The influence of international experience on entry mode choice: Difference between family and non-family firms

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Summary   International experience plays a crucial role in the choice of foreign entry mode, but its influence may vary across firms. This study investigates the difference of such an influence between family and non-family firms.

The TCE perspective sees the foreign entry mode choice of a joint venture (JV) or a wholly owned subsidiary (WOS) as a trade-off between administrative costs of managing an organization and costs of safeguarding against partner's potential opportunism. From the TCE perspective, we hypothesize that inexperienced firms would rather relinquish control of foreign subsidiaries in exchange for local partners' help and thus will tend to choose a JV vs. a WOS. Family firms, however, have unique concerns regarding the preservation of socioemotional wealth and tend toward nepotism. Thus they often suffer from relatively scant management capabilities, relying more on partners' help to manage foreign subsidiaries jointly. We then hypothesize that inexperienced family firms, compared with inexperienced non-family firms, are more likely to choose JVs rather than WOSs.

As firms accumulate international experience, they rely less and less on partners' help. We further hypothesize that ceding control to partners eventually will no longer be worthwhile, making the WOSs choice more favorable. Family firms, due to their socioemotional wealth concerns, have a higher desire to control their affiliates and tend to maintain higher ownership levels than do non-family firms. We thus hypothesize that experienced family firms are more likely to choose WOSs, compared with experienced non-family firms.

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We used a sample of publicly listed computer and electronic companies in Taiwan entering the China market to test our hypotheses. The empirical results support our hypotheses. The heterogeneity in the influence of international experience has profound implications for both family business research and international business studies.

Introduction

When MNCs enter a foreign market, international experience plays a crucial role (Erramilli, 1991). Past studies have found that international experience facilitates internationalization by enabling firms to assess local market conditions more accurately (Anderson & Gatignon, 1986; Johanson & Vahlne, 1977, 1990), to estimate costs and returns more precisely (Davidson, 1980), and to mitigate environmental uncertainty by coping with risks associated with environmental uncertainties (Hoskisson, Eden, Lau, & Wright, 2000). The importance of experience is indisputable. However, the influence of experience may not be the same for all MNCs. With sufficient experience, some firms become confident and bold, but others may be prudent and vigilant. Yet the majority of prior studies appear to assume that the influence of international experience is homogeneous across firms, with a few exceptions such as Li and Meyer (2009). This study aims to fill this gap.

In response to family firms' increasing importance in the global economy (e.g. Claessens, Djankov, & Lang, 2000; La Porta, Loppez-De-Silanes, & Shleifer 1999), we focus on the comparison between family firms and non-family firms. Family firms usually differ from non-family firms in their strategic decision-making, particularly in internationalization decisions (Gomez-Mejia, Makri, & Kintana, 2010; Luo & Tung, 2007). We argue that international experience influences family and non-family firms differently, due to family firms' unique concerns regarding preservation of their affective needs–the socioemotional wealth (Anderson & Reeb, 2003; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Gomez-Mejia, et al., 2010; Habbershon & Williams, 1999; Kets de Vries, 1993; Thomsen & Pedersen, 2000). We use a sample of 1550 observed investments from 492 computer and electronic companies publicly listed in the Taiwan Stock Exchange to examine the influence of international experience on family and non-family firms' entry mode choices, respectively. The empirical results show that international experience indeed influences family and non-family firms differently.

This study has implications for both family business research and international business (IB) studies. First, this study contributes to the research of family business. Prior research on family business has found that family firms, compared with non-family firms, exhibit lower levels of international diversification (Gomez-Mejia et al., 2010) or are less capable of internationalization (e.g. Fernández & Nieto, 2006; Graves & Thomas, 2006, 2008) than non-family firms. However, with adequate experience, as our study suggests, family firms behave more aggressively than non-family firms. International experience not only offsets the constraints of family firms' internationalization, but also makes them more aggressive. The phenomenon deserves further inquiries.

Second, this study finds that international experience does not influence all firms equally–the degree of its influence differs between family firms and non-family firms. The heterogeneity in the effects of international experience has profound implications for international business studies. IB Scholars have stressed the role of international experience in facilitating internationalization (e.g. Anderson & Gatignon, 1986; Davidson, 1980; Fisch, 2008; Johanson & Vahlne, 1977, 1990), but seldom investigated the heterogeneity level of its impact. This study finds that the influence of international experience differs between family firms and non-family firms, resulting in differences in their internationalization decisions. Whether the influence of international experience varies across other types of controlling shareholders (e.g. state-owners, institutional investors, etc.), firm characteristics (e.g. size, age, culture, etc.), or industries is still unknown, and is worth studying.

In the following sections, we will first review past literature and develop related hypotheses. Then we will describe the sample and our methodology, followed by research findings, discussion, and conclusion.

Literature review and hypothesis development

The equity-based entry mode choice between JVs and WOSs

When entering a foreign country with equity investment, MNCs must make an entry mode choice–either JV or WOS. They will either form a joint venture to collaborate with local partners, or establish a wholly owned subsidiary to fully control their foreign operations. Each entry mode brings different benefits, but MNCs cannot select them simultaneously. Therefore, MNCs have to weigh the pros and cons of each choice. Among various theories addressing the trade-offs, the transaction cost economics (TCE) is one of the most widely accepted (e.g. Hennart, 1988, 1993, 2000; Zhao, Luo, & Suh, 2004).

Based on the behavioral assumptions of bounded rationality and opportunism, the TCE perspective considers the emergence of ''institutions of capitalism'' (Williamson, 1985) to solve problems of opportunism. To economize on bounded rationality and simultaneously safeguard transactions against opportunism, an appropriate governance structure is needed (Williamson, 1985). International business scholars apply the TCE perspective to weigh pros and cons of JVs against those of WOSs (e.g. Anderson & Gatignon, 1986; Brouthers & Brouthers, 2001; Hennart, 1988; Kim & Huang, 1992). These scholars assert that international operations pose considerable challenges in the process of communication and management and incur significant administrative costs. When MNCs enter an unfamiliar foreign country, the costs of monitoring, dispute settling, and

reward refining are especially high (Hennart, 2000), making the management of wholly owned foreign subsidiaries (the ''hierarchy'') costly. Collaborating with local partners via the JV arrangement (typically with a formal contractual agreement) allows foreign MNCs to leverage partners' local knowledge and thus reduces administrative costs (Teece, 1981).

However, the JV choice is not without its risks. Foreign partners may behave opportunistically if given the chance (Hennart, 1988). Since human beings are subject to bounded rationality, acquiring sufficient information to foresee partners' behaviors and safeguard against partners' potential opportunism is unlikely. Under this circumstance, the shared equity arrangement of JV bears the *ex ante* transaction costs of discovering a proper partner, drafting an agreement, and bonding contractual arrangements, as well as the *ex post* transaction costs of haggling, adaptation, monitoring, enforcement, termination, and the residual loss from cheating and shirking (Williamson, 1985).

In contrast, the WOS solution offers the benefits of full control over local operations. Within its own organization, an MNC has full control and makes decisions at its discretion, without worrying about the partners' potential opportunistic behavior. As a result, the WOS choice of entry is preferred when the contracting costs of arranging, monitoring and enforcing a collaborative agreement are higher than the administrative costs of managing the wholly owned subsidiary (Brouthers & Brouthers, 2001; Kim & Huang, 1992). On the other hand, if the administrative costs are higher than the contracting costs, the JV choice appears to be preferable. International experience, as past research indicates, enhances MNCs capabilities of foreign operations (Chang, 1995; Eriksson, Johanson, Majkgard, & Sharma, 1997; Padmanabhan & Cho, 1999; Welch & Luostarinen, 1988), and thus reduces the administrative costs, making them less significant compared to the contracting costs. Below, we elaborate upon the role of international experience in entry mode choice.

The role of international experience in entry mode choice

International experience has salient influence on the foreign market entry decision of MNCs. At the outset of internationalization, firms lack sufficient experience, so they perceive higher uncertainty, overestimate risks and underestimate returns (Davidson, 1980), and avoid making significant resource commitments in the host county (Anderson & Gatignon, 1986). This is why the Uppsala internationalization process model (Johanson & Vahlne, 1977, 1990) sees MNCs internationalization as an incremental process. The process starts with operations requiring minimal initial investments (e.g. ad hoc exporting or licensing) and gradually moves to more intensive and demanding operation modes (e.g. foreign direct investment) as the firm's experiential knowledge of foreign markets accumulates. In the case of equity-based entry mode choice between JV and WOS, the Uppsala model predicts that MNCs prefer JV-the low-commitment choice-when they lack international experience. As MNCs gradually acquired international experience, they will choose WOS.

The predictions of the TCE perspective on entry mode choice correspond with the internationalization process model, with an emphasis on the role of international experience in lowing administrative costs and the ''internal uncertainty'' (to the organization) (Anderson & Gatignon, 1986; Brouthers & Brouthers, 2001; Brouthers & Hennart, 2007). Inexperienced firms are less capable of managing an organization in the foreign country, and incur high administrative costs. Relinquishing a certain amount of control over the foreign subsidiary and inviting a local partner to jointly manage the foreign subsidiary can leverage the partner's local knowledge and help reduce such costs. As MNCs accumulate their international experience, the administrative costs of operating a fully owned foreign affiliate decrease, making WOS more likely (Anderson & Gatignon, 1986; Hennart, 1988; Kim & Huang, 1992). However, international experience may influence family firms and non-family firms differently. We elaborate upon the details below and develop our hypotheses accordingly.

The challenge of lacking international experience
Lack of international experience incurs high administrative costs. When an MNC begins to enter a foreign market, different norms, values, and beliefs of the foreign country often pose considerable challenges for communication and management. Employees from the host country may have difficulties comprehending or accepting the culture of the MNCs home country. Their expectations are consequently more diverse, making conflicts more likely. As a result, organizational and administrative costs are high when an MNC lacks international experience. Compared with hiring local employees, collaborating and co-managing in a joint venture with local partners, who are familiar with the local culture and management practices, allows MNCs to bridge cultural gaps to avoid conflicts and thus may lower administrative costs for their foreign operations.

Past research has found evidence that the JV arrangement can compensate for the lack of international experience in reducing administrative costs. For example, Erramilli and Rao (1993) suggest that unfamiliarity with a foreign culture raises information acquisition costs for service firms when they manage foreign employees. Seeking the management help of local partners can lower administrative costs of the subsidiary. Moreover, Brouthers and Brouthers (2001) find that, compared to WOSs, JVs allow local partners to share the responsibility of management and consequently lower overall operation costs.

The JV choice of entry mode also facilitates transferring and sharing of local knowledge, and helps MNCs accumulate and enhance their international experience. Anand and Delios (1997) suggest that MNCs expatriates in foreign countries inevitably confront the challenge of larger knowledge barriers. Inviting a local partner to form a joint venture may reduce such barriers. Wang and Schaan (2008) find that the cost of transferring knowledge from the parent company to foreign subsidiaries is especially high in a foreign country with a different culture. Under such circumstances, relinquishing certain control of the foreign subsidiary and inviting a local partner to form a joint venture appears to be worthy, since managers from the partner firm can facilitate knowledge absorption in the JV. Other studies (e.g., Barkema, Bell, & Pennings, 1996; Beamish & Banks, 1987)

further note that local partners' unique knowledge helps to reduce the risks of entering foreign markets. Such local knowledge, hence, can effectively compensate for the lack of experience, and may encourage MNCs to choose JVs as their entry mode. Therefore, we expect that

Hypothesis 1. Internationally inexperienced firms tend to choose joint ventures (JVs) rather than wholly owned subsidiaries (WOSs) to enter a foreign market.

The challenge of lacking international experience for family firms

For family firms, lack of international experience can bring even more challenges. Previous studies on finance and corporate governance indicate that family firms' equity holdings are usually more concentrated, resulting in limited liquidity (e.g. Anderson & Reeb, 2003; Demsetz & Lehn 1985; Faccio, Lang, & Young, 2001; Shleiffer & Vishny, 1986, 1997). Consequently, family shareholders may be affected more severely by the company's specific risks than other types of investors with diversified portfolios of shares (e.g. institutional investors) (Maug, 1998). Of course, family shareholders may try to undertake certain strategic moves, such as product diversification, to mitigate the risks (Chang, 2003), but such endeavors cannot reduce firm-specific financial risks associated with undiversified holdings (Douma, George, & Kabir, 2006; Yeh, Lee, & Woidtke 2001). The company's failure may imply the loss of all return for family firms. Hence, family firms are less tolerable of risks, and exhibit higher prudence in resource commitment. Compared with non-family firms, family firms tend to shy away from risky investments (Anderson & Reeb, 2004; Chatterjee, Lubatkin, & Schulze, 1999; Wiseman & Gomez-Mejia, 1998) and are less active in research and development (Morck, Stangeland, & Yeung, 2000).

This prudence in resource commitment can also be found in family firms' internationalization activities. For example, Filatotchev, Strange, Piesse, and Lien (2007) suggest that "high family ownership in a parent company should be associated with a choice of lower commitment entry mode", and empirically find that firms with higher family ownership tend to hold lower equity stake in their overseas affiliates. Gomez-Mejia et al. (2010) has also found that family firms exhibit lower levels of international diversification (measured as the volume of foreign sales as a percentage of total sales) than non-family firms.

Family firms' tendency toward low resource commitment to international operations can be partly, if not totally, attributed to the unique barriers for them to internationalize (Fernández & Nieto, 2006; Graves & Thomas, 2006, 2008). Family firms are controlled by family members who possess the majority of the firm's shares. These family members usually have their specific objectives–they establish and operate companies not only to make a profit but also to maintain socioemotional wealth–the non-financial aspects of the firm that meet the family's affective needs–such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty (Gomez-Mejia et al.,2007, 2010). For family members, their firm provides, in addition to economic benefits, socioemotional functions such as personal attachment, commitment, and identifica-

tion with the firm (Anderson & Reeb, 2003; Habbershon & Williams, 1999; Kets de Vries, 1993; Thomsen & Pedersen, 2000).

For the reason of socioemotional wealth, family shareholders consider their firm the family's patrimony (Hollander, 1983; Miller & Rice 1967), or a mechanism to provide employment and financial security for their family (Liebowitz, 1986). Hence, owners attempt to preserve their firm's ''familiness'' by handing over their businesses to their offspring (Beckhard & Dyer, 1983), or by recruiting family members and relatives instead of turning to more talented professional managers (Barnett, 1960; Bruton, Ahlstrom, & Wan, 2003). Those nepotic endeavors exclude non-family members from entering the company, making it more difficult for the company to acquire and retain talent. Consequently, family firms often suffer from relatively scant professional management capabilities (Barnett, 1960; Lansberg, 1983; Liebowitz, 1986; Dyer, 1989; Schulze, Lubatkin, Dino, & Buchholtz, 2001), making them less capable of internationalization than non-family firms (Fernández & Nieto, 2006; Graves & Thomas, 2006, 2008). With equally limited international experience, family firms, compared with non-family firms, rely even more heavily on partners' help for the management of foreign subsidiaries. Therefore, we predict that

Hypothesis 2. Compared with internationally inexperienced non-family firms, internationally inexperienced family firms are more likely to choose joint ventures (JVs) rather than wholly owned subsidiaries (WOSs) to enter a foreign market.

The accumulation of international experience

Through a series of foreign market entries, MNCs accumulate international experience, and acquire adequate knowledge about overseas operations. They learn how to operate in foreign markets and increased their competence, which enables them to compete effectively in markets substantially different from their home markets (Delios & Henisz, 2000; Luo & Peng, 1999).

The organizational learning perspective has stressed the benefits brought about by experience. For example, Milliken (1987) finds that learning enables an organization to improve its capability of assessing the environmental changes and better predict future status of the environment. When managers in an organization can foresee the future more accurately, they know how to react effectively and hence increase the possibility of success, and the organization will thus be able to sustain its competitive advantage (Hall, 1993; Oliver, 1997).

IB scholars apply this thinking to firms' internationalization. They stress that MNCs acquire tacit knowledge on international operations via a learning process to accumulate international experience (Chang, 1995; Eriksson et al., 1997; Kogut, 1991; Padmanabhan & Cho, 1999; Welch & Luostarinen, 1988). Foreign entries and operations facilitate this learning process, and firms hence develop new capabilities to more accurately identify opportunities in a new market (Chang, 1995; Chang & Rosenzweig, 2001), to correctly assess the true economic value of foreign markets (Davidson, 1980), and to better manage foreign operations

(Hennart, 2000; Johanson & Vahlne,1977, 1990). The administrative costs of operating a foreign subsidiary are thus highly reduced, making it trivial in comparison to the costs of safeguarding against partners' opportunism.

In brief, with sufficient international experience, MNCs become confident and capable of committing resources (Chang & Rosenzweig, 2001; Johanson & Vahlne, 1977, 1990), and able to manage their foreign subsidiaries adequately without local partners' help (Barkema et al., 1996; Makino & Delios, 1996). The administrative costs become less significant, and relinquishing control of foreign subsidiaries in exchange for local partners' help will no longer be worthwhile. WOSs then appear to be the better choice (Anderson & Gatignon, 1986; Gatignon & Anderson, 1988; Hennart, 1994; Brouthers & Hennart, 2007). Therefore, we expect that

Hypothesis 3. Internationally experienced firms tend to choose wholly owned subsidiaries (WOSs) rather than joint ventures (JVs) to enter a foreign market.

The difference of experienced family firms

A family firm's socioemotional motives, as stated above, may also be reflected in its efforts to prevent outsiders from purchasing the firm's shares to retain control of the firm's strategic direction (Anderson & Reeb, 2003; Gomez-Mejia et al., 2010; Thomsen & Pedersen, 2000). Once outside shareholders buy out a majority of shares of a family firm, the firm's familiness will be highly attenuated, and the controlling family will no longer be able to dominate the firms' strategy to meet its specific needs. Hence, controlling family shareholders frequently use practices such as ''pyramidal ownership structures'' (e.g. Claessens et al., 2000; La Porta et al., 1999) (in which firm A owns the majority share of firms B, firm B owns the majority share of firm C, and so on) and ''cross holding'' (e.g. Peng & Jiang, 2010) (in which firm A owns equity in firm B and at the same time firm B holds equity in firm A) to exercise their control over a group of firms through a chain of ownership relations (Gomez-Mejia et al., 2007, 2010).

Meanwhile, being the ultimate owners located at the apex of the ownership relations enable family firms to allocate and distribute resources available from these successive layers of firms to fulfill their family objective. This rationale partly, if not totally, explains why ''tunneling'' (the transfer of assets and profits out of firms for the benefits of those who control them) are widespread in family business groups (Bae, Kang, & Kim, 2002; Bertrand, Mehta, & Mullainathan, 2002).

For family firms, layers of firms in the pyramid or firms bonded by cross-holding structure are part of their overall asset portfolio, even when these firms are in foreign countries. When undertaking FDI activities, family firms also regard their foreign subsidiaries as part of their asset portfolio. Compared with other firms, family firms usually exhibit a higher desire to control their foreign subsidiaries, especially via equity ownership.

In the beginning of internationalization, family firms may, inevitably, have to relinquish control over foreign subsidiaries in exchange for local partners' resources and knowledge, and tend to choose JVs over WOSs. Once they

accumulate sufficient experience, they will be able to manage their foreign operations well enough without local partners' help. Ceding control to local partners will no longer be worthwhile, and WOSs become the better choice. This tendency is identical for both family firms and non-family firms. However, family firms' socioemotional motives will make them even less willing to relinquish control of their foreign subsidiaries, and more likely to choose WOSs–the full-control arrangement–when they are well-equipped with sufficient international experience. Therefore, we predict that

Hypothesis 4. Compared with internationally experienced non-family firms, internationally experienced family firms are more likely to choose wholly owned subsidiaries (WOSs) rather than joint ventures (JVs) to enter a foreign market.

Figure 1 summarizes the influence of international experience on family firms' and non-family firms' choices of entry mode into a foreign market.

Methodology

Data and sample

We used publicly listed Taiwanese computer and electronic firms' investments in China from 1996 to 2006 for analysis. As the TCE perspective argues, choosing the entry mode of either WOSs or JVs means to trade-off between the administrative costs of managing the wholly owned subsidiary and the contracting costs of arranging, monitoring and enforcing a collaborative agreement (Hennart, 2000). International experience enhances MNCs capabilities of foreign operations and thus reduces the administrative costs (Chang, 1995; Eriksson et al., 1997; Padmanabhan & Cho, 1999; Welch & Luostarinen, 1988). On the other hand, the contracting costs depend highly on the contexts of host countries and industries. Better ability of the host country's institutions to protect intellectual property rights (Oxley, 1999) and prohibit corruption (Roy & Oliver, 2009), lower political risks of the host country (Henisz, 2000), and lower cultural distance with the host country (Brouthers & Brouthers, 2001) may all result in lower contracting costs. Moreover, contracting costs may also vary across industry types (Brouthers & Brouthers, 2003; Zhao et al., 2004). Because the main purpose of this study is to differentiate the effects of international experience on entry mode choices between family firms and non-family firms, it is imperative to set the research context for all these firms' contracting costs to be as equivalent as possible to avoid the interference of exogenous factors. Therefore we choose a single host country (China) and a single industry (the computer and electronics industry) to isolate the influence of host country and industry.

The statistics of Taiwan's Investment Commission, Ministry of Economic Affairs indicates that China is the country that has attracted the highest amount of Taiwan's outward FDI flows since the late 1990s. In the 1990s, China attracted 42% of total outward FDI from Taiwan. In 2006, 70% of Taiwan's outward FDI projects (1094 OFDI projects in total) and 64% in monetary amount (out of US$ 7642 million) went to China. We thus choose China as the host country in our study. Similarly, we choose the computer and electronics

industry due to its leading role in Taiwan's FDI outflows. In 2006, investments from the computer and electronic industry accounted for 40% of the total FDI outflow in monetary amount–around 4.7 times of the amount carried out by the distant second, the electrical equipment industry. Thus we choose firms in the computer and electronics industry as our sample.

Financial data and information were taken from the Taiwan Economic Journal (TEJ) database and then triangulated with data from annual reports and the Market Observation Post System maintained by the Taiwan Stock Exchange to ensure data reliability. After dropping observations with missing data, our final sample consists of 1550 observed overseas investments (or equity-based entries) from 492 companies in the computer and electronics industry of Taiwan. Locations of these investments include Jiangsu, Shanghai, Shenzhen, Dongguan, etc. (Table 1). The number of investments in Jiangsu is the highest–460 investments in total, accounting for 28.75% of our sample. The second highest is Shanghai-319 investments in total, accounting for 19.94% of our sample. The third highest is Shenzhen-181 investments in total, accounting for 11.31% of the total. The remaining investments in the sample and overall sample distribution by location are listed in Table 1.

We further break down these investments according to their sub-industries, which include semiconductors, computers and peripherals, photonics, telecom, electronic components, electronics distribution, information services, and others. Around half of the investments are from the computers and peripherals segment and the electronic components segment–381 and 380, respectively. The remaining investments in the sample and overall sample distribution by sub-industry are listed in Table 2.

We also reveal the distribution of investments by year in Table 3. The number of investments increased from 1996 to 2001, reaching a peak in 2002, and has stabilized since then. Details of each year's number of investments are listed in Table 3.

Variables and measurements

Dependent variable
Entry mode. Our dependent variable is *entry mode*. We follow past studies (Anderson & Gatignon, 1986; Hennart, 2000) to adopt a 95% equity ownership as the cutoff point to differentiate between a WOS and a JV. A dummy variable is created, taking the value of 1 to represent WOSs and the value of 0 to represent JVs. We then use binary logistic regression to analyze various factors' influences on *entry mode*.

Independent variables
Family firm. This variable measures the family control of the parent (investing) firm. We follow the strict definition provided by the TEJ database, defining family firms as firms in which at least 50% of the members of the board are family members. This definition ensures that family members have overwhelming voting rights, so they fully control the firm and make key decisions. We create a dummy variable that takes the value of 1 to represent family firms and take the value of 0 to represent non-family firms.

International experience. We follow the dominant practices of past research and construct two measures for international experience. First, we follow Kogut and Singh (1988) to measure the breadth of an MNCs international experience prior to the observed investment by the firm's ''multinationality'', which is the number of countries in which the firm is active (Kogut & Singh, 1988). We compare different observations' breadth of international experience by setting the average of the total 1550 observed investments as the reference point. For better readability, we create two dummy variables, *low experience breadth* and *high experience breadth*, respectively. The dummy variable *low experience breadth* takes the value of 1 if the firm's multinationality is lower than the average. Similarly, the dummy value *high experience breadth* takes the value of 1 if the firm's multinationality is higher than the average.

Second, we follow Delios and Beamish (1999) and Gatignon and Anderson (1988) and measure the depth of international experience by the total number of a firm's foreign subsidiaries (equivalent to the total number of foreign equity investments) prior to the observed investment. The number of the firm's foreign subsidiaries is standardized by dividing it up with the parent firm's size to avoid bias caused by firm size. Again, we set the average as the reference point, and create two dummy variables, *low experience depth* and *high experience depth*, respectively. The dummy variable *low experience depth* takes the value of 1 if the firm's total number of foreign subsidiaries is lower than the average, and the dummy value *high experience depth* takes the value of 1 if the firm's total number of foreign subsidiaries is higher than the average.

We then use the four dummy variables, *low experience breadth*, *high experience breadth*, *low experience depth*, and *high experience depth*, and their interaction with the variable *Family firm* in the logistic regression for analysis.

Control variables
Investment size. Investment size is defined as the monetary amount of the investment, coded by taking the log value, to measure how large or small the observed investment is. Large investments usually require significant resource commitment from the parent firm and thus affect its entry mode choice. We therefore include this variable in our analyses to control for possible effects of the size of investment on entry mode choice.

Parent firm size. Parent firm size is defined as the contributed capital of the firm, coded by taking the log value. Larger firms usually have abundant resources and better management capabilities, and thus have lower needs for resources provided by local partners when entering a foreign country. We therefore control for possible effects of parent firm size on entry mode choice.

R&D intensity. R&D intensity is calculated as the ratio of the firm's R&D expenditure to its revenue. Companies with high R&D intensity tend to choose wholly owned subsidiaries as their entry mode (e.g. Demirbag, Glaister, & Tatoglu, 2007). So we include this variable to control for its possible effects on entry mode choice.

Debt ratio. Debt ratio is calculated by dividing total debt by total assets. A company's debt ratio reflects its degree of financial leverage, and signals its current status of riskiness. Li and Meyer (2009) find that debt ratio is an influential factor on a firm's entry mode. In their study, companies with high debt ratio are found to prefer joint venture as their
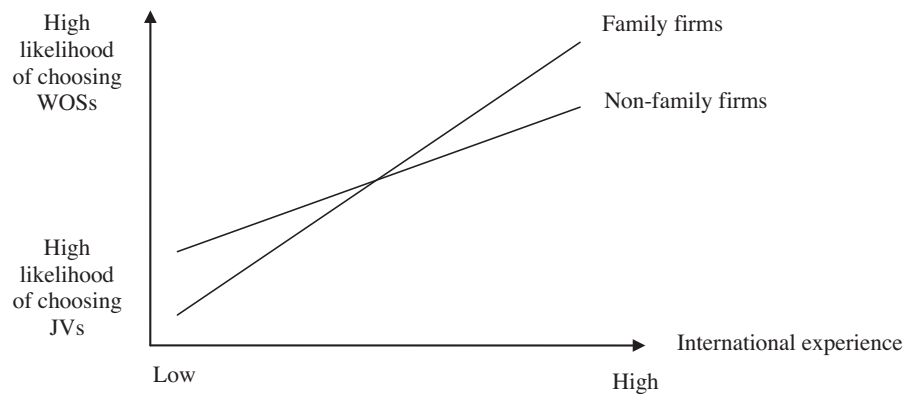
Figure 1 The influence of international experience on entry mode choice for family firms and non-family firms.

mode of entry into a foreign country. For this reason, we include debt ratio as one of our control variables.

Industry. Entry mode choice may vary across industry factors (Brouthers & Brouthers, 2003; Zhao et al., 2004). We hence control for the possible effects of industry. We created dummy variables to represent which sub-industry a firm is in. Sub-industry categories include semiconductors, computers and peripherals, photonics, telecom, electronic components, electronics distribution, and information services.

Location. We follow Strange, Filatotchev, Lien, and Piesse (2009) and control for the possible effects caused by economic disparity or diverse tax regimes among different regions of China (Zhou, Delios, & Yang, 2002). We group the target locations of observed investments in our sample into four different regions as per Strange et al. (2009): The *South* (includes Jiangxi, Guangdong, Zhuhai, Shenzhen, Hunan, Xiamen, Fuzhou, Fujian, Guangzhou, Guangxi, and Guangdong, and Hong Kong), the *East* (includes Shanghai, Anhui, Jiangsu, Wuhan, Henan, Nanjing, Zhejiang, Hubei, Ningbo), the *North* (includes Dalian, Shanxi, Shandong, Tianjin, Beijing, Jilin,

Hebei, Qingdao, Liaoning, Shenyang), and the *Northwest* region (includes Sichuan, Chongqing, Shaanxi, Xinjiang). Three dummy variables, *South*, *East*, and *North*, are created and take the value of 1 to represent each specific region (the *Northwest* region takes the value of 0 for all the three location dummies above) in the regression analysis.

Results

In the following sections, we first describe the correlations and then report results of the binary logistic regression and different factors' effects on entry mode choice.

Descriptive statistics and correlations

Table 4 reports the means, standard deviations, and correlations matrix for the variables. Two measures of low international experience, *Low experience breadth* and *Low experience depth*, are both negatively related to *Entry mode* (correlation coefficients are −0.067 and −0.041,

Table 1	Sample distribution by location.				
Location	Number	Percentage (%)	Location	Number	Percentage (%)
Jiangsu	460	28.75	Zhuhai	8	0.52
Shanghai	319	19.94	Shandong	8	0.52
Shenzhen	181	11.31	Fuzhou	8	0.52
Dongguan	167	10.44	Chongqing	6	0.39
Beijing	86	5.38	Hunan	6	0.39
Guangzhou	49	3.06	Shanxi	5	0.32
Guangdong	48	3.00	Henan	5	0.32
Zhuhai	45	2.81	Shenyang	5	0.32
Nanjing	25	1.56	Dalian	4	0.26
Ningbo	24	1.50	Xinjiang	4	0.26
Xiamen	23	1.44	Liaoning	4	0.26
Tianjin	21	1.31	Qingdao	3	0.19
Fujian	18	1.13	Jilin	2	0.13
Sichuan	15	0.94	Anhui	2	0.13
Hubei	13	0.81	Guangxi	2	0.13
Shaanxi	11	0.69	Hong Kong	2	0.13
Jiangxi	9	0.58	Hebei	1	0.06
Wuhan	9	0.58	Total	1550	100.00

Table 2 Sample distribution by sub-industry.

Sub-industry	Number	Percentage (%)
Semiconductor	107	7
Computers and peripherals	381	25
Photonics	189	12
Telecom	129	8
Electronic components	380	25
Electronics distribution	85	5
Information services	85	5
Others	194	13
Total	1550	100

Table 3 Sample distribution by year.

Year	Number	Percentage (%)
1996	4	0.26
1997	52	3.35
1998	59	3.81
1999	50	3.23
2000	109	7.03
2001	137	8.84
2002	268	17.29
2003	265	17.10
2004	225	14.52
2005	205	13.23
2006	176	11.35
Total	1550	100

respectively), indicating that firms with low international experience are positively related to the choice of JVs. In addition, the interaction term of *Family firm* and two low experience measures, *Low experience breadth* and *Low experience depth*, are both negatively related to *Entry mode* (correlation coefficients are −0.093 and −0.063, respectively), indicating that family firms with low international experience are positively related to the choice of JVs.

Meanwhile, two measures of high international experience, *High experience breadth* and *High experience depth*, are both positively related to *entry mode* (correlation coefficients are 0.067 and 0.041, respectively), indicating that firms with high international experience are positively related to the choice of WOSs. Moreover, the interaction term of *Family firm* and two high experience measures, *High experience breadth* and *High experience depth*, are both positively related to *Entry mode* (correlation coefficients are 0.081 and 0.063, respectively), indicating that family firms with high international experience are positively related to the choice of WOSs.

The influence of international experience on entry mode choice

Tables 5 and 6 reveal the effects of low international experience on entry mode choice, with two different measures, *Low experience breadth* and *Low experience depth*,

respectively. In Table 5, Model 1 tests the entry mode choice of firms when they have low international experience breadth (i.e. small number of countries the firm is active in). The Model χ^2 value of Model 1 is 99.416 ($p < 0.001$), indicating high explanatory power of the model. Coefficient of the term *Low experience breadth* in Model 1 is −0.204 ($p < 0.01$), showing a negative impact on *Entry mode* (i.e. more likely to choose JVs). The result confirms that, when firms have low international experience, they tend to choose JVs as their entry mode. Hypothesis 1 is thus supported.

Model 2 in Table 5 examines the entry mode preference of family firms when they have low international experience breadth (i.e. small number of countries the firm is active in). The Model χ^2 value of Model 2 is 107.842 ($p < 0.001$), indicating high explanatory power of the model. Coefficient of the interaction term of *Family firm* and *Low experience breadth* in Model 2 is −0.344 ($p < 0.01$), revealing a negative effect on *Entry mode* (i.e. more likely to choose JVs). The result confirms that family firms with low international experience are more likely than inexperienced non-family firms to choose JVs as their entry mode, as predicted in Hypothesis 2.

Table 6 reveals the influence of low international experience, measured with *Low experience depth*, on entry mode choice. Model 1 in Table 6 examines the entry mode choice of firms with low experience depth (i.e. small number of foreign subsidiaries). Coefficient of the term *Low experience depth* in Model 1 is negative but not significant.

Model 2 in Table 6 tests the entry mode preference of family firms when they have low international experience depth (i.e. small number of foreign subsidiaries). The Model χ^2 value of Model 2 is 96.608 ($p < 0.001$), indicating high explanatory power of the model. Coefficient of the interaction term of *Family firm* and *Low experience depth* in Model 2 is −0.279 ($p < 0.1$), revealing a negative effect on *Entry mode* (i.e. more likely to choose JVs). The result, again, indicates that inexperienced family firms are more likely than inexperienced non-family firms to choose JVs. Hypothesis 2 is again supported.

Tables 7 and 8 reveal the effect of high international experience, measured with two different measures, *High experience breadth* and *High experience depth*, respectively, on entry mode choice. In Table 7, Model 1 tests the entry mode preference of firms when they have high international experience breadth (i.e. a large number of countries in which the firm is active). The Model χ^2 value of Model 1 is 99.416 ($p < 0.001$), indicating high explanatory power of the model. Coefficient of the term *High experience breadth* in Model 1 is 0.204 ($p < 0.01$), showing a positive impact on *Entry mode* (i.e. more likely to choose WOSs). The result confirms that internationally experienced firms tend to choose WOSs as their entry mode. Hypothesis 3 is thus supported.

Model 2 in Table 7 examines the entry mode preference of family firms with high international experience breadth (i.e. large number of countries the firm is active in). The Model χ^2 value of Model 2 is 107.842 ($p < 0.001$), indicating high explanatory power of the model. Coefficient of the interaction term of *Family firm* and *High experience breadth* in Model 2 is 0.344 ($p < 0.01$), revealing a positive effect on *Entry mode* (i.e. more likely to choose WOSs).

Table 4 Means, standard deviations, and correlations.

	Variables	Mean	S.D.	1	2	3	4	5	6	7
1	Entry mode	0.666	0.472	1.000						
2	Family firm × High experience breadth	0.225	0.418	0.081***	1.000					
3	High experience breadth	0.382	0.486	0.067***	0.686****	1.000				
4	Family firm × Low experience breadth	0.268	0.443	−0.093****	−0.327****	−0.476****	1.000			
5	Low experience breadth	0.618	0.486	−0.067***	−0.686****	−1.000****	0.476****	1.000		
6	Family firm × High experience depth	0.152	0.359	0.063**	0.207****	0.042	0.288****	−0.042	1.000	
7	High experience depth	0.358	0.480	0.041	−0.077***	−0.100****	−0.045*	0.100****	0.566****	1.000
8	Family firm × Low experience depth	0.342	0.475	−0.063**	0.419****	0.128****	0.429****	−0.128****	−0.305****	−0.538****
9	Low experience depth	0.642	0.480	−0.041	0.077***	0.100****	0.045*	−0.100****	−0.566****	−1.000****
10	Family firm	0.494	0.500	−0.015	0.546****	0.151****	0.614****	−0.151****	0.428****	−0.105****
11	Investment size	10.766	1.514	−0.100****	0.113****	0.105****	−0.022	−0.105****	−0.065**	−0.163****
12	Parent firm size	14.602	1.463	−0.045*	0.411****	0.402****	−0.082***	−0.402****	−0.188****	−0.497****
13	R&D intensity	3.210	4.246	0.070***	−0.050**	0.008	−0.108****	−0.008	0.015	0.050*
14	Debt ratio	76.781	70.860	−0.066***	−0.018	−0.045*	0.020	0.045*	−0.034	−0.058**

		8	9	10	11	12	13	14
8	Family firm × Low experience depth	1.000						
9	Low experience depth	0.538****	1.000					
10	Family firm	0.730****	0.105****	1.000				
11	Investment size	0.128****	0.163****	0.075***	1.000			
12	Parent firm size	0.428****	0.497****	0.271****	0.349****	1.000		
13	R&D intensity	−0.156****	−0.050*	−0.138****	−0.161****	−0.124****	1.000	
14	Debt ratio	0.028	0.058**	0.003	0.109****	0.047*	−0.135****	1.000

$N = 1550$.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.
**** $p < 0.001$.

The result confirms that experienced family firms are more likely than experienced non-family firms to choose WOSs. Hypothesis 4 is thus supported.

Table 8 reveals the results of high international experience, measured with *High experience depth*, on entry mode choice. Model 1 in Table 8 examines the entry mode choice of firms with high experience depth (i.e. large number of foreign subsidiaries). Coefficient of the term *High experience depth* in Model 1 is positive but not significant.

Model 2 in Table 8 tests the entry mode preference of family firms with high international experience depth (i.e. large number of foreign subsidiaries). The Model χ^2 value of Model 2 is 96.608 ($p < 0.001$), indicating high explanatory power of the model. Coefficient of the interaction term of *Family firm* and *High experience depth* in Model 2 is 0.279 ($p < 0.1$), revealing a positive effect on *Entry mode* (i.e. more likely to choose WOSs). The result, again, indicates that experienced family firms are more likely than experienced non-family firms to choose WOSs. Hypothesis 4 is again supported.

To sum up, the results generally support all four hypotheses stated earlier, although the effects of international experience on firms' entry mode choice are not significant when international experience is measured with the total number of subsidiaries of the firm (experience depth). The insignificant relationship between the total number of

subsidiaries and entry mode choice is possibly caused by the common practice of establishing subsidiaries to reap the benefits of tax regimes in China, or the inapplicability of experience obtained from the establishment of foreign subsidiaries to the investments in China. We will elaborate upon this later in the discussion.

Discussion and conclusion

Our empirical results confirm that inexperienced firms tend to choose JV rather than WOS when they enter a foreign market. Inexperienced family firms, compared with inexperienced non-family firms, are more likely to choose JVs over WOSs. As firms accumulate their international experience, the need for partners' help decreases and giving up control to partners will no longer be worthwhile, making the WOSs preferable for experienced firms as a whole. Experienced family firms, however, are even more likely to choose WOSs, compared with experienced non-family firms. In brief, the degree of international experience's influence differs between family firms and non-family firms-family firms are more deeply influenced by international experience.

The results of our study bring implications and contributions to both practices and theories, but have limitations as well. We discuss the details below.

Table 5   The influence of low international experience (*Low experience breadth*) on entry mode choice.

	Model 1		Model 2	
	Coefficient	χ^2	Coefficient	χ^2
Intercept	3.496****	17.814	3.471****	17.452
Family firm × Low experience breadth			−0.344***	8.441
Low experience breadth	−0.204***	9.730	−0.031	0.124
Family firm	0.020	0.115	0.241**	6.282
Investment size	−0.132***	10.354	−0.134***	10.637
Parent firm size	−0.082*	2.906	−0.089*	3.336
R&D intensity	0.026	2.576	0.025	2.336
Debt ratio	−0.002**	4.076	−0.002**	4.008
Semiconductor industry	0.173	1.305	0.188	1.522
Computers and peripherals industry	−0.091	0.945	−0.092	0.959
Photonics industry	−0.215**	3.978	−0.194*	3.175
Telecom industry	−0.005	0.002	0.012	0.009
Electronic components industry	−0.127	1.708	−0.103	1.109
Electronics distribution industry	0.096	0.412	0.094	0.395
Information services industry	−0.320*	3.408	−0.311*	3.199
East	0.819****	19.131	0.800****	18.227
South	0.704****	13.708	0.680****	12.785
North	0.290	2.050	0.282	1.930
Observations	1550		1550	
Log likehood	1875.621		1867.195	
Pseudo-R^2	0.0621		0.0672	
Model χ^2	99.416****		107.842****	

$N = 1550$.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.
**** $p < 0.001$.

Implications for family business research and practice

Our study finds that, with low international experience, family firms are more likely to choose JV than non-family firms because they have greater need for local partners' help with management. However, when they are well-equipped with sufficient international experience, they act more aggressively than non-family firms and choose WOS. This finding brings implications for practicing managers in family firms. Aggressiveness brought about by high international experience can be a double-edged blade–it may be beneficial for family firms to seize new opportunities in foreign markets, but they also need to avoid the side effects from overconfidence or being too-aggressive. Especially when they enter certain countries with volatile markets or ineffective institutions, they need to pay extra attentions to risks that cannot be mitigated by experience.

On the theoretical side, prior research on family business has found that family firms, compared with non-family firms, exhibit lower levels of international diversification (Gomez-Mejia et al., 2010) or are less capable of internationalization (e.g., Fernández & Nieto, 2006; Graves & Thomas,2006, 2008). Our study suggests that this traditional wisdom only tells half of the story. Indeed, when family firms lack international experience, they may be less active in internationalization activities than non-family firms. However, our research suggests that family firms behave differently when they accumulated sufficient international experience. With adequate experience, our study finds that family firms behave more aggressively than non-family firms. International experience has not only compensated for the constraints of family firms' internationalization, but also made them more aggressive than non-family firms in choosing WOS as their entry mode.

Gomez-Mejia et al. (2010) also found similar patterns in family firms' internationalization decision-making. They examined diversification decisions of family firms, finding that on average, family firms diversify less internationally than non-family firms. But, on the other hand, family firms are more likely than non-family firms to engage in international diversification as business risk increases. Family firms seem to act more radically than non-family in internationalization activities. The phenomenon deserves further investigation. Why do family firms behave more radically, or, on the contrary, act more conservatively, when they make other internationalization decisions? Are they are more radical in certain decisions, but more conservative in other decisions? Further research in this direction will benefit our understanding of family firms' internationalization, and help us better understand MNCs from the emerging economies.

Table 6   The influence of low international experience (*Low experience depth*) on entry mode choice.

	Model 1		Model 2	
	Coefficient	χ^2	Coefficient	χ^2
Intercept	2.381***	8.001	2.246***	7.019
Family firm × Low experience depth			−0.279**	5.419
Low experience depth	−0.086	1.590	0.039	0.205
Family firm	0.029	0.233	0.212**	4.577
Investment size	−0.136****	11.168	−0.139****	11.496
Parent firm size	−0.007	0.017	−0.004	0.006
R&D intensity	0.031*	3.412	0.029*	3.024
Debt ratio	−0.002**	4.696	−0.002**	4.723
Semiconductor industry	0.162	1.134	0.152	0.994
Computers and peripherals industry	−0.063	0.456	−0.060	0.414
Photonics industry	−0.219**	4.160	−0.217**	4.084
Telecom industry	−0.009	0.005	−0.022	0.029
Electronic components industry	−0.134	1.892	−0.130	1.785
Electronics distribution industry	0.076	0.259	0.074	0.246
Information services industry	−0.344**	3.966	−0.332*	3.669
East	0.834****	19.979	0.832****	19.899
South	0.731****	14.913	0.724****	14.647
North	0.299	2.191	0.294	2.110
Observations	1550		1550	
Log likehood	1883.898		1878.429	
Pseudo-R^2	0.0571		0.0604	
Model χ^2	91.139****		96.608****	

$N = 1550$.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.
**** $p < 0.001$.

Moreover, both Gomez-Mejia et al. (2010) and this study find that the radical nature of family firms' behavior is brought about by their concerns regarding the preservation of socioemotional wealth–family firms act more aggressively than non-family firms because they intend to preserve socioemotional wealth. However, motives other than socioemotional wealth may also give rise to family firms' radicality. We thus call for further inquiries on this aspect to advance our understanding of family businesses.

Implications for international business studies

Past studies have found that international experience facilitates internationalization by enabling firms to assess local market conditions more accurately, to estimate costs and returns more precisely, and to mitigate environmental uncertainty and avoid risks (Anderson & Gatignon, 1986; Davidson, 1980; Fisch, 2008; Johanson & Vahlne 1977, 1990). The importance of experience is indisputable. Yet the majority of prior studies have regarded the influence of international experience as homogeneous across firms. Li and Meyer (2009), is one exception. That study examined the effects of international experience on MNCs ownership strategy across a range of developed and developing economies. Their study distinguishes between two types of

international experience and finds the impact of experience to be host-specific–it varies across host countries. Our study, on the other hand, finds that the influence of international experience varies across firms controlled by different dominant shareholders (family vs. non-family in our case). International experience influences family firms more heavily than non-family firms, our empirical findings suggest.

This finding leads us to wonder whether the heterogeneity of international experience's influence also exists in other facets. Does international experience have different effects on firms controlled by other types of dominant shareholders, such as governments and institutional investors? Does it have different impacts on firms of different sizes, ages, core businesses, or cultures? If it does, how and to what extent does it affect those firms? These questions are worth investigating.

Our study also contributes to international business studies by underscoring the importance of an investing company's corporate governance. Specifically, we found that investing firms' controlling shareholders (family vs. non-family) have an impact on internationalization strategies and decisions. The majority of past studies on internationalization have focused on the influence of firm characteristics related to the resources and capabilities of the investing company (e.g. firm size, R&D intensity), but the relationship

Table 7 The influence of high international experience (*High experience breadth*) on entry mode choice.

	Model 1		Model 2	
	Coefficient	χ^2	Coefficient	χ^2
Intercept	3.496[****]	17.814	3.815[****]	20.663
Family firm × High experience breadth			0.344[***]	8.441
High experience breadth	0.204[***]	9.730	0.031	0.124
Family firm	0.020	0.115	−0.103	2.009
Investment size	−0.132[***]	10.354	−0.134[***]	10.637
Parent firm size	−0.082[*]	2.906	−0.089[*]	3.336
R&D intensity	0.026	2.576	0.025	2.336
Debt ratio	−0.002[**]	4.076	−0.002[**]	4.008
Semiconductor industry	0.173	1.305	0.188	1.522
Computers and peripherals industry	−0.091	0.945	−0.092	0.959
Photonics industry	−0.215[**]	3.978	−0.194[*]	3.175
Telecom industry	−0.005	0.002	0.012	0.009
Electronic components industry	−0.127	1.708	−0.103	1.109
Electronics distribution industry	0.096	0.412	0.094	0.395
Information services industry	−0.320[*]	3.408	−0.311[*]	3.199
East	0.819[****]	19.131	0.800[****]	18.227
South	0.704[****]	13.708	0.680[****]	12.785
North	0.290	2.050	0.282	1.930
Observations	1550		1550	
Log likehood	1875.621		1867.195	
Pseudo-R^2	0.0621		0.0672	
Model χ^2	99.416[****]		107.842[****]	

$N = 1550$.
[*] $p < 0.1$.
[**] $p < 0.05$.
[***] $p < 0.01$.
[****] $p < 0.001$.

of corporate governance variables and internationalization are less explored (except for a few studies such as Filatotchev et al., 2007). Our study reveals that family-controlled firms and firms with non-family controlling shareholders differ in their FDI decisions.

However, we only examined the difference between family and non-family controlling shareholders, leaving other aspects of corporate governance untapped. It will also be inspiring to examine the influence of other corporate governance variables on firms' internationalization decisions. Factors such as board composition and top management team (TMT) demography may have additional impacts on the firms' internationalization strategies and consequently on the firms' performances. There is vast room for these factors to be fully probed. In addition to family owners, a significant number of MNCs from the emerging economies are owned and controlled by states. The influence of state ownership or control on these firms' internationalization strategies or decisions deserves more attention. Family control and government control may exert different influences on MNCs international operations. Future research can examine these influences.

Limitations of this study

While contributing to both family business research and IB studies, this study has several limitations as well. First,

we studied family firms and non-family firms from a specific industrial origin-the computer and electronics industry-and targeting a specific host country, China. This allowed us to isolate host country and industry effects. A limitation of this approach, however, is that the results may be specific to the selected population of those firms. When applying the findings to other contexts, we need to bear in mind the limitations of their generalizability.

Further limitations arise from the measures of experience. Due to unavailability of data, we were not able to use the number of years of operational experience to measure international experience. We followed other dominant practices and measured the breadth of a firm's international experience by the firm's ''multinationality'' (the number of countries in which the firm is active) and the depth of the firm's international experience by total number of foreign subsidiaries. However, our empirical results showed an insignificant relationship between the total number of subsidiaries and entry mode choice. The insignificance is possibly caused by the common practice of establishing subsidiaries to reap the benefits of tax regimes in China, or the inapplicability of experience obtained from the establishment of foreign subsidiaries to the investments in China.

Since opening its markets in the late 1970s, China has developed various tax incentive policies for foreign-invested enterprises located in designated regions such as

Table 8 The influence of high international experience (*High experience depth*) on entry mode choice.

	Model 1		Model 2	
	Coefficient	χ^2	Coefficient	χ^2
Intercept	2.381[***]	8.001	2.525[***]	8.857
Family firm × High experience depth			0.279[**]	5.419
High experience depth	0.086	1.590	−0.039	0.205
Family firm	0.029	0.233	−0.068	0.886
Investment size	−0.136[****]	11.168	−0.139[****]	11.496
Parent firm size	−0.007	0.017	−0.004	0.006
R&D intensity	0.031[*]	3.412	0.029[*]	3.024
Debt ratio	−0.002[**]	4.696	−0.002[**]	4.723
Semiconductor industry	0.162	1.134	0.152	0.994
Computers and peripherals industry	−0.063	0.456	−0.060	0.414
Photonics industry	−0.219[**]	4.160	−0.217[**]	4.084
Telecom industry	−0.009	0.005	−0.022	0.029
Electronic components industry	−0.134	1.892	−0.130	1.785
Electronics distribution industry	0.076	0.259	0.074	0.246
Information services industry	−0.344[**]	3.966	−0.332[*]	3.669
East	0.834[****]	19.979	0.832[****]	19.899
South	0.731[****]	14.913	0.724[****]	14.647
North	0.299	2.191	0.294	2.110
Observations	1550		1550	
Log likehood	1883.898		1878.429	
Pseudo-R^2	0.0571		0.0604	
Model χ^2	91.139[****]		96.608[****]	

N = 1550.
[*] $p < 0.1$.
[**] $p < 0.05$.
[***] $p < 0.01$.
[****] $p < 0.001$.

the Special Economic Zones (SEZs) (Zhou et al., 2002). It is common for MNCs to set up subsidiaries in certain regions to reap the advantage of these tax regimes. Such subsidiaries are similar to the asset-holding companies in tax havens, which do not get involved in day-to-day operations. MNCs are less likely to accumulate international experience and enhance their management capabilities via establishment of these subsidiaries. As described earlier, China is the top FDI recipient of Taiwan. Subsidiaries in China account for the largest portion of foreign subsidiaries of Taiwanese firms. Hence, the total number of foreign subsidiaries may not fully reflect the international experience of the sample firms, making it a less suitable measure for international experience than the other measure, experience breadth (the number of countries in which the firm is active).

An alternative reason for the insignificant effects of experience obtained from establishing foreign subsidiaries is the inapplicability of such experience to subsequent investments in China. In the fast-changing and highly uncertain environment of China (Luo & Tung, 2007), firms do not seem to utilize international experience accumulated via recurring establishments of foreign subsidiaries to carry out subsequent investments. This is possibly because prior experience of establishing new subsidiaries is not necessarily applicable to the next investment. Future research is required to explore further variables for a more comprehensive assessment of international experience. When interpreting the effects of international experience, we also have to pay extra attention to the validity issues.

Conclusion

Using a sample of 1550 investments from publicly listed companies in Taiwan, we examine the influence of international experience on entry mode choice, and empirically find that family firms are more heavily influenced by international experience when they choose the entry mode. This study sheds new light on the existing knowledge of family firms–the key contributors of the outward investment from emerging countries–but it is just a beginning. Nonetheless, we hope this study will inspire more research in this direction. We still know too little about the outward investments from emerging and developing economies, but they are becoming more active than ever in the global economy.

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