adopt a mixed logit model, we consider that the firm chooses where to locate the FDI from among all the available countries in the sample. Consequently, if we were also to include those countries that are rarely the destination of investment, it would dramatically expand the number of observations and artificially inflate statistical significance.

For each one of the 751 foreign entries, we report 49 values –one for each country in the sample. Thus, the dependent variable *Location chosen* takes the value 1 when the country is the real destination, being 0 for the 48 remaining countries. From an economic point of view, the firm observes the characteristics of the 49 available countries –which will be the independent variables– and chooses one of them. The process is the same for each one of the 751 location choices. Finally, firms may run more than one FDI over the period in question. It seems reasonable to assume that there are correlations between decisions made by the same firm. We therefore relax the assumption of independence across observations by computing standard errors clustered at firm level.

Table 1 below provides descriptions of the dependent variable and the independent and control variables.

[Insert Table 1 about here]

Family firm. We differentiate between family and non-family firms. There are several definitions of family firms in the literature. Indeed, some studies rely solely on family ownership measures (Anderson and Reeb, 2003), while others use a combination of family ownership and management (Singla, Veliyath, and George, 2014). We adopt the most conservative view, namely, that family members are both shareholders and managers of the firm. In particular, we build on previous research on Italian family firms (Miller *et al.*, 2013) that uses a 50 percent equity stake threshold to identify a family firm (25% if the firm is listed). Moreover, we also require the family leader –the CEO, executive president or sole administrator, depending on the governance structure adopted– to belong to the owning family. If the family ownership meets the above requirements, and the firm leader is a family member, this variable therefore takes the value 1; otherwise, it is 0.

Institutional distance. In order to measure this variable, first we calculate each national institutional quality level. To do so, we rely on the six governance indicators developed by the World Bank, namely, voice and accountability (VA), political stability (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL), and control of corruption (CC) (Cuervo-Cazurra and Genc, 2008; Håkanson and Ambos, 2010). Since the six indicators share high correlations, we may assume that there are latent factors that affect them. Through exploratory factor analysis, we determine that only one factor has an eigenvalue greater than 1 (5.134) and it encompasses each one of the six dimensions. The Cronbach's alpha for the six items is 0.965, well above the standard minimum thresholds used in factor analysis.

Consistent with the stream of research suggesting that institutional distance is not symmetric –i.e., the effect of entering a country with stronger, rather than weaker, formal institutions is not the same– we follow the empirical strategy employed by Hernández and Nieto (2015). We go on to create a first variable that measures regulative distance by subtracting, from each host country's regulative development value, the value for Italy, and then calculate the absolute value of this distance (*Absolute institutional distance*). We also create a second variable showing the direction of the regulative distance (*Positive institutional distance*). This is a dummy variable that takes the value 1 when institutional distance is positive (i.e., firms locate their subsidiaries in countries with higher institutional quality than Italy), and 0 when the institutional distance is negative (i.e., firms locate their subsidiaries in countries with lower institutional quality than Italy). The coefficient of the interaction between absolute institutional distance and the positive institutional distance dummy variable constitutes the test of H1. The coefficient of the interaction among the family firm dummy variable, absolute institutional distance, and the positive institutional distance dummy variable constitutes the test of H2, as will be shown in the empirical models.

We also control for several dimensions that the literature has shown to be relevant to the decision on location choice. When a variable is time-varying, we insert the value of the year preceding the foreign investment in order to avoid reverse causality.

Firm sales. This variable measures the annual sales of the investing firm when it runs the investment abroad (expressed in thousand euros). We retrieve these data from AIDA (Bureau van Dijk). We include sales data because they are a proxy of the financial and managerial resources that a firm possesses, which can be used to manage complexity abroad (e.g. institutional distances) (Henisz and Delios, 2001; Jian *et al.*, 2014). Data are ln-transformed because of the right skewness of the distribution.

Firm age. This variable is widely used in internationalization studies to control for firm experience (Boeh and Beamish, 2012; Boellis *et al.*, 2016; Fernández and Nieto, 2006; Williams and Grégoire, 2015). It accounts for the time elapsed in years between the firm's foundation and the investment. Data are collected from AIDA (Bureau van Dijk).

Geographic distance. Geographic distance is a proxy of certain costs, such as transportation and communication costs, that have to be considered when firms take international decisions (Beugelsdijk, McCann, and Mudambi, 2010; Ghemawat, 2001; Jiang *et al.*, 2014). It is computed as the air distance between the home and host countries' capital cities, and is expressed in thousands of kilometers (Hernández and Nieto, 2015; Håkanson and Ambos, 2010). We take this variable from the CEPII database.

Language differences. We control for certain aspects that affect the perceived psychic distance, such as language differences (Dow and Karunaratna 2006). Language may be related to location choice decisions, as firms may find it easier to enter countries where they share a common value such as language (Ronen and Shenkar, 2013; Williams and Grégoire, 2015). In order to measure

it, we use the language differences developed by Dow and Karunaratna (2006) between Italy and each host country.

Religion differences. We also include a control variable related to religion differences. The religious aspects of a society are some of the antecedents to cultural formation (Ronen and Shenkar, 2013). Religion differences may affect location decision, as they represent the differences in people's belief systems and may imply differences in how people view and interpret the world and operate effectively in other markets (Dow and Larimo, 2009). By using the religion dimensions developed by Dow and Karunaratna (2006), the variable captures the difference between Italy and each host country.

Market size. One of the reasons firms internationalize is the need to enter markets where they will be able to sell their products. We consider this aspect by accounting for the host country's market size through Gross Domestic Product (GDP), in line with previous studies (Chen and Moore, 2010; Duanmu, 2012; Filatotchev *et al.*, 2007). GDP data are provided by the World Bank. Because of the right skewness of the distribution, the data are log transformed.

GDP per capita. We control for the purchasing power of a country and the labor costs by including the host country's GDP per capita (Arregle, Beamish, and Hebert, 2009; De Beule and Duanmu, 2012; Duanmu, 2012; Henisz and Delios, 2001; Kang and Jiang, 2012). The data are provided by the World Bank measured in US dollars divided by 1000.

Unemployment rate. We control for labor availability in the host country by measuring the unemployment rate. This measures the proportion of the labor force seeking to enter the labor market. High rates of unemployment could attract firms, since this indicates that the country has a large supply of labor, but could also have the opposite effect, as this may indicate rigidity in the labor market (Basile *et al.*, 2008; Duanmu, 2012). We control for this aspect by including the host country unemployment rate, using data gathered by the World Bank.

Tax rate. This is an important factor to take into account when choosing a location (Basile *et al.*, 2008; Chen and Moore, 2010; Duanmu, 2012; Henisz and Delios, 2001). The data on tax rates come from the World Bank.

Country risk. We also include a measure for host country risk, in line with previous studies (Demirbag and Glaister, 2010; Mudambi, Navarra and Delios, 2013). We rely on the classification made by the OECD (2016), which lists countries according to both a quantitative and a qualitative risk evaluation, and then assigns a risk factor that ranges between 0 (lowest risk) to 7 (highest risk).

Industry dummies. Location choices may be affected by industry-specific factors (e.g. presence in a given market to exploit natural resources, imitation strategies, etc). We control for this aspect by including the parent company's main two-digit NACE code.

Year dummies. To take into account biases due to business cycles and contingencies, we include year dummies for each year in the sample (i.e. between 2000 and 2013).

Descriptive statistics

Table 2 reports the geographic distribution of FDI in the sample. We observe that China is the favorite foreign location for Italian firms, since it is the host country in 15.05% of the observations. This is followed by France (8.79%), the United States (8.66%), and Germany (7.46%). Splitting the sample between family and non-family firms, we observe some differences across countries.

[Insert Table 2 about here]

Table 3 reports the summary statistics for the whole sample and the correlation matrix. Family firms account for 37% of the foreign investments. The average values of the indicators for the countries in which the firms in our sample invest are as follows: GDP per capita of 20.360 US dollars; unemployment rate of almost 8 percent; and moderate country risk (2.76). However, as we have already reported in Table 3, there is a huge variation across host country characteristics; this variation is reflected in the high values of the regressors' standard deviations. Unsurprisingly, correlation factors are noticeable in the sample. The reason is that country indicators are strongly related to each other. For instance, it is no surprise that countries presenting positive values of institutional distance ensure higher levels of GDP per capita. However, positive institutional distance and GDP per capita –although correlated– measure two different dimensions of location choice. We check this issue by computing the variance inflator factor (VIF), which is a test that detects whether correlation is detrimental to standard error inflation, and thus, significant. None of the individual VIF values exceeds the widely accepted threshold of 10. The mean VIF is 2.82, also well below the related threshold of 6 (Hair *et al.*, 2009). Consequently, high correlations are not an issue in the empirical analyses.

[Insert Table 3 about here]

EMPIRICAL RESULTS

Table 4 presents the empirical results. In model (1), we report only the control variables. In model (2), we insert the base levels of the main explanatory variables (*Family firm*, *Absolute institutional distance*, and *Positive institutional distance*). Firms appear not to be influenced either by absolute institutional distance (coef. = -0.130; p-value n.s.) or by the dummy positive institutional distance (coef. = 0.200; p-value n.s.). In model (3), we include the interaction between *Absolute institutional distance* and *Positive institutional distance* to test the first hypothesis. As expected, the interaction between absolute institutional distance and positive institutional distance is positive and significant (coef. = 1.063; p-value <0.001). This means

that the effect of the magnitude of the institutional distance on location choice differs significantly depending on whether the distance is positive or negative. As we explained in the method section, in non-linear models the interpretation of coefficients, and especially for the case of interaction terms, is not straightforward. In order to check that the relationship follows opposite directions, depending on the sign of the institutional distance, we have also estimated the marginal effects² at different values of the variable *Absolute institutional distance*, distinguishing between negative and positive distance. Moreover, we have represented them graphically in the Figure 1 to clarify more intuitively and effectively the interpretation (Hoetker, 2007; Rabe-Hesketh and Everitt, 2007). The marginal effects show that the likelihood of choosing a location is reduced (increased) as the magnitude of the institutional distance increases when this distance is negative (positive). Then, our results support H1.

[Insert Table 4 about here]

Figure 1 shows the likelihood of choosing a location at various levels of the magnitude of institutional distance, distinguishing negative and positive distances (in the left and right sides of Figure 1, respectively). For both graphs, we see that: on the left side of the X axis we have those locations with lower levels of absolute institutional distance compared to Italy (i.e. countries closer to Italy in both positive and negative terms); and values on the right side of the X axis in the figure represent the countries with higher levels of absolute institutional distance than Italy (i.e., countries more distant compared to Italy in both positive and negative terms). The graphs confirm the results of our first hypothesis, since we observe that the line has a negative slope for absolute institutional distances when the distance is negative. When the distance is positive, the line has a positive slope for absolute institutional distances. Firms are therefore more likely to choose locations with higher levels of institutional quality than their countries of origin, and less likely to choose locations with lower levels of institutional quality

² These marginal effects are available from authors upon request.

than their countries of origin. This confirms that it is not sufficient to examine the magnitude of the distance; the direction of the distance has to be taken into account in explaining the location choice.

[Insert Figure 1 about here]

To test H2 we use Model (4), which includes all the variables: the interaction terms of *Family firm* and *Absolute regulative distance* and *Positive regulative distance*; we therefore insert the three base variables (*Family firm*, *Absolute institutional distance*, and *Positive institutional distance*), each one of the two-way combinations of the three variables, and the triple interaction. We have also estimated the marginal effects³ at means for this model. The variables *Absolute institutional distance* (coef.= -0.577, p-value<0.01; marginal effect=-0.051, p-value<0.05) and *Positive distance* (coef.=-0.578, p-value<0.05; marginal effect=-0.051, p-value<0.05) are negative and significant, but the interaction between them is positive and significant (coef.= 1.448, p-value<0.001; marginal effect=0.127, p-value<0.001). This implies a different effect of distance on the likelihood of choosing a location when the sign of the distance is taken into account. The effect of the variable *Family firm* is negative but non-significant (coef.= -0.208, p-value=n.s.; marginal effect=-0.0182, p-value n.s.), which implies that the isolated effect of being a family or a non-family firms does not affect to the likelihood of choosing a location. The interaction of this variable with the other independent variables allows us to test differences between family and non-family firms when institutional distance is taken into account. Specifically, our results show that the interaction among *Family firm*, *Absolute regulative distance* and *Positive regulative distance* is negative and significant (coef.=-1.004, p-value <0.05; marginal effect=-0.008, p-value<0.05), confirming a significant

³ All marginal effects for model 4 have the same sign and are significant in the same cases that coefficients are. The marginal effects for the main variables are included in the text. Marginal effects of model 4 are available from authors upon request.

difference between family and non-family firms in the way institutional distance affects them in the likelihood of choosing a location. Following the same logic than for H1, we have also estimated the marginal effects at different values of the variable *Absolute institutional distance*, for family and non-family firms and distinguishing between positive and negative distances and we have represented them graphically in Figure 2. Figure 2 shows that, as the magnitude of the institutional distance increases when this distance is negative (positive), family firms are more (less) likely to choose a location compared to non-family counterparts. Then, we find support for H2.

[Insert Figure 2 about here]

Specifically, the Figure 2 shows the effect of being a family firm versus a non-family firm on the likelihood of choosing a location, at various levels of the magnitude of institutional distance, distinguishing negative and positive distances (in the left and right sides of Figure 2, respectively). Then, each graph in Figure 2 contains two lines: one represents family and the other non-family firms. If we compare family and non-family firms for negative distances, it appears that family firms are more likely to choose countries involving lower levels of institutional quality than their countries of origin –i.e. higher levels of distance in magnitude but with a negative direction, compared to their non-family counterparts. Additionally, regarding the comparison between family and non-family firms for positive institutional distances, it appears that family firms are less likely than their non-family counterparts to locate their investments in countries with higher levels of institutional quality than their countries of origin. The interpretation of figure 2 confirms the results of our second hypothesis. Furthermore, we can see that the slopes or the levels of the curves are not equal in the chart. It means that, *ceteris paribus*, family firms' sensitivity to changes in institutional distance is more similar for positive and negative distances than in the case of non-family firms. Specifically,

non-family firms have a higher sensitivity to changes in institutional distance for countries with higher institutional quality than Italy than they have for those with lower institutional quality than Italy. This is deduced from the slope of the curve for positive distances of non-family firms, which is much steeper than the one for negative distances.

With regard to controls, we find significant effects for the following variables: *Geographic distance* has a negative coefficient, showing that physically distant countries are less popular than closer ones. *Religion differences* has a negative coefficient, showing that those countries with greater differences from Italy in religious terms are less likely to be chosen. *Market size* is positive, which means that firms look for large markets that can sustain sales. *GDP per capita* has a negative sign, in line with the assumption that firms search for host countries that permit firms to take advantage of lower production costs related to labor, materials, machinery, and even other value added activities. In fact, labor cost reduction is a main motivation behind many foreign investment decisions. *Tax rate* is positive; although the relationship between tax rate and location choice is not straightforward, this sign is consistent with the view that firms prefer countries with higher tax rates, since taxes contribute to the development of physical and intellectual infrastructures that drive firm performance. We do not find significant effects for the variables: *Firm age*, *Language differences*, *Unemployment rate* and *Country risk*. Furthermore, the standard deviation of the constant is not significant. This means that, even allowing the model to estimate as many intercepts as there are firms in the sample, their variation is negligible.

We test the robustness of our results via additional analyses. Specifically, we have relaxed the definition of family involvement to consider family firms to be those that have a dominant family within their shareholders, in line with previous studies (Miller *et al.*, 2013). We consider these firms to be family-owned firms (with an equity threshold of 25 percent for

listed firms). As a result, 570 of the 751 FDIs can now be ascribed to family-owned firms. Similar results and conclusions emerges in the empirical analyses (results are available from the authors upon request).

DISCUSSION AND CONCLUSIONS

The institutional distance between home and host country has traditionally been considered to be a determinant factor in location choice decisions. The most recent literature, however, points to the need to take into account the asymmetric effect of distance on international decisions (Hutzschenreuter *et al.*, 2016). Our study makes progress in this direction in order to clarify the effect on location choice of the difference between the quality level of institutions in the home and host countries, distinguishing between the effects of the magnitude and direction of this distance. It is also important to consider the interaction between firm characteristics and external factors in influencing location choice (Nielsen *et al.*, 2017). We therefore ask whether factors related to ownership structure, such as family involvement, combine with the institutional factor to influence such decisions.

Following the postulates of institutional perspective and international business literature, we consider a first hypothesis regarding the asymmetric effect of institutional distance on location decisions. We argue that firms face different levels of uncertainty and different challenges depending on whether they enter countries with higher or lower levels of institutional quality compared to their countries of origin. We suggest that firms are unwilling to enter countries with weaker regulatory systems than their home country, and the greater this difference, the less likely they are to invest. In contrast, we argue that a greater difference between the levels of institutional quality in the positive direction (i.e. investment in a country with a higher level of institutional quality), would encourage entry into that country. This leads to the asymmetrical effect of institutional distance described by Hypothesis 1.

This asymmetrical effect of the distance may also be affected by the firm's internal characteristics. If we are to better understand the location decision, the interaction between factors internal and external to the firm must be taken into account. The ownership structure and, specifically, family involvement is a factor of interest, for two fundamental reasons: i) family firms have demonstrated that they behave differently at an international level than non-family firms; ii) they do not respond to institutional pressures in the same way as non-family counterparts (Arregle *et al.*, 2016). Based on arguments from the resource-based view and agency theory, we suggest that a family firm will react differently to institutional distance and therefore will display a different behavior when selecting foreign investment locations. Our second hypothesis proposes that family involvement will have a moderating effect on the relationship between institutional difference and location choice. Specifically, hypothesis 2 postulates that family firms are more (less) likely than non-family firms to choose locations with lower (higher) levels of institutional quality than their country of origin.

The empirical analysis to test our hypotheses is performed using a dataset of 751 FDIs by Italian family and non-family firms entering 49 different foreign countries between 2000 and 2013. Our findings confirm our first hypothesis, and allow us to conclude that institutional distance has an asymmetric effect on the choice of countries. Greater positive distances will have a pull effect, which translates into a greater probability of choosing that country for the investment. In contrast, greater negative distances dissuade the firm when it is considering the country as a possible location for its international investments. In this scenario, a greater negative difference increases the perception of uncertainty and lack of protection for its transactions, and as a consequence, the probability of the firm entering that country is reduced. With this result, our paper is in line with other studies that have found that institutional distance has an asymmetric effect on other international decisions or their results (Hernández and Nieto, 2015; Chikhouni *et al.*, 2017; Trapczynski and Banalieva, 2016).

The results for the second hypothesis reveal that family firms are more likely than non-family firms to choose locations with lower levels of institutional quality (i.e. family involvement reduces the firm's reluctance to enter markets with greater negative institutional distances, as postulated in Hypothesis 2). In contrast, and compared to non-family firms, family firms perceive the investment in countries with higher levels of institutional quality to be less attractive, because they benefit less from the supporting institutions. We may therefore conclude that family firms are more likely than non-family ones to select a location with systems involving lower levels of institutional quality in which they are better able to maneuver and exploit their specific capabilities and characteristics. As Cuervo-Cazurra and Genc (2008) state, under certain circumstances, firms in these contexts are able to turn disadvantages into advantages. In less favorable institutional environments, therefore, family ownership and management (acting as internal corporate governance mechanisms) emerge as substitutes for poorly developed legal structures. Moreover, they have resources and characteristics that make them better prepared to compete in locations with greater negative regulative distance. These findings are in line with Lien and Filatotchev (2015), who study investment location decisions in different regions of China. Those authors show how large block shareholders (family and institutional investors) have a positive impact on the likelihood of investing in less explored and riskier areas of China. By contrast, when the institutional distance is positive, family firm resources, networks and social capital are less valuable in markets that work more efficiently, so they are less likely than their non-family counterparts to choose those locations.

Our research contributes to the international business literature and family business literature, at least in three ways. First, we examine a key dimension in the selection of international location: differences in the institutional quality between origin and destination countries (i.e. institutional distance), employing a conceptualization of this distance in asymmetric terms. This offers us a wider and more critical picture of institutional quality

differences as a determinant of international decisions, as recent literature points out (Hernández and Nieto, 2015; Chikhouni *et al.*, 2017). Considering institutional distance in absolute terms –instead of including both the magnitude and direction of the distance– can lead to inconclusive results that do not correspond to the reality that firms encounter when choosing locations for foreign investment. Our study considers both negative and positive institutional distances, and shows that greater distances in one direction or the other have different consequences. Second, we add our voice to the papers that consider the interaction of firm-specific characteristics with external factors to explain international location decisions (Duanmu, 2012; Kuo and Fang, 2009). We incorporate family involvement in ownership and management, providing a more comprehensive understanding of the factors that underpin these decisions. Thirdly, with respect to the literature on family firms, we are adding to the growing number of papers that study the internationalization of these firms in order to shed light on the determinants of international location choice, a topic that has thus far been neglected (Fernández and Nieto, 2014). Despite the strategic nature of this decision in increasingly global contexts, few works have attempted to determine whether family firms and non-family firms differ in their choice of destination countries, and if so, how they differ. Our study sets out to answer this question by considering whether institutional distance has different impacts on the location decisions of family firms. The institutional literature has shown the influence of the institutional contexts of the home and host countries on international strategies (Henisz and Swaminathan, 2008). These factors, however, have received scant attention in family firm literature, although it is accepted that they respond differently to institutional factors (Arregle, et al, 2016; Berrone et al, 2010). Our findings clarify the ways in which aspects related to institutional parameters affect the international strategic choices of family firms.

In terms of managerial implications, our results suggest that when searching for an international location, institutional distance affects differently to family and non-family firms.

Our results indicate that family firms are less reluctant than non-family firms to invest in countries having lower degrees of institutional quality than the country of origin. Because of their specific capabilities, family firms are better-equipped to exploit institutional advantages in less-developed institutional contexts (Martin, 2014). Additionally, family firms must ensure that they foster the resources and capabilities that allow them to be efficient in certain contexts in which they become more valuable, such as social capital or superior monitoring capabilities. On another front, in order to have a presence in countries with higher institutional quality that is similar those of non-family firms, they must develop the abilities required to develop successfully in contexts that are governed by market mechanisms. The professionalization of family firms could be a solution, by the recruitment of non-family managers with experience of certain locations. Similarly, for managers of non-family firms, our results show that these firms are more reluctant to operate in locations having greater negative distances. This may be explained by the higher level of perceived risk and the greater difficulties they encounter in those contexts. The managers of non-family firms may reduce their aversion to operating in environments with higher levels of negative distance if they are capable of developing capabilities similar to those of the family firms that are shown to be useful in these contexts. Lastly, our conclusions also have implications for policy makers. Our results show that firms – both family and non-family firms– are less likely to choose locations having higher levels of negative institutional distance. Governments should therefore encourage the development of policies that improve institutional quality, which may result in a pull effect for investment by foreign firms.

This paper's principal limitations offer avenues for future research. The study of firms from a single home country may be a limitation, because host country attributes and distance may become indistinguishable (van Hoorn and Maseland, 2016). However, as these authors contend, one good option may be to study a home country from the middle of the institutional

profile distribution, such as Italy. In any case, future research should consider this issue, and include multi-origin and multi-destination datasets in order to offer more generalizable results. Moreover, our analyses are only performed on FDI decisions at a moment in time and we do not control for a firm's previous experience in that location. Additionally, since we do not have any measures of performance at the investment level, we are unable to investigate the results achieved by family and non-family firms from their international investment in countries with higher and lower levels of institutional quality. A line of research that explores this issue by considering the financial consequences of a specific location choice, relying on performance measures at subsidiary level, would be very promising. Lastly, in addition to ownership and family control, future studies should examine dimensions such as the impact of family generations, the training and/or experience of family managers, and other variables that may explain the behavior of different types of family firms.

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Tables and Figures

Table 1. Description of variables

Variable	Description	Source
Location choice	1 if the i-th country has been selected; 0 otherwise	Reprint Database
Absolute institutional distance	Factor variable (in absolute terms)	World Bank (governance indicators)
Positive institutional distance	1 if Absolute institutional distance is positive; 0 if absolute institutional distance is negative	World Bank (governance indicators)
Family firm	1 if the family owns at least 50% of the firm (if unlisted) or 25% if listed and the firm's leader is a family member; 0 otherwise	AIDA (Bureau van Dijk) and Italian Chamber of Commerce
Firm sales	Parent firm's sales	AIDA (Bureau van Dijk)
Firm age	Parent firm's age	AIDA (Bureau van Dijk)
Geographic distance	Distance between home and host countries' capital cities	CEPII
Religion differences	Factor variable	Dow and Karunaratna (2006) religious distance
Language differences	Factor variable	Dow and Karunaratna (2006) language distance
Market size	Host country GDP (logarithm)	World Bank
GDP per capita	Host country GDP per capita	World Bank
Unemployment rate	Host country unemployment rate (%)	World Bank
Tax rate	Host country tax rate (%)	World Bank
Country risk	Host country risk score	OECD

Note:

CEPII is the Centre d'Etudes Prospectives et d'Informations Internationales

OECD is the Organization for Economic Cooperation and Development

Table 2. Geographic distribution of the sample

Country	Non-family firms		Family firms		Total	
	No.	%	No.	%	No.	%
China	68	14.47	45	16.01	113	15.05
France	42	8.94	24	8.54	66	8.79
United States	46	9.79	19	6.76	65	8.66
Germany	34	7.23	22	7.83	56	7.46
Spain	28	5.96	19	6.76	47	6.26
Brazil	29	6.17	14	4.98	43	5.73
Poland	20	4.26	22	7.83	42	5.59
United Kingdom	25	5.32	14	4.98	39	5.19
India	17	3.62	8	2.85	25	3.33
Russia	16	3.40	8	2.85	24	3.20
Mexico	12	2.55	7	2.49	19	2.53
Turkey	9	1.91	5	1.78	14	1.86
Canada	12	2.55	2	0.71	14	1.86
Czech Republic	6	1.28	7	2.49	13	1.73
Switzerland	8	1.70	4	1.42	12	1.60
Belgium	9	1.91	3	1.07	12	1.60
Bulgaria	6	1.28	5	1.78	11	1.46
Argentina	2	0.43	7	2.49	9	1.20
Portugal	3	0.64	6	2.14	9	1.20
The Netherlands	7	1.49	2	0.71	9	1.20
Other countries	71	15.11	38	13.52	109	14.51
Total	470	100.00	281	100.00	751	100.00

Table 3. Summary statistics and correlation matrix

	Mean	St. ev.	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Absolute institutional distance	0.92	0.39	1												
2 Positive institutional distance	0.59	0.49	-0.096**	1											
3 Family firm	0.37	0.48	-0.047	0.007	1										
4 Firm sales	12.97	2.39	0.074*	0.002	-0.095**	1									
5 Firm Age	21.30	21.91	-0.04	0.005	0.186***	-0.014	1								
6 Geographic distance	4.42	3.66	0.185***	-0.514***	-0.057	-0.054	-0.028	1							
7 Religion differences	-0.51	0.91	0.314***	-0.601***	-0.012	0.001	0.017	0.336***	1						
8 Language differences	0.09	0.42	0.223***	-0.316***	0.017	0.039	0.029	0.153***	0.602***	1					
9 GDP pc	20.36	16.75	0.171***	0.839***	-0.046	0.019	-0.008	-0.381***	-0.549***	-0.325***	1				
10 Market size	27.38	1.44	0.284***	0.185***	-0.055	-0.013	-0.098**	0.240***	0.035	0.026	0.366***	1			
11 Unemployment rate	7.94	4.18	-0.588***	0.095**	0.073*	0.02	0.043	-0.364***	-0.378***	-0.221***	-0.155***	-0.377***	1		
12 Tax rate	56.50	15.90	0.147***	-0.56***	0.025	-0.035	-0.026	0.382***	0.401***	-0.09*	-0.558***	0.171***	-0.099**	1	
13 Country risk	2.76	2.97	-0.251***	0.073*	-0.026	-0.029	0.027	-0.285***	-0.127***	-0.310***	0.092*	-0.315***	0.177***	-0.171***	1

* p<0.05 ** p<0.01 *** p<0.001

Note: Mean VIF is equal to 2.82

Table 4. Mixed logit models. Dependent variable: Location choice

	(1)	(2)	(3)	(4)
Absolute institutional distance		-0.130 (0.124)	-0.503** (0.166)	-0.577** (0.195)
Positive distance		0.200 (0.191)	-0.207 (0.221)	-0.578* (0.275)
Family firm		-0.000 (0.082)	-0.000 (0.082)	-0.208 (0.309)
Absolute institutional distance X Positive distance			1.063*** (0.296)	1.448*** (0.336)
Absolute institutional distance X Family Firm				0.203 (0.289)
Positive distance X Family Firm				0.920* (0.414)
Absolute institutional distance X Positive distance X Family firm				-1.004* (0.413)
Firm sales	-0.000 (0.018)	-0.000 (0.018)	-0.000 (0.018)	0.000 (0.018)
Firm age	0.000 (0.002)	0.000 (0.002)	0.000 (0.002)	0.000 (0.002)
Geographic distance	-0.143*** (0.013)	-0.139*** (0.014)	-0.141*** (0.014)	-0.141*** (0.014)
Religion differences	-0.222*** (0.065)	-0.220*** (0.065)	-0.173** (0.066)	-0.169* (0.066)
Language differences	-0.047 (0.142)	-0.019 (0.144)	-0.05 (0.142)	-0.064 (0.142)
GDP pc	-0.044*** (0.005)	-0.048*** (0.007)	-0.068*** (0.009)	-0.067*** (0.009)
Market size	0.877*** (0.041)	0.878*** (0.042)	0.907*** (0.043)	0.910*** (0.043)
Unemployment rate	-0.00202 (0.011)	-0.00735 (0.012)	-0.00403 (0.012)	-0.004 (0.012)
Tax rate	0.013*** (0.004)	0.015*** (0.004)	0.016*** (0.004)	0.016*** (0.004)
Country risk	-0.016 (0.014)	-0.016 (0.015)	-0.021 (0.015)	-0.022 (0.015)
Sector dummies	Included	Included	Included	Included
Year dummies	Included	Included	Included	Included
Constant	-26.38*** (1.052)	-26.37*** (1.097)	-26.83*** (1.126)	-26.81*** (1.129)
Standard deviation				
Constant	-21.81 (1.109e+08)	-14.72 (9.278e+04)	-21.23 (6.19e+07)	-21.25 (6.338e+07)
Foreign entries	751	751	751	751
Host countries	49	49	49	49
Simulated Log-L	-3216.7	-3214.7	-3208.0	-3204.1

Note:

Firm level clustered standard errors in parentheses

† $p < 0.10$. * $p < 0.05$. ** $p < 0.01$. *** $p < 0.001$

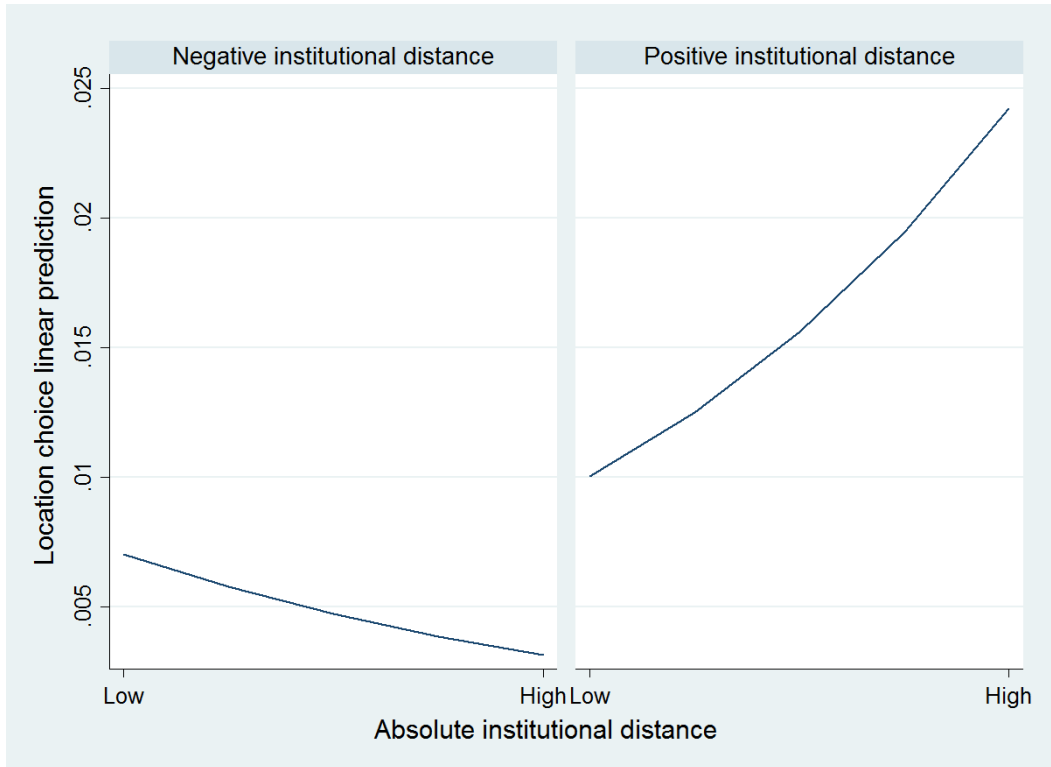


Figure 1. Predicted probability of location choice at negative and positive levels of institutional distance.

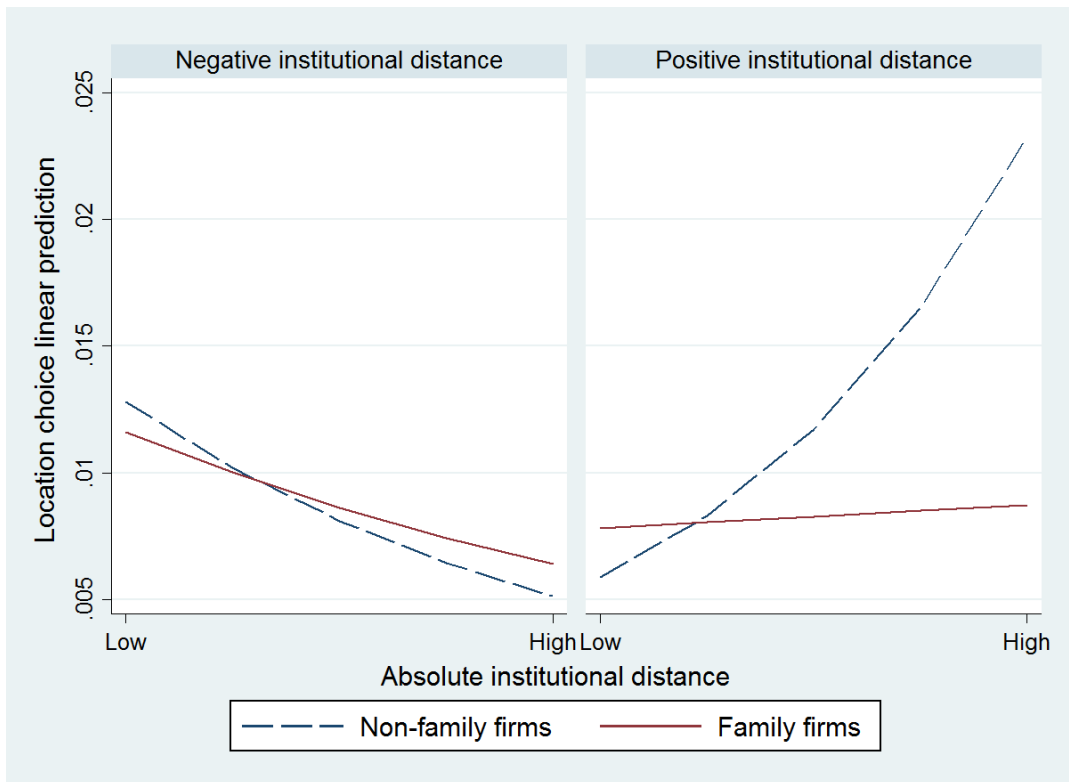


Figure 2. Predicted probability of location choice at negative and positive levels of institutional distance for family and non-family firms.