DEPARTMENT OF BUSINESS AND MANAGEMENT

PH.D IN MANAGEMENT – CYCLE XXVII

A NEW LOOK ON FAMILY BUSINESS INTERNATIONALIZATION.

NONECONOMIC GOALS IN FAMILY FIRMS AND STRATEGIC DECISIONS.

PH.D. CANDIDATE

Claudia Pongelli

PH.D. SUPERVISOR

Prof. Matteo G. Caroli

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INTRODUCTION

Family firms are defined as those organizations owned and usually also managed by a controlling family (Shanker and Astrachan, 1996; Lansberg, 1999). They represent the most common type of organization around the world (La Porta et al., 1999; Morck & Yeung, 2003; Gomez-Mejia et al., 2011) and are major contributors to economic growth, wealth creation, job generation, and competitiveness (Westhead & Cowling, 1998). The importance of family firms in developed and emerging markets as well as among top MNEs is progressively growing (Birley, 2001; Carr and Bateman, 2009). Accordingly, the internationalization of family business is receiving increasing attention by scholars and developing into a significant research area (Pukall and Calabrò, 2014). Prior research has demonstrated that when family firms go international they show a peculiar behavior compared to firms with different ownership structures and related to the distinctive character of the family business (Thomas and Graves, 2005; Fernandez and Nieto, 2006; Claver et al., 2009): given the duality of economic and non-economic goals, a growing body of research has demonstrated that family involvement in ownership and/or management deeply affects firms' strategic decisions, including internationalization. Nevertheless this field of inquiry is still in its infancy and the distinctive features of family firms' international behavior have been only partially addressed (Kontinen and Ojala, 2010).

In order to contribute to international business and family firms literature, the dissertation is a collection of three studies organized as follows. The first study is a theoretical and empirical investigation on the relationship about different family ownership structures and entry modes. To develop this study I cooperated with "Università Politecnica delle Marche" and used their dataset on Italian medium-sized family firms. Relying on a sample of 368 foreign market entries related to 204 Italian medium-sized family firms, I show that different types of ownership structures within family firms differently influence entry modes. I also provide evidence that non-family managers moderate the relation between family ownership and entry modes strategic decisions. Whereas prior studies

have focused on the relationship between family involvement in the ownership and/or management influences the degree of internationalization, this study highlights *how* family firms enter into foreign market and *how* differences within the family ownership structure may differently drive strategic decisions.

The second study focuses on family leaders' strategic decision making and the subsidiary ownership policy i.e. the choice between forming a Joint Venture (JV) or setting up a Wholly-Owned Subsidiary (WOS). This study – developed in cooperation with Bocconi University – relies on a sample of 3,939 subsidiary ownership policies run by 586 family-controlled firms with more than 50 million of euros of revenues. I show that family leaders are either more or less willing to preserve their Socioemotional Wealth (SEW) – entering the foreign market by a wholly owned subsidiary – in relation to the level of performance hazard, the identity fit between the family and the business and the cultural distance between the home and the host country. This study contributes to the growing debate on the *contextual* nature of SEW preservation logic by theoretically and empirically challenging the prevalent notion that major managerial decision in family-controlled firms are driven by SEW preservation goals, even if doing so might entail higher financial risks or lower performance.

Finally, the third study is a conceptual investigation about succession in family firms. Prior research demonstrated that succession is directly related to internationalization according to the idea that the involvement of new generation in the ownership and/or management often stimulates and fosters internationalization (Fernández and Nieto, 2005; Menéndez and Requejo, 2005). Nevertheless only 30% of family firms is thought to survive the leadership passage to the second generation and only 10% makes it to the third generation (Beckhard & Dyer, 1983). Thus the succession success is a high critical and fundamental step for the firm survival as well as the survival of the family within the firm. This study theoretically investigates how agency problems occurring between the predecessor and successors during succession – in terms of misalignments and goal divergence – may affect the succession success. More precisely I split the succession process into three different

stages and in each stage I analyze how the different way the decision-making power is shared between the predecessor and successor moderates the relation between agency problems and succession success.

The three papers of this dissertation have been all presented during international such as Academy of Management annual meeting and the most important worldwide conference on family business studies (IFERA annual meeting). Moreover the first paper has been already submitted to an A-journal (*Small Business Economics*) and it is at the 3rd round of revisions. The second and third papers are ready for submission and will be sent to journal soon.

An overview about the main information of the three papers - research question, type of study, data source, type of organization under investigation, level of analysis and conference presentation – is provided in Table 1.

Table 1: Collection of papers: an overview

Paper	*Title*	*Research questions*	*Type of study*	*Data*	*Level of analysis*	*Type of organization*	*Conference presentation/Journal submission*
1	*Family Business Going Abroad: A Study on Family Ownership and Foreign Market Entry Modes*	*How do different family ownership structures influence family firms' foreign market entry modes?*	*Empirical*	*Merloni Foundation dataset*	*Organization*	*Medium-sized family firms*	*IFERA annual meeting 2015* *Submitted to Small Business Economics (3rd round of revisions)*
2	*How much emotional is Socio-Emotional Wealth? A context-based investigation of the SEW determinants in family firms' subsidiary ownership policies*	*How do family leaders make strategic decisions on subsidiary ownership policy? Moreover, what are the business or emotional drivers of those decisions?*	*Empirical*	*AUB Observatory and Reprint*	*Organization*	*Large family firms*	*IFERA annual meeting 2015*
3	*Dolphin Becoming Shark : Agency Problems in Family Firms During Succession*	*How do agency problems in family firms in terms of misalignments and goal divergence affect succession success?*	*Conceptual*	-	*Organization*	*Family firms*	*AOM annual meeting 2013* *IFERA annual meeting 2014*

PAPER 1

Family Business Going Abroad: A Study on Family Ownership and Foreign Market Entry Modes[1]

ABSTRACT

When family firms go international they show a peculiar behavior compared to firms with different ownership structures and related to the distinctive character of the family business. Prior studies demonstrated that the presence of a family in the ownership shapes internationalization, but contrasting evidence is reported. We found that the relation between family ownership and foreign market entry modes provides a better understanding of the family business international behavior.

Using a sample of foreign market entries related to 204 Italian medium-sized family firms, we provide empirical evidence that different types of ownership structures within family firms differently influence entry modes. We also show that a non-family manager moderates the relation between family ownership and entry modes strategic decisions. Our study expand prior research by highlighting *how* family firms enter into foreign market and how differences *within* the family ownership structure may differently drive strategic decisions.

Keywords: Family firms, internationalization, ownership, entry modes.

[1] Co-authored with Matteo Caroli and Marco Cuccullelli

INTRODUCTION

When family firms decide to enter into foreign markets, they show a peculiar behavior compared to firms with different ownership structures and linked to the distinctive nature of the family business (FB) (Fernández and Nieto, 2006; George et al., 2005; Thomas and Graves,2005). Extant research has shown that family ownership (FO) does matter in influencing internationalization, but mixed and contrasting evidence is reported (e.g. Zahra, 2003; Fernández and Nieto, 2006; Sciascia et al., 2012; Pukall and Calabrò, 2014). We found that in the relation between FO and foreign market entry modes lies the key argument to better understand the FB international behavior.

More precisely, we suggest that prior studies focused on the level of internationalization (Zahra, 2003; Fernández and Nieto, 2006; Sciascia et al., 2012; Piva, et al., 2013; Bhaumik et al., 2010) mostly overlooking how the expansion abroad is pursued (Johanson and Vahlne, 2009). According to the idea that the ownership structure of a firm significantly influences its strategic choices (Hoskisson et al., 2002; Goranova et al., 2007; Datta et al., 2009), especially across small and medium family firms where owners hold a significant equity share (Zahra, 2003; George et al., 2005), our aim is to investigate the impact of FO on internationalization strategic decisions and, specifically, entry modes. Entry modes are "structural agreements that allow a firm to implement its product market strategy in a host country either by carrying out only the market operations (export), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)" (Sharma and Erramilli, 2004, p.4). Although not always unilaterally determined by the firm (Hennart, 2009), the choice of entry mode has been considered one of the most critical strategic decisions in the internationalization process (E.g. Anderson and Gatignon, 1986; Hill et al., 1990; Brouthers and Hennart, 2007; Hennart and Slangen, 2014) for its strong implications on organizational control over foreign operations, investment risk involved, resource commitment (Zhao et al., 2004) and firm performance (Brouthers, 2002).

In the attempt to highlight how the interaction between family-owners and the business influences strategic decisions related to internationalization, we build on Pan and Tse (2000) and split up the entry mode decision into two different logical steps. According to this approach, entry modes are considered as alternative choices and the decision-making process is articulated into two logically separated but concurrent and interdependent levels of reasoning out. At the first level the decision-maker is supposed to choose between either equity or non-equity entry mode. This choice reflects the time horizon of the investment and its returns: equity modes embody a major resource commitment in the foreign market (Anderson and Gatignon, 1986); non-equity modes, instead, do not entail the establishment of an independent organization and the relationship between parties is specified in a contract (Pan and Tse, 2000). At the second level, the decision-maker is supposed to choose within the equity or non-equity entry mode selected at the first level of the hierarchy: more precisely, the choice is between contractual agreement and export as regards non-equity entry modes (Burgel and Murray, 2000); between joint venture and wholly owned subsidiaries (WOS) as regards equity entry mode (Delios and Henisz, 2000). This choice reflects the decision, both for equity and non-equity entry modes, between either a cooperative or non-cooperative entry. In the first case the firm cooperates abroad with an external actor according to different degrees of control; in the second case, instead, the firm goes international alone, exercising an exclusive control over the international operations (Brouthers and Hennart, 2007)

We link ownership to entry modes taking into account how FO influences entry modes decisions at the two decision-making levels. Most of extant research highlights the distinctiveness of FO in comparison to other ownership constituencies (Miller, et al., 2010; Majocchi and Strange, 2012; Muñoz-Bullón and Sánchez-Bueno, 2012). Nevertheless strategic behaviors are dissimilar not only between family and non-family firms, but also between family firms with different characteristics (Melin & Nordqvist, 2007) and the lack of account of family firms heterogeneity has been recognized as a plausible explanation for the inconclusiveness of prior research (Arregle et al., 2012; Pukall and Calabrò, 2014). Accordingly our study focuses on different ownership structures

within FB (FO structures). Specifically, since the identity of the owners and the ownership level (or ownership concentration) are the two key dimensions of the ownership structure (Thomsen and Pedersen, 2000), we take into consideration both the level of family control (Zahra, 2003; Arregle et al., 2012) and the identity of the family-owners (Miller et al., 2010).

We argue that different family-owners, having different idiosyncratic and family-related goals, present a different overall degree of Socioemotional Wealth endowment (SEW) (Gomez-Mejia et al., 2011; Pukall and Calabrò, 2014). The different overall degree of SEW differently drives owners' strategic decisions and influences the two key decisions related to entry modes: the equity nature of the investment abroad and the possibility to cooperate with external non-family parties. Therefore the goal of our study is to answer at the following research question:

How do different family ownership structures influence FB foreign market entry modes?

Using a sample of foreign market entries of Italian medium-sized family firms, we provide empirical evidence for the relationship between different family FO structures and entry mode decisions. Furthermore, we also consider the moderating role of non-family managers in the ownership-entry mode relationship. Building on the idea that hiring an external non-family manager may help and enhance FB internationalization (Gallo and Sveen, 1991; Graves and Thomas, 2006; Kontinen and Ojala, 2010b), we suggest that the presence of a non-family manager may counterbalance the family effect on the internationalization process by modifying the SEW effect on firm strategic decisions.

The study contributes to FB internationalization literature by highlighting how the intertwinement between the family and the business influences family-owners' strategic decisions related to foreign market and consequently the firm's international behavior. Furthermore it adds to SEW theory by entailing FB heterogeneity: we show that SEW, as a driver of strategic decision-making, has a different weight and role in family firms according to differences in the ownership structure.

FAMILY OWNERSHIP AND INTERNATIONALIZATION

Family firms exhibit a peculiar behavior related to internationalization compared to non-family firms and linked to the family character of the business (Thomas and Graves, 2005; Claver et al., 2009). Research has demonstrated that family-related issues can shape the FB internationalization (Graves and Thomas, 2008; Carr and Bateman, 2009), but it is still on debate the question of how the presence of the family in the ownership (FO) has an impact on internationalization strategic decisions.

More precisely, whereas empirical evidence highlighted that family involvement in management positively affect internationalization, scholars still do not agree on the effects of FO (Sciascia et al., 2012): prior studies are consistent in the idea that FO does matter in influencing the expansion overseas, but they do not have a common view whether this effect is positive (Zahra, 2003) or rather negative (Fernández and Nieto, 2006; Bhaumik et al., 2010).

Zahra (2003), building on a sample of 409 U.S. manufacturing firms, demonstrated that FO and family involvement in the management foster the level of internationalization. Later on Fernández and Nieto (2006), relying on a wide sample of Spanish firms, found evidence in the opposite direction: FO has a negative impact on the internationalization in terms of export propensity and intensity. Similarly Bhaumik et al. (2010) suggested that FO has a detrimental impact on the proportion of the firm's assets held overseas.

Sciascia et al. (2012) in the attempt to find a plausible explanation for prior contrasting results proposed a non-linear relationship between FO and international intensity and scope: they provided evidence for a U-shape relationship according to the apex of export intensity is when ownership stays at moderate levels.

Hence, although its precise effects are still not unequivocal, research suggests that FO does matter for FB internationalization.

As a plausible reason for prior mixed evidence, we argue that extant research looks at the effect of FO on the level of internationalization (Zahra, 2003; Fernández and Nieto, 2006; Claver et al.,

2009; Sciascia et al., 2012; Piva et al., 2013), mostly neglecting *how* the expansion abroad is pursued, specifically overlooking internationalization strategic decisions. We build on the idea that the ownership structure of a firm shapes its strategic decisions (Hoskisson et al., 2002; Goranova et al., 2007; Datta et al., 2009) and expand prior studies by investigating the link between FO and entry mode strategic decisions.

Family-owners, compared to other owners' categories, present peculiar family-related priorities and risk preferences (Miller et al., 2010) that may influence internationalization strategic decisions (Gomez-Mejia et al., 2010). Their decisions, besides performance considerations, may be driven by the importance of preserving the family's SEW endowment, the stock of affect-related value that a family derives from its ownership position (Gomez-Mejia et al., 2007; 2011). Family-owners, analyzing perceived threats and risks according to a subjective consideration of what is important to their welfare (Wiseman and Gomez-Mejia, 1998), are likely to see potential gains or losses in SEW as their primary frame of reference in making strategic decisions: among a set of alternatives, they are willing to prefer the strategic choice that enables to preserve or enhance SEW, although it might entail a greater probability of performance hazard (Gomez Mejia et al., 2007; 2010).

With respect to internationalization, family-owners might perceive the foreign expansion as a threat for SEW preservation. It might require more external funding and managerial talents which dilute family holdings and transfer control and decision-making power to other actors (Gomez Mejia et al., 2011) and consequently harm owners' emotional satisfaction (Schulze et al., 2001). The potential loss of control is especially unwelcome for family-owners who have the strong aspiration and desire to maintain the control of the business in the long run and to pass it on to later generations (Arregle et al., 2007; Berrone et al., 2012).

Another key issue stemming from SEW endowment that may shape strategic decisions related to internationalization is the long term perspective of the business (Pukall and Calabrò, 2014). Family-owners aim at holding the control of the firm for the long run and tend to focus their investment there (Miller et al., 2010). Indeed, although family-owners are characterized by a general sense of

cautiousness during the foreign market entry process (Kontinen and Ojala, 2010b), researchers identified a long term orientation as a family-owners' attribute that has beneficial effects on internationalization (Kontinen and Ojala, 2010A).

HYPOTHESES DEVELOPMENT

Strategic decision-making in family firms is supposed to be driven by an overall SEW preservation tendency (Gomez Mejia et al., 2007; 2010). Nevertheless extant research demonstrated that strategic behaviors vary between family firms with different attributes (Melin and Nordqvist, 2007; Arregle et al., 2012): therefore, FO should not be studied only as a particular category of ownership in comparison to other ownership constituencies, but also within the FB in the attempt to account for its heterogeneity. Different types of family firms may present different level of SEW endowment and different weighting of SEW key issues (Pukall and Calabrò, 2014).

An important differentiating attribute related to the ownership structure is the level of FO (Chrisman, et al., 2005; Arregle et al., 2012). Arregle et al. (2012), comparing family-controlled and family-influenced firms, explain how the varying level of FO influences the firm's strategy development. In the case of family-controlled firms, family-owners hold unilateral and discretionary power, whereas in family-influenced firms the dominance of the family is more nuanced, with the consequence that certain family's aspects influence strategic decisions to a lesser extent due to the presence of "other voices at the table" (Sirmon et al., 2008).

However, it is not only the ownership level *per se*, but also who the owners are (owner identity) and their objectives and attitudes that drive the firm's strategic behavior (Miller et al., 2010). In other words, whereas the ownership level estimates the owners' decision-making power, the identity has implications for their goals and how they employ their power (Thomsen and Pedersen, 2000). Different owners may have different aims, decision-making time horizons and different attitudes toward risk with implications on firm's strategy, including internationalization (Majocchi and

Strange, 2012). Different owners entail different objectives and the firm's strategy must correspond to the objective of the largest owner (Thomsen and Pedersen, 2000).

Similarly, we argue that different family-owners may have a different focus on SEW as a driver of decision-making. In the context of internationalization, the SEW endowment can vary in different ways as the firm presents different ownership structures (Pukall and Calabrò, 2014). Due to the fact that ownership identity shapes the risk attitude of the owners as well as their temporal preferences (Lin, 2012), different family-owners may be willing to accept a different time horizon of the investment and degree of loss control: their goals may fit with different entry modes in terms of the equity nature of the investment and the proclivity to cooperate with external partners.

Moreover, as scholars suggests (Gersick et al., 1997; Kellermanns and Eddleston, 2004), some family firms have only one controlling owner, while others have several siblings controlling the firms, while still others have a great number of family members of various relations in control of the firms. In order to account for heterogeneity in the ownership pattern, we draw inspiration from ownership forms described by Gersick et al. (1997) and point out three FO structures. Considering both the level of FO and the identity of the family-owners, we describe three situations in which there is a different largest family-related shareholder: founder, multiple family members, and multiple families.

Founder ownership

The family founder (Miller et al., 2011) is usually authoritarian, conservative and unable or unwilling to share power (Claver et al. 2009): he or she is an entrepreneur who runs the company based on his intuition, business idea and strategies, rather than on industry characteristics and competitors' behaviors (Cruz and Nordqvist, 2012).

Especially in the case of SME, decision-making is founder-centered and other managers are only partially involved in the process (Tsang, 2001) with the consequence that the input and knowledge

of other is never adopted (Kellermanns and Eddleston, 2004). Thus, it is reasonable to infer that the firm strategy will reflect the owner's goals and priorities: SEW issues are supposed be a key driver in making strategic decisions.

The importance for family-owners of maintaining the business for future generations (Zellweger et al., 2011), especially if he or she is the founder of the company, enhances the emphasis on long term planning (Miller and Le Breton-Miller, 2006; Sirmon and Hitt, 2003). Long term vision is like a compelling force behind the international process (Dyer and Handler, 1994).

Furthermore, it is impossible for the founder-owner to separate the family's vision and goals from the consequent strategy; as a result the strategy tends to be characterized by a stronger commitment to fulfill it (Habberson and Williams, 1999). This approach can also sustain the family firm to overcome the difficulties of the internationalization process, allowing it to make decisions involving a greater level of resource commitment (Claver et al., 2009).

Hence, strategic decisions related to internationalization might be well influenced by long term orientation and unique commitment (E.g., Sciascia et al., 2012; Zahra, 2003): when the firm decides to enter in a foreign market entry modes that present a long term horizon of the investment may be privileged.

Furthermore due to the fact that founders are unwilling to share business decisions with others (Kellermanns and Eddleston, 2004), the importance of maintaining the control of the firms is a pivotal source of SEW and thus a key criterion in making strategic decisions. Consequently it is reasonable to believe that, at the international level, the importance of control maintenance may imply an unwillingness to accept outside expertise and share the business control with non-family actors such as the case of cooperation with players located in the host country (Pukall and Calabrò, 2014). Therefore we argue that founder-owners are more likely to prefer entry mode that imply a long term investment and exclude the involvement of third parties in the business. All in all, we claim:

HP1: Higher level of founder ownership will be positively related to the likelihood of entering a foreign market through an equity and non-cooperative entry mode.

Furthermore we suggest that the presence of a non-family manager may moderate the above hypothesis. Indeed hiring non-family managers has been identified as a common factor among successful family SMEs that invest overseas (Crick et al., 2006). On the other hand, as a mirror consideration, the lack of involvement of external expertise, such as non-family managers, has been recognized in literature as one of the main limiting factors of FB internationalization (Gallo and Sveen, 1991; Graves and Thomas, 2006; Kontinen and Ojala, 2010b).

Our aim here is not to focus on the direct relationship between a non-family manager and entry mode decisions: our goal is to understand how the presence of a non-family manager may counterbalance the "family effect" on internationalization strategic decisions and, therefore, how it can influences entry mode decisions by interacting with the different FO structures that we take into consideration.

Indeed, a non-family manager might have different concerns and priorities compared to those of family members. Albeit in literature has been partially overcome the notion that non-family managers always take non-contextual, impersonal and non-emotional approach to strategic decision-making (Hall and Nordqvist, 2008), it is still plausible to believe that they are more objective decision-makers than family members. In that sense we do not mean to equate non-family managers with professional managers, implying the assumption that family members are not professional managers that must be necessary substituted in order to succeed (Dekker et al., 2015): according Verbeke and Kano (2012), we suggest instead that employing and delegating decision-making power to non-family managers may blur constraints related to family-based human asset specificity.

Whereas a family manager is expected to pursue strategies that maximize the family's wealth and consider the SEW preservation as a key issue (Zahra, 2003; Minichilli et al., 2010), a non-family

external manager, on the other hand, is considered reasonably released from family dynamics and to some extent self-serving too with the consequence that may diverge from the rule of SEW preservation and putting first business considerations and performance goals (Verbeke and Kano, 2012)

Consistent with that we propose that the pursuit of family centered non-economic goals (Chrisman et al., 2007; Gomez-Mejia et al., 2007) as the main driver of strategic decisions is supposed to be weaker when non-family managers are involved.

Specifically as regard entry modes, a non-family manager may deviate from the long term perspective of the international investment privileging a shorter one. Short term profit maximizing strategies may be encouraged in order to boost his or her career and compensation (Chaganti and Damanpour, 1991; George et al., 2005).

Moreover, the presence of a non-family manager is a signal that the family firm to some extent overcame the reluctance to allow non-family members to fill strategic positions in the company and to share the decision-making process with them (Claver et al., 2009). Consequently it is plausible to argue that the key concern of excluding external partners from the international investment might become less important.

According to that, we suggest that a non-family manager may counterbalance the effect of the founder ownership on strategic decisions related to foreign market entries.

Therefore:

HP1a: The presence of a non-family manager will moderate the relationship between founder ownership and entry modes such that the positive effect of founder ownership on the likelihood of entering a foreign market through an equity and non-cooperative mode becomes weaker.

Multiple family members ownership

The pivotal role of the founder is reduced as the second and subsequent generations are involved in the business. Although the founder may be still present in the company, there are more family members involved in business decisions and or daily operations (Gersick et al., 1997). Although the founder may still hold a consistent role in the ownership, de facto the largest share is held by multiple family members usually pertaining to different generations.

As a consequence, decision-making becomes less centralized and personalized (Carney, 2005; Kelly et al., 2000). Although examples of family members sharing control in family firms that hinder strategic choices are common in the FB literature (Gersick et al., 1997), the participation of multiple family members leads to greater diversity of perspectives (Kellermanns and Eddleston, 2004) which can have a beneficial effect on the drivers of strategic decision-making.

With the involvement of younger generations and the dispersion of ownership, the mechanisms and logics among family members change (Harvey & Evans, 1994; Sharma et al., 1997). Moving through generations, the focus on SEW tends to decrease since, on one hand, financial considerations becomes stronger and, on the other, family identification, influence, and personal investments become weaker (Gersick et al., 1997; Schulze et al., 2001).

When there are multiple family members holding the firm's control, we posit that the strategic renewal brought by the plurality of family actors does not affect the focus on the long term of the internationalization strategy and, consequently, the equity nature of the entry mode. In fact, since a key role of the family in the business is maintained, the importance of keeping the business alive in the long run in order to pass it to future family generations is still supposed to be a core concern, also because internationalization may provide employment opportunities for family members (Claver et al., 2009)

Instead, it is plausible to argue that the strategic change related to multiple family members ownership might be realized into a new orientation to open up the firm's boundaries to international partnership. As noted by Cruz and Nordqvist (2012), second and subsequent generations need to

develop a more external cultural orientation that places a greater value on signal from the external environment. Moreover, since there is a plurality of decision-making actors in the firm, the control on firm strategies and operations is portioned and shared yet: cooperation with external partners for internationalization might not be seen as a threat anymore.

Thus, we believe that if the largest ownership share is held by multiple family members, on one hand there will be a high importance for the firm to focus in the long term and, on the other, there will be a low importance of an exclusive family control on foreign operations.

Consequently, we propose that:

H2: Higher levels of multiple family members ownership will be positively related to the likelihood of entering a foreign market through an equity entry mode and negatively related to the likelihood of adopting a non-cooperative entry mode.

With regard to the moderating role of management, as similarly described for the first hypothesis, the presence of a non-family manager is supposed to weaken the focus on SEW, enhancing a short-term approach and fostering cooperation with external parties.

According to that we suggest that:

HP2a: The presence of a non-family manager will moderate the relationship between multiple family members ownership and entry modes such that the positive effect of multiple family members ownership on equity entry mode is weaker and the negative effect on non-cooperative entry mode is stronger.

Multiple families ownership

Family firm can be defined as the business owned and managed by a nuclear family (Chua et al., 1999). Anyway sometimes more than one nuclear family may coexist in the ownership structure.

For instance, this could be the case of two founding brothers that, as time goes by, have included in their ownership stake their spouses, relatives in laws or descendants, with the result that there is not anymore a unique controlling family, but two or more of them. Another example could refer to the involvement of a non-family owner that progressively included his or her family in the business, automatically generating multiple nuclear families in the company.

Prior research highlighted that in comparison to non-family firm, family firms have a higher potential for conflicts among involved actors (Morris et al., 1997). We believe that in the case of multiple families ownership there is a complexity added. When a variety of individuals, belonging not only to different generations but also to different families, are owners of the firm, family dynamics as source of criticism and conflicts may be exacerbated.

The more people holding the control, the longer the decision-making process (Dooley et al., 2000) because each actor involved feels that has the authority to make strategic decisions (Kellermanns and Eddleston, 2004). When more than one family is at control, each family presumes to be the strongest voice at the table. It is sensible to believe that each nuclear family will strive to defend its SEW endowment, attempting to maintain the control on the firm affairs as long as possible.

Nevertheless, albeit SEW preservation is supposed to be a core concern within each family, we argue that all in all the general emphasis on SEW tends to weaken between the controlling families. In other words, the overall SEW endowment stemming from the deep intertwinement between family and business (Berrone et al., 2012) is likely to decline as a driver of strategic decisions according to the fact that is not possible to detect a unique family anymore.

Therefore, in the context of internationalization, the focus of control maintenance and long term perspective, which are both core issues to preserve SEW (Berrone et al., 2012), may lose part of their importance. Long term investments might be not a priority anymore, whereas short term investments might be preferred in order to get profits more rapidly. Furthermore, in a family firm where a variety of family members belonging to different families is supposed to cooperate at making strategic decisions, the importance of excluding non-family parties from those decisions

may lose part of its sense. As a consequence, we argue that among alternative foreign market entry modes, non-equity and cooperative modes becomes more likely.

Therefore:

H3. Higher levels of multiple families ownership will be negatively related to the likelihood of entering a foreign market through an equity entry and non-cooperative entry mode.

With regard to the moderating role of external management, as described before, the presence of a non-family manager is supposed to weaken the emphasis on SEW issues in making strategic decisions related to internationalization. In the case of multiple families ownership, the SEW preservation tendency has been considered a weak driver of strategic decision-making: the presence of a non-family manager makes SEW considerations even less important, both reinforcing a short term approach and promoting cooperation.

Consequently we argue:

HP3a The presence of a non-family manager will moderate the relationship between multiple families ownership and entry modes such that the negative effect of multiple families ownership on equity and non-cooperative entry modes is stronger.

EMPIRICAL ANALYSIS

The sample

We tested the above hypotheses on a sample of Italian medium-sized family firms. During the last decades, the transformation of the Italian industry driven by global competition gave rise to the creation of a large number of efficient, highly competitive medium-sized firms (Mediobanca 2013). These firms emerged principally within the traditional industrial districts and today represent the most competitive part of Italian industry: they account for about 25% of Italy's manufactured goods

and the largest share of national trade surplus. These firms are mostly family-owned and managed: therefore, they constitute an ideal setting to study the interaction between family governance and internationalization.

From the initial population of Italian medium-sized firms, tracked by Mediobanca's research department (about 3,200 companies), we selected a sample of 220 family firms using a stratified random procedure. Accordingly we obtained a balanced representation of both key industrial sectors and size categories. To gather non-financial data, questionnaire-based interviews were conducted by a group of research assistants from Fondazione A. Merloni[2] in individual meetings with selected interviewees ('the person in charge of major company decisions'). Those primary data have been then matched with secondary data from AIDA - Bureau van Dijk that consists of company accounts from 1998 to 2012.

For the purpose of our study we took into account a total number of 368 foreign market entries related to 204 firms. Details of the structure of the sample by relevant variables and correlations across variables are given in Table 1 and 2. The average firm size and age are about 127 employees and 36 years. These statistics are consistent with the corresponding averages for medium-sized companies operating in the manufacturing industry as reported by the Italian Institute of Statistics (ISTAT 2013), thus supporting the representativeness of the sample. Almost half of the firms in the sample use export to enter into foreign markets. Combining exports with cooperative agreements, the share of non-equity entries sums up to 65.5% of total entry events, that is about 2/3 of total observations. Among the equity entries, joint ventures (JV) represent about the 15.5% of total activities, whereas WOS account for the remaining 19.3%.

Insert table 1 and 2 about here

[2] Since 1986, the A.Merloni Foundation (http://www.fondazione-merloni.it/) has developed a dataset of companies for studying and analyzing the Italian industrial structure and the micro-economics of the firm behaviour. During that period, the Foundation - which is the owner and the manager of the data – has run several in-depth studies in partnership with Italian universities by administrating detailed questionnaires to companies in the dataset. The survey dataset used in this paper exploits this long term relationship. In particular, the survey collects information on the company's entry mode in foreign markets by year and the ownership structure of the company. Raw data on companies and some variables used for this analysis are available from Authors upon request.

As for the ownership of the companies, Table 3 shows that approximately 44.2% of the equity capital of all companies is owned by the founder, while the family share is approximately 52%. In founder-run businesses, the ownership shares of the founder is almost 70%, a share that goes up to almost 90% in the case of family firms managed by family members. Conversely, the equity capital held by non-family managers is quite low, less than 4%, and almost entirely concentrated in firms owned by more than one family.

Insert table 3 about here

Due to the data structure of our sample, we decided to rely on a nested logit model to test our hypotheses. The modeling structure of these models is similar to hierarchical models, as they divide the decision process into stages. However, hierarchical (conditional) models are considered to place excessive restrictions on individual decision-making in applications that involve individual choice (Greene, 2003, pag 724). Nested logit models overcome this restriction by specifying a nesting structure that splits the alternatives into groups, with errors correlated within groups. In our dataset, this means that export and contractual agreements are an error-correlated bivariate pair, and that joint ventures and wholly-owned subsidiaries are a different error-correlated bivariate pair, and that the two pairs are independent. This advantage of nested logit models comes at the cost of requiring a more parsimonious estimation framework. Because of the limited size of our sample, we decided to run a preliminary model for the selection of relevant variables, and then include the set of economically significant variables into a fully nested logit model. Appendix 1 presents the variables included in the empirical analysis. Appendix 2 reports the empirical framework and estimated results. In the following section, therefore, we focus on results of the nested model that uses the smaller set of selected variables.

Results

The estimated results of the nested logit models are presented in Table 4, Panel A and B. In all models the set of covariates includes the following firm- and country-specific variables: firm age, experience in foreign markets, export share on sales, country GDP growth and the size of tariff barriers. The firm-specific regressors provide evidence consistent with the expected relationship: firm age favors the adoption of entry modes that require more experience than exports, and the effect is more sizable in second-level decisions. Similarly, the experience in foreign markets - as measured by the number of years since the first export in the destination market - has a positive impact, especially in the first level decision, i.e. the selection of an equity mode. Conversely, the coefficient on the share of export on sales is negative: that is, a larger export share implies a lower probability to adopt an equity entry mode. Flexible entry modes (i.e. exports) are more likely to be observed in fast growing countries, because of the larger sensitivity of exports to changes in short term market trends. Similarly, high tariffs indicate a country's lower openness to international trade and, in turn, a lower likelihood to use rigid contractual entry modes (joint ventures or wholly-owned subsidiaries).

The estimation of the full nested models are reported in columns (1) to (4) of Panel A for the ownership variables and in columns (5) to (8) of Panel B for the external manager & interaction variables. This solution is mandated by the difficulty to estimate the model by including both ownership and management variables in the same regression (the small sample size limitation). However, it is also functional to provide separate tests for the hypotheses discussed in Section 2, that is hypotheses concerning the distinct role of the ownership and the management variables on the decision to adopt different entry modes. The rest of the Table, i.e. columns (2) and (3) for the first set of explanatory variables in Panel A and (6) and (7) for the second set of variables in Panel B, displays the estimation results of partial specifications of the models used as robustness checks. In details, only first level decisions are considered in models (2) and (6) and only second level decision in models (3) and (7). Columns (4) and (8) report estimated results of the partial nested

model which includes – in addition to first level decision – the impact of a different ownership structure on the choice between wholly owned subsidiary and a joint ventures as the base case. Besides to provide robustness for the fully nested model in columns (1) and (5), this structure is also functional to a direct test of the hypotheses concerning the preference of founder and family owners of WoS over joint venture. Because of the structure of the Table, in what follow we limit our comments to the result of the full nested logit models reported in column (1) and (5).

As for the first decision level (column 1), founder and multiple family members ownership positively impact on the decision to use equity modes (respectively founder ownership = .124*; family ownership = .050**) as predicted by our Hypotheses. Instead the impact of multiple families ownership is negative as we predicted but not significant (other ownership = -.082).

With respect to second-level estimations, using export as the base case, founder and family ownership are positively related to joint ventures (0.149 and 0.115**) and wholly owned subsidiaries (0.183* and 0.170**), whereas other family ownership displays a negative impact in all entry modes, in particular in the case of wholly owned international ventures (-0.221**). The negative coefficient for the founder ownership in the case of contractual agreements (-0.070*) indicates a generic preference for exports that only disappears in the case of a high-commitment entry mode, like a wholly owned subsidiary. Finally, when WOS is compared to JV (column 4), the founder's preference for non-cooperative entry modes is supported (0.088*). Differently from our hypothesis, we also found a positive and significantly relationship between family members and non-cooperative entry modes (0.183*). The last lines of Table 4 report the likelihood test for the IIA assumption: the null hypothesis of independence between alternatives is strongly rejected, which confirms the choice of estimating a nested logit over a conditional model based on the first- and the second-level alternatives.

When the external CEO is considered, the probability to adopt an equity mode rises further (Panel B, column 5, coefficient = 0.108*). The positive effect of the external manager variable is

significant in all entry modes, thus confirming the role of non family managers as supporters of high-commitment entry modes, in particular wholly-owned subsidiaries. When it comes to the interactions with founder or families ownership, the external management variable has a negative coefficient which is larger – in relative terms - in equity modes. This confirms the moderating role of the external manager on the owners' preference for equity modes. This evidence is even more robust when WOS interaction variables are contrasted to JV: Panel B - column (8) shows that the moderating role of external managers is larger when firms adopt a WOS to enter foreign markets. However, we must remember that results of interacted models must be considered with some caution because of the absence of constitutive terms in the estimated equations. Finally, also in this case the null hypothesis of independence between alternatives is strongly rejected, thus supporting the choice of a nested logit model in the analysis of multiple level decisions among entry mode alternatives.

In general, these results suggest that family and, more specifically, founder ownership increase the probability to adopt an equity mode when entering foreign markets. The preference towards equity modes aligns with the aspiration of family owners to guarantee long term family goals and expectations, and broadly confirms our hypotheses. Furthermore, it is robust to different decision levels (i.e. first and second-decision level) and it is also consistent with the hypothesis of independence of alternatives in full nested model estimates. In this framework, external managers tend to counterbalance the family/founder preference for equity and fully controlled modes.

Insert table 4 about here

CONCLUSION

The contribution of our study is twofold. First it adds to FB internationalization literature by providing theoretical and empirical evidence about the relation between FO and entry mode strategic decisions. Differently from prior research (eg., Zahra, 2003; Claver et al., 2009; Sciascia et al., 2012) we do not focus on the degree of internationalization: our aim is to highlight how family business goes abroad and, specifically, how the interaction between family and business influences strategic decision-making related to foreign market entry modes. Building on Pan and Tse (2000) entry modes framework, we put the emphasis on the strategic decision as well as the decision making process (articulated into two logically separated but concurrent logical moments) in the attempt to understand how family-owners' idiosyncratic goals influence the FB international behavior.

Secondly, by focusing within family firms, we make a step forward in integrating FB heterogeneity into SEW theory. Drawing inspiration from Gersick (1997) ownership forms, we depict three FO structures taking into account both the level and the identity of the owners. We showed that different FO structures differently shape entry modes strategic decisions. Using SEW as a guiding theoretical lens, we built on the idea that different family-owners correspond to a different overall degree of SEW (Pukall and Calabrò, 2014). The overall degree of SEW acts as a driver in strategic decision making and shapes family-owners' preferences toward equity entry modes and the cooperation with external non-family partners. Furthermore we showed not only how SEW logics underlie strategic decisions related to entry modes but we also provided evidence that these logics are differently declined due to different owners' characteristics.

Moreover, we show that the presence of a non-family manager counterbalances the family effect on strategic decisions related to entry modes, in line with the idea that not having an external manager with international responsibility might be a limit for FB internationalization process (Kontinen and Ojala, 2010b). Albeit family-owners are usually driven by a long term perspective that could benefit the company in foreign markets, there could be other family-related idiosyncratic goals, such as the

family control preservation, that could hinder internationalization by excluding potential profitable partnership with non-family actors. By reducing the role of the overall degree of SEW in driving strategic decisions, the presence of a non-family manager may help and support FB internationalization.

This study is not free from limitations. Although we include a country-specific control variable to address this issue, we implicitly assume that FB entry mode is unilaterally determined by the company. Entry modes instead can be also influenced by the host country's institutions and complementary local assets (Hennart, 2009). Also, the intensity of the internationalization process may be not-linear in the firms' growth pattern, as well as gain different momentum according to exogenous economic variables outside the control of the company. We believe that a key issue for future research about FB internationalization will be to better understand how the distinctive nature of the family firms interact with the host context and how it influences strategic decisions.

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LIST OF TABLES AND FIGURES

Table 1 – Pairwise Correlations among variables.

Variable	#	mean	1	2	3	4	5	6	7	8	9	10	11
Founder ownership	1	0.55	1										
Family members ownship	2	0.45	-0.1004*	1									
Other families ownership	3	0.16	-0.4203*	-0.3941*	1								
External manager	4	0.13	-0.4295*	-0.0244	0.1362*	1							
Firm age	5	36.8	-0.4721*	0.0778*	0.7352*	0.0153	1						
Firm size (employees)	6	127.4	-0.1030*	0.0088	0.1294*	-0.024	0.1635*	1					
Number of products	7	1.82	0.0577	0.1068*	-0.0516	-0.045	0.0368	-0.0179	1				
Experience in foreign mark.	8	19.5	-0.2950*	-0.3653*	0.4659*	0.0264	0.7327*	0.1138	0.0594	1			
Number of foreign markets	9	12.7	0.208*	0.0147	0.0756	0.1311*	0.0920*	0.1754*	0.0367	0.0587	1		
Export share	10	32.9	0.3318*	0.2894*	0.5818*	0.2291*	0.2814*	0.5891*	0.1619	0.5058*	0.8180*	1	
Country GDP growth	11	.042	0.3873*	0.1409*	-0.4118*	0.4846*	0.0874*	0.3665*	0.0203	0.0577	0.0529	0.0287	1
Country Tariffs	12	0.13	-0.0788	-0.0177	-0.0215	0.1747	0.0446	0.1301	0.2034	0.1029	0.0143	-0.2241*	0.3997*

* indicates 0.01 significance

Table 2 - Sample composition and types of entry in foreign markets

Variable	N	%	Equity vs non-equity	Cooperative vs non-cooperative
Export	170	46.2	Non-Equity	-
Coop Agreement	71	19.3	Non-Equity	-
JV	57	15.5	Equity	Cooperative
WOS	70	19.0	Equity	Non-cooperative
Total	368	100.0		

Table 3 – Ownership shares in the sample

	Ownership			
Management	Founder	Family	Other families	Total
Founder	68.2	29.3	2.5	100
Family	7.2	90.7	2.1	100
Manager	21.5	51.1	27.4	100
Total	44.2	52.2	3.6	100

Table 4 – Estimation results: nested logit models. – Panel A: Ownership variables

	Variables	Ownership variables			
		Full model	First level	Second level	Second level (Base = JV)
		(1)	(2)	(3)	(4)
	Firm age	0.114**	0.038**	0.016**	0.221**
	Experience on foreign markets	0.584**	0.447*	0.501**	0.141*
	Export share on sale	-0.151*	-0.221*	-0.440**	-0.223*
	Country GDP growth	-0.042*	-0.060***	-0.078*	-0.140**
	Country tariffs	0.018	-0.087	-0.122*	-0.096
First level					
	Ownership – Founder	0.124*	0.150*		0.191*
	Ownership - Family Members	0.050**	0.087**		0.064*
	Ownership - Other Families	-0.082	-0.021		-0.117
Second level					
Contractual	Ownership – Founder	-0.070*		-0.062	
	Ownership - Family Members	-0.109		-0.144	
	Ownership - Other Families	-0.063		-0.074	
Joint venture	Ownership – Founder	0.149		0.154**	
	Ownership - Family Members	0.115**		0.166*	
	Ownership - Other Families	-0.040		-0.012	
Wholly owned	Ownership – Founder	0.183*		0.220**	0.088**
	Ownership - Family Members	0.170**		0.154***	0.183*
	Ownership - Other Families	-0.221**		-0.140*	-0.227
LR for IIA [p-value]		314.4 [0.000]	144.3 [0.009]	172.3 [0.004]	140.4 [0.001]

Note: *** p<0.01, ** p<0.05, * p<0.1

Table 4 – Estimation results: nested logit models. Panel B: External management & interactions

	Variables	External management & interactions			
		Full model	First level	Second level	Second level (Base = JV)
		(5)	(6)	(7)	(8)
	Firm age	0.068***	0.114**	-0.084	-0.070*
	Experience on foreign markets	0.364**	0.162**	0.290*	0.155*
	Export share on sale	-0.097*	-0.203***	-0.119**	-0.208*
	Country GDP growth	-0.061***	-0.033**	-0.050*	-0.074**
	Country tariffs	-0.063*	-0.094*	-0.091	-0.187
First level					
	External management (EM)	0.108*	0.107*		0.110**
	Founder * EM	-0.101*	-0.093**		-0.064**
	Family * EM	-0.207	-0.117		-0.092*
	Other families* EM	-0.007**	-0.011**		-0.220*
Second level					
Contractual	External management (EM)	0.132*		0.140**	
	Founder * EM	-0.021*		-0.024**	
	Family * EM	-0.033		-0.038	
	Other families* EM	-0.012*		-0.023	
Joint venture	External management (EM)	0.090*		0.111*	
	Founder * EM	-0.052*		-0.048*	
	Family * EM	-0.077**		-0.160*	
	Other families* EM	-0.110		-0.092	
Wholly owned	External management (EM)	0.209*		0.178**	0.011*
	Founder * EM	-0.160*		-0.184*	-0.009*
	Family * EM	-0.134**		-0.161**	-0.002***
	Other families* EM	-0.097**		-0.103*	-0.054*
LR for IIA [p-value]		401.9 [0.000]	151.4 [0.002]	154.2 [0.002]	[0.001]

Note: *** p<0.01, ** p<0.05, * p<0.1

APPENDIX 1 – VARIABLE DESCRIPTIONS

Variables	Description
1. Founder ownership	Equity share held by the founder
2. Family members ownership	Equity share held by family members of the founding family
3. Other families ownership	Equity share held by families other than the founding family
4. External manager	Non-family manager
5. Firm age	Firm age (years)
6. Firm size (employees)	Firm size (employees)
7. Number of products	Number of products in company portfolio
8. Experience in foreign markets	Years since the first entry in a foreign market
9. Number of foreign markets	Number of markets served by the company (export or other modes)
10. Export share	Export share on total sales
11. Country GDP growth	Yearly growth rate of country GDP
12. Country tariffs	Average bilateral (Italy-partner country) trade tariffs on manufactured goods

APPENDIX 2 – SELECTION OF RELEVANT VARIABLES

Let Pr(i) equat to the probability of using an equity mode (i=E) or a non-equity mode (i=NE, and pr(j|E) equal the probability of a wholly controlled mode (j=WOS) or the probability of cooperative mode (J=Coop) conditional on i=E. Then:

$$\Pr(j|E) = \frac{\exp(x_{Ej}\beta)}{\exp(x_{WOSj}\beta) + \exp(x_{Coopj}\beta)}$$

And

$$\Pr(E) = \frac{\exp(y_E\alpha + \varphi_E I_E)}{\exp(y_E\alpha + \varphi_E I_E) + \exp(y_{NE}\alpha + \varphi_{NE} I_{NE})}$$

where the inclusive values $I_i = ln\{\exp(x_{i\,WOS}\beta) + \exp(x_{i\,Coop}\beta)\}$, $x_{ij,}$ and y_j refer to the row vector of explanatory variables for categories (I,j) and (i) and $\varphi_i$refers to the inclusive value (Greene, 2003, 726). The models are estimated using full-information maximum likelihood.
We use the same set of explanatory variables that include firms-specific characteristics for all the alternatives. Controls for years, destination countries, 2 digit sector are included in the model to take into account the economic trend, the potential differential impact of country specific- features on entry mode and the sectoral features of international activity. Firm characteristics include the ownership share of founders, families and other families, a dummy for the external management and the interaction of this variable with ownership, firm age and size, the number of products in portfolio and three other variables summarizing the international activity of the company: experience in foreign markets (the time elapsed from the first export year); the number of foreign markets and the export share on sale in the entry year.

All time-variant firm-level variables are one-year lagged. Models reported in Table A1 use different base alternatives for the two decisions: non equity entry modes as the base alternative for the first decision level (equity vs non equity), i.e. columns (1) and (2), and non contractual entry modes as the base alternative at the second decision level, columns (4) and (5). This formulation includes all the variables relevant for the decision. To get the economic effect associated to each variable, we apply a two-standard-deviation change to each explanatory variable (i.e. plus and minus one standard deviation from the variable sample mean). We then used the estimated coefficients from the nested logit to calculate the change in the predicted probability and then we average this change aver all firms in the sample to get economic effects reported in Column (3) and (6) of Table A1. Only variables with an economic significance higher than 2.0 in the second-level decision have been used in the main empirical model.

PAPER 2

How much emotional is Socio-Emotional Wealth? A context-based investigation of the SEW determinants in family firms' subsidiary ownership policies[3]

ABSTRACT

Moving from evidence that research on strategic management and international business has rarely investigated the impact of corporate ownership structures on leaders' behaviors in front of important strategic choices, we challenge the prevalent notion that major managerial decision in family-controlled firms are driven by Socioemotional Wealth (SEW) preservation goals, even if doing so might entail higher financial risks or lower performance.

Disentangling the two main determinants of SEW, i.e. "Family control and influence" and "Family identity", we contribute to the growing debate on the contextual nature of SEW preservation logic, by showing how family leaders' strategic decision-making depends on the actual emphasis those two SEW determinants have within the family firm. Relying on a sample of 3,939 subsidiary ownership policies run by 586 family-controlled firms, we provide theoretical and empirical evidence that family leaders are either more or less willing to preserve their SEW – entering the foreign market by a wholly owned subsidiary – in relation to the level of performance hazard *and* the identity fit between the family and the business. We conclude that family identity is the most relevant driver that characterizes SEW-oriented decisions in family-controlled firms, as shown in the context of culturally distant foreign investments.

Keywords: Family firms; Socioemotional Wealth; Family identity; Subsidiary ownership policy

[3] Co-authored with Andrea Boellis, Alessandro Minichilli and Guido Corbetta.

INTRODUCTION

Research on strategic management and international business has rarely investigated the impact of corporate ownership structures on business leaders' behaviors and actions. However, various recent diffuse acknowledgments of family-controlled firms as a dominant ownership structure worldwide (Anderson and Reeb, 2003, 2004; Gomez-Mejia, Cruz, Berrone, and De Castro, 2011; La Porta, Lopez-de-Silanes, and Shleifer, 1999), diverted scholarly attention on a powerful and yet neglected source of heterogeneity in business leaders' behaviors in front of most of the key strategic decisions. Building on the increasingly accepted notion that Socioemotional Wealth (SEW), e.g. the affective endowments or nonfinancial aspects of the family business, is the key reference point for family-controlled firms (henceforth, family firms) decision-making (Berrone, Cruz, and Gomez-Mejia, 2012; Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson, and Moyano-Fuentes, 2007), several recent studies are investigating what drives family firms' owners and leaders in making their decisions as compared to traditional economic rationality paradigms. This literature suggests that a family leader is pulled into two different directions when making strategic decisions: on one hand, the accomplishment of business considerations and, on the other, the aim to preserve SEW to secure the controlling family with family-related noneconomic goals (Berrone et al., 2007; Gomez-Mejia et al., 2007). Scholars investigated the impact of SEW on decisions such as environmental performance (Berrone et al., 2010), diversification strategies (Gomez-Mejia, Makri and Larraza-Kintana 2010), IPO underpricing (Leitterstorf and Rau, 2014), international acquisition near the end of a CEO's career horizon (Strike et al., 2015), and R&D investment decisions (Patel and Chrisman, 2014), among others. Nevertheless, most of these studies implicitly or explicitly assume that major managerial decisions are driven by the desire to preserve the family SEW, even if doing so might entail a higher financial risk or a reduced performance. We challenge this assumption by showing that when family leaders have to make strategic decisions related to the entry in a foreign market, the role of the SEW preservation logic is either strengthened

or weakened depending on the level of performance hazard, the identity fit between family and business (henceforth, family identity), and the cultural distance.

When a firm goes international, one of the most critical strategic decision is represented by the subsidiary ownership policy i.e. the choice of either forming a Joint Venture (JV) or setting up a Wholly-Owned Subsidiary (WOS) (Hennart and Larimo, 1998). In addition, despite the paramount attention in international business studies (e.g. Chen and Hennart, 2002; Eramilli, 1996; Hennart and Larimo, 1998; Makino and Neupert, 2000;), little or no research has so far considered variations in subsidiary ownership policy depending on ownership-related firm leaders' preferences. Our argument is that the choice of the ownership policy over subsidiary's activities might be especially demanding for family firms due to the *shared* versus *exclusive* control that the corporate firm will have over the foreign investments in the case, respectively, of a JV as opposed to a WOS (Brouthers, 2002). Put it differently, this choice represents a decision about family control maintenance which has been so far considered to be crucial to SEW preservation (Berrone, Cruz and Gomez-Mejia, 2012; Gomez-Mejia et al., 2007). Accordingly, we believe that answering the following research questions might be particularly important to understand the ownership influences on (family) leaders' behavioral assumptions in front of important strategic choices: How do family leaders make strategic decisions on subsidiary ownership policy? Moreover, what are the business or emotional drivers of those decisions?

Whereas the prevailing SEW assumptions would suggests family leaders to enter into a foreign country through a WOS to avoid a dilution in family's control (Gomez-Mejia et al., 2011), we expand this argument building on the idea that the SEW preservation logic is contextual, and probably less emotional than it could seem. However, while previous studies assumed a contextual validity of SEW mostly from a theoretical standpoint (e.g. Minichilli, Brogi and Calabrò, 2015), we theoretically and empirically investigate variations in SEW intensity first isolating and then matching the level of performance hazard – as a measure of risk of losing family control (Gomez-Mejia et al., 2011; Gomez-Mejia, Patel and Zellweger, 2015) – with family firms having a family

name in their company name – as a measure of family identity (Berrone et al., 2010; Zellweger et al., 2013) – as potential antecedents of different family leaders' behaviors with respect to the subsidiary ownership policy.

By providing evidence on a sample of 3,939 subsidiary ownership policies run by 586 family firms, we show that family leaders switch from a SEW risk-aversion to a SEW risk-taking strategic behavior in the presence of a persistent performance hazard: depending on whether the firm performance is improving (gain mode) or declining (loss mode) (Gomez-Mejia, Makri and Larraza-Kintana, 2010; Gomez-Mejia, Patel and Zellweger, 2015), the family leader will be more or less driven by the desire to preserve family control when making strategic decisions and, therefore, more or less likely to enter a foreign market through a WOS. We also found that the above tendency is either amplified or weakened by the family identity, such that for gain mode firms the positive relation between the family leader and WOS is reinforced in case of high family identity, whereas for loss mode firms the negative relation between the family leader and WOS is reinforced in case of low family identity. Moreover, results of the analyses indicate that the reinforcing or neutralizing effect related to the different matching of those two SEW determinants loses its predicting power when the host country is culturally distant from the domestic one: as the cultural distance increases, the family identity comes to light as the actual distinctive family leaders' decision making driver. More precisely we found that in high identity firms the inclination of family leaders for WOS is reduced regardless of the level of performance hazard such that the more culturally distant is the host country, the more willing is the family leader to enter that country through a JV. That supports our idea that moving from the domestic to a culturally distant host context there is a loss of emphasis on SEW due to a weaker role of its extended dimension (Miller and Le Breton-Miller, 2014), as well as a higher performance hazard perceived (Brouthers and Brouthers, 2000).

Our study contributes to internationalization and family business literatures expanding prior knowledge by investigating the role of SEW when family leaders have to make strategic decisions overseas, specifically entry modes which – despite their relevance in the international business

literature (e.g. Anderson and Gatignon, 1986; Brouthers and Hennart, 2007; Hennart and Slangen, 2014; Hill, Hwang and Kim, 1990) – have been almost neglected insofar. Moreover, we contribute to the deeper understanding of SEW by disentangling and contrasting what are assumed to be the most important conceptual underpinnings of SEW behavior, that is the "Family control and influence", and the "Family identity" determinants of SEW (Gomez-Mejia, Cruz and Imperatore, 2014). More precisely, we theoretically and empirically establish the importance of those two SEW determinants in front of complex decision-making processes, and importantly show how family identity may be fundamental to reinforce or contrast business-logic driven decisions. As such, we go at the roots of SEW foundations, first isolating two relevant antecedents of business leaders' decision-making and second analyzing how they behave when the context – in terms of cultural distance – changes. Altogether, our results give a comprehensive picture about the determinants of strategic decision-making in family firms, providing a more articulated and less "emotional" interpretation of SEW.

THE SUBSIDIARY OWNERSHIP POLICY: A SEW PERSPECTIVE

When establishing a subsidiary abroad, firms can start up new ventures or acquire existing ones (Caves and Mehra, 1986; Hennart and Park, 1993). In both cases firms can form joint ventures (JV) with partners (parent company) or set up a subsidiary they own completely (WOS): the choice between a fully or only partially owned affiliate is usually named in literature as subsidiary ownership policy (Brouthers and Hennart, 2007) and received uncommonly high attention by international business scholars. This attention is motivated by the several implications of ownership choice over a number of issues such as sourcing strategies, transfer pricing, integration of the firm's worldwide activities and, ultimately, the subsidiary performance (Erramilli, 1996).

Prior studies have extensively built on transaction cost theory to explain the choice between JV and WOS (Anderson and Gatignon, 1986; Hennart and Larimo, 1998), suggesting that a JV is

preferred to a WOS when the investing firm needs to obtain complementary assets leveraging on a local partner. Other studies also emphasized the relevance of non-transaction cost factors such as host government restrictions, host country risk and uncertainty, firm nationality, as well as other strategic factors (Brouthers, 2013; Chari and Chang, 2009; Delios and Beamish, 1999; Gomes-Casseres, 1990; Hill, Hwang and Kim, 1990). Indeed subsidiary ownership policies could be a very complex function of numerous factors including host country characteristics, industry characteristics, product characteristics and firm characteristics. A transaction cost perspective cannot fully explain all the antecedents (Makino and Neupert, 2000), especially in the case of family firms. Due to their need to balance business and family demands and the consequent presence of both economic and noneconomic goals (e.g. Chrisman, Chua and Litz, 2004; Chrisman et al., 2012), the way family leaders manage internationalization may be unique (Banalieva and Eddleston, 2011). Prior literature indicated that while family leaders carefully consider the economic consequences of their strategic decisions, noneconomic consequences are often likely to play a major role (e.g. Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011). In other terms, in assessing the relative risk of various strategic choices, family leaders have an additional reference point compared to outside executives with no emotional ties with the company, which is exactly SEW preservation. Hence, SEW-protecting strategic choices will tend to predominate even if alternatives would confer some business risk mitigation (Gomez-Mejia et al., 2007; Gomez-Mejia, Makri and Larraza-Kintana, 2010), or imply an economic gain (Leitterstorf and Rau, 2014). This behavioral logic was first explored by Gomez-Mejia et al. (2007), who provided evidence that Spanish family olive oil mills were less likely to join cooperatives, thus accepting higher business risk, in order to protect family control and SEW-associated benefits. Later on, Gomez-Mejia, Makri and Larraza-Kintana (2010) similarly demonstrated that family firms diversify less than non-family firms since diversification threatens SEW and dilutes family power and control. Interestingly, Strike et al. (2015) have recently shown that, while near retirement CEOs are more versed to conservative strategic choices, family firms – and particularly those with a family leader – make riskier

investments (international acquisitions) when they approach the end of their career since they wish to hand down a more competitive firm to next generations.

Under this perspective, internationalization may carry a tricky bundle of threats for the SEW preservation (Gomez-Mejia et al., 2011). We suggest the subsidiary ownership policy might be especially challenging for a family leader since it entails a major decision about either preserving family control and associated SEW in a foreign country, or rather sharing it with an external partner. On one hand, the family leader has the possibility to hold the entire control of the investment with the disadvantage of bearing a high business risk; on the other, he or she has the possibility to share the business risk with another company with the disadvantage of giving away part of the family control.

Subsidiary ownership policy and SEW: protecting "Family control and influence"

Family control and influence represent one of the major determinants of SEW so that family members require continued control over the firm to accomplish the goal of SEW preservation (Berrone, Cruz and Gomez-Mejia, 2012). More in details, according to the SEW preservation logic, the strategic choice that better enables to maintain family control will prevail over alternative decisions even if entailing a greater business risk (Gomez-Mejia et al., 2007; Gomez-Mejia, Makri and Larraza-Kintana, 2010): accordingly, it is reasonable to argue a preference of family leaders for WOSs since it guarantees family control maintenance and, therefore, SEW preservation more than JVs, which could be considered as a way to dilute family holdings (Gomez Mejia et al., 2011). Nevertheless, the SEW theoretical lens proposes a contextual approach of the family leaders' strategic behavior as depending on external circumstances and specifically in relation to the performance hazard. Whether the firm is experiencing a good or bad performance trend, the SEW preservation goal has a different intensity. While family leaders will consider the SEW preservation as the most important reference point in gain mode situations, the goal of SEW preservation has

lower emphasis and performance hazard mitigation gains priority when in a loss mode: "if the firm fails to survive, SEW would be completely lost, and given this possibility the relative utility of preserving SEW at the expenses of bearing higher business risk should decline accordingly" (Gomez-Mejia, Makri and Larraza-Kintana, 2010: 232). In other words, a family leader's behavior swaps from SEW risk-aversion to SEW risk-taking as external hazards step in (Minichilli, Brogi and Calabrò, 2015).

In line with the above arguments, we suggest that the choice JV vs. WOS for family leaders varies whether the family firm is experiencing a performance hazard or not. Specifically, when the family firm investing abroad is suffering of unsatisfactory performance, the family leader will be less focused on noneconomic goals (Gomez Mejia et al., 2011) and thus less adverse to dilute family control through a JV: mitigating the performance hazard to safeguard long term SEW will be a priority. Since it allows to share business risk with an external party and restrains the investment (Brouthers and Hennart, 2007), a JV is supposed to be in line with that priority. On the contrary, when the family firm is experiencing positive gains, the noneconomic goals will play a pivotal role in driving the decision maker with the consequence that a WOS will be preferred by the family leader in order to keep the entire family control over the foreign investment. Hence, we hypothesize the following:

Hypothesis 1 (H1)*: When entering a foreign market, a family leader is less likely to choose a WOS if the firm is in loss mode and more likely to choose a WOS if it is in gain mode.*

Subsidiary ownership policy and SEW: protecting "Family identity"

Family identity refers to the close identification of the family with the firm (Berrone, Cruz and Gomez-Mejia, 2012; Gomez-Mejia, Cruz and Imperatore, 2014). The family and the organization are inextricably intermeshed in family firms (Dyer and Whetten, 2006; Berrone et al., 2010): they tend to overlap generating a shared identity of "who we are" and "what we do" in the

family business (Zellweger et al., 2013). The family identity acts as a glue for family members, holding the group together under the common goal and the common pride of the fulfillment of family firm obligations (Sundaramurthy and Kreiner, 2008; Zellweger et al., 2010).

The identity of family members within the family business is inseparably tied to the organization that usually carries the family's name: it induces the firm to be seen as a prolongation of the family itself both by internal and external stakeholders (Berrone et al.,, 2010). Kinship, a shared family name and a common history have the unique potential to build a robust family identity in family firms, encouraging family members to support family goals (Sundaramurthy and Kreiner, 2008; Zellweger et al., 2010). The higher the visibility of the family in the business, as in the case of identical family and business names, the more blurred the boundaries between the family and the business (Zellweger et al., 2013; Deephouse and Jaskiewicz, 2013).

Whether or not the family strives for a family identity should explain the family firm's pursuit of nonfinancial goals (Zellweger et al., 2013): the importance of fulfilling SEW goals arise from identity consideration. The preservation of SEW is anchored by family members whose identity is bound to the organization (Berrone et al., 2010). Building on the idea that strategic behaviors in family firms may differ based on the family-specific focus on SEW (DeTienne and Chirico, 2013), we suggest higher emphasis on SEW as a driver of strategic decision-making behaviors for those firms that exhibit a greater family identity.

Specifically, we argue that family identity may either mitigate or reinforce the relation between the family leader and the foreign entry through a WOS depending on whether it matches with a low or high performance hazard (respectively gain and loss mode). When the firm is in gain mode, noneconomic goals are supposed to play a key role in driving strategic decisions (Gomez-Mejia, Makri and Larraza-Kintana, 2010; Gomez-Mejia et al., 2011): we expect the high family identity to foster family leaders in their SEW-preservation goal even more. Based on this logic, we suggest that in gain mode and high identity firms, family leader's desire to maintain the family control over foreign investments will be stronger, with a greater tendency for a SEW-protecting

decision such as the establishment of a foreign subsidiary entirely controlled by the family firm (Gomez-Mejia et al., 2011). On the contrary when the firm is in a loss mode, noneconomic goals are supposed to make way for economic considerations (Gomez-Mejia, Makri and Larraza-Kintana, 2010) such as the possibility to share the investment risk trough a JV: the reduced emphasis on noneconomic goals for firms experiencing threats will be further reduced in case of low family identity, making the likelihood of WOS even lower.

> ***Hypothesis 2 (H2)****: Family leaders in gain mode firms have a stronger positive relation with WOSs when the firm is characterized by high family identity. At the opposite, family leaders in loss mode firms have a stronger negative relation with WOSs when the firm is characterized by low family identity.*

The external dimension of family identity: the role of cultural distance

The last part of our investigation takes into account the role of cultural distance, namely the difference between the national cultural characteristic of the home and the host countries (Hennart and Larimo, 1998). Although prior studies do not have a common opinion whether cultural distance enhances the propensity to choose WOSs or rather JVs (e.g. Anand and Delios, 1997; Chang and Rosenzweig, 2001; Pak and Park, 2004), scholars do agree that cultural distance does influence the subsidiary ownership policy according to the idea that "the cultural context helps to define profit potential and/or the risk associated with a specific market entry" (Brouthers and Brouthers, 2000: 91). A great cultural distance between home and host countries generates constraints for foreign investors that want to operate in the host country (Arora and Fosfuri, 2000; Hennart and Larimo, 1998; Hofstede, 1980). Based on this, it is plausible to argue that for a family leader the higher the cultural distance, the higher the uncertainty about the investment abroad (Slangen and Van Tulde, 2009), and consequently the higher the performance hazard perceived. Accordingly, when the host country is culturally distant from the domestic one, we expect the higher performance hazard

perceived to decrease the focus on noneconomic goals regardless of the actual performance hazard the firm is facing (i.e. gain or loss mode).

Nevertheless, the role of cultural distance might be especially complex for family leaders since it has the potential to challenge the family identity in its external side. Zellweger et al. (2010, 2013) suggested that family identity makes the family firm particularly careful about the way it is perceived by non-family stakeholders outside the company. Family leaders usually live near the local community and become well known to individuals in that context such that they are likely to perceive external pressures also from a personal point of view: a SEW reward may be provided when their actions are legitimized by the local community and positive relationships with the firm's stakeholders are built (Berrone et al., 2010). More precisely, depending on the level of family identity, the family leader "speaking for the firm" (Miller, Minichilli and Corbetta, 2013) will be more or less sensitive about the image the family firm has externally (Zellweger et al, 2013). This is especially true if the family is highly visible in the company like when the family's name is linked to the firm's name (Craig, Dibbrell and Davis, 2008; Deephouse and Jaskiewicz, 2013).

However, whereas family leaders that usually live in their local community become well known individuals, gaining personal and family noneconomic advantage from their local relations, we argue that – in a culturally distant host country wherein the family firm, its tradition, and its family system are mostly unknown – they might be less willing to gain social legitimacy from local stakeholders despite the level of family identity. More precisely, we argue that if a family leader is to operate in a foreign market which is culturally distant from the home country (Hennart and Larimo, 1998), he or she will be less sensitive to social pressures from the host context and its community even in case of strong family identity. As the cultural distance increases, the role of family identity to reinforce the SEW preservation goal weakens, and gaining external legitimacy might be no longer recognized as a source of SEW: we believe the family leader will be less focused on SEW preservation goals and therefore less prone to enter the foreign market through a

WOS (thus preferring a JV) despite a strong family identity, and regardless of the performance hazard. All in all:

> ***Hypothesis 3 (H3)****: Cultural distance weakens the role of family identity in front of internationalization choices: when the firm is characterized by high family identity, and regardless being in a gain or loss mode, the family leader will be less likely to enter a foreign market through a WOS as the cultural distance between the home and the host country increases.*

METHODS

Sample

The level of analysis of the study is the foreign entry. The estimates rely on a unique data set covering internationalized Italian family firms (i.e. that undertake at least one foreign direct investment, FDI) with more than 50 million of euros of revenues. We employ several sources to build the data set. First, accounting and financial data are retrieved from AIDA, the Italian branch of the Bureau van Dijk data provider. Then, we match financial data with governance information obtained from official public filings stored at the Italian Chamber of Commerce (Amore, Garofalo and Minichilli, 2014). Finally, we built data on FDIs from the Reprint data set (Mariotti, Mutinelli and Sansoucy, 2015), which lists information on foreign entries undertaken by large Italian firms worldwide. Such data are obtained from the companies' annual reports and crosschecked with press releases, newspapers and company websites. Information on individual characteristics come from sources such as the annual corporate governance report, the company website, the Italian Who's Who list of top executives, and articles from the specialized press (Minichilli, Brogi and Calabrò, 2015). The threshold of 50 million of euros of revenues allows considering only medium and large firms, thus assuring a high availability of information about both the firm and the foreign entry. Furthermore, accordingly to the IB literature (Cho and Padmanabhan, 1995; Hennart and Reddy,

1997), we study one single home country, in order to avoid biases due to the impact of home country national differences on the entry mode.

Following existing studies, we define family firms according to the equity share that is held by family members that allows controlling the firm (Faccio and Lang, 2002; Anderson and Reeb, 2003). Since concentrated ownership structures are common in Italy, we argue that – in line with previous studies (Miller, Minichilli and Corbetta, 2013) – a stake of 50 percent is required to control the firm. However, if the parent firm is listed, the threshold for control is reduced to 25 percent of equity. With the selected criteria, we obtain a final sample consisting of 3,939 foreign entries run by 586 family firms, undertaken between 1995 and 2013 in 27 different countries.

Dependent variable

Wholly-owned subsidiary (WOS). Coherently with previous studies (Makino and Neupert, 2000; Brouthers, 2002), we discriminate between WOS and JV according to the equity stake that the parent firm controls into the subsidiary. Namely, if the parent owns more than 95 percent of the equity's foreign subsidiary, we classify it as a WOS; otherwise, we consider it as a JV. Operationally, the dependent variable is a dummy that takes value 1 when the foreign entry is a WOS, and 0 when it is a JV.

Main explanatory variables

Family leader. Within family firms, we distinguish those that are family led and those that are led by an individual who is not a family member. The firm leader is the individual who has been appointed as CEO, executive president or leader without a formal board of directors (Miller, Minichilli and Corbetta, 2013). Family members are those with blood or marital ties to the owning family, identified through surname affinity (Amore, Garofalo and Minichilli, 2014). When the firm is family led, the variable takes value 1; otherwise, it is 0.

Cultural distance. Cultural distance is a widely employed concept in the international business literature, despite some authors have highlighted that it is affected by theoretical and

empirical pitfalls (Shenkar, 2001; Avloniti and Filippaios, 2014). Specifically, one of the problems associated with cultural distance measurement is that it assumes stability over time, whilst cultures evolve and co-evolve (Shenkar, 2001). In order to remove this illusion of stability, we rely on Berry, Guillen and Zhou (2010) variables. Indeed, they employ the World Value Survey (Inglehart, 2004) to replicate Hofstede's (1980) uncertainty avoidance, power distance, individualism, and masculinity dimensions at specified interval of times (i.e. three or four years). In such a way, it is possible to observe how cultural distances change over time. Finally, the four dimensions are grouped in a single index through the Mahalanobis calculation (De Maesschalck, Jouan-Rimbaud and Massart, 2000), because it is scale invariant and takes into account the variance-covariance matrix. Finally, values are standardized. More specifically:

$$Cultural\ distance = \sqrt{\frac{1}{4}\sum_{i=1}^{4}\left(x_{i,j} - \mu_i\right)^T S^{-1}\left(x_{i,j} - \mu_i\right)}$$

where:

$x_{i,j}$ is the cultural distance for the i-th dimension between Italy and the j-th country;

μ_i is the mean distance for the i-th dimension of cultural distance;

S is the distances' variance-covariance matrix.

Control variables

We employ a set of variables in the econometric models in order to control for several determinants of the subsidiary ownership policy and to avoid potential endogeneity issues due to omitted variables. In particular, we distinguish between firm-level controls (that refer to the parent company) and country-level controls (that are specific of the host country of the foreign entry).

Firm-level controls.

Parent age is the difference between the year of the foreign entry and the parent's foundation year. The former is retrieved from Reprint and the latter from AIDA – Bureau van Dijk. We expect

that older firms should possess more financial and managerial resources that would lower the need of having a partner, hence increasing the WOS propensity.

Parent size is measured with the number of employees recorded by the parent firm in the year of the investment. The value is log-transformed due to the right-skewed distribution. Data are taken from AIDA – Bureau van Dijk. As for age, size is a proxy of the presence of resources constituting a competitive advantage in international markets that would augment the probability of establishing WOSs.

Leverage. Financial constraints may affect the subsidiary ownership policy, since the lack of financial resource may hamper the equity stake held in the foreign firm. We then predict that lower leverage should favor WOSs. We control for this aspect considering the parent's leverage ratio. It is computed as the ratio between outstanding debt and equity. Data are taken from AIDA – Bureau van Dijk.

R&D intensity is the ratio between the R&D expenses and the total sales. Data are log-transformed because of the right skewness of the distribution. It is a proxy of the firm's asset specificity. The higher the asset specificity the higher the need to protect it, thus favoring WOSs. Data on R&D expenses and total sales come from the annual reports.

Family control. The power and pressure that the family leader may exercise over the family firm depend also on the control that the family has within the equity base. We control for this aspect through the ratio of family controlled shares. Data come from the Italian Chamber of Commerce.

First generation. We distinguish among the family generations who run the family firm. In particular, we dichotomize between family firms run by the first generation and those controlled by later generation. For the former, this variable takes value 1; the latter are codified by 0.

Female leader. It has been shown that gender interactions have relevance in decision making, with particular reference to family firms (Amore, Garofalo and Minichilli, 2014). For this reason,

we control for gender by creating a dummy variable that has value 1 when the leader is a female and 0 when he is a male.

Leader tenure. Leaders with long tenure have strengthened their power over the firm and, thus, they are able to leverage on their tenure to drive the firm's strategies towards their preferred ones. We control this aspect by inserting the number of years that the individual has been running the family firms as a leader. Data come from company reports, the Italian Chamber of Commerce, AIDA – Bureau van Dijk and Who's Who.

Industry dummies. We insert a set of industry dummies to take out any industry-specific effect. Dummy variables are defined according to the 2-digit NACE classification.

Country-level controls.

Country risk plays a central role in the choice of the subsidiary ownership. Indeed, it is reasonable to enter countries that are exposed to higher political risks with a partner, in order to share the country risk. We rely on classification developed by OECD (2015), which lists countries according to both a quantitative and a qualitative risk evaluation and then assigns a risk factor that ranges between 0 (lower risk) to 7 (higher risk).

Administrative distance accounts for differences in bureaucratic patterns due to colonial ties, language, religion, and the legal system (Berry, Guillen and Zhou, 2010). They rely on the colonizer-colonized link, common language between the home and the host country, common religion, and commonalities in legal systems (La Porta, Lopez de Silanes, and Shiefler, 1999). The Mahalanobis distance is then calculated in order to create a single index. Values are standardized as for cultural distance. Specifically:

$$Administrative\ distance = \sqrt{\frac{1}{4}\sum_{l=1}^{4}\left(y_{l,j} - \pi_l\right)^T V^{-1}\left(y_{l,j} - \pi_l\right)}$$

where:

$y_{l,j}$ is the administrative distance for the l-th dimension between Italy and the j-th country;

π_l is the mean distance for the l-th dimension of administrative distance;

V is the distances' variance-covariance matrix.

Geographic distance is the great circle distance between Italy and foreign country's capitals. It takes account of transportation costs, time zones, and the like. It is retrieved from the Wharton database by Berry, Guillen and Zhou (2010). We express it in thousands of kilometers.

Time dummies. We also take out any potential time effect by introducing three dummies in order to control for time-specific contingencies that affect the subsidiary ownership policy. Specifically, as we lack information for some data on the exact foreign entry year, we distinguish between foreign entries run between 1995 and 2000, between 2001 and 2007, and between 2008 and 2013, since we are always able to assign every observation to these time spans.

Model

The dependent variable *WOS* is dichotomous, thus we employ probit models to analyze the impact of the aforementioned regressors on the likelihood of choosing a WOS rather than a JV, since they constrain the domain of the predicted values between 0 and 1. However, since most of the firms run more than one foreign entry, we allow correlation among observation from the same company in order to relax the assumption of independence across observations. Consequently, we cluster standard errors at the firm level. Finally, we do not use panel models because the same firm may run some foreign entries in one year and no one in other years. Therefore, the sample has the structure of a repeated cross-section, rather than a panel (Cameron and Trivedi, 2005).

In order to test the hypotheses, we run the models on the theoretically relevant sub-samples[4]. In particular, we distinguish the sub-samples along two dimensions: i) the family identity and ii) the

[4] This method brings two benefits compared to interact the variables. First, it allows the controls to vary freely across the subsample, whilst employing a single model with interactions would tacitly assume that the control have the same impact on the different categories. Second, since we investigate several dimensions – i.e. family leader, cultural distance, and two SEW determinants – the number of interactions would be of difficult interpretation.

performance hazard of the family firm. We capture the first dimension by creating the dummy *Family identity* that equals 1 – high identity – when the family name is present in the firm name (e.g. Barilla and Benetton) and 0 – low identity – when this is not the case (e.g. Fiat, with the Agnelli-Elkann family, and Brembo with the Bombassei family). Indeed, we argue that when the firm bears the family name, both internal and external shareholders see the firm as a prolongation of the family itself (Berrone et al., 2010). In order to capture the second dimension – i.e. the performance hazard– we follow existent literature on performance hazard in family firms (Gomez-Mejia et al., 2007). Following Gomez-Mejia, Makri and Larraza-Kintana (2010), performance hazard represents the extent to which the performance of the firm is improving or declining. We then calculate performance hazard as the natural logarithm of the ratio of firm performance (in terms of ROA) at time t and that at time t – 1. We, finally, create the dummy variable *Performance hazard:* taking value 1 if the firm is in gain mode (i.e. performance hazard is higher than 0); it is 0 when the firm is in loss mode (i.e. performance hazard is equal or lower than 0).

RESULTS

Table 1 provides the geographical distribution of the foreign entries and the average foreign entry per firm. In addition to provide a clear picture of the sample distribution, we aim at investigating two potential issues. First, we wonder whether there are countries that exhibit frequencies that are not economically driven. If this was the case, our estimates could suffer of selection biases and of underestimating the real economic drivers of the subsidiary ownership policies. Second, we analyze whether family and non-family leaders show divergences in host country selection, since it would be worth investigating the reasons in order to avoid biasing the results. With reference to the first point, we note that the three most entered countries are China, the United States and Germany, which are the main Asian, American and European economies, respectively. In particular, 49.97 percent of the foreign entries in the sample have these countries as their destinations; according to the World Bank, the same countries account for the 40.62 percent of

the World GDP in 2014. Further, looking at the other countries, none of them is significantly over/underestimated with regard to its economics relevance and the economic relations with Italy. Moving to the preferences between family and non-family led firms, we see that there is few variance by country. Specifically, the country where the discrepancy is the highest is the United States where, despite total foreign entries in this country account for the 18.66 percent of the cases, family led firms show a 16.10 percent. Such a variance appears physiological to us.

With regard to the number of foreign entries and firms, at a first glance, we note that family led firms overcome their non-family counterparts in terms of foreign entries (2,403 vs. 1,536). However, if we compute the average foreign entry per firm, we note that the former run 5.21 foreign entry per firm, while the latter reach a mean of 12.29. This result is consistent with previous studies that relate higher level of family involvement – in this case in the family firm management – with lower level of international diversification and activity (Gomez-Mejia, Makri and Larraza-Kintana, 2010; Banalieva and Eddleston, 2011).

[Insert Table 1 about here]

We report in Table 2 the descriptive statistics of the variables, jointly with the pairwise correlations. We observe that family firms opt for WOSs in the 74.7 percent of the foreign entries. This finding is consistent with analogous studies that employed the same thresholds of 95 percent to distinguish between WOSs and JVs. Indeed, Brouthers (2002) finds that the 70 percent of the foreign entries are WOSs; Hennart, Sheng and Pimenta (2015) report that 84 percent of foreign entries are WOSs. Parent age mean is equal to 43.8 years, but standard deviation is quite high, since our sample ranges from newly established ventures to more than a century old companies. Mean leverage has a value of 3.884. However, leverage can vary massively (standard deviation is 3.642), since it often relies on firm and industry peculiarities, according to the corporate capital structure theory (Leary and Roberts, 2014). Further, families have a tight control on the family firms (77.1 percent of the equity on average). This is not surprisingly due to the high threshold that we select to

identify family control in such a concentrated market for corporate control as Italy is. Moreover, 46.3 percent of the investments come from family firms controlled by family members in the first generation. Finally, in spite of mean leader tenure of 12 years, the highest tenure reaches 49 years. Although it may seem a long period, it refers to the founder of a family firm, who holds the role of CEO since the firm's inception.

Moving to the correlations, we observe that, despite few exceptions, they are at moderate levels. When correlation seems high – in absolute terms –, it does not worry us. For instance, the largest value is -0.564, the correlation between family control and parent size. It seems reasonable that when a firm grows, it requires to finance such a growth and family may not be able to bear it, therefore diluting control. However, to chase all doubts away, we compute the variance inflator factor (VIF). Results may suffer of multicollinearity if such a factor exceeds 10 for any single variable or if the mean VIF is higher than 6 (Hair et al., 2009). We are far from such thresholds, since the maximum VIF is 2.264 for parent size and the mean VIF is equal to 1.407.

[Insert Table 2 about here]

Panels A and B of Table 3 provide us a rough approximation of the WOS distribution, conditional to the performance hazard and family identity, for family and non-family managed firms, respectively. To start with, we observe that – regardless of the family identity – family leaders of firms in loss mode run less WOSs (67.60 percent) than their counterparts in gain mode do (78.49 percent). The difference is highly significant and supports hypothesis 1. When experiencing a loss mode, family leaders take more SEW risks by sharing the subsidiary's control with a partner. If we compare it with the non-family leaders in panel B, we observe that the JV propensity difference between gain and loss mode is negligible and not significant; therefore, we can assume that the SEW preservation becomes less relevant in loss mode mainly for family leaders, as expected. We also posit that, when identity status is high, family leaders prefer avoiding having a partner. Indeed, regardless of the performance mode, family leaders opt for WOSs in the 77.50

percent of cases when identity is high and 69.92 percent when it is not. Again, the difference is strongly significant. On the other hand, non-family leaders behave differently with regard to identity. In particular, given the lower stock of family-related endowment, it arises that they counter-balance the high identity family firms preference to retain control over the subsidiary. We now examine the four combination of performance mode and identity status. It clearly emerges that we have two opposite focal points. Having said that firms in gain mode share with those with high identity a preference for WOSs – deriving from the two different SEW determinants –, it is reasonable that those firms that combine the two characteristics report the highest ratio of WOSs (84.24 percent). These firms undertake more WOSs than those with which share the identity status, but not the performance mode (68.90 percent). The same is true with reference to those that are in gain mode too, but have low identity (74.02 percent). Each difference is statistically significant. On the opposite corner of the table, we have those firms whose SEW dimensions hamper WOSs – i.e. they are in a loss mode and have a low identity. As a result, these firms report the lowest probability to opt for a WOS (67.09 percent). However, the difference with the firms with whom share one SEW dimension is statistically weak (if the dimension is family identity) or negligible (if it is the performance mode). For the sake of brevity, we do not dwell upon the combination in non-family led firms in panel B, but we simply note that, as one would expect, the statistics are symmetrical to those of family led firms[5].

[Insert Table 3 panel A and panel B about here]

Econometric analyses are structured as follows. Table 4 reports the econometric estimates for the full sample and the two sub-samples distinguishing between the two performance modes.

[5] Non-family leaders report specular preferences compared to the family one. In particular, they show the highest propensity for WOS when the firm is in loss mode and it has a low identity status (79.87 percent). On the contrary, when the firm is in gain mode and it has high identity, the show a weaker preference for WOS (66.10 percent). Furthermore, the differences along the quarters are rarely significant; therefore, we can confirm that the findings are driven mainly by the family leaders behaviour, rather than from their non-family counterparts.

Strictly related, Table 5 reports the average marginal effects[6] for the same models. Analogously, Table 6 reports the estimates for high and low identity firms, while Table 7 incorporates the average marginal effects. Finally, Table 8 and Table 9 show the estimates and average marginal effects, respectively, of the four possible combinations of performance mode and identity status.

We first analyze some relevant controls. Parent age and size, when significant, have positive signs in every table. It confirms our expectation that, *ceteris paribus*, older and larger firms have managerial and financial resources to follow a WOS-based strategy, in compliance with family firms preferences. The magnitude of the effect is especially relevant for size, as its one percent increase (decrease) leads to an increase (decrease) of the probability of WOS between 2.1 and 6.3 percent, across the sub-samples. The opposite is true for leverage. Coefficients, when significant, are always negative, meaning that more leveraged firms are less likely to establish WOS. This is coherent with the expectation that leveraged firms face more difficulties to raise money to internationalize and, thus, they face financial constraints that leads to share the foreign venture with a partner. However, the magnitude is weak, as a unitary increase in leverage leads to roughly 1 percent decrease of WOS probability in the different sub-samples. Moreover, we report that the coefficient of the first generation dummy is always positive, when significant. We explain this effect by assuming that first generation family members show a tighter relation with the family firm and, thus, prefer avoiding establishing foreign subsidiaries with a partner. These firms are 5.1-11.2 percent more likely to establish a WOS than those held by family members of later generations.

From the last rows in Table 4, it emerges that the full sample consists of 3,939 foreign entries run by 586 firms, an average of 6.72 FDI per firm. The same statistics for firms in gain mode and

[6] For floating variables (i.e. parent age, leverage, family ownership, tenure leader, country risk, geographical distance), average marginal effects have to be interpreted as the average increase (decrease) in probability to run a WOS – compared to undertaking a JV – due to a unitary increase (decrease) of the independent variable. For standardized variables (i.e. cultural distance and administrative distance), average marginal effects refer to the average impact on the dependent variable of a one standard deviation variation, rather than a unitary change. For dummy variables (i.e. family leader, first generation, and female leader), they are the difference between the presence and absence of the condition indicated by the dummy. Finally, for log-transformed variables (i.e. parent age and R&D intensity), average marginal effects have to be interpreted as semi-elasticities, that is the average effect on the WOS probability of one percent change of the independent variable.

loss mode is 7.21 and 6.46, respectively. This is coherent with the expectation that well performing firms have more resources to invest abroad and, thus, they do it more often. The impact of family leader in the full model is not significant and with negligible magnitude (the average marginal effect – not significant – is 1.1 percent). However, when we split the sample according to the performance mode, we note that such a weak effect is the result of a match between a positive (coef. = 0.426; p-value = 0.019) impact on WOS for those firms in gain mode and a negative one (coef. = -0.310; p-value = 0.015) for those in loss mode, as reported in models (4) and (6), respectively. Specifically, family leaders of firms in gain mode show a 10.7 percent higher probability of running a WOS than their non-family counterparts do. On the contrary, they lower such a probability by 9.5 percent when the firm is in loss mode (see Table 5). This finding provides clear support for H1.

[Insert Table 4 about here]

[Insert Table 5 about here]

Focusing on family identity, from Table 6 we observe that it does not affect the proclivity to internationalize, as those with high identity have an average foreign entry per firm of 6.34, whilst those with low identity reach a comparable value of 6.89. However, family identity has a relevant effect for family leaders. Indeed, when they lead the former, they have a positive effect (coef. = 0.369; p-value = 0.011) on WOS preference, whilst it is negative (coef. = -0.282; p-value = 0.020) when they lead the latter. In terms of average marginal effect, the presence of a family leader increases the probability of undertaking a WOS by 10.2 percent in family firms with high identity; such a probability it reduced by 8.6 percent when they lead low identity family firms (models (2) and (4) in Table 7).

[Insert Table 6 about here]

[Insert Table 7 about here]

We find a confirmation of the preceding findings in Table 8. We have seen that the two SEW determinants help explaining the choice between WOS and JV. In particular, both gain mode and

high identity push towards WOS, while both loss mode and low identity lead to JV choice. When we combine the two determinants, we find that such effects strengthen or compensate each other. Family leaders have a strong and significant effect, with regard to WOS probability, in firms in gain mode and high identity (coef. = 0.410; p-value = 0.002), as reported in model (1) in Table 8. The effect of family leadership in terms of WOS probability is equal to a rise of 9.1 percent (model (1) in Table 9). The opposite is true for firms in loss mode and with low identity (model (4) in Table 8). Namely, family leadership has a strong and negative effect for such firms (coef. = -0.542; p-value < 0.001). This leads to a reduction of WOS likelihood of 15.8 percent. Models (2) and (3) of Table 8 show that, when firms have one SEW dimension that push towards WOS and the other towards JV, the impact of the family leader is negligible and not significant. However, despite they do not have enough statistical power, we simply note that the sign of the relationship always follows the identity status dimension, i.e. it is negative when identity is low, as in model (2), and it is positive when identity is high, as in model (3). Thus, hypothesis 2 is supported.

Finally, we investigate the role of cultural distance. In models (5) to (9) of Table 8, we insert the cultural distance and its interaction with family leader. We note that cultural distance has always a positive sign in all the models, meaning that when cultural distance is high, family firms more likely prefer to enter the country with a WOS. The average marginal effects in Table 9 tell us that a one standard deviation increase (decrease) in cultural distance augments (reduces) the WOS probability between 3.9 and 12.8 percent. Moving to the interaction effect, we find support for H3. Specifically, we have argued that cultural distance affects the high identity family firms, reducing their proclivity towards WOS – i.e. reducing the need to have the entire control of the subsidiary –, while it should have a negligible effect on low identity family firms. Accordingly, the estimates show that when family identity is high, models (5) and (7) of Table 8, the coefficients of the interaction terms are negative and significant. Namely, it is equal to -0.237 (p-value = 0.047) when the family firm is in gain mode; it is -0.338 (p-value = 0.027) when the family firms is in loss mode.

Average marginal effects are equal to -5.3 and -11.7 percent, respectively. On the other hand, when identity is low, coefficients have a smaller magnitude – in model (8), it is even slightly positive – and they are not significant. Consequently, average marginal effects are negligible – below 2 percent in absolute terms – and never significant.

[Insert Table 8 about here]

[Insert Table 9 about here]

DISCUSSION AND CONCLUSIONS

In the purpose to dig into SEW's theoretical foundations and antecedents of actual decision-makers behaviors, our findings help to better understand logics underling family leaders' strategic decision-making in front of a particularly relevant decision during the internationalization process: the subsidiary ownership policy. Specifically, we challenge the universalistic assumption that SEW preservation is a vaguely emotional decision-making criterion for family leaders (Berrone et al., 2010; Gomez-Mejia et al., 2007, 2011) by taking into consideration the family leader's willing to protect both the "Family control and influence", which is related to the degree of performance hazard, and the "Family identity", which is related to the visibility of the family within the firm such as in the case of identical family and firm names. Together these are the two most relevant determinants of SEW (Berrone, Cruz and Gomez-Mejia, 2012; Gomez-Mejia, Cruz and Imperatore, 2014), which are particularly noteworthy to empirically test and contrast.

In doing so, we argue that both performance hazard and family identity might influence the emphasis family leaders place on SEW preservation in taking their most important strategic decisions. Additionally, by considering the specific role of cultural distance between the domestic and the host country, which is particularly relevant for subsidiary ownership policies, we isolate a specific context wherein family identity plays a distinctive role in SEW-related decisions.

More in details, we first show that when the family firms is suffering a low performance, the family leader is less focused on protecting family control and influence, and puts more emphasis on

business risk mitigation by preferring foreign investments shared with an external partner (namely, joint ventures). This strategic approach switches to the opposite when the family firms is experiencing a positive performance trend: consistent with our hypotheses, we found that family leaders are more likely to establish a subsidiary entirely controlled by the family business abroad. Second, we point out that the above tendency can be either mitigated or reinforced by the family identity. Our findings show that family leaders in gain mode firms have a stronger positive relation with WOSs when the family name is tied to the company name, i.e. high identity firms (Zellweger et al., 2010, 2013). Conversely, family leaders in loss mode firms have a stronger negative relation with WOSs (thus more prone to choose JVs) in the case of low identity firms. It supports the idea that the family identity determinant of SEW comes into play only *when* economic conditions of the firm permit so. As such, our study provides a much less emotional interpretation of SEW, showing that the choice to give priority to emotions is deliberate, contextual, and restricted to the identity dimension of SEW.

Additionally, we investigate the moderating role of cultural distance, suggesting that moving from the home to the host context the SEW preservation goal might be subjected to change. More precisely we build on the recent distinction between restricted and extended SEW (Miller and Le Breton-Miller, 2014) which depicts two types of non-economic utilities stemming from a controlling position of the family: the *affective* category includes family-focused priorities whereas the *social* category encompasses benefits related to the firm's social status in the local community and positive relationships with all its stakeholder. We argue that a higher cultural distance is associated with a lower emphasis on the *social* dimension of SEW with a consequent reduction of the overall SEW importance. Our point is the following: a family leader is highly embedded in the home context and for this reason would perceive a loss of family control as a loss of social legitimacy due to a strong role of the *social* dimension of SEW in addition to the *affective* one; that is not supposed to happen moving to a culturally distant country where relationships with local stakeholders are not perceived as a source of SEW. In line with our argument, our results indicate

that a family leader modify the strategic behavior when the host country is distant from the home country under a cultural point of view. In this context, we found that a family leader is more likely to choose a JV and therefore more willing to dilute family control and treating the SEW preservation: this result is robust despite the strong identity fit and regardless the level of performance hazard (Figure 1). In culturally distant countries, the family leader is less focused on noneconomic goals and SEW preservation is no longer the primary concern for strategic decision-making.

[Insert Figure 1 about here]

Contributions for theory and literature

Our results allow us to make a step forward in theoretically and empirically disentangling and testing the roots of SEW. Building on insights from prospect theory (Kahneman and Tversky, 1979), indeed, proponents of the behavioral agency model, or BAM (Wiseman and Gomez Mejia, 1998) elaborated on the idea that decision-makers' risk preferences will be highly dependent on the positive or negative framing of problems, influencing decisions through the positive prospects (gain mode) or negative ones (loss mode) that characterize the context of decision-making processes. With respect to this, our study is one of the first attempts to provide empirical support to the notion that risk evaluation is subjective and contextual, rather than being solely based on economic evaluations that consider risks against financial returns. Nevertheless, while context-based risk assessment might be extended also to managerial decisions, regardless the ownership structure of the firm (March and Shapira, 1987, 1992), what our study uniquely shows is the importance of family identity as the key driver of SEW-preserving attitudes inside family firms. By observing how family identity can strengthen or weaken risk assessment of family leaders based on financial performance hazard, we indicate the identity as the most relevant determinant of SEW in influencing family firms strategic behaviors: whether the family firm has a strong identity fit or not,

SEW considerations play an either higher or lower role and the family leader differently frames threats and risks related to foreign markets. This result is particularly clear when considering the role of cultural distance, and hence the external dimension of family's identity: in culturally distant countries, where SEW preoccupations will be less important, the primary driver for subsidiary ownership policy will be based on economic considerations.

In this way, we provide one of the first explanations for ambiguous interpretations of SEW. On the one hand, we challenge the widely acknowledged opinion that family firms are willing to jeopardize financial performance in order to protect their SEW (Gomez-Mejia et al., 2007, 2011); at the opposite, we show how decision-making reference point for family leaders drastically switches when there is a severe performance hazard. On the other hand, we point out that previous studies overlooked the contrasting forces characterizing different SEW dimensions, and their potential to influence family business decisions in given contexts. As such, more investigation on the different SEW determinants is definitely wanted.

Our findings have other implications for family business and international business literatures. First, we add to the SEW growing literature on family firms by investigating family leaders' strategic decisions related to foreign markets entry. Despite the wide amount of contributions on the role of SEW in driving strategic decision-making in family firms (e.g. Berrone et al., 2010; Gomez-Mejia, Makri and Larraza-Kintana, 2010; Leitterstorf and Rau, 2014; Patel and Chrisman, 2014; Strike et al., 2015), internationalization strategies have been overlooked insofar. In addition, our work makes a step forward in family business literature about internationalization by highlighting how family firms go international. Studies developed so far on this topic mainly focused on the degree and scope of internationalization with conflicting and inconclusive evidence (for a review see Pukall and Calabrò, 2014). We suggest that by centering the attention on strategic decisions related to foreign market entry modes it is possible to shed the light on the distinctiveness of family business behavior overseas. Our study provides contributions also to the international business literature. On the one hand, we introduce an often neglected, but potentially very relevant variable

in explaining heterogeneity in internationalization's choices, that is the corporate ownership structure. On the other hand, we add to the debate about cultural distance as an antecedent of entry modes and specifically the subsidiary ownership policies. Despite the amount of valuable contributions made so far, literature is contradictory on this topic: several studies found that cultural distance enhances the propensity to choose JVs (e.g. Hennart and Larimo, 1998; Pak and Park, 2004); others found instead that it enhances the propensity to choose WOSs (e.g. Anand and Delios, 1997; Padmanabhan and Cho, 1996); still others showed mixed or non-significant findings (e.g. Chang and Rosenzweig, 2001; Luo, 2001). Our study points out that cultural distance is not a primary decision-making driver for family controlled firms since other family related elements – such as family identity – play a major role; nevertheless, we show that cultural distance is important to reinforce or weaken family leaders' attitudes towards WOSs due to its potential to affect the emphasis on noneconomic goals.

Implications for practice and limitations

Our findings shed the light on the overlapping between the family and the business (in terms of family identity) as a key issue in driving family leaders' strategic decision-making. Although it is still controversial the extent to which it could be an advantage or rather a disadvantage, we argue that family owners should meditate on this issue. Moreover, our study may help to understand family firms' strategic behavior overseas: it could suggest family owners to rely on external managers to mitigate the "emotional" content of strategies when certain ingredients and circumstances – that we pinpointed – characterize the company.

This study is not free from limitations. Theoretically, we rely on a multidimensional approach of SEW but we focus only on two main determinants of the SEW construct (Berrone, Cruz and Gomez-Mejia, 2012): "Family control and influence" and "Family identity". Nevertheless, our work is one of the first attempts to test the single determinants of SEW and future research should focus in this direction. Moreover, we do not investigate whether the SEW preservation has a direct effect

on the subsidiary performances. This is an empirical issue, as the vast majority of subsidiaries do not report their financial data separately from the parent firm, thus making hard detecting which is their performance after the establishment or acquisition. Finally, despite we underpin the theory with arguments that relate to family firms in general, data come from Italian family firms. However similarly to prior studies that relied on one-country data to investigate SEW logics in family business (e.g. Gomez-Mejia et al., 2007), we argue that our findings might be generalizable also for family firms in other countries

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LIST OF TABLES AND FIGURES

Table 1. Foreign entries statistics and geographic distribution.

Country	Non-family led		Family led		Total	
	No.	%	No.	%	No.	%
China	283	18.42	509	21.18	792	20.11
United States	348	22.66	387	16.10	735	18.66
Germany	129	8.40	312	12.98	441	11.20
Spain	134	8.72	224	9.32	358	9.09
Brazil	96	6.25	120	4.99	216	5.48
Poland	53	3.45	95	3.95	148	3.76
Romania	37	2.41	111	4.62	148	3.76
India	51	3.32	85	3.54	136	3.45
Russia	42	2.73	73	3.04	115	2.92
Mexico	44	2.86	66	2.75	110	2.79
Argentina	41	2.67	59	2.46	100	2.54
Canada	51	3.32	46	1.91	97	2.46
Turkey	43	2.80	46	1.91	89	2.26
Australia	33	2.15	28	1.17	61	1.55
South Africa	15	0.98	44	1.83	59	1.50
Japan	24	1.56	30	1.25	54	1.37
Sweden	23	1.50	30	1.25	53	1.35
Bulgaria	11	0.72	24	1.00	35	0.89
Egypt	13	0.85	21	0.87	34	0.86
Morocco	11	0.72	21	0.87	32	0.81
Chile	18	1.17	13	0.54	31	0.79
Ukraine	8	0.52	22	0.92	30	0.76
South Korea	8	0.52	11	0.46	19	0.48
Finland	6	0.39	11	0.46	17	0.43
Norway	8	0.52	6	0.25	14	0.36
Indonesia	5	0.33	8	0.33	13	0.33
Jordan	1	0.07	1	0.04	2	0.05
Total foreign entries	1,536	39.00	2,403	61.00	3,939	100.00
Number of firms	125	21.33	461	78.67	586	100.00
Average foreign entry per firm	12.29		5.21		6.72	

Note:
Percentages in rows “Total foreign entries” and “Number of firms” are computed with reference to the “Total” column

Table 2. Descriptive statistics.

#	Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	VIF
(1)	Wholly-owned subsidiary															
(2)	Family leader	-0.063														1.341
(3)	Cultural distance	0.063	0.011													1.208
(4)	Parent age	0.073	-0.180	-0.067												2.264
(5)	Parent size	0.109	-0.362	-0.025	0.575											2.064
(6)	Leverage	-0.020	-0.115	-0.013	0.049	0.144										1.083
(7)	R&D intensity	0.083	-0.290	-0.011	0.456	0.506	0.158									1.597
(8)	Family ownership	-0.112	0.359	-0.009	-0.430	-0.564	-0.057	-0.488								1.737
(9)	First generation	0.025	0.031	0.034	-0.536	-0.175	-0.039	-0.190	0.137							1.475
(10)	Female leader	-0.018	0.183	-0.006	-0.129	-0.118	0.127	-0.101	0.170	0.116						1.111
(11)	Tenure leader	-0.049	0.285	0.025	-0.094	-0.174	-0.130	-0.047	0.226	-0.014	-0.081					1.169
(12)	Country risk	-0.016	-0.046	0.090	0.012	-0.026	0.031	-0.012	0.019	-0.017	0.026	-0.005				1.021
(13)	Administrative distance	-0.002	0.012	0.049	-0.026	-0.034	-0.019	-0.043	0.057	-0.011	0.025	0.016	0.048			1.011
(14)	Geographic distance	-0.018	-0.085	0.398	-0.020	0.041	0.004	0.078	-0.025	0.004	0.014	0.019	0.080	-0.012		1.227
	Mean	0.747	0.610	-0.003	43.839	7.641	3.884	0.009	0.771	0.463	0.058	12.056	5.041	-0.003	6.086	1.407
	Standard deviation	0.435	0.488	0.983	33.306	2.343	3.642	0.020	0.256	0.499	0.234	8.411	3.013	0.992	3.761	
	Minimum	0	0	-1.148	0	0.693	0	0	0	0	0	0	0	-1.063	0.954	
	Maximum	1	1	2.417	147	12.231	9.640	0.070	1	1	1	49	7	11.360	14.425	

Note:
Correlations of |0.031| or higher are significant at $p < 0.05$
Correlations of |0.041| or higher are significant at $p < 0.01$

Table 3. Panel A. Wholly-owned subsidiary propensity for family led firms.

		High identity (%)	Low identity (%)	Difference (%)
		77.50	69.86	7.64***
Gain mode (%)	78.49	84.24	74.02	10.22***
Loss mode (%)	67.60	68.90	67.09	1.81
Difference (%)	10.89***	15.34***	6.93*	

Table 3. Panel B. Wholly-owned subsidiary propensity for non-family led firms.

		High identity (%)	Low identity (%)	Difference (%)
		71.32	79.50	8.18**
Gain mode (%)	76.50	66.10	78.39	12.29*
Loss mode (%)	78.66	72.86	79.87	7.01*
Difference (%)	2.16	6.76	1.48	

Note:
Differences are in absolute value; Significances refer to the two-tailed t-test † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4. Probit models. Dependent variable: WOS. Sample: Full, gain mode and loss mode.

	(1) Full sample	(2) Full sample	(3) Gain mode	(4) Gain mode	(5) Loss mode	(6) Loss mode
Family leader		-0.039		**0.426***		**-0.310***
		(0.096)		**(0.182)**		**(0.127)**
Parent age	0.000	0.000	0.004	0.004	0.000	-0.000
	(0.002)	(0.002)	(0.003)	(0.003)	(0.002)	(0.002)
Parent size	0.096**	0.094**	0.099	0.081	0.094*	0.067†
	(0.030)	(0.030)	(0.067)	(0.067)	(0.037)	(0.035)
Leverage	-0.005	-0.005	-0.039†	-0.036†	0.009	0.011
	(0.009)	(0.009)	(0.021)	(0.021)	(0.009)	(0.009)
R&D intensity	0.892	0.767	-2.684	-0.633	2.080	2.324
	(2.205)	(2.171)	(6.652)	(6.227)	(3.038)	(2.939)
Family ownership	-0.120	-0.112	0.199	0.362	-0.043	0.072
	(0.195)	(0.199)	(0.396)	(0.373)	(0.226)	(0.236)
First generation	0.174*	0.173†	0.236	0.257	0.133	0.100
	(0.089)	(0.088)	(0.162)	(0.162)	(0.108)	(0.105)
Female leader	-0.048	-0.037	0.328	0.272	-0.111	0.012
	(0.121)	(0.124)	(0.275)	(0.265)	(0.162)	(0.177)
Tenure leader	-0.006	-0.005	-0.013†	-0.016*	-0.001	0.005
	(0.004)	(0.005)	(0.008)	(0.008)	(0.006)	(0.006)
Country risk	0.007	0.007	0.030*	0.029†	-0.001	-0.002
	(0.009)	(0.009)	(0.015)	(0.015)	(0.012)	(0.012)
Administrative distance	0.002	0.002	-0.008	-0.010	-0.010	-0.016
	(0.023)	(0.023)	(0.032)	(0.032)	(0.033)	(0.033)
Geographic distance	-0.006	-0.006	-0.014	-0.013	-0.004	-0.003
	(0.007)	(0.007)	(0.011)	(0.011)	(0.009)	(0.009)
Constant	-0.391	-0.370	-0.913	-1.260†	-0.164	0.038
	(0.380)	(0.389)	(0.759)	(0.724)	(0.461)	(0.457)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Time dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,939	3,939	1,471	1,471	2,468	2,468
Firms	586	586	204	204	382	382
Ratio of correct classification	74.61%	74.71%	78.45%	78.79%	73.18%	73.91%
Pseudo R^2	0.121	0.121	0.213	0.222	0.115	0.122
Likelihood ratio	335.52***	335.91***	220.29***	229.37***	204.72***	217.22***

Note:
Firm-level clustered standard errors in parentheses
† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001
Pseudo R^2 follows the Cragg & Uhler's calculation

Table 5. Average marginal effects. Dependent variable: WOS. Sample: Full, gain mode and loss mode.

	(1) Full sample	(2) Full sample	(3) Gain mode	(4) Gain mode	(5) Loss mode	(6) Loss mode
Family leader		-0.011		**0.107***		**-0.095***
		(0.028)		**(0.046)**		**(0.039)**
Parent age	0.000	0.000	0.001	0.001	0.000	0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Parent size	0.028**	0.028**	0.025	0.020	0.029**	0.021†
	(0.009)	(0.009)	(0.017)	(0.017)	(0.011)	(0.011)
Leverage	-0.002	-0.002	-0.010†	-0.009†	0.003	0.003
	(0.003)	(0.003)	(0.005)	(0.005)	(0.003)	(0.003)
R&D intensity	0.263	0.226	-0.681	-0.159	0.639	0.711
	(0.651)	(0.640)	(1.687)	(1.569)	(0.934)	(0.900)
Family ownership	-0.035	-0.033	0.051	0.091	-0.013	0.022
	(0.057)	(0.059)	(0.100)	(0.094)	(0.069)	(0.072)
First generation	0.051†	0.051†	0.060	0.065	0.041	0.030
	(0.026)	(0.026)	(0.041)	(0.041)	(0.033)	(0.032)
Female leader	-0.014	-0.011	0.083	0.069	-0.034	0.004
	(0.036)	(0.037)	(0.069)	(0.067)	(0.050)	(0.054)
Tenure leader	-0.002	-0.002	-0.003†	-0.004*	-0.000	0.001
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
Country risk	0.002	0.002	0.008*	0.007†	-0.000	-0.001
	(0.003)	(0.003)	(0.004)	(0.004)	(0.004)	(0.004)
Administrative distance	0.001	0.001	-0.002	-0.002	-0.003	-0.005
	(0.007)	(0.007)	(0.008)	(0.008)	(0.010)	(0.010)
Geographic distance	-0.002	-0.002	-0.004	-0.003	-0.001	-0.001
	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Time dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,939	3,939	1,471	1,471	2,468	2,468

Note:
Robust standard errors in parentheses
† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

Table 6. Probit models. Dependent variable: WOS. Sample: High identity and low identity.

	(1) High identity	(2) High identity	(3) Low identity	(4) Low identity
Family leader		**0.369***		**-0.282***
		(0.146)		**(0.121)**
Parent age	0.004	0.006	0.002	0.002
	(0.004)	(0.004)	(0.002)	(0.002)
Parent size	0.182**	0.188***	0.039***	0.050***
	(0.057)	(0.056)	(0.111)	(0.012)
Leverage	0.027	0.029	-0.007	-0.009
	(0.021)	(0.021)	(0.008)	(0.008)
R&D intensity	3.733	2.142	2.787	1.527
	(7.621)	(7.785)	(2.767)	(2.359)
Family ownership	-0.415	-0.340	-0.418†	-0.330
	(0.617)	(0.568)	(0.220)	(0.230)
First generation	0.317†	0.340†	0.156	0.145
	(0.182)	(0.177)	(0.111)	(0.106)
Female leader	0.021	-0.113	-0.039	0.027
	(0.207)	(0.210)	(0.129)	(0.135)
Tenure leader	-0.004	-0.009	-0.001	0.004
	(0.006)	(0.007)	(0.006)	(0.006)
Country risk	-0.009	-0.009	0.000	-0.000
	(0.017)	(0.017)	(0.011)	(0.011)
Administrative distance	-0.057	-0.051	0.010	0.009
	(0.040)	(0.040)	(0.027)	(0.027)
Geographic distance	0.013	0.015	0.011	0.010
	(0.014)	(0.014)	(0.008)	(0.008)
Constant	-1.123	-1.589*	0.448	0.551†
	(0.814)	(0.807)	(0.307)	(0.301)
Industry dummies	Yes	Yes	Yes	Yes
Time dummies	Yes	Yes	Yes	Yes
Observations	1,107	1,107	2,832	2,832
Firms	175	175	411	411
Ratio of correct classification	75.69%	75.69%	74.59%	74.59%
Pseudo R^2	0.163	0.177	0.083	0.092
Likelihood ratio	126.16***	137.43***	165.08***	183.51***

Note:
Firm-level clustered standard errors in parentheses
† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001
Pseudo R^2 follows the Cragg & Uhler's calculation

Table 7. Average marginal effects. Dependent variable: WOS. Sample: High identity and low identity.

	(1) High identity	(2) High identity	(3) Low identity	(4) Low identity
Family leader		**0.102****		**-0.086***
		(0.038)		**(0.036)**
Parent age	0.001	0.002	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Parent size	0.051***	0.052***	0.000***	0.000***
	(0.015)	(0.015)	(0.000)	(0.000)
Leverage	0.008	0.008	-0.002	-0.003
	(0.006)	(0.006)	(0.002)	(0.002)
R&D intensity	1.039	0.590	0.852	0.464
	(2.132)	(2.150)	(0.850)	(0.721)
Family ownership	-0.116	-0.094	-0.128†	-0.100
	(0.167)	(0.154)	(0.066)	(0.069)
First generation	0.088†	0.094†	0.048	0.044
	(0.049)	(0.048)	(0.034)	(0.032)
Female leader	0.006	-0.031	-0.012	0.008
	(0.058)	(0.057)	(0.039)	(0.041)
Tenure leader	-0.001	-0.002	-0.000	0.001
	(0.002)	(0.002)	(0.002)	(0.002)
Country risk	-0.003	-0.002	0.000	-0.000
	(0.005)	(0.005)	(0.003)	(0.003)
Administrative distance	-0.016	-0.014	0.003	0.003
	(0.011)	(0.011)	(0.008)	(0.008)
Geographic distance	0.004	0.004	0.003	0.003
	(0.004)	(0.004)	(0.002)	(0.002)
Industry dummies	Yes	Yes	Yes	Yes
Time dummies	Yes	Yes	Yes	Yes
Observations	1,107	1,107	2,832	2,832

Note:
Robust standard errors in parentheses
† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

Table 8. Probit models. Dependent variable: WOS. Sample: Combinations of performance hazard and family identity.

	(1) Gain mode & high identity	(2) Gain mode & low identity	(3) Loss mode & high identity	(4) Loss mode & low identity	(5) Gain mode & high identity	(6) Gain mode & low identity	(7) Loss mode & high identity	(8) Loss mode & low identity
Family leader	**0.410****	-0.039	0.076	**-0.542*****	**0.369****	-0.050	0.056	**-0.534*****
	(0.134)	(0.251)	(0.442)	**(0.151)**	**(0.140)**	(0.250)	(0.434)	**(0.149)**
Cultural distance					0.291**	0.145†	0.424**	0.142**
					(0.098)	(0.086)	(0.150)	(0.051)
Family leader *x* Cultural distance					**-0.237***	-0.055	**-0.388***	0.052
					(0.119)	(0.103)	**(0.175)**	(0.069)
Parent age	0.002	0.007†	0.011	0.001	0.002	0.007†	0.012	0.001
	(0.004)	(0.004)	(0.013)	(0.003)	(0.004)	(0.004)	(0.013)	(0.003)
Parent size	0.271***	0.085	0.229	0.026	0.283***	0.081	0.220	0.028
	(0.072)	(0.077)	(0.199)	(0.038)	(0.074)	(0.076)	(0.198)	(0.039)
Leverage	0.070	-0.052*	0.026	0.012	0.073	-0.050*	0.021	0.013
	(0.050)	(0.024)	(0.044)	(0.010)	(0.053)	(0.023)	(0.043)	(0.010)
R&D intensity	12.021	-4.125	12.476	3.001	12.884	-3.653	13.786	3.233
	(13.328)	(8.413)	(23.168)	(3.389)	(13.213)	(8.500)	(23.068)	(3.240)
Family ownership	-0.130	0.095	0.361	0.411†	-0.089	0.179	0.350	0.430†
	(0.419)	(0.493)	(1.123)	(0.241)	(0.426)	(0.496)	(1.109)	(0.245)
First generation	0.373†	0.406†	0.105	0.112	0.368†	0.416†	0.131	0.108
	(0.200)	(0.212)	(0.565)	(0.126)	(0.202)	(0.213)	(0.550)	(0.127)
Female leader	-0.329	0.329	-0.635	-0.089	-0.311	0.378	-0.639	-0.125
	(0.273)	(0.476)	(0.498)	(0.193)	(0.280)	(0.477)	(0.500)	(0.190)
Tenure leader	-0.023**	-0.010	-0.000	0.001	-0.024**	-0.011	-0.002	0.002
	(0.008)	(0.011)	(0.024)	(0.007)	(0.008)	(0.011)	(0.023)	(0.007)
Country risk	-0.005	0.033†	0.005	0.004	-0.008	0.029	0.004	-0.000
	(0.023)	(0.019)	(0.026)	(0.014)	(0.023)	(0.019)	(0.026)	(0.015)
Administrative distance	0.008	-0.020	-0.075	-0.009	0.007	-0.022	-0.060	-0.020
	(0.049)	(0.037)	(0.133)	(0.038)	(0.049)	(0.036)	(0.131)	(0.038)
Geographic distance	-0.010	-0.013	-0.018	-0.004	-0.022	-0.023	-0.026	-0.022†
	(0.017)	(0.014)	(0.022)	(0.011)	(0.018)	(0.015)	(0.022)	(0.012)
Constant	-1.362†	-0.495	-2.255	-0.113	-1.349†	-0.529	-2.111	-0.101
	(0.696)	(0.872)	(1.890)	(0.490)	(0.702)	(0.873)	(1.869)	(0.501)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	535	936	572	1,896	535	936	572	1,896
Firms	56	148	119	263	56	148	119	263
Ratio of correct classification	81.44%	76.71%	72.79%	75.16%	81.05%	76.60%	73.47%	75.05%
Pseudo R^2	0.305	0.206	0.228	0.166	0.312	0.212	0.250	0.179
Likelihood ratio	165.30***	139.65***	52.72**	228.79***	169.50***	143.59***	58.29**	248.02***

Note:
Firm-level clustered standard errors in parentheses
† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001 Pseudo R^2 follows the Cragg & Uhler's calculation

Table 9. Average marginal effects. Dependent variable: WOS. Sample: Combinations of performance hazard and family identity.

	(1) Gain mode & high identity	(2) Gain mode & low identity	(3) Loss mode & high identity	(4) Loss mode & low identity	(5) Gain mode & high identity	(6) Gain mode & low identity	(7) Loss mode & high identity	(8) Loss mode & low identity
Family leader	**0.091****	-0.011	0.023	**-0.158*****	**0.082****	-0.014	0.017	**-0.154*****
	(0.030)	(0.068)	(0.136)	**(0.044)**	**(0.031)**	(0.068)	(0.131)	**(0.043)**
Cultural distance					0.065**	0.039†	0.128**	0.041**
					(0.021)	(0.023)	(0.045)	(0.015)
Family leader *x* Cultural distance					**-0.053***	-0.015	**-0.117***	0.015
					(0.026)	(0.028)	**(0.053)**	(0.020)
Parent age	0.000	0.002	0.004	0.000	0.000	0.002†	0.004	0.000
	(0.001)	(0.001)	(0.004)	(0.001)	(0.001)	(0.001)	(0.004)	(0.001)
Parent size	0.061***	0.023	0.071	0.008	0.063***	0.022	0.067	0.008
	(0.015)	(0.021)	(0.061)	(0.011)	(0.016)	(0.020)	(0.060)	(0.011)
Leverage	0.016	-0.014*	0.008	0.004	0.016	-0.013*	0.006	0.004
	(0.011)	(0.006)	(0.013)	(0.003)	(0.012)	(0.006)	(0.013)	(0.003)
R&D intensity	4.912†	-1.119	3.847	0.876	5.073†	-0.987	4.175	0.934
	(2.936)	(2.278)	(7.145)	(0.990)	(2.894)	(2.292)	(6.984)	(0.937)
Family ownership	-0.029	0.026	0.111	0.120†	-0.020	0.048	0.106	0.124†
	(0.094)	(0.134)	(0.345)	(0.070)	(0.095)	(0.134)	(0.335)	(0.070)
First generation	0.083†	0.110†	0.032	0.033	0.081†	0.112†	0.040	0.031
	(0.044)	(0.058)	(0.174)	(0.037)	(0.044)	(0.058)	(0.166)	(0.037)
Female leader	-0.073	0.089	-0.196	-0.026	-0.069	0.102	-0.193	-0.036
	(0.060)	(0.129)	(0.153)	(0.056)	(0.061)	(0.128)	(0.151)	(0.055)
Tenure leader	-0.005**	-0.003	-0.000	0.000	-0.005**	-0.003	-0.001	0.001
	(0.002)	(0.003)	(0.007)	(0.002)	(0.002)	(0.003)	(0.007)	(0.002)
Country risk	-0.001	0.009†	0.002	0.001	-0.002	0.008	0.001	-0.000
	(0.005)	(0.005)	(0.008)	(0.004)	(0.005)	(0.005)	(0.008)	(0.004)
Administrative distance	0.002	-0.005	-0.023	-0.003	0.002	-0.006	-0.018	-0.006
	(0.011)	(0.010)	(0.041)	(0.011)	(0.011)	(0.010)	(0.040)	(0.011)
Geographic distance	-0.002	-0.004	-0.006	-0.001	-0.005	-0.006	-0.008	-0.006†
	(0.004)	(0.004)	(0.007)	(0.003)	(0.004)	(0.004)	(0.007)	(0.004)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	535	936	572	1,896	535	936	572	1,896

Note:
Robust standard errors in parentheses
† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

Figure 1. Results of the analyses

	Loss mode	Gain mode
High identity	n.s. (High cultural distance: **JV**)	**WOS** (High cultural distance: **JV**)
Low identity	**JV** (High cultural distance: n.s.)	n.s. (High cultural distance: n.s)

PAPER 3

Dolphin Becoming Shark : Agency Problems in Family Firms During Succession[7]

ABSTRACT

Prior literature identified and discussed agency problems that could occur in family firms among family members who manage the company. Little attention has been given to how these problems can compromise the likelihood of success of certain critical events or periods.

This conceptual study aims at linking agency problems to succession in the family business – in the base case between one single predecessor to one single successor: father and son. Succession is a high critical period for family business and its success is pivotal for firm's stability.

Building on a dynamic perspective and considering the succession as a three stage process, our goal is to assess these stages and investigate how either decision-making power centralization in one actor's hands or decision-making power duality between father and son moderate the agency problems and succession success correlation.

Keywords: Family firms, succession, agency problems, power duality, misalignments, goal divergence.

[7] Co-authored with Alfredo Valentino

INTRODUCTION

Jensen and Meckling (1976) posit that separation of ownership from control is the principal source of agency costs and that these costs are supposed to be eliminated when the firm is managed by the owner. Family firms are considered to be efficient and to minimize agency costs because ownership gives the proper incentive to develop rules and policies aimed at minimizing conflict and limiting the cost of settling disputes (Fama & Jensen, 1983).

Several studies challenged this assumption (Buchanan, 1975; Schulze et al., 2001; 2003; Gomez-Mejia et al., 2001; Chrisman et al., 2004; Lim et al., 2010) and argue that family firms are anything, but immune to agency threats. A family is not a "monolithic or homogeneous" group of people with the same interests, nor all family businesses are identical with respect to organizational characteristics and behaviors (Sharma et al., 1997; Chrisman et al., 2004). Misalignments and divergent interests may easily emerge and characterizes family firms during all their activity life time.

Some events or critical periods could exacerbate this kind of problem and affect firm growth and stability. A family company may "miss the boat by ignoring new opportunities or sink the boat by choosing satisfactory rather than optimal outcomes" (Lim et al., 2010).

Succession represents one of these critical steps for family firms' survival. Succession is defined as the leadership passage between a family predecessor to a family successor when individuals belong to different generations (Sharma et al., 2001). Building on this definition, this study takes into account managerial succession within the family, so neither ownership nor external succession is considered.

Handler (1994) posits that succession is so central to the firm's existence that Ward (1987) chooses to define family firms in terms of the potential for succession: "*We define a family business as one that will be passed on for the family's next generation to manage and control*".

Only 30% of family firms is thought to survive the leadership passage to the second generation and only 10% makes it to the third generation (Beckhard & Dyer, 1983). Thus succession success is

closely linked to the firm survival: consequently we could infer that a succession is successful when the firm survive after the leadership passage.

"The passing of the leadership baton" (Beckhard & Burke, 1983) between the founder and the successor can incorporate a tricky bundle of agency threats. The changing process which involves the entire firm/family during succession may lead to concerns and ambiguities never experienced before. Differences between the old and the new generation may strengthen goal incongruence and misalignments already existing in the company. During succession the founder and the successor have to make decisions jointly even though they may have conflicting ideas and opposite views (Dyer, 1983; Davis & Harveston, 2001). Divergences could become particularly dangerous for firm's stability.

Nevertheless, literature gave scant attention to succession as a critical period where agency problems, in terms of misalignments and goal divergence, are exacerbated. This conceptual study intends to fill this gap by answering at the following question: how do agency problems in family firms affect succession success?

Albeit several types of succession have been identified in literature (Steier, 2001), we focus on succession as a process which lasts for many years and is articulated in different steps over time (Friedman, 1987; Gordon & Rosen, 1981; Vancil, 1987). Studying this phenomenon it is possible to detect managerial insights and implication that could help family firms to correctly assess a succession planning which is a central issue in the family business literature (Davis, 1983; Handler, 1994; Upton & Heck, 1997; Ip & Jacobs, 2006).

Following this approach, succession is a slow mutual role adjustment process between the founder and the next generation family members (Handler, 1994): the predecessor tends to decrease his involvement in the firm over time and progressively delegate responsibilities to the heir, involving him in decision making process; in parallel, the successor moves through phases of increasing involvement, commitment and decision-making power. This theoretical study divides the process into three main stages and investigates how in each stage the different sharing of decision-making

power between father and son moderates the correlation between agency problems and succession success. Two different situations, referred as “power centralization” and “power duality”, are detected and a divergent moderator effect on the above correlation is highlighted.

The paper is organized as follows. The next session reviews the previous literature on agency problems and family firms, with a specific focus on misalignments and goal incongruence. Then, we introduce our theoretical framework, relating agency problems to succession success under a dynamic perspective. Finally, we discuss our model, emphasizing our contribution to family firm literature and highlighting possible future research directions.

THEORETICAL BACKGROUND

Agency Theory and Family Firms

Agency theory is directed at the ubiquitous agency relationship in which one party (the principal) delegates some tasks to another (the agent) who perform those tasks (Eisenhardt, 1989). Or it should be said, who *may* perform those tasks.

Thus, although a countless number of different types of agency model exist in the literature, they all share at least two main characteristics: the presumptions about conflicts of interest

and informational asymmetries between the parties (Kunz & Pfaff, 2002; Chrisman et al., 2004).

Moreover, in agency theory both parties are supposed to be utility maximizers, so there is a good reason to believe that the agent will not always act in the best interest of the principal (Jensen & Meckling, 1976). In other words, agency problems stem from a divergence of goals between parties combined with a difficulty for the principal to check the agent behavior.

Jensen and Meckling (1976) also argue that separation of ownership from control is the principal source of agency costs in firms and that these costs are supposed to be eliminated when the firm is managed by a single owner (Fama & Jensen, 1983). Ang et al. (2000) propose the sole owner managed firm as the agency cost-free base case. It is also presumed that, whereas conflicts of

interest may arise when ownership is shared, these conflicts do not generally engender agency costs because they are resolved efficiently.

Hence family firms are considered to be efficient and to minimize agency costs when either there is a sole owner or the ownership is shared among family members: ownership gives the proper incentive to develop rules and policies aimed at minimizing conflict and limiting the cost of settling disputes. It is inferred from Jensen and Meckling model three reasons why family firms would not incur significant agency costs: owner management should reduce agency costs because it naturally aligns the owner managers' interests about growth opportunities and risk; private ownership should reduce agency costs because property rights are restricted to family-agents whose personal involvement assures that managers will not expropriate shareholder wealth trough the misallocation of resources (Fama & Jensen, 1983); family management should further reduce agency costs because shares tend to be held by agents whose special relations with other decision agents allow agency problems to be controlled without separation of the management and control decision (Schulze et al., 2001). Nevertheless, Schulze et al. (2001) assess that the presence of noneconomic preferences may create several problems and lead to misalignments. Whereas owners may be expected to share common economic interests, it is difficult to presume that they have in common non-economically motivated preferences. Conflicts may arise because some non-economically motivated preferences can cause owners to take actions that threaten their own welfare as well as those around them. Family wealth and firm wealth are often inextricably linked (Lim et al., 2010). Hence Schulze et al. (2001; 2003) argue that private ownership and owner management expose privately held, owner-managed firms to agency threats ignored by Jensen's and Meckling's (1976) agency model. Moreover the authors disagree with the assumption that family firm is the least costly form of organizational governance. They believe that private ownership and family management expose firms to agency problems. In other words, they challenge the assumptions that the source of agency costs lies in the separation of ownership from control and that owner management is an efficient substitute for the monitoring mechanisms (and related costs) that non

owner managed firms use to limit the agency costs of managerial discretion. They posit that family firms are subjected to agency threats but also that these agency relationships are distinctive because they are embedded in the parent-child relationships found in the household, and so characterized by altruism.

Altruism alters the incentive structure of family management firms such that many of the agency benefits gained are offset by self-control and moral hazard problems.

> *"Altruism compels parents to take care for the children, encourages family members to be considerate of one another, and fosters loyalty and commitment to the family and firm. Altruism however has a dark side in that it can give both parents and children incentive to take actions that can threaten the welfare of the family and firm alike"* (Schulze et al., 2003).

Altruism makes it difficult for family CEO to effectively monitor other family members. Parental altruism can become overindulgence of their employed children, encouraging them to free ride (withhold effort and information) and shirk (misrepresent actions) (Lim et al., 2010). It is also considered self-interest motivated because it allows the individual to satisfy in parallel altruistic preferences and egoistic preferences (Lunati, 1997). Parents are not only generous to their children because they love them, but also because they would harm their own welfare if acted otherwise (Becker, 1981). Thus altruism, as in the Samaritan's dilemma, could lead to several agency costs (Bruce & Waldman, 1990; Chrisman et al., 2004).

Altruism alters parental perceptions. It becomes difficult for family agents to take actions that might harm another family member's welfare. That is why either altruism and family ties add a theoretically distinct set of self-control problems to the set of agency problems. While many self-control problems are trivial (e.g. cheating on a diet), agency problems arise when a loss of self-control causes a principal to violate the terms, or perhaps even the spirit, of an existing contract or agreement (Schulze et al., 2003)

Family firm are also considered particularly vulnerable to honest incompetence (Hendry, 2002) and deficit of expertise because they often have a self-imposed personnel selection criterion that gives preferential treatment: families are anything but immune to the problems of principal agent dysfunction (Chrisman et al., 2004). Changing Jensen and Meckling behavioral assumption, Hendry (2002) posits that problems arise in agency relationships even when agent are assumed to be honest and dutiful, but incompetent, in pursuing principal's interests. Opportunism is not anymore the central issue, the problem stems from the limitations of human competence which is considered as a combination of bounded rationality and judgmental fallibility.

Hence non-economic preferences and altruism cause parties, under family contracting, to attach value to the relationship that goes beyond the economic value created by transaction, and the perceived contributions of the agent may derive from kinship and often direct blood ties between agent and principal (Gomez-Mejia et al., 2001). These reasons suggest why family firms are theoretically distinct from other ownership forms and why they may exhibit characteristics that are distinguishable from typical agency perspectives (Lim et al., 2010).

Misalignments and goal divergence in family firms

Agency threats under family contracting come in a variety of forms (Gomez-Mejia et al., 2001). This work focuses on misalignments and goal divergence among family members/firm owners at managing the business.

Multiple family members on the top management team bring multifaceted expertise, and therefore broader knowledge. When family members collectively have a diversity of experience, their contributions can be especially valuable (Finkelstein & Hambrick, 1996; Miller & Le Breton-Miller, 2006). Many controlling owner rely heavily on the human capital of family members, leveraging on their extraordinary commitment, close relationship and the potential for deep firm-specific tacit knowledge arising from the early involvement of children in the family firm (Simon &

Hitt, 2003). In that sense it is possible to argue that strong family bonds lower governance costs (Lim et al., 2010).

Anyway left unchecked, family management "can be dangerous, promoting leadership irresponsibility, expropriation from minority shareholders, hubris and excessive risk taking" (Miller & Le Breton-Miller, 2006). A family is not a "monolithic or homogeneous" group of people with the same interests, nor all family business are identical with respect to organizational characteristics and behaviors (Sharma et al., 1997; Chrisman et al., 2004). Some parent owner-managers may make decisions based more on what is the best for themselves than for their families, or on what is the best for their families as opposed to what is the best for the firm as going concern (Schulze et al., 2001).

Moreover, within family firms, boundaries between ownership and control often blur: agents are also principals, managers of such firms may hold much, if not all, ownership and have familiar relations with other principals. Each family member employed by the family firm is *de facto* owner of the firm in the sense that each acts in the belief that they have a residual claim on the family's estate (Stark & Falk, 1998). Agents may hold a disproportionate amount of power, emanating not only from the skills they have, but more importantly from their family status (Schulze et al., 1999). Self-interest may extend beyond economic wealth.

Agency problems, in terms of misalignments and goal incongruence, characterizes family firms during all his activity life time, but with a non-uniform trend. There could be some issues that may cause agency problems among family members to become more frequent and more severe, affecting firm growth and stability. A family company may "miss the boat by ignoring new opportunities or sink the boat by choosing satisfactory rather than optimal outcomes" (Lim et al., 2010).

One of these issues might be succession, a high critical step for family firms (Beckhard & Dyer, 1983), which is supposed to incorporate a tricky bundle of agency threats. Differences between the old and the new generation may strengthen goal incongruence and misalignments already existing in the company

Building on Sharma (2001), in this paper we take into consideration the case of succession between two actors belonging to different generations: a family predecessor and a family successor.

SUCCESSION AND AGENCY PROBLEMS

During succession, family firms face a complex and problematic situation which could affect succession success and firm survival.

There is a changing process which involves the entire firm/family and may lead to concerns and ambiguities never experienced before. As a family firm prepares to incorporate later generations, priorities and problems change (Gersick et al., 1999). The mere intention to include later generations may bring several positive consequences like strengthened attitudes of stewardship that drive diligent management of finances, reputation and alliances with resource providers. It also may give rise to strategies for passing on tacit knowledge and building superior capabilities. Succession may lead to new events and to new problems. Often family firms are not ready for such a changing period. Hence, the continuity of business from one generation to the next highly depends on succession planning (Christensen, 1953; Dyer, 1986; Handler, 1989; Lansberg, 1988; Ward, 1987; Brown & Coverly, 1999; Ip & Jacobs, 2006).

Thus the inclusion of later generations in a family business is a challenge which incorporates agency threats (Miller & Le Breton-Miller, 2006). Succession problems, divergent interest and political skirmishes may easily arise.

Moreover existing conflicts and agency problems among family members, in terms of misalignments and goal incongruence, may be exacerbated by differences between the old and the new generation family members. It is not possible to presume that the motivation, desires and concerns of next generation family members are identical to or should be secondary of those of founders or owners in family firms (Handler, 1994). Furthermore, predecessor and successor relationships are generally characterized by a some extent of ambivalence: the sense of identity and affiliation pushes the successor to become like the predecessor, but there are also feelings of rivalry

and envy which can emerge (Cabrera-Suarez et al., 2009). People are different and the specific nature of next generation individuals' need and the ways they are in the firm require attention. Thus succession is supposed to enhance goal divergence and misalignments. The strengthened agency problems might interfere with the leadership passage: as the misalignments and goal incongruence do increase, not only the inclination to pass the leadership could decrease but also frictions and misunderstanding during succession might increase. In other words, the leadership passage may become difficult and anything but painless in terms of negative consequences for the firm.

Proposition 1: During succession, the higher the agency problems, in terms of misalignments and goal divergence, the lower the likelihood of succession success.

THE DYNAMIC PERSPECTIVE OF SUCCESSION AND AGENCY PROBLEMS

Albeit several types of succession have been identified in literature (Steier, 2001), we focus on succession as a process which lasts for many years and is articulated in different steps over time (Friedman, 1987; Gordon & Rosen, 1981; Vancil, 1987). Studying this phenomenon it is possible to detect managerial insights and implication that could help family firms to correctly assess a succession planning which is a central issue in the family business literature (Davis, 1983; Handler, 1994; Upton & Heck, 1997; Ip & Jacobs, 2006).

Thus succession should not be reduced to a single event. It can be considered as a slow mutual role adjustment process between the founder and the next generation family members (Handler, 1994). It is a multiple stage process by which the incumbent decreases his involvement in the firm over time. The incumbent has to progressively delegate responsibilities to the heir and involve him in decision-making process although some owners are reluctant to succession because they see retirement as a loss of power and status (Cater & Justis, 2010). The predecessor role adjustment process typically influences the parallel process of the next generation family members who move through phases of increasing involvement. Central to the progression of this proceedings is the transferal of leadership experience, authority, decision making power and equity. Communication

and shared values are crucial to overcome conflicts (Bigliardi & Dormio, 2009). The predecessor willingness to leave the business (Pyromalis & Vozikis, 2009) and the successor motivation, full participation and affective organizational commitment (Cater & Justis, 2010; Björnberg & Nicholson, 2012) are pivotal for succession success. Trust and mutual respect between father and son are necessary for the process to be successful (Cater & Justis, 2010).

Longenecker and Schoen (1978) first described succession between father and son as a seven stages process which occurs in family firms: 1) *The pre-business stage*, where the son is only a passive individual in firm events; 2) *The introductory stage*, where the son is more exposed to firm concerns although has never directly worked in the business; 3) *The introductory-functional stage*, where the son is a part-time employee; 4) *The functional stage*, where the son is a full time member in the organization; 5) *The advanced functional stage*, where the son assumes managerial responsibilities; 6) *The early succession stage*, where the son assumes the presidency; and 7) *The mature succession*, where the son becomes *de facto* leader of firm.

Later Churchill and Hatten (1987) developed a more synthetic life cycle approach, breaking down the process into four stages: 1) *a stage of owner management*, where the owner is the unique member of the family directly involved in the business; 2) *a training and development stage*, where the son-successor learns the business, 3) *a partnership stage between father and son* and 4) *a power transfer stage*, where responsibilities pass to the successor.

In both models it is advanced a role transition perspective, building on them this paper considers only three main steps of succession process which contemplate different role prominence between predecessor and successor. This approach and the decision not to use existing models stems from the idea that in order to grasp and highlight changes in the decision making power a three step model might be more efficient, though it represents a simplified version of reality.

Each step of the process can be associated with the particular role behavior of predecessor and successor. The transition from one step to another can be considered a transition in that role behavior (Cabrera-Suarez et al., 2009). Furthermore, this paper posits that the role evolution, in

terms of different decision-making power shares between the founder and the successor, can be related to a different relevance and severity of agency problems on succession success.

By analyzing succession problems through the lens of agency theory, it does not matter who in the founder-successor relationship plays the agent and who plays the principal because in family firms, particularly during succession, these differences blur. Thus the focus is on agency problems, in terms of misalignment and goal divergence, not on agency relationships.

In order to highlight how agency problems are correlated to succession success, due to the roles' evolution between father and son, the succession process is divided in three main stages and a full description of them is provided.

The first stage is the starting point where the successor has a weak decision making power and his role in the business is not pivotal: the predecessor keeps entirely the control of the firm. Due to the passive role of the successor, the decision-making power is centralized in the predecessor. The leadership is in one actor's hand and, more precisely, all the decisions are made by the predecessor even though the successor does not agree. Thus is does not mean that there are not agency problems, in terms of misalignment and goal divergence, but that their impact on succession success is reduced by the dominant role of the predecessor in decision-making processes.

Proposition 2: In the first stage of succession process, the higher the centralization of decision-making power in the father, the weaker the negative correlation between agency problems and the likelihood of succession success.

The second stage is a period of variable length in which, on one hand, the successor progressively acquires decision making power and, on the other hand, the predecessor's leadership surrenders to the new generation. There is a sort of overlapping of control and decision-making power between predecessor and successor.

Albeit several scholars described the advantages of co-leadership (Hambrick & Cannella, 2004; Marcel, 2009; Alvarez et al., 2007), we highlight the disadvantages of having multiple leaders and rephrase this situation as "decision making power duality". Indeed in the case of succession, differently from other co-leadership situations (e.g. CO-CEO), there is not only a *de facto* shared leadership but also a certain amount of ambiguity in roles and responsibilities. In other words the business is managed in parallel by predecessor and successor with no clear definition of who is the leader and thus who has the decision making power. It is precisely in this ambiguity which lies the likelihood that divergences between the parties will produce negative and dangerous consequences for succession success. Dyer (1986) believes that to favor succession transition power relationships should be clear: there must be no room for roles' confusion. Due to the active role of either predecessor and successor, the decision-making power is decentralized. The emergence of agency problems, in terms of misalignments and goal divergence, will have a stronger effect on succession success due to the decision making duality. The decentralization of power does not prevent internal conflicts to impact on succession success: both successor and predecessor have the power to exercise their opinions with the consequence that divergent and conflicting decisions can be realized. Hence, power duality in decision-making processes can create chaos and generate risks for succession success, endangering the firm's survival.

Proposition 3: In the second stage of succession process, the higher the power duality in decision-making processes between father and son, the stronger the negative correlation between agency problems and the likelihood of succession success.

The third stage of succession process is a mirror situation of the first stage. It is the ending part of the process where the predecessor leaves the business and successor takes formally and substantially the reins of the firm. Similarly to the first stage, only one actor holds the decision-making power. Due to the passive role of the predecessor, the decision-making power is centralized

in the successor: he obtains the entire decision-making power and can realize whatever he considers appropriate for the company, albeit his ideas could conflict with the predecessor's point of view. Risks generated by agency problems, in terms of misalignments and goal divergence, are reduced by the centralization of power that prevents internal conflicts to compromise succession success, and thus firm's survival.

Proposition 4: In the third stage of succession process, the higher the centralization of decision-making power in the son, the weaker the negative correlation between agency problems and the likelihood of succession success.

DISCUSSION

There is an active debate in literature about agency problems occurring in family firms. Some studies (Fama & Jensen, 1983; Ang et al., 2000) consider family business immune to agency threats, because ownership gives the proper incentive to develop rules and policies aimed at minimizing conflict and limiting the costs of settling disputes, many scholars argue that agency problems frequently arise in family firms (Buchanan, 1975; Schulze et al., 2001; 2003; Gomez-Mejia et al., 2001; Chrisman et al., 2004; Lim et al., 2010). Family members may have different and divergent interests and behaviors: a family is not a monolithic group of people (Sharma et al., 1997; Chrisman et al., 2004).

These differences can easily generate misalignments and goal divergence among family members during firm's life cycle endangering firms stability and growth (Lim et al., 2010). Existing literature lacks any specific contribution concerning the impact that agency problems among family members could have on firm stability during critical period or particular events. We intend to move a step forward in this direction, focusing our attention on succession. Succession is defined as the leadership passage between one family member to another when individuals belong to different generations (Sharma et al., 2001) and represents an high critical period for firm's existence and

stability (Beckhard & Dyer, 1983; Björnberg & Nicholson, 2012). Succession embodies the critical transition from the old to the new company generation, from the conservative to the innovative generation. For instance, the second company generation, represented by the son, may be exposed to more stimuli, may have a higher education degree, may be more open to an international context. Conversely, as Wright et al. (1996) posit, the founder generation, represented by the father, might be reluctant to innovation and new ventures because it threatens the *status quo*, entails too much effort or is not in their personal financial interest. Thus interest among owners may not be aligned and affect important company decisions.

We developed a theoretical framework that links agency problems, in terms of misalignment and goals divergence, to the likelihood of succession success. Hence, we have suggested a new set of items in succession phase. Starting from the assumption that agency problems arise during critical period in family firms, we argue that these problems have to be considered and controlled during succession, because they can be negatively correlated to the succession success and, consequently, to firm's stability. Moreover, we posit that agency problems have a different effect on succession success on each step of the succession process that is taken into consideration. Three main stages are identified and each one presents a different decision making power sharing between father and son.

In other words this study contributes to succession literature, taking into account a dynamic perspective of succession and the moderator role of decision-making power evolution between father and son on the relation between agency problems and succession success.

Moreover, we emphasized the critical situation which occur in the middle stage of succession where the effects of conflicts and misalignments between father and son on succession success are exacerbated by decision making power duality. The presence of two different actors with the same amount of decision making power, but with different goals and intents, can put succession process in serious danger and, consequently, the firm existence. Decision making power duality situation is identified as the opposite of decision-making power centralization which occurs in the beginning

and in the ending stage of succession process and prevents internal conflicts, as those engendered by agency problems, which impact on firm stability.

Thus this theoretical research provides managerial insights since it sheds light on the risk embedded in the shared leadership stage of the succession process. Family managers and practitioners could infer that this stage should be to some extent avoided or at least rapidly overcame in order to timely shift to the last and less risky stage of the transition.

Future research directions

More research on this topic should be encouraged. First, more conceptual works could be done by adding complexity to our theoretical framework. For instance, it could be considered the case of succession with multiple successors, with similar and contrast interests.

Second, empirical investigations could validate our key constructs in this paper. It could also further propositions that may be distilled from our reasoning. For instance, the potential cooperation between father and son instead of trying to impose their own point of view. As in the prisoner dilemma, if the players could dialogue the game would be solved efficiently and positive payoff could be easily reached for both parties.

Moreover, family firms constitute a broad category which involves many different companies. So different perspectives may be used in studying this phenomenon. It is proposed that the problem should be empirically studied by differentiating large family firms from small ones because firms size could significantly influence management practices, roles and strategies formalization, family involvement in the firm and succession opportunities and threats (Gomez- Mejia et al., 2011).

Finally, future studies could be focused also on the solution of these problems in succession. For example, some scholars highlight the important role played by strategic planning in family firms. Schulze et al. (2001) argue that this tool could be particularly valuable in family firm context to deal with agency problems especially when firms lack the discipline imposed by capital markets and are less able to assess performance objectively due to the absence of a market determined share price. It

provides a basis for control because it formalizes sales projections, cost estimates and performance goals (Chrisman et al., 2004). Thus, maybe strategic planning could be particularly useful especially during succession period to stabilize divergent interest, decision and behaviors.

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