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Family business legitimacy and foreign subsidiary establishment mode choice: An institutional and mixed gamble approach

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ABSTRACT

The internationalisation of family firms is increasingly argued to be influenced by institutions external to the firm. In this paper, drawing on institutional and mixed gamble theories, we argue that family firms' choice of foreign subsidiary establishment mode varies based on the degree of family business legitimacy (FBL) in their home and host countries. We propose that both the individual and combined effects of home and host FBL influence this choice. Additionally, we contend that cultural distance between the home and host countries moderates the aforementioned effect. Our hypotheses are tested using a sample of 147 family firms over the period 2011–2019. Overall, our research contributes to a greater understanding of the role of external institutions on the foreign subsidiary establishment mode choice of family firms.

1. Introduction

The impact of external institutions on the strategic decisions and performance of family firms is being increasingly recognised in the literature (Arregle et al., 2021; Berrone et al., 2020; Banalieva et al., 2015; Banalieva et al., 2022). An important construct in this regard is the extent of "family business legitimacy" (FBL) (Berrone et al., 2020), which refers to the nature of informal institutions within countries that support the prevalence of family firms. In high FBL countries (such as Bangladesh, Egypt, Nigeria and United Arab Emirates, among others), the family is positioned as an important economic unit, and social exchange based on family, kinship, network-based relations, intergenerational survival and patriarchy are given significant importance. Consequently, family firms in these countries assume much greater prevalence and enjoy social capital advantages such as trust and reciprocity among external stakeholders. In these contexts, family firms also differ significantly from non-family firms in relation to strategic decisions such as diversification, innovation, and internationalisation (Berrone et al., 2020). This "external" institutional context in which family firms are embedded extends the view of heterogeneity among family firms, which has been previously based on their "internal" factors, such as the levels of family ownership, management, governance, history and generational differences (Arregle et al., 2019).

Research on the impact of FBL on family firms' strategic choices is in its infancy, and has been, so far, limited to how these choices differ in their domestic context. We therefore suggest that research on this important construct can be advanced by examining how the extent of FBL in a family firm's "home" country and the "host" country in which it plans to invest impacts the choice of subsidiary establishment mode (i.e., greenfield vs. acquisition). Prior research shows that, the embeddedness of firms in their "home" institutions has an imprinting effect on their routines and practices, and this affects their strategic choices during internationalisation (Estrin et al., 2016; Konara et al., 2021). Likewise, it is widely known that external institutions in a "host" country may provide certain legitimisation advantages to foreign firms based on the strategic choices they make (Li & Meyer, 2009; Rathert, 2016). Specifically, the choice of *subsidiary establishment mode* forms an important strategic decision for all foreign firms entering a host market, due to the legitimisation it confers to the host subsidiary (Xu et al., 2021).

In the context of family firms, the choice of foreign subsidiary establishment mode is driven not only by the economic benefits it offers but also by the extent to which the family can protect its socio-emotional wealth (SEW) – a set of "affect-related" values that the family firm has invested in (Berrone et al., 2012). Based on SEW logics, prior research has argued that family firms are more likely to prefer full-ownership (over partial) when entering foreign markets (Pongelli et al., 2021); and among the full-ownership modes, they are more likely to choose greenfield over acquisitions (Boellis et al., 2016; Yamanoi & Asaba,

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2018). However, both greenfield investments and acquisitions offer family firms a mix of benefits and challenges regarding SEW and financial wealth. As a result, family firms face a "mixed gamble" when making this decision (Gomez-Mejia et al., 2014; Banalieva et al., 2022; Mariotti et al., 2021). Therefore, in our paper, combining institutional and mixed gamble logics, we first argue that FBL in the home and host country will form an important variable which will determine family firms' foreign subsidiary establishment mode choice (Berrone et al., 2020).

In addition to the individual effects of home and host FBL, we also examine their interactive effect on the choice of foreign subsidiary establishment mode, along with the moderating effect of cultural distance. Herein, we first suggest that the interactive effect of home and host FBL can also play an important role, because, from a mixed gamble perspective, the perceived gains and losses to SEW and financial wealth for family firms when establishing a subsidiary in a foreign market would also vary based on whether family firms from high FBL home countries invest in host countries with high or low FBL (and vice versa) (Kostova et al., 2020; Salomon & Wu, 2012; Wu & Salomon, 2016). Considering the interactive effect of both home and host FBL thus allows us to add further nuances to the relationship between the individual effects of home and host FBL and foreign subsidiary establishment mode choice.

Second, we suggest that the "cultural distance" between a family firm's home and host country constitutes a crucial moderator, because it increases the need for gaining legitimacy in a foreign market (Dikova & Sahib, 2013; Slangen, 2006). Prior research has extensively argued that cultural distance forms a key variable in the choice of foreign subsidiary establishment mode choice (Drogendijk & Slangen, 2006; Beugelsdijk et al., 2018). As cultural distance increases the liabilities of foreignness for firms, it can be expected that cultural distance will complement the effect of home and host FBL among family firms in terms of their decision regarding foreign subsidiary establishment mode. Accordingly, our research questions are: (1) *How does family business legitimacy (FBL) of the home and host country (both individually and interactively) affect family firms' foreign subsidiary establishment mode choice (between greenfield and acquisition)?*; and (2) *How does cultural distance moderate the relationship between home and host FBL and family firms' foreign subsidiary establishment mode choice?*

Our paper makes several contributions to the existing literature. Notably, there have been various calls to unravel the role of the external institutional context on family firms' strategic behaviour (Wright et al., 2014; Soleimanof et al., 2018; Gonzalez & Gonzalez-Galindo, 2022), particularly, on their international business (IB) strategy (Pukall & Calabro, 2014; Kano & Verbeke, 2018). By integrating institutional theory with mixed gamble logics, our study explores how family firms' risk perceptions and strategic choices are influenced by the institutional environments in which they operate. We achieve this by examining the differences between home and host institutional contexts using the novel FBL index by Berrone et al. (2020). In doing so, we contribute to the literature by focusing on a macro-level, composite index that encompasses various dimensions relevant to family firms and their SEW development, as highlighted in previous research (Arregle et al., 2021). Second, we also provide a nuanced understanding of how these external institutional factors are moderated by cultural distance. The role of cultural distance has been pivotal in previous studies on firms' foreign subsidiary establishment mode decision (Brouthers & Brouthers, 2000; 2001; Tihanyi et al., 2005; Drojendijk & Slangen, 2006). However, there have been few studies which have considered the effect of cultural distance on the internationalisation of family firms (e.g. Gomez-Mejia et al., 2010; Kretinin et al., 2019; Reuber, 2016). By theorising how cultural distance interacts with home and host FBL, we contribute to the complexity of the role of this distance on its relationship with other aspects of family related institutions in home and host countries.

The rest of the paper is organised as follows. In the next section, we use the SEW perspective and institutional theory to develop our hypotheses on the individual and combined effects of home and host FBL on the foreign subsidiary establishment mode choice of family firms, and on the moderating effect of cultural distance. Following this, we explain our methodology, including a description of the sample and measures of all the variables used, followed by a report of our findings and additional information on robustness tests. Finally, we discuss our findings, contributions to literature, limitations, and avenues for future research.

2. Theoretical background and hypotheses

2.1. Socioemotional wealth (SEW) in family firms as a mixed gamble

Literature on family firms predominantly suggests that these types of firms are characterised by greater levels of SEW as compared to non-family firms. The SEW endowment contains the stock of "affect related" value that the family owns and is sustained through preserving family-centric goals (Berrone et al., 2012). During strategic decision-making, these family-centric goals (Graves et al., 2022) must be balanced with the rational, economic, and financial goals of business (Boellis et al., 2016). Previous research using the behaviour agency model (BAM) suggests that when the family firm perceives risk to its SEW in its strategic decisions, it is likely to prioritise SEW preservation over economic (or financial) gains. For example, Gómez-Mejía et al. (2007) found that when Spanish Olive Mills were given the opportunity to join a cooperative that would provide them with financial benefits, the family-owned mills refrained from joining the cooperative due to a perceived loss of family control. Likewise, Gómez-Mejía et al. (2010) found that family firms diversify lesser than non-family and invest lesser in research and development (R&D) (Gomez-Mejia et al., 2014), Thus, the risk aversion (to lose SEW) was argued to lead family firms to take less risk in strategic decision making.

More recently, the *mixed gamble* approach has been argued as a refinement to the BAM model (Gomez-Mejia et al., 2014). According to the mixed gamble perspective, a risky decision will be based on weighing both potential gains and losses to SEW as well as financial wealth from a risky decision, by accepting the loss of something less valuable for the potential gain of something more valuable (Alessandri et al., 2018; Martin et al., 2013). For instance, when investing in R&D, Gomez-Mejia et al. (2014) suggested that this decision can potentially also lead to SEW gains from successful innovation, although failed R&D could lead to loss of SEW. Consequently, the perception of SEW gains (vs. losses) to family firms from R&D investments can be conditional on other factors such as when family firms have institutional investors on their board, or when they engage in related diversification (Gomez-Mejia et al., 2014). Likewise, Kim et al. (2023) suggest that when family firms engage in inter-organisational collaborations, they perceive greater SEW gains (vs. losses) in R&D investment. In a similar vein, when undertaking acquisitions, it is argued that when family firms engage in *related* acquisitions (compared to unrelated acquisitions), they perceive SEW gains to be higher than SEW losses (Hussinger & Issah, 2019). In the context of international business (IB), Banalieva et al. (2022) found that when family firms invest in emerging markets, a gradual process of institutional reform in these markets is more likely to lead them to perceive SEW gains from continued investment, compared to when reforms are rapid and uncertain. Similar reasoning has been applied to risky decisions made by family firms, such as pursuing environmental proactiveness (Liu et al., 2023), adopting ethical approaches (Eddleston & Mulki, 2021), and responding to waves of cross-border acquisition (Fuad et al., 2021), among others. Overall, in relation to our study, it has been argued that while internationalisation can be a risky decision for family firms, effective monitoring and governance mechanisms (such as increased family involvement in the foreign subsidiary) can result in positive outcomes for both SEW and financial wealth (Alessandri et al., 2018).

2.2. Heterogeneity among family firms based on external institutions

Prior research suggests that external institutional conditions in countries have an impact on the prevalence of family firms. In relation to family-specific institutions, Berrone et al. (2020) suggest that countries vary according to the extent of family business legitimacy (FBL), formally defined as the "degree to which a country's environment is characterised by a set of social ordering systems, social relationships, and values that recognise the family firm as the basic unit of economic production, and kinship ties as the predominant conduit of social and economic exchange" (Berrone et al., 2020, p.1154). The construct of FBL is consistent with prior studies which have found that country-level characteristics such as family-oriented political ideology of the government (Duran et al., 2017; Arregle et al., 2021) affect the external commitment and support available to family businesses. Countries scoring highly on FBL are known for supporting long-term familial relationships in business (Berrone et al., 2012). For example, nepotism in business is more socially acceptable and prevalent in countries with higher FBL (Bertrand & Schoar, 2006). Governments in higher FBL countries favour firms associated with influential families because such firms are assumed to be more trustworthy (Berrone et al., 2020). For such reasons, in high FBL countries, family firms gain distinct advantages which are not available to non-family firms. Beyond FBL, in relation to external institutions affecting family firms, research also emphasises the importance of other regulatory factors such as greater levels of minority shareholder protection, favourable inheritance rules and export orientation, which affect the internationalisation of family firms (Arregle et al., 2021; Arregle et al., 2017; Lehrer & Celo, 2017).

The role of external institutions impacting the internationalisation behaviour of firms is well-established in the IB literature. In this context, first, multinational enterprises (MNEs) are embedded in their "home" institutional context, and are therefore imprinted by the idiosyncratic characteristics of external institutions surrounding them in their home country (Maksimov et al., 2017; Shirodkar et al., 2017). Such institutional imprinting and learning forms the basis of their competitive advantage (Cuervo-Cazurra et al., 2018; Konara et al., 2021), and due to these imprinting effects, firms are resistant to change even when institutions surrounding them change (Kriauciunas & Kale, 2006). In the context of our study, given the advantages to family firms due to being embedded in strong FBL "home" institutions as previously noted, according to institutional imprinting logics, when such family firms internationalise, they will refrain from immediately adapting to the host country context, because adaptation will be perceived to have a negative effect on their home-based competitive advantage (Cuervo-Cazurra et al., 2018; Konara et al., 2021).

At the same time, institutional theory also suggests that when foreign firms (in general) enter "host" countries, there are legitimisation pressures on the firm to align and adapt to the host country's "rules of the game" (North, 1990). Legitimacy is defined as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p.574). As foreign firms face liabilities of foreignness, they are expected to be legitimate and conform to local norms in host countries (Zaheer, 1995; Aguilera & Grøgaard, 2019). Adapting to such norms and expectations (in our case, based on the extent of FBL in host countries and via the choice of foreign subsidiary establishment mode) will confer foreign firms with greater legitimisation advantages. Overall, given that countries vary in terms of their extent of family business legitimacy (FBL) (Berrone et al., 2020), we expect family firms to face different imprinting effects of their "home" country institutions, and different legitimisation pressures in the "host" country – both, based on the extent of FBL.

2.3. Home and host FBL and foreign subsidiary establishment mode choice

As previously noted, some countries are characterised by a high level of family business legitimacy (FBL) (such as Bangladesh, Nigeria and United Arab Emirates) and others with significantly low levels (such as Denmark, Norway, Sweden, the Netherlands and South Africa) (Berrone et al., 2020). We first suggest that when family firms originate from high FBL home countries, or when they enter high FBL host countries to set up their subsidiary, they are more likely to choose greenfield as the subsidiary establishment mode as compared to an acquisition. This is for the following reasons.

First, in relation to firms originating from high FBL "home" countries, as Berrone et al. (2020) suggest, the institutional context in these countries provides greater privileges for family firms, leading them to have greater levels of social capital and distinct competitive advantages, compared to non-family firms. Due to this, compared to family firms originating in low FBL countries, family firms embedded in high FBL home countries will be imprinted with a larger stock of SEW and will consider SEW as a source of competitive advantage (Habbershon et al., 2010). Therefore, when family firms from high FBL countries internationalise, regardless of the institutional characteristics of the host market, they will perceive internationalisation as a riskier decision for their SEW, than family firms from low FBL countries. However, given that internationalisation may result in both potential gains as well as losses to SEW and financial wealth (Alessandri et al., 2018), the choice of a suitable establishment mode presents a mixed gamble (Gomez-Mejia et al., 2014; Banalieva et al., 2022). Among the establishment mode choices between greenfield investment and acquiring an existing firm in the host market, the greenfield option allows greater scope of managing the host subsidiary by exercising and extending its family influence (Boellis et al., 2016). This can be done by placing family members in managerial positions, as well as by developing networks with customers and suppliers in the host country organically, by exploiting family-based and other connections (Kuo et al., 2012). In contrast, acquisitions increase the concerns related to loss of both SEW and financial wealth (relative to potential gains) for family firms from high FBL countries due to a greater involvement of actors outside the family (e.g., consultants, political analysts, and other intermediaries) in the acquisition and post-acquisition integration process (Gómez-Mejía et al., 2010). Thus, although acquisitions sometimes allow for a speedier growth in international markets and may foster family members' association with a successful firm; such potential gains are considered volatile due to the potential loss of SEW and family control (Boellis et al., 2016). Therefore, combining institutional and mixed gamble perspectives, we expect that choosing the greenfield option (over acquisition) will allow family firms from high FBL "home" countries to perceive gains in SEW as well as financial wealth (compared to losses) during internationalisation. In contrast, the likelihood of family firms opting for acquisition as the mode of subsidiary establishment in a host country will increase when the level of FBL in the home country reduces. Accordingly, we hypothesise the following:

Hypothesis 1a. : Family firms' preference for establishing a greenfield subsidiary in a host market increases as the level of FBL in their home country increases.

Second, in relation to family firms investing in a high FBL "host" country, regardless of the home institutional characteristics of the firm, the institutional context in such a host country will provide greater legitimisation advantages to foreign firms who choose to preserve their SEW in their host subsidiary, as compared to host countries with lower levels of FBL (Berrone et al., 2020). Therefore, from a mixed gamble perspective, a foreign family firm can gain both SEW and financial advantages by extending its familiness in a high FBL host country through its choice of establishment mode. Once again, the greenfield mode fosters a long-term, incremental approach to internationalisation, aligning

with family ideals when establishing a subsidiary in a host country where there is strong contextual pressure to protect and preserve SEW and where family-centric values offer both market and non-market advantages (Berrone et al., 2020). Comparatively, in acquisitions, capitalizing on family-specific assets will be more costly and uncertain (Boellis et al., 2016), and will lead to a perception of greater losses from investing in high FBL host countries. Consequently, when "host" FBL is high, the greenfield option will provide family firms with the perception of greater advantages in both SEW as well as financial wealth compared to potential losses during internationalisation. Conversely, the likelihood of opting for acquisitions increases when host FBL is low. Accordingly, we hypothesise:

Hypothesis 1b. : Family firms' preference for establishing a greenfield subsidiary in a host market increases as the level of FBL in the host country increases.

2.4. The interactive effect of home and host FBL

In the previous arguments, we argue for the two scenarios where (1) family firms from high FBL "home" countries internationalise to any host country; and (2) family firms from any home country internationalise to a high FBL "host" country. However, this provides an incomplete picture, as it does not account for the scenarios where a family firm from a high FBL home country invests in a low (or high) FBL host country, and vice versa. Thus, it would be important to consider how the interactive effect of the family firm's home and host FBL impacts the subsidiary establishment choice in a host market.

As argued in H1a, when a family firm from a high FBL "home" country invests in a host country, institutional and mixed gamble logics (Gomez-Mejia et al., 2014) suggest that opting for greenfield investment will lead to potential gains in both SEW and financial wealth compared to potential losses. At the same time, as argued in H1b, when a family firm invests in a host country with higher FBL, choosing greenfield as the subsidiary establishment mode will provide greater legitimisation benefits, leading to potential gains in both SEW and financial wealth compared to potential losses. We expect these effects to complement each other, such that the positive impact of home FBL on family firms' likelihood of choosing greenfield investment in a host country increases when the host market has higher levels of FBL. Conversely, the positive effect of host FBL on the propensity to choose greenfield increases when the family firm is based in a home country with higher FBL levels. In sum, when both home and host FBL are high, the propensity to choose greenfield over acquisition will be highest. However, when both home and host FBL are low, the propensity to choose acquisition over greenfield will be highest, as both the home imprinting effect of SEW and legitimisation benefits from choosing greenfield are lower. That is, the perception that greenfield investment will lead to potential gains in both SEW and financial wealth compared to potential losses, will be lowest when both the home and host country are characterised by low degrees of FBL. Overall, we hypothesise:

Hypothesis 2. : The effects of home and host FBL on the likelihood of family firms choosing greenfield (over acquisitions) will interact complementarily, with home FBL positively moderating the impact of host FBL and host FBL positively moderating the influence of home FBL.

2.5. The moderating effect of cultural distance

We further suggest that the individual effects of home and host FBL on family firms' foreign subsidiary establishment choice will be positively moderated by cultural distance – defined as the differences in cultural attributes between a firm's home country and the host country in which it invests. Prior studies have shown that cultural distance increases the transaction costs and perceived risks of operating in a host country (Tihanyi et al., 2005; Brouthers & Brouthers, 2001, reducing the scope of utilising home-country specific advantages in the host market. This may ultimately reduce firms' ability to use the greenfield mode (Brouthers & Brouthers, 2000). However, alternatively, it is also argued that when firms enter foreign markets with high cultural distance, there is a preference for greenfield (over acquisition), because in acquisitions, firms have to integrate their practices with those of the acquired firm, which in high culture distance scenarios, are likely to be incompatible with those of the acquiring firm (Drojendijk & Slangen, 2006). Acknowledging this paradox, we argue that cultural distance complements the effect of both home and host FBL on family firms' choice of establishment mode when they invest in a host country, such that with greater cultural distance, family firms are even more likely to use greenfield (over acquisition) when home or host FBL is high.

This is because, first, based on mixed gamble logics (Gomez-Mejia et al., 2014), when a family firm from a high FBL home country is attempting to establish a subsidiary in a culturally distant host country, the perceived risk of losing SEW (relative to potential gains from investment) will be increased. This is due to the perception that at greater cultural distances, the imprinted SEW-advantage effect of high FBL will be lost without effective control and governance mechanisms to protect their SEW. Given that the greenfield mode provides such mechanisms (Boellis et al., 2016), we expect family firms from high FBL countries to perceive greater gains (versus losses) from greenfield investment in culturally distant host countries. In contrast, in acquisitions, there is a greater need to work with non-family actors (e.g. consultants) at various stages of the acquisition process (e.g. pre-acquisition target search, acquisition formalities and post-acquisition integration) (Hussinger & Issah, 2019), which can be perceived to result in loss of family control, especially when cultural distance is high. In comparison, when cultural distance is smaller, family firms from high FBL countries are more likely to assume that the host culture will offer similar advantages to their home environment. This reduces the perception of SEW gains (relative to losses) from greenfield investments, increasing the preference for acquisitions. Accordingly, we propose the following:

Hypothesis 3a. : The effect of the "home" country's FBL on the likelihood of family firms establishing greenfield subsidiaries in a host market increases with cultural distance between the home and host country.

Second, from the "host" country perspective, in general, with greater cultural distance, there are greater expectations from host country stakeholders towards foreign firms to adapt to the host culture to build organisational legitimacy, than when culture distance is lesser (Wang et al., 2022). Consequently, when family firms from culturally distant countries invest in a host country with high FBL, they face increased legitimisation pressure and greater advantages from extending family ties and building social relationships in the host country. A greenfield mode allows culturally distant family firms to better able to conform to these expectations, unlike acquisitions where social relationships between the acquired firm and other external stakeholders in the host country are likely to be pre-established. Conversely, for family firms coming from proximate cultures, host country stakeholders are more likely to trust them and put lesser legitimisation pressures to extend their family connections in the host country (Ilhan-Nas et al., 2018), leading to an increased preference for acquisitions over greenfield. Thus, overall, based on these arguments, we hypothesise the following:

Hypothesis 3b. : The effect of the "host" country's FBL on the likelihood of family firms establishing greenfield subsidiaries, in a host market increases with cultural distance between the home and host country.

3. Methodology

3.1. Data and sample

To test our hypotheses, our sample was built using data on cross

border acquisitions from Zephyr, data on cross border greenfield investments from fDi Markets, firm-level data from Family Capital and Orbis, and country-level data from Berrone et al. (2020), OECD, World Bank, and Hofstede Insights.[1] To address our research question and study the heterogeneity of family firms, all investing firms included in our sample must be identified as true family firms. Extant literature has used various methods to distinguish family from non-family firms. For example, through surname-matching (e.g., Filatotchev et al., 2011; Mani and Durand, 2018) or a list (e.g., Gu et al., 2019; Haider et al., 2020). Since we employ a cross-country sample and the use of surnames varies extensively across countries (Motamedi et al., 2017), we selected to use a list to determine our focal firms. More specifically, family firms were identified according to their presence on the 2019 and 2020 editions of 'The Family Capital 750'—an annual list comprising the top 750 family firms by revenue. This approach improves the internal reliability of our sample by ensuring all firms included are true family firms.

The methodology adopted by 'The Family Capital 750' follows a similar definition to those adopted in previous literature where the family must own at least 50 % (privately owned firms) or 32 % (publicly listed firms) of voting rights. This resulted in a base sample of 907 family firms. However, since this study focuses on determining the influential factors behind family firms' foreign subsidiary establishment decisions, we only included firms that engaged in at least one cross-border acquisition[2] or non-expansion greenfield project between 2011 and 2019. This reduced our sample to 534.

The data on greenfield establishments was obtained from the Financial Times fDi Markets database, a commercial database tracking all cross-border greenfield projects since 2003. The database provides coverage across all sectors and countries worldwide and has been used in past literature (e.g., Breinlich et al., 2020; Crescenzi & Ganau, 2021) and practitioner reports (e.g., UNCTAD, 2020; OECD, 2020). Simultaneously, the data on acquisitions was obtained from Zephyr, an extensive database providing detailed information on individual deal records of all rumoured, announced, and completed M&As since 2000. In addition, Zephyr provides further integrated data alongside links to original sources thereby improving data reliability and transparency. Further firm-level data was obtained from Orbis, a database comprised of non-confidential company information, such as firm financials, agency ratings, and ownership information. Similar to fDi Markets, both Orbis and Zephyr cover all sectors and countries worldwide and have both been used extensively in prior literature (e.g., Bouzgarrou & Navatte, 2013; Sestu & Majocchi, 2020). Bureau van Dijk provides both Orbis and Zephyr, thereby facilitating a link between the two as both utilise the same unique firm identifier thereby allowing for exact matching. However, an issue arises when linking fDi Markets and Orbis data as no common firm identifiers exist between them. To overcome this challenge, we employed probabilistic record linkage to connect them.

Probabilistic record linkage matches observations based on the similarity present across the selected variables—i.e., name, address, etc. (Flaaen, 2013). Probabilistic record linkage is most prevalent in fields focused on matching medical records and census data and has proven very successful in these contexts (e.g., Blakely et al., 2000; Rogot et al., 1986). While this remains less common in other fields such as business studies, it is being adopted more often (e.g., Banerjee & Homeroy, 2018; Cohen et al., 2018; Flaaen, 2013). When implemented, the process tends to involve three key steps: (1) pre-processing, (2) probabilistic linking, and (3) a manual or clerical review (Wasi & Flaaen, 2015). Further details on this process used is provided in a supplementary file (available online). Finally, after applying this technique and following past literature (e.g., Baronchelli et al., 2016; Datta et al., 2015), any firms with missing data were excluded. After applying the above criteria, we obtained a final sample of 1125 observations by 147 family firms from 29 home countries investing in 50 host countries.

3.2. Variables and measures

In line with extant research (e.g., Brouthers & Brouthers, 2000; Vermeulen & Barkema, 2001; Harzing, 2002; Boellis et al., 2016), our dependent variable is a deal-level dummy representing the *foreign subsidiary establishment mode*. This variable takes a value of 1 if the foreign subsidiary was established via a greenfield investment while taking a value of 0 if it was a pre-existing firm that was acquired.

The home and host country's *family business legitimacy* (FBL) – our main independent variables, were measured using Berrone et al.'s (2020) Family Business Legitimacy Index (FBLI). This index assesses the informal societal institutions of 83 countries and is comprised of the following 5 multi-item dimensions: intergenerational survival orientation, continuity orientation, network-based relations, in-group solidarity, and patriarchal orientation. It presents a country's score on a scale of 0–1 with higher scores indicating higher family business legitimacy. This composite index adopts a number of business-centric, yet family-focussed metrics from not just the World Values Survey, but also from the GLOBE project and the Global Competitiveness Report. As such, considering that our research questions focus on the legitimisation aspects of foreign firms in a host country insofar as family business in concerned, we feel that this index provides a good measure.

To test the *interactive effect* of home and host FBL, we multiplied HOME FBL with HOST FBL and used the interaction term HOME FBL x HOST FBL.

To test the moderating effect of *cultural distance*, we used the standardised Euclidean distance formula (Konara & Mohr, 2019) formally expressed as:

$$CD_{ij} = \sqrt{\sum_{k=1}^{4} \frac{(I_{ki} - I_{kj})^2}{V_k}}$$

Most prior research has operationalised cultural distance using the Kogut and Singh (1988) index. However, scholars have increasingly critiqued this (Shenkar, 2001; Maseland et al., 2018) for methodological issues, such as capturing the squared cultural distance instead of cultural distance and exaggerating large over small distances (Konara & Mohr, 2019).

In addition, several control variables were included in the analyses. Beginning with country-level variables, we controlled for two distinct factors of the host country including (1) *market size* and (2) *legal restrictions* — both of which have been emphasised in systematic reviews on the subject (e.g., Dikova & Brouthers, 2016; Xie et al., 2017). First, acquisitions are found to be more prevalent when entering larger markets due to the higher number of consolidated firms (Rienda et al., 2019) and increased difficulty attributed to building a new subsidiary from scratch (Zejan, 1990). To account for this in a manner consistent with past studies (Meyer et al., 2009; Datta et al., 2015; Yamanoi & Asaba, 2018), we measure host market size using GDP. Similarly, policies and legal restrictions of the host may influence a firm's establishment there (Boellis et al., 2016) whereby specific restrictions on setting up new ventures may incentivise firms to acquire instead.[3] Therefore, we employed the OECD's FDI Regulatory Restrictiveness index which measures regulatory constraints pertaining to FDI ranging from 0–1 (i.e., full openness to outright bans on FDI) (Chikhouni et al., 2017).

[1] The majority of these data sources are publicly accessible online: (1) *Family Capital*: https://www.famcap.com/; (2) *Hofstede Insights*: https://www.hofstede-insights.com/; (3) OECD: https://www.oecd.org/; (4) *World Bank*: https://data.worldbank.org/. Those not publicly accessible were accessed via the University of Sussex.

[2] In this case, we define an acquisition as one in which the firm acquires a majority (>50 %) stake in the foreign subsidiary.

[3] For example, until the late 1980s, China required investing firms to partner with local Chinese firms (Wei et al., 2005), potentially promoting establishment via greenfield FDI over acquisitions.

Moving to the firm-level, we controlled for several different variables. First, a set of *industry dummies* was included to control for additional exogenous effects since prior research has evidenced divergent trends between firms in different industries (Kogut & Singh, 1988). This could be for many reasons such as firms copying their competition, the local demand, or industry regulation or de-regulation (Xie et al., 2017). This dummy set was categorised according to the investor's main NACE Rev.2 industry classification (Boellis et al., 2016). Next, *firm size*, *age*, *leverage* and *R&D intensity* are all critical factors in IB research with past studies evidencing their effects on internationalisation decisions, however, empirical evidence is not conclusive regarding establishment modes. For instance, larger firms may own more idiosyncratic resources which are more easily exploited abroad through greenfield FDI, but such firms may also own more financial resources that allow them to make more expensive acquisitions (Boellis et al., 2016). Therefore, we controlled for firm size (using total assets), firm age (using the number of years since incorporation), leverage (as ratio of total liabilities divided by shareholder equity) and *R&D intensity* (ratio of R&D expenses divided by revenue) (Vermeulen & Barkema, 2001; Requejo et al., 2018). For all these measures, we performed a logarithmic transformation to enhance the normality of the distribution. We also control for *firm performance* using the accounting-based performance measure return on assets (ROA) of the investing firm (Shim & Okamuro, 2011; Datta et al., 2015; Yamanoi & Asaba, 2018). We also control for *international experience*, which we measure by the number of foreign countries in which the family firm had subsidiaries prior to the focal investment, in line with prior studies (Brouthers & Hennart, 2007; Dikova & Brouthers, 2016). Lastly, we control for *family ownership*, which we measure using the percentage of shares held by the family. This was retrieved from 'The Family Capital 750' list.

Finally, to capture general *year-specific effects*, dummies for each investment year were included (Zejan, 1990; Vermeulen & Barkema, 2001; Datta et al., 2015; Requejo et al., 2018; Rienda et al., 2019). More information on all variables is provided in Table 1 including descriptions, operationalisation, and sources.

3.3. Empirical model

Given the dichotomous nature of our dependent variable, we employ binomial logistic regressions, which have been used in similar studies of establishment or entry mode choices (e.g., Caprio et al., 2011; Rienda et al., 2019). The model is formally expressed as:

$$P(GREENFIELD_{it} = 1) = \frac{1}{1 + \exp(\alpha + X_{it}'\beta)} \quad (1)$$

where $GREENFIELD_{it}$ is the dependent variable, α is the intercept parameter, X_{it} is the vector of covariates for the i^{th} observation in year t, and β is the vector of regression coefficients.

Before performing the analyses, we tested for the presence of heteroskedasticity using the: (1) Breusch-Pagan/Cook-Weisberg, (2) Cameron & Trivedi's decomposition of IM, and (3) White's tests for homoskedasticity. All p-values for these were < 0.001, thereby indicating the presence of heteroskedasticity which were subsequently controlled using robust standard errors. Initially only hypothesised variables were entered, then only controls, then all controls and the direct hypothesised effects, followed by four models where each interaction term was entered separately.

4. Findings

Table 2 shows the means, standard deviations, and pairwise correlations of the variables in our regression models. To test for multicollinearity, we computed the variance inflation factors (VIFs). The mean VIF equalled 2.30 and the VIFs for all the variables were under the threshold of 10 (Hair et al., 2010).

The results of the logit regression models are shown in Table 3. As

Table 1
Variable descriptions, measures, and sources.

Variable	Name	Description & Measure	Data Source	Estimated Impact
Establishment Mode Choice	GREENFIELD	Dummy variable = 1 if the investment was a greenfield project, = 0 if an acquisition	Zephyr/ FT[1]	
Home Family Business Legitimacy	HOME FBL	Host country score on Berrone et al.'s (2020) Family Business Legitimacy index (*1 = highest, 0 = lowest*)	Berrone et al. (2020)	+
Host Family Business Legitimacy	HOST FBL	Host country score on Berrone et al.'s (2020) Family Business Legitimacy index (*1 = highest, 0 = lowest*)	Berrone et al. (2020)	+
Moderators				
Cultural Distance	DISTc	Cultural distance between home and host country, calculated using Konara and Mohr (2019) standardised Euclidean distance	Hofstede	+
Controls				
Market Size	GDP	GDP of the host country measured in trillions (constant , 2010 USD)	World Bank	-
Legal Restrictions	RESTRICT	Host country score on the FDI regulatory Restrictiveness index (*1 = full prohibition, 0 = full openness*)	OECD[1]	+/-
Family Ownership	FAMOWN	Percentage of shares held by the family at the end of the sample period	FC[1]	+
International Experience	EXP	Cumulative number of foreign investments established by the investor during the sample period prior to the focal investment	Zephyr/ FT	+
Firm Age	AGE	Log of the number of years since incorporation	Orbis/FC	+
Firm Size	SIZE	Log of total assets	Orbis	+/-
Firm Leverage	LEVERAGE	Log of leverage (*total liabilities / shareholder equity*)	Orbis	+/-
Firm Performance	ROA	Return on assets (*EBITDA / total assets*)	Orbis	+/-
Firm R&D Intensity	RD	R&D intensity (*R&D expenses / operating revenue*)	Orbis	+
Firm Industry	IND	Dummy variable set categorised using the NACE Rev.2 main classifications	Orbis	

(*continued on next page*)

Table 1 (*continued*)

Variable	Name	Description & Measure	Data Source	Estimated Impact
Year	YEAR	Dummy variable = 1 if the investment resulted in a WOS, = 0 if it involved partial ownership	Zephyr/ FT	

[1] FT = Financial Times FDI Markets; OECD = Organisation for Economic Co-operation and Development; FC = Family Capital

recommended by Nielsen and Raswant (2018), Model 1 only includes the hypothesised variables of interest to assess their potential relationships with the outcome variable. Following this, Model 2 only includes control variables.

Our two direct hypotheses related to the individual effects of home and host FBL are tested and presented in Model 3, which shows a positive and significant relationship between higher levels of family business legitimacy in the home country (i.e., HOME FBL) and selecting to establish via a greenfield investment ($\beta = 1.255$, $p < 0.009$). Model 3 also shows a positive and significant relationship between entering a country with higher levels of family business legitimacy (i.e., HOST FBL) and selecting to establish via a greenfield investment ($\beta = 1.854$, $p = 0.000$). Therefore, both hypotheses 1a and 1b are supported. This is further highlighted in our graphical representations (Figs. 1 and 2), in which we calculate the average adjusted predications. The preference for greenfield investment (over acquisitions) increases with increase in both home FBL (Fig. 1) and host FBL (Fig. 2).

The hypotheses regarding the interactive effect of home and host FBL, as well as the moderating role of cultural distance, are tested and presented in Models 4 through 6. First, Model 4 in Table 3 shows that the interaction term between HOME and HOST FBL has a negative but insignificant effect on the choice of greenfield investment. To explore this further, we calculated the average marginal effects (shown in Tables 4 and 5, and Figs. 3 and 4). As Fig. 3 illustrates, contrary to our expectations, the preference for greenfield investments driven by higher levels of home FBL decreases as host FBL increases. However, Table 4 shows that this effect is insignificant at both low and high levels of host FBL, becoming significant only when host FBL falls between 0.2 and 0.5. Similarly, the preference for greenfield investments driven by higher levels of host FBL decreases as home FBL rises, though this effect is insignificant at higher levels of home FBL. Overall, this suggests that the influence of home FBL on the preference for greenfield investments reduces (while the preference for acquisitions increases) as host FBL rises, and likewise, the impact of host FBL on greenfield preference decreases as home FBL increases.

Interestingly, the estimated moderating effects contrast with the direct effects: while higher home FBL increases the likelihood of greenfield investment (direct effect), it simultaneously reduces the effect of host FBL, thus indirectly decreasing the likelihood of greenfield investment. To understand the combined impact of these opposing effects, we calculated the average adjusted predictions across different levels of host FBL (x-axis) at five values of home FBL (lowest, mean-sd, mean, mean+sd, highest), as depicted in Fig. 5. Fig. 5 reveals that across all combinations of home and host FBL, firms in our sample generally prefer greenfield investments over acquisitions, which aligns with previous research indicating that family firms tend to favour greenfield investments (Boellis et al., 2016; Yamanoi & Asaba, 2018). The tendency to opt for greenfield is highest when both home and host FBL are at their peak, and lowest when both are at their minimum. Although this is consistent with certain aspects of our arguments in Hypothesis 2, the hypothesis is largely unsupported. Overall, these findings suggest that the direct effects of home and host FBL (as discussed in Hypotheses 1a and 1b) dominate the weaker interactive effects of FBL, making home and host FBL (on an individual basis) strong predictors of the preference for greenfield over acquisitions.

Table 2
Descriptive statistics and correlations.

	Variable	Mean	S.D.	Min	Max	Correlation coefficients											
						1	2	3	4	5	6	7	8	9	10	11	12
1	GREENFIELD	0.75	0.43	0	1												
2	HOME FBL	0.37	0.2	0.03	0.9	0.02											
3	HOST FBL	0.49	0.23	0	0.9	0.29	−0.07										
4	DISTc	3.12	1.05	0.36	5.72	0.28	0.12	0.26									
5	GDP	4.70E+06	5.75E+06	23195.35	1.83E+07	−0.09	0.07	−0.25	0.09								
6	RESTRICT	0.12	0.12	0	0.44	0.23	−0.04	0.46	0.32	0.1							
7	FAMOWN	52.36	13.66	30.6	100	0	−0.07	0.02	−0.03	−0.04	0						
8	EXP	17.52	13.11	0	54	0.15	−0.4	0.16	0.05	0	0.13	−0.05					
9	AGE	4.29	0.65	2.89	6.48	0.16	−0.27	0.16	0.17	0.08	0.17	0.09	0.2				
10	SIZE	16.53	1.64	12.28	20.12	0.25	−0.18	0.24	0.16	0.05	0.23	−0.13	0.6	0.31			
11	LEVERAGE	0.57	0.81	−2.2	6.22	0.02	−0.06	0.1	−0.02	−0.01	0.07	−0.1	0.17	0.03	0.18		
12	ROA	11.61	5.92	−4.89	51.17	−0.06	−0.24	−0.08	−0.12	0	−0.1	0.02	0	0.07	−0.19	−0.34	
13	RD	0.37	1.31	−6.76	3.21	0.03	−0.32	0.02	−0.09	0.01	−0.01	−0.05	0.34	0.17	0.39	0.09	0.21

Table 3
Results of the Logit regression analysis for family firm establishment mode choice.

	(1)	(2)	(3)	(4)	(5)	(6)
HOME FBL	−0.311		1.255***	1.471	−1.443	1.573***
	(0.221)		(0.478)	(0.989)	(1.538)	(0.492)
HOST FBL	2.929***		1.854***	2.050**	2.004***	−2.280
	(0.190)		(0.464)	(0.872)	(0.471)	(1.435)
Interactions						
HOME FBL x HOST FBL				−0.538		
				(2.009)		
HOME FBL x DISTc					0.832*	
					(0.443)	
HOST FBL x DISTc						1.430***
						(0.488)
Controls						
GDP		−0.000***	−0.000***	−0.000***	−0.000***	−0.000***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
RESTRICT		4.581***	2.641**	2.655**	2.806***	1.797*
		(1.014)	(1.056)	(1.057)	(1.059)	(1.077)
DISTc		0.488***	0.460***	0.454***	0.140	−0.0957
		(0.0788)	(0.0860)	(0.0886)	(0.189)	(0.205)
FAMOWN		0.00559	0.00452	0.00452	0.00565	0.00395
		(0.00556)	(0.00589)	(0.00589)	(0.00597)	(0.00600)
EXP		0.0102	0.00941	0.00925	0.0101	0.00856
		(0.00918)	(0.00971)	(0.00976)	(0.00961)	(0.00959)
AGE		−0.0823	−0.0975	−0.0954	−0.0887	−0.0866
		(0.162)	(0.165)	(0.165)	(0.164)	(0.166)
SIZE		0.342***	0.316***	0.317***	0.310***	0.315***
		(0.0729)	(0.0749)	(0.0759)	(0.0751)	(0.0744)
LEVERAGE		−0.0941	−0.0729	−0.0738	−0.0808	−0.0956
		(0.0960)	(0.103)	(0.103)	(0.104)	(0.104)
ROA		0.000246	0.00599	0.00609	0.00617	0.00352
		(0.0129)	(0.0135)	(0.0135)	(0.0135)	(0.0136)
RD		−0.123	−0.0209	−0.0222	−0.0147	−0.0145
		(0.0750)	(0.0827)	(0.0833)	(0.0846)	(0.0837)
Industry Dummies	No	Yes	Yes	Yes	Yes	Yes
Year Dummies	No	Yes	Yes	Yes	Yes	Yes
Constant	−0.283**	−5.786***	−6.258***	−6.351***	−5.278***	−4.619***
	(0.127)	(1.306)	(1.333)	(1.414)	(1.412)	(1.449)
Observations	3074	1125	1125	1125	1125	1125
Chi^2	245.0***	157.9***	186.4***	187.0***	190.7***	174.5***
Log Likelihood	−1669	−540.5	−501.7	−501.7	−500.1	−497.3
Pseudo R^2	0.0754	0.184	0.201	0.201	0.204	0.208

Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.10.

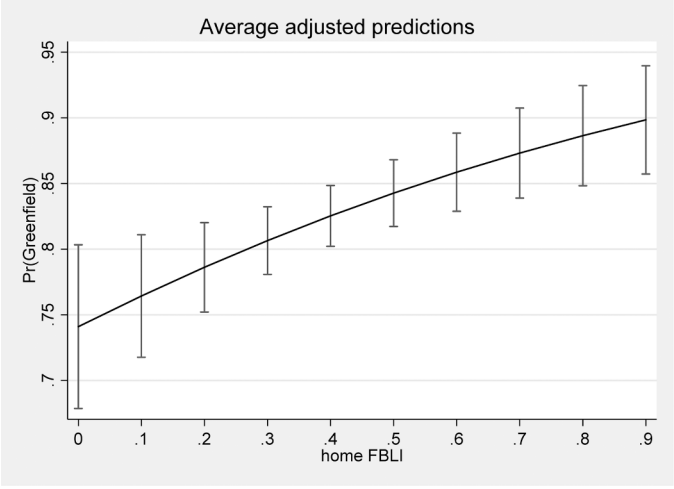

Fig. 1. Estimated average adjusted predictions at different values of Home FBL.

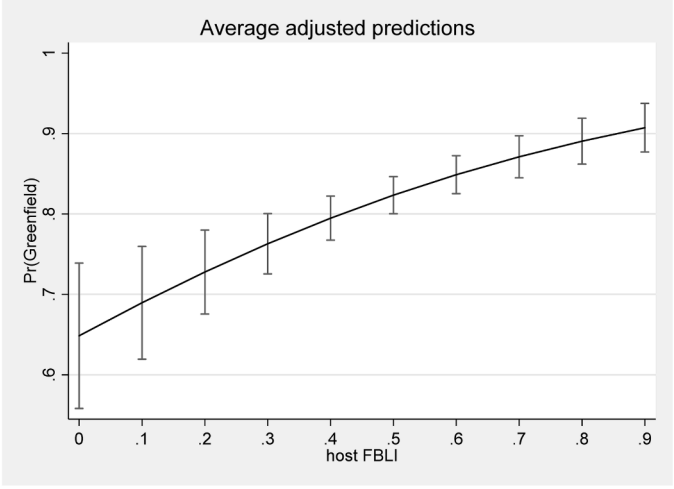

Fig. 2. Estimated average adjusted predictions at different values of Host FBL.

Next, Models 5 and 6 show that the moderating effect of cultural distance is found to be both positive and statistically significant when interacted with HOME FBL (β = 0.832, p = 0.060) and HOST FBL (β =1.430, p = 0.003). As such, both hypothesis 3a and 3b are supported.

To reinforce these findings, we conducted a robustness test. Our sample contains cases where an investing family firm completed multiple deals likely resulting in correlations between the choices undertaken by the same parent firm. To account for this, we followed Boellis et al. (2016) and re-ran our analyses utilising firm-level clustered standard errors across all models. The results are provided in Table 6. The

Table 4
Estimated marginal effects of Home FBL at different values of Host FBL.

Host FBL	Marginal effect (dy/dx)	Std. Err.	p value	Confidence Interval	
0	0.335	0.225	0.137	−0.035	0.706
0.1	0.303	0.175	0.083	0.015	0.592
0.2	0.270	0.132	0.040	0.054	0.487
0.3	0.237	0.098	0.016	0.075	0.399
0.4	0.205	0.078	0.009	0.076	0.334
0.5	0.175	0.073	0.016	0.055	0.294
0.6	0.148	0.076	0.053	0.022	0.273
0.7	0.123	0.082	0.135	−0.012	0.259
0.8	0.102	0.088	0.246	−0.042	0.246
0.9	0.083	0.091	0.359	−0.066	0.232

Table 5
Estimated marginal effects of Host FBL at different values of Home FBL.

Host FBL	Marginal effect (dy/dx)	Std. Err.	p value	Confidence Interval	
0	0.391	0.162	0.016	0.125	0.656
0.1	0.358	0.124	0.004	0.153	0.562
0.2	0.325	0.095	0.001	0.170	0.481
0.3	0.294	0.076	0.000	0.170	0.419
0.4	0.265	0.069	0.000	0.151	0.379
0.5	0.237	0.073	0.001	0.117	0.357
0.6	0.211	0.082	0.010	0.077	0.346
0.7	0.188	0.092	0.041	0.036	0.339
0.8	0.166	0.101	0.101	0.000	0.332
0.9	0.146	0.108	0.178	−0.032	0.324

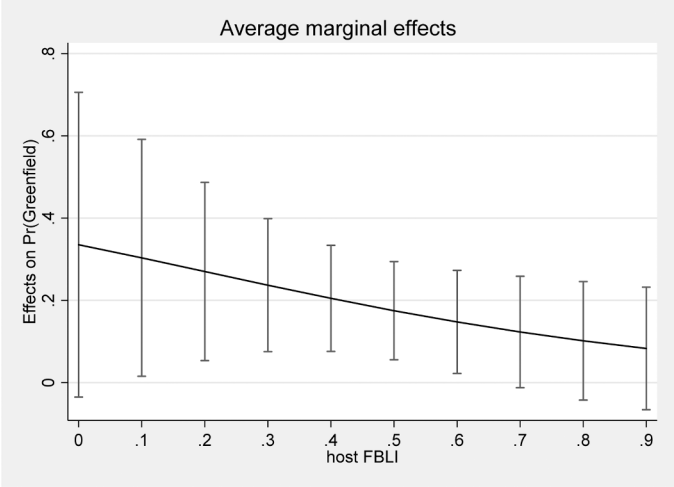

Fig. 3. Estimated marginal effects of home FBLI at different values of Host FBL.

results remain largely intact although H1 and H3a were marginally insignificant, i.e., they were only significant if we were to use one-tailed tests.

Among our control variables, GDP has a small but negative and significant effect on greenfield choice, suggesting that family firms prefer greenfield (over acquisitions) in smaller sized economies. Legal restrictions in host countries also encourage family firms to prefer the greenfield mode (over acquisitions). Finally, cultural distance is seen to have a significant positive effect on the choice of greenfield among family firms in line with previous arguments (not limited to family firms) (e.g. Drojendijk & Slangen, 2006). Finally, larger sized family firms are more likely to use greenfield mode.

5. Discussion and conclusions

Recently, there has been a renewed interest in understanding the international strategic behaviour of family firms (Gómez-Mejía et al., 2010; Berrone et al., 2012; Boellis et al., 2016; Alayo et al., 2020; Metsola et al., 2020; López-Cózar-Navarro et al., 2017). Of these strategies, the decision of choosing a foreign subsidiary establishment mode during internationalisation is vital (Harzing, 2002) due to the long-term consequences of this decision (Brouthers & Hennart, 2007). Our study explores how the external institutions surrounding family firms affects this choice. Our main arguments are that (1) family firms are imprinted by the family business legitimacy (FBL) characteristics (Berrone et al., 2020) of "home" country in which they are founded, as these country-specific characteristics provide family firms with certain advantages over non-family firms; and (2) when family firms establish a subsidiary in a "host" market, they face different legitimisation pressures and advantages based on the FBL characteristics of the host country. In sum, the informal institutional context surrounding family firms in different countries has an impact on family firm behaviour in addition to their internal family-specific characteristics that constitute their socio-emotional wealth (SEW) (Berrone et al., 2012; Alayo et al., 2020). As family firms perceive greater risk to their SEW and financial wealth when undertaking internationalisation due to these institutional characteristics, we argue that the choice of subsidiary establishment mode provides family firms with a mixed gamble (Gomez-Mejia et al., 2014; Alessandri et al., 2018; Martin et al., 2013; Hussinger & Issah, 2019) to weigh the potential gains versus losses in undertaking

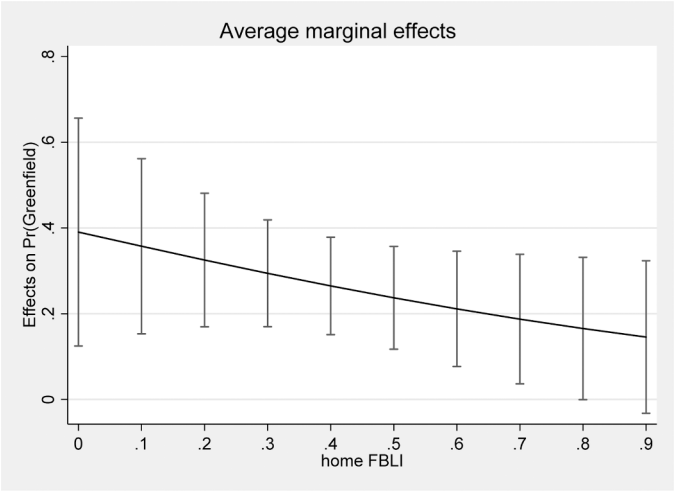

Fig. 4. Estimated marginal effects of host FBLI at different values of Home FBL.

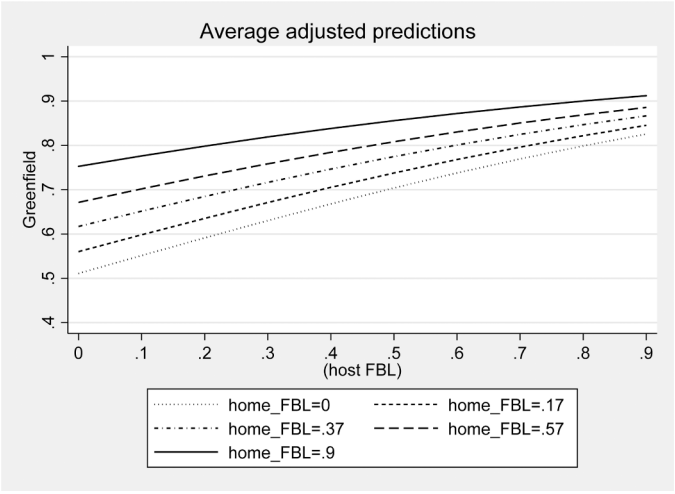

Fig. 5. Estimated average adjusted predictions at different values of Home FBL & Host FBL.

Table 6
Results of the Logit regression analysis for family firm establishment mode choice (*clustered standard errors*).

	(1)	(2)	(3)	(4)	(5)	(6)
HOME FBL	−0.311		1.255	1.471	−1.443	1.573*
	(0.537)		(0.821)	(1.408)	(2.198)	(0.821)
HOST FBL	2.929***		1.854***	2.050**	2.004***	−2.280
	(0.243)		(0.626)	(0.997)	(0.602)	(1.416)
Interactions						
HOME FBL x HOST FBL				−0.538		
				(2.618)		
HOME FBL x DISTc					0.832	
					(0.585)	
HOST FBL x DISTc						1.430***
						(0.462)
Controls						
GDP		−0.000***	−0.000***	−0.000***	−0.000***	−0.000***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
RESTRICT		4.581***	2.641**	2.655**	2.806**	1.797
		(1.046)	(1.082)	(1.095)	(1.096)	(1.115)
DISTc		0.488***	0.460***	0.454***	0.140	−0.0957
		(0.0981)	(0.0969)	(0.0967)	(0.242)	(0.198)
FAMOWN		0.00559	0.00452	0.00452	0.00565	0.00395
		(0.00883)	(0.00903)	(0.00904)	(0.00879)	(0.00924)
EXP		0.0102	0.00941	0.00925	0.0101	0.00856
		(0.0169)	(0.0190)	(0.0191)	(0.0184)	(0.0185)
AGE		−0.0823	−0.0975	−0.0954	−0.0887	−0.0866
		(0.256)	(0.254)	(0.256)	(0.250)	(0.259)
SIZE		0.342**	0.316**	0.317**	0.310**	0.315**
		(0.144)	(0.143)	(0.144)	(0.141)	(0.143)
LEVERAGE		−0.0941	−0.0729	−0.0738	−0.0808	−0.0956
		(0.160)	(0.172)	(0.173)	(0.173)	(0.173)
ROA		0.000246	0.00599	0.00609	0.00617	0.00352
		(0.0223)	(0.0226)	(0.0226)	(0.0230)	(0.0231)
RD		−0.123	−0.0209	−0.0222	−0.0147	−0.0145
		(0.107)	(0.117)	(0.117)	(0.119)	(0.120)
Industry Dummies	No	Yes	Yes	Yes	Yes	Yes
Year Dummies	No	Yes	Yes	Yes	Yes	Yes
Constant	−0.283	−5.786**	−6.258***	−6.351***	−5.278**	−4.619**
	(0.267)	(2.446)	(2.248)	(2.324)	(2.237)	(2.233)
Observations	3074	1125	1125	1125	1125	1125
Chi^2	245.0***	157.9***	186.4***	252.4***	190.7***	174.5***
Log Likelihood	−1669	−540.5	−501.7	−501.7	−500.1	−497.3
Pseudo R^2	0.0754	0.184	0.201	0.201	0.204	0.208

Standard errors clustered at the firm-level in parentheses; *** p<0.01, ** p<0.05, * p<0.10. chi2 values taken from logit regressions run with robust standard errors without clustering

internationalisation. We also further argue that the effect of home and host institutions on family firms' foreign subsidiary establishment mode choice will be moderated by the differences between the institutional characteristics (Salomon & Wu, 2012; Shirodkar & Konara, 2017) of the home and host country. By combining institutional and mixed gamble logics, our research answers the call for more investigations to address the role of the external institutional context in understanding family firm behaviour (Wright et al., 2014; Soleimanof et al., 2018; Gonzalez and Gonzalez-Galindo, 2022), especially in terms of their international business strategy (Bornhausen, 2021).

5.1. Theoretical implications

Our paper contributes to theory by integrating institutional (North, 1990) with mixed gamble logics (Gomez-Mejia et al., 2014), which provides a robust framework for analysing foreign subsidiary establishment strategies, especially in scenarios where firms must navigate complex trade-offs between financial and socio-emotional objectives. Institutional theory highlights the influence of formal and informal institutions—such as laws, regulations, and cultural norms—on organisational behaviour. In our study, the family business legitimacy (FBL) index (Berrone et al., 2020) allows us to study the informal institutional effects of family-related advantages of a country. Meanwhile, mixed gamble logics focus on the trade-offs firms face between potential gains and losses in their strategic decisions, particularly when the preservation of SEW is involved (Alessandri et al., 2018; Gomez-Mejia et al., 2014).

Previous research has examined the solo effects of institutional and mixed-gamble (especially, SEW driven) factors on firms' entry mode choices. Our combined framework recognises that an integration of institutional theory with mixed gamble logics can improve our understanding how firms' risk perceptions and strategic choices are shaped by the institutional contexts they operate within. For instance, firms may prioritise non-economic goals, such as SEW preservation, in response to institutional pressures in both their home (domestic) and host (foreign) contexts, leading to variations in their strategic behaviour across different countries. Our findings, consistent with hypotheses 1a and 1b, show that the preference for greenfield option for foreign subsidiary establishment mode increases when family firms originate from a high FBL country or when they are entering a high FBL host country. Conversely, when FBL levels are low, the preference for acquisitions increases. Overall, by exploring the impact of FBL on foreign subsidiary establishment choices, we build on previous research that has examined the influence of formal and informal institutional factors on the internationalisation of family firms (Arregle et al., 2021). Additionally, we contribute to studies focused on the foreign subsidiary establishment mode in family firms (Boellis et al., 2016) by highlighting the role of the external institutional context, particularly FBL.

In relation to the interactive effect of home and host FBL, and the moderating effect of cultural distance, our study presents a more nuanced framework for examining how differences in family-specific institutions and culture, interact with firms' mixed gamble logics when determining foreign subsidiary establishment modes. Our findings

demonstrate that the reduced risk perception of losing SEW and financial wealth—relative to greater gains from foreign investment—through greenfield investment in a high FBL context (both home and host) is intensified by cultural distance. More broadly, our results suggest that in culturally distant host markets, the *legitimisation* pressures from family business institutions in both the home and host countries are significantly increased by the risks and uncertainties posed by cultural distance. These findings contribute to family firm research by extending the focus on cultural distance (Gomez-Mejia et al., 2010; Kretinin et al., 2019; Reuber, 2016).

Our study provides some empirical contributions as well. To the best of our knowledge, little prior research has, so far, utilised the Family Business Legitimacy Index developed by Berrone et al. (2020). By doing so, we extend their conceptualisation of family business legitimacy to explore its effect on family firm decision-making. We also respond to the suggestion by Worek (2017) to conduct more quantitative analysis on the determinants of family firm acquisition propensity. Finally, we widen the generalisability of past samples to investigate both public and private family firms and use a multi-country sample with large variability in institutional dimensions and development.

5.2. Managerial relevance

Our results have important implications for managers of family firms. Since the choice of foreign subsidiary establishment mode is an important decision for firms, managers must carefully assess the costs vs. benefits while making this choice. For family firms, since the preservation of SEW is as valuable as their financial wealth, our findings imply that family firms must make this choice based on the extent to which the home and the host country places importance on family business, as the right choice would not only help firms to leverage their existing SEW, but also help reduce costs of achieving legitimacy in the host country. Based on our logics and findings, we suggest that the greenfield mode of subsidiary establishment provides greater legitimisation benefits when investing in countries with high levels of family business legitimacy. Countries such as Bangladesh, Nigeria and United Arab Emirates top this list, whereas in countries with lower levels of family business legitimacy (such as Norway, Sweden and Denmark), an acquisition may be pursued. We also find that the need for SEW preservation via adopting greenfield subsidiary in a host country characterised by higher family business legitimacy increases with increasing family-specific (FBL) and cultural distances between the home and host country of the family firm. Thus overall, our research guides practitioners in family firms in understanding the external informal institutional factors influence their strategic decision-making, particularly when they are internationalising.

5.3. Limitations and future research

Despite the important implications of our study, it also has limitations. First, theoretically, we recognise that by focusing on FBL at the home and cost country level, we focus only on the informal aspect of the external institutions surrounding family firms (Arregle et al., 2021; Berrone et al., 2020). Yet, the consideration of formal institutions can also be important and we suggest future studies to take this up. Second, the list of family firms we investigated do not form a random sample. By using 'The Family Capital 750' list to identify family firms, our sample is only comprised of large, mature, and high-performing family firms. However, their methodology also requires the firm to be 20 years or older, based on the average length of time a firm takes to include some element of second-generation family participation (Family Capital, 2020). By relying on this list, we also exclude small and medium enterprises (SMEs) that make up a large proportion of the family firm population and vice versa (Oxford Economics, 2020). Family SMEs may face higher financial losses in establishing via greenfield due to their smaller resource pools (Laufs & Schwens, 2014). Future research should address this possibility by extending our sample to include smaller and newer firms. Third, consistent with prior research (e.g., Datta et al., 2015; Boellis et al., 2016; Yamanoi & Asaba, 2018), we have based our research on secondary data which prevented us from including perceptions at the individual- or family-level and family values at the organisational-level. This also prevented us from further investigating (1) how attitudes, perceptions, and values at the individual-, family-, and organisational-levels interact with the firms surrounding national culture as well as (2) the synergies between how a firm perceives its own legitimacy and the external family business legitimacy pressures of the host country. Subsequent analysis would therefore benefit from the collection of primary data to address the recommendations.

Overall, our work offers promising future research possibilities. For example, future research could assess the interplay between other non-traditional forms of governance — such as banks, unrelated entrepreneurs, or venture capitalists — and their influential home factors. Additionally, future research could disaggregate the FBL dimensions as these may impact family firms to differing degrees. Alternatively, other family-specific aspects of the "home" country could also be addressed, including inheritance and marriage norms or family structures (Bertrand & Schoar, 2006). Further research could explore which foreign establishment modes are most effective for family firms in terms of performance, as their overarching goals—whether entrepreneurial, financial, or social—will influence the type of performance they prioritise (Habbershon et al., 2010). This is because, as per mixed gamble logics, family firms may not prioritise SEW goals if the financial loss attached to a decision outweighs the level of SEW that can be gained or preserved. For example, a decline in financial performance could negatively impact a firm's stakeholders thereby resulting in reputational damage and a breakdown of trust (Geoffrey & Gómez-Mejía, 2016). This would subsequently result in a loss of SEW by damaging social ties (Berrone et al., 2012). Further investigation into what influences which goals are prioritised within decision-making could provide an area of fruitful research.

Appendix A. Supporting information

Supplementary data associated with this article can be found in the online version at doi:10.1016/j.ibusrev.2024.102360.

Data Availability

Data will be made available on request.

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