Overseas Market Entry Mode and Equity Entry Mode

Subjects: Operations Research & Management Science
Contributor: Qingnian Wang , Yunpei Wang , Xiaoping Li , Lan Tang

As a very common form of enterprise organization in the social economy, family enterprises are numerous and play an increasingly important role in the global economy. In China, family enterprises are an important part and backbone of private enterprises and play an indispensable role in the vigorous development of China's national economy.

theory family business behavior

1. Research on Family Business and Ownership

The academic research on Family Business started earlier. Lansberg (1988) raised the question "What is a family business" in Family Business Review, a professional academic journal that discusses the dynamics of family business [1]. Many scholars define family business based on different research purposes and perspectives. Based on a review of the relevant literature, this research summarizes several perspectives from which scholars define family business. The definition of 10% ownership was adopted by Maury (2006), Chrisman (2012), and Singla (2014) [2][3][4]. From the perspective of family ownership and family management, Gomez-Mejia (2003) believes that two conditions are required to define a family business: one is that two or more directors have family relations; the other is that family members own or control at least 5% of the ownership of the business [5]. Chrisman (2012) also believes that the definition of family business should not only be defined from a single aspect but should consider the realistic characteristics of family business in a more comprehensive way; otherwise, the goal of clearly and accurately defining family business cannot be achieved [6]. His definition of family business combines the perspectives of family ownership, family management, and intergenerational inheritance. In his empirical research, he defines family business as an enterprise in which family members participate in the ownership and management of the enterprise and hope to control it across generations. Sciascia (2012) proved, using an empirical method, that there is an inverted U-shaped relationship between family ownership and the degree of internationalization of family firms [7], while Santulli (2019) came to the conclusion that there is a U-shaped relationship between the two [8].

Masset et al. (2019) found that both family and non-family blockholders displayed their higher use for assets in the lodging industry [9]. Some scholars (Giménez et al., 2020; Guo 2022) studied the problems of family firm succession using different theories, such as Unified and Synthesized theory, Corporate Social Responsibility theory, etc. [10][11]. Dong et al. (2022) analyzed 610 Chinese manufacturing family firms from 2009 to 2017. The regression analysis indicated that there was an inverted U-shaped relationship, which linked with R&D and policy [12].

2. Definition and Classification of Overseas Market Entry Mode

Sharma (2004) defines an entry mode as “a structured agreement in which a company implements its product market strategy in international markets by itself (export, sole proprietorship) or in partnership with others (contract mode, joint venture)” [13]. Mart et al. (2021) analyzed the performance of firms and the relationship between cooperative R&D and political ties in the Gulf Cooperation Council (GCC) countries [14]. Mondal et al. (2022) analyzed family ownership in the multi-national context in India and suggested local subsidiaries for the multi-national field [15]. Levesque et al. (2022) believed that powerful planning was crucial to family firms [16].

3. The Theoretical Basis of Equity Entry Mode and Influencing Factors in Overseas Market

3.1. Transaction Cost Theory

Transaction cost theory is often used in the research of entry mode. The basic principle of this theory is that multinational enterprises will choose the entry mode that minimizes transaction costs and maximizes efficiency and revenue. This theory was proposed by Williamson (1985), who believed that transaction is the basic unit of organizational analysis and “the cost of running the economic system”, and the pursuit of the lowest transaction cost is the fundamental principle of this theory [17]. In Williamson’s theoretical framework, the factors that determine the level of transaction cost include asset specificity, uncertainty (internal behavior and external market uncertainty), and transaction frequency.

3.2. Institutional Theory

North (1990), a representative of the institutional theory, believes that the strategic actions of enterprises are highly dependent on and rooted in the system. The environment is fundamentally influenced by both formal and informal rules [18]. Specifically, formal rules (such as laws, regulations, or policies) and informal rules (such as norms, ethics, beliefs, and culture) can shape a firm’s resources and influence the formation of a firm’s competitive advantage, thus significantly influencing firm behavior. Li et al. (2022) used a novel dataset to follow the evolution of family ownership, firm value, and firm policies for up to 25 years post-initial public offering (IPO). Firm value, measured by Tobin, is fundamentally influenced by both formal and informal rules [18], including formal rules (such as laws, regulations, or policies) and informal rules (such as from activity to internal cash flow [19]). Ghalke et al. (2023) analyzed the relationship between ownership and performance and found a positive link [20].

3.3. Social Emotional Wealth Theory

Social Emotional Wealth Theory, also known as SEW theory, was proposed by Gomez-Mejia (2007) [21]. The theory holds that family businesses attach great importance to the accumulation of social emotional wealth, rather than merely pursuing the maximization of economic interests. Social emotional wealth refers to the emotional endowment that family members obtain from the family business, which is a kind of non-economic utility to meet the emotional needs of the family. According to Gomez-Mejia, social emotional wealth includes maintaining family control and influence over the business, appointing trusted family members to important positions, establishing and perpetuating family culture and values in the business, and achieving the goal of transferring power to future generations of the family. The theory of social emotional wealth has opened up new ideas for the strategic management and decision making of family enterprises and has been applied to many topics of family enterprise research, such as the social responsibility performance of family enterprises, acquisition behavior, R&D investment, internationalization, etc., becoming an important theoretical basis for the strategic decision making of family enterprises.

The social emotional wealth theory developed from the behavioral agency theory, which was proposed by Gomez-Mejia et al. [22]. According to this theory, a company's strategic decisions depend on key decision makers, who will make corresponding decisions in order to preserve and maintain their interests or endowments in the company [23]. In the context of a family business, family members are the key decision makers in the family business because they have greater decision-making power. They mainly consider the degree of goal realization of social emotional wealth to make evaluation decisions. When this emotional endowment cannot be satisfied, family members tend to make decisions that are not driven by economic factors, that is, they may be willing to accept financial loss risk to prevent the loss of social emotional wealth [24][25].

After Gomez-Mejia proposed the theory of social emotional wealth, Berrone et al. (2012) [26] proposed the concept of the five-dimensional structure of social emotional wealth through further research, thus deepening the academic community's understanding of the theory of social emotional wealth. The first dimension is family control and influence. This dimension is an integral part of the emotional wealth of society and is highly desired by family members. The second dimension is family members' recognition of the company. Family members place a high value on business credibility because the family business is seen by internal and external stakeholders as an extension of the family in another form, a projection of the family's core values. The third dimension refers to the social relations of the family business. Reciprocal relationships within a family business are not limited to family members but may extend to a wider group. The fourth dimension involves family members' emotional connection to the business. This sentiment permeates the organization and influences the decision-making process of the family business. The fifth dimension is the intention to pass on the business to future generations. Family members view the family business as a long-term family investment and tend to pass it on to future generations.

Umas et al. (2023) examined firm performance based on the behavioral theory with a sample of 209 family firms, and they found that the level of succession planning was higher when family firm performance was further below historical aspirations [27]. Saeed et al. (2023) found that the fifth dimension was the intention to pass on the business to ISO 14,001 certification, and this dimension was in tiny firms [28].

3.4. Country-Level Factors

Institutional theory suggests that a country's institutional environment influences the choice of firm boundaries because the environment reflects the "rules of the game" for firms to participate in a particular market. A key issue for multinational enterprises to face when making resource commitment decisions in overseas markets is "how to deal with the institutional environment" [29][30]. Scholars (Setiawan et al., 2022; Pipatanantakurn et al., 2022) examined the firm performance from the data of their own countries based on a country-level sample [31][32].

3.5. Industry-Level Factors

In a study of the intensity of competition in the host country industry and the mode of equity entry in overseas markets, Bell (1996) pointed out that in highly competitive host country industries, multinational enterprises are more willing to focus on developing their specific competitiveness through sole-ownership entry mode [33]. Scholars (Cisneros et al., 2022; Hsu et al., 2023) examined the external social capital, social emotional wealth from the industry level and showed that they were positive [34][35].

3.6. Firm-Level Factors

From the micro level, scholars mainly study the equity entry mode of enterprises in overseas markets from the aspects of enterprise nature, proprietary technology, enterprise scale, financial performance, international experience, and so on [36][37]. Zhou (2017) argues that the investment behavior of state-owned enterprises follows the "state logic", and their decisions reflect the political goals set by the government to varying degrees [38]. Scholars (Rosecks et al., 2022; D'Este et al., 2022; Reddy et al., 2023) examined social capital and firm performance from the firm level and found that family conflict and "risk-taking" harmed performance [39][40][41].

References

1. Lansberg, I.S.; Perrow, E.L.; Rogolsky, S. Family business as an emerging field. Famaly Bus. Rev. 1988, 1, 1–8.
2. Maury, B. Family ownership and firm performance: Empirical evidence from Western European corporations. J. Corp. Financ. 2006, 12, 321–341.
3. Chrisman, J.J.; Patel, P.C. Variations in R&D investments of family and nonfamily firms: Behavioral agency and myopic loss aversion perspectives. Acad. Manag. J. 2012, 55, 976–997.
4. Singla, C.; Veliyath, R.; George, R. Family firms and internationalization-governance relationships: Evidence of secondary agency issues. Strateg. Manag. J. 2014, 35, 606–616.
5. Gomez-Mejia, L.R.; Larraza-Kintana, M.; Makri, M. The determinants of executive compensation in family-controlled public corporations. Acad. Manag. J. 2003, 46, 226–237.

6. Chrisman, J.J.; Chua, J.H.; Pearson, A.W.; Barnett, T. Family involvement, family influence, and family-centered non-economic goals in small firms. Entrep. Theory Pract. 2012, 36, 267–293.
7. Sciascia, S.; Mazzola, P.; Astrachan, J.H.; Pieper, T.M. The role of family ownership in international entrepreneurship: Exploring nonlinear effects. Small Bus. Econ. 2012, 38, 15–31.
8. Santulli, R.; Torchia, M.; Calabrò, A.; Gallucci, C. Family ownership concentration and firm internationalization: Integrating principal-principal and socioemotional wealth perspectives. J. Int. Entrep. 2019, 17, 220–248.
9. Masset, P.; Uzelac, I.; Weisskopf, J.-P. Family Ownership, Asset Levels, and Firm Performance in Western European Hospitality Companies. J. Hosp. Tour. Res. 2019, 43, 867–889.
10. Giménez, E.L.; Novo, J.A. A Theory of Succession in Family Firms. J. Fam. Econ. Issues 2020, 41, 96–120.
11. Guo, C. The Impact of Management Succession on Corporate Social Responsibility of Chinese Family Firms: The Moderating Effects of Managerial Economic Motivations. Sustainability 2022, 14, 16626.
12. Dong, F.; Wang, X.; Chen, J. Family ownership and cooperative R&D: The moderating effect of political ties. J. Knowl. Manag. 2022, 26, 403–422.
13. Sharma, V.M.; Erramilli, M.K. Resource-based explanation of entry mode choice. J. Mark. Theory Pract. 2004, 12, 1–18.
14. Martínez-García, I.; Basco, R.; Gómez-Ansón, S. Dancing with giants: Contextualizing state and family ownership effects on firm performance in the Gulf Cooperation Council. J. Fam. Bus. Strategy 2021, 12, 100373.
15. Mondal, A.; Ray, S.; Lahiri, S. Family ownership, family management, and multinationality: Evidence from India. J. Bus. Res. 2022, 138, 347–359.
16. Levesque, M.; Subramanian, A.M. Family firm succession through the lens of technology intelligence. J. Fam. Bus. Strategy 2022, 13, 100485.
17. Williamson, O.E. The economic institutions of capitalism-transaction cost economics. In The Political Economy Reader Markets as Institutions; Free Press: New York, NY, USA, 1985; pp. 185–194.
18. North, D.C. Institutions, Institutional Change and Economic Performance; Cambridge University Press: Cambridge, UK, 1990.
19. Li, H.; Ryan, H.E., Jr. Founding family ownership and firm performance: Evidence from the evolution of family ownership and firm policies. J. Bus. Financ. Account. 2022, 49, 1391–1424.

20. Ghalke, A.; Haldar, A.; Kumar, S. Family firm ownership and its impact on performance: Evidence from an emerging market. Rev. Manag. Sci. 2023, 17, 493–512.
21. Gómez-Mejía, L.R.; Haynes, K.T.; Núñez-Nickel, M.; Jacobson, K.J.L.; Moyano-Fuentes, J. Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. Adm. Sci. Q. 2007, 52, 106–137.
22. Wiseman, R.M.; Gomez-Mejia, L.R. A behavioral agency model of managerial risk taking. Acad. Manag. Rev. 1998, 23, 133–153.
23. Cennamo, C.; Berrone, P.; Cruz, C.; Gomez–Mejia, L.R. Socioemotional wealth and proactive stakeholder engagement: Why family-controlled firms care more about their stakeholders. Entrep. Theory Pract. 2012, 36, 1153–1173.
24. Nason, R.S.; Carney, M.; Le Breton-Miller, I.; Miller, D. Who cares about socioemotional wealth? SEW and rentier perspectives on the one percent wealthiest business households. J. Fam. Bus. Strategy 2019, 10, 144–158.
25. Zellweger, T.M.; Dehlen, T. Value is in the eye of the owner: Affect infusion and socioemotional wealth among family firm owners. Fam. Bus. Rev. 2012, 25, 280–297.
26. Berrone, P.; Cruz, C.; Gomez-Mejia, L.R. Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. Fam. Bus. Rev. 2012, 25, 258–279.
27. Umans, I.; Lybaert, N.; Steijvers, T.; Voordeckers, W.; Laveren, E. Performance below and above aspirations as an antecedent of succession planning in family firms: A socio-emotional wealth mixed gamble approach. Rev. Manag. Sci. 2023.
28. Saeed, A.; Riaz, H.; Liedong, T.A.; Rajwani, T. Does family matter? Ownership, motives and firms' environmental strategy. Long Range Plan. 2023, 56, 102216.
29. Chang, Y.C.; Kao, M.S.; Kuo, A.; Chiu, C.F. How cultural distance influences entry mode choice: The contingent role of host country's governance quality. J. Bus. Res. 2012, 65, 1160–1170.
30. Buckley, P.J.; Doh, J.P.; Benischke, M.H. Towards a renaissance in international business research? Big questions, grand challenges, and the future of IB scholarship. J. Int. Bus. Stud. 2017, 48, 1045–1064.
31. Setiawan, D.; Asrihapsari, A.; Brahmana, R.K.; Rizky, H.P.; Widawati, M.W. Role of Family Ownership in the Relationship between Corporate Social Responsibility and Firm Performance. Complexity 2022, 2022, 1318875.
32. Pipatanantakurn, K.; Ractham, V.V. The Role of Knowledge Creation and Transfer in Family Firm Succession. Sustainability 2022, 14, 5845.

33. Bell, J.H.J. Single or joint venturing? A comprehensive approach to foreign entry mode choice. Manag. Res. News 1996, 20, 33.
34. Cisneros, L.; Deschamps, B.; Chirita, G.; Geindre, S. Successful family firm succession: Transferring external social capital to a shared-leadership team of siblings. J. Fam. Bus. Strategy 2022, 13, 100467.
35. Hsu, W.-T.; Chen, H.L. Family firms' social responsibility: Exercise of family control versus family dynasty succession. Can. J. Adm. Sci. Rev. Can. Des Sci. L'administration 2023, 1–15.
36. Zellweger, T.M.; Kellermanns, F.W.; Eddleston, K.A.; Memili, E. Building a family firm image: How family firms capitalize on their family ties. J. Fam. Bus. Strategy 2012, 3, 239–250.
37. Daspit, J.J.; Holt, D.T.; Chrisman, J.J.; Long, R.G. Examining family firm succession from a social exchange perspective: A multiphase, multistakeholder review. Fam. Bus. Rev. 2016, 29, 44–64.
38. Zhou, K.Z.; Gao, G.Y.; Zhao, H. State ownership and firm innovation in China: An integrated view of institutional and efficiency logics. Adm. Sci. Q. 2017, 62, 375–404.
39. Rosecká, N.; Machek, O. How Relational Conflict Harms Family Firm Performance: The Mediating Role of Family Social Capital and the Moderating Role of Family Ownership. J. Fam. Econ. Issues 2022.
40. D'Este, C.; Carabelli, M. Family ownership and risk: The role of family managers. Corp. Gov. 2022, 22, 1161–1177.
41. Reddy, K.; Wellalage, N.H. Effects of family ownership and family management on the performance of entrepreneurial firms. Res. Int. Bus. Financ. 2023, 65, 101977.