**Second-Generation’s International Experience Effect on Family Businesses Global Expansion**

**ABSTRACT**

Family firms are typically reluctant in international expansion due to their strong home market ties, strong concern on family control and lack of external expertise and capital. Does international experience of second-generation managers help to reduce such reluctance? Carrying knowledge of doing business abroad, second-generation managers with international experience may mitigate agency problems caused by information asymmetry when family firms expand abroad. Therefore, second-generation’s international experience may facilitate family firms to go abroad. Data on publicly listed Chinese family businesses supported the above arguments. We found that the international experience of second-generation managers tend to encourage family firms to do foreign direct investment (FDI), much more than second-generation managers without international experience or non-family managers with international experience do. Such positive relationship is enhanced by the size of the family business and the openness of the headquarter location. Further, where the second-generation manager have their international experience also influence the location choice of the family business’ FDI.

**Keywords:** family business, second-generation manager, international experience, foreign direct investment, agency problem

**INTRODUCTION**

China presents an interesting opportunity to study the second-generation’s impact on family businesses attempting international expansion. Both the level of Chinese businesses’ international expansion and the number of Chinese studying abroad have been growing dramatically with China’s national strategy of “Going out” (C. Chen, 2009; Child and Rodrigues, 2005; Friedberg, 2006; Tharenou and Seet, 2014; Yang, 2002). In 2014, Chinese exports reached US$2,343 billion (China Statistical Abstract, 2015). In 2015, outward foreign direct investment (FDI) by Chinese firms reached US$164 billion (Ministry of Commerce, 2015). At the same time, more than 3.5 million Chinese have gone abroad for education since 1978, and 74.48% of them chose to return for employment (Ministry of Education, 2015).

Within this broader internationalization of businesses from China has been the internationalization of family businesses (FB) (Kontinen and Ojala, 2012). Although there have been several studies on the internationalization of Chinese family businesses (Au, Chiang, Birtch, and Ding, 2013; Child and Rodrigues, 2005; Pukall and Calabro, 2014; Sapienza, Autio, George, and Zahra, 2006; Sharma and Chua, 2013), none has looked at the relationship of Chinese family businesses and returnee second-generation family members. In order to analyze the likelihood of international expansion by family businesses in China, we compared publicly listed Chinese family businesses that have returnee second-generations involved in the top management team (TMT) with the companies that do not have second-generation returnees.

There are costs and uncertainties to operate in foreign markets. Given that cross-border business operations involve interactions with different societal values and systems, distance between home and host countries and liability of foreignness (LOF) are important issues impacting firms setting up operations abroad (Campbell, Eden, and Miller, 2012; Mezias, 2002; Nachum, 2003; Zaheer and Mosakowski, 1997; Zaheer, Schomaker, and Nachum, 2012; Zhou and Guillen, 2015). These studies describe several types of distance, including psychic, cultural, institutional, and geographic (Campbell et al., 2012). Family businesses contemplating business expansion internationally face these same issues (Pukall and Calabro, 2014), and tend to follow an incremental expansion pattern (Banalieva and Eddleston, 2011; E Claver, Rienda, and Quer, 2007).

Experience has been shown to affect the perceived costs and uncertainties of operating in foreign markets and may influence expansion decisions (Benito and Gripsrud, 1992). Developing that experience in TMTs seems to be a challenge, as managers who receive the foreign experience are often underutilized when coming back from abroad (Caligiuri, 2006). The uniqueness of a family business, in contrast, lies in the mutual interdependence between family and business, and the attitudes of the next generation are inextricably associated with the continued growth of the business (Cao, Cumming, and Wang, 2015; Eddleston and Kidwell, 2012; Lee, 2006). In this study, we analyze the impact that foreign experience by family members in family businesses has on foreign expansion decisions.

Integrating literatures on Asian family firms and international businesses across individual, organization and institutional levels, this study addresses the factors contributing to Chinese family business internationalization with attention to the involvement of internationally educated second-generations. Scholars have made important strides in understanding the degree to which family leadership influences international expansion and performance (Banalieva and Eddleston, 2011; Enrique Claver, Rienda, and Quer, 2009; M. Gallo and Pont, 1996; Patel and Cooper, 2014; Pukall and Calabro, 2014), and the process of preparing and transferring businesses to the next generation (Au et al., 2013; Eddleston and Kidwell, 2012; Fletcher, 2004; Handler, 1990). But the overlap between family businesses’ approaches to internationalization and to succession are seldom studied; in particular, the extent to which second-generation senior managers affect the internationalization pattern of family businesses. International repatriates (also called returnees) and second-generation coming back are often described as effectively returnee entrepreneurs, and their international knowledge and experience enhance both entrepreneurial capacity and international operational performance (Hao and Liu, 2017; Lin, Lu, Liu Xiaohui, and Choi Seong-jin, 2014; Liu, Lu, Filatotchev, Buck, and Wright, 2010; Qin and Estrin, 2015).

We posit that Asian family businesses’ global expansion is closely related to second-generation senior managers’ international backgrounds. While family businesses tend to be very cautious about global expansion (Banalieva and Eddleston, 2011; Cerrato and Piva, 2012; Enrique Claver et al., 2009; Graves and Thomas, 2008), our study shows that Chinese family businesses are more likely to make investments in Western countries when the second-generation manager has prior international experience in the West. The influence, moreover, of the second-generation returnee is much stronger than that of the non-family returnees.

**THEORETICAL FRAMEWORK**

**Internationalization model for family business**

Internationalization pathways of traditional family firms are generally gradual and incremental in manner, and focus on psychically close countries after domestic growth opportunities have been exhausted (Bell, McNaughton, Yong, and Crick, 2003; Graves and Thomas, 2008). In addition, family members’ understanding and willingness to internationalize are particularly important factors in developing international expansion (Schulze and Gedajlovic, 2010). Chinese family businesses are no exceptions. Since they are essentially family possessions and generally tend to have close family members fill top management positions, Chinese family businesses often face greater influences from the family that either facilitate or restrain their internationalization (M. A. Gallo, Tapies, and Cappuyns, 2004; Tsang, 2001). Against the background of many Chinese businesses going abroad over the last decade, family businesses with returnee second-generations who studied in the West may tend to be more likely to invest in Western countries.

Depending on the scale of the firm, and internationalization and locational advantages, family businesses tend to choose to expand when it does not threaten the family’s independence and control (Fernández and Nieto, 2006; Fuentes-Lombardo and Fernandez-Ortiz, 2010; X. Liang, Wang, and Cui, 2013). Smaller scale businesses and family firms from less developed environments or with limited information may regularly have unrealistic predictions of the foreign markets that mostly result from the barriers created by distance (Boisot and Marshall, 2008; M. Gallo and Pont, 1996; Ghemawat, 2001). This ultimately creates many more challenges for returnee generations on TMTs to push for business internationalization within the firm. In contrast, bigger companies and firms from more internationalized provinces are often better managed and are more familiar with international business, and thus can better accept rapid FDI activities.

**Costs and Risks of International Expansion**

Research has shown that there are several reasons for firms taking an incremental approach to international expansion. LOF studies have shown that foreign firms face disadvantages relative to local firms when operating in host countries. LOF is defined as “all of the additional costs that a firm operating in a market overseas incurs compared to a local firm” (Hymer, 1976; Mezias, 2002; Zaheer, 1995; Zhou and Guillen, 2015). The short-term unfamiliarity and the long-term discrimination that foreign firms experience in host countries are costs or disadvantages (Miller and Richards, 2002; Nachum, 2003; Zaheer, 1995). Compared to multinational enterprises (MNEs), such heightened information processing demands and asymmetries that could risk organizational control seem to be more crucial to family businesses (Gomez-Mejia, Makri, and Larraza-Kintana, 2010), and family leaders therefore tend to ‘stay close to home’ culturally so as to minimize risks (Banalieva and Eddleston, 2011). Due to the potential loss of socioemotional wealth and due to not regularly monitoring the international market place, it was found that family businesses were often reluctant to engage in international diversification or tended to be slower in the internationalization process compared to non-FBs (Banalieva and Eddleston, 2011; Enrique Claver et al., 2009; Gomez-Mejia et al., 2010; Pukall and Calabro, 2014). Thus, given disadvantages of venturing abroad, family firms often start their internationalization with exporting activities into countries with low cultural and geographical distance, and incrementally expand into more remote markets as knowledge and resources accumulate (E Claver et al., 2007; Kontinen and Ojala, 2010).

The ‘distance’ between home and host countries has been an essential term for its possible direct impact on international management activities (Ambos and Hakanson, 2014; Williams and Gregoire, 2015; Zaheer et al., 2012). Thriving Chinese businesses represent a source of economic partnership for Western economies, but the distance between China and many Western countries makes the expansion difficult (M.-J. Chen, 2010). When businesses expand into foreign markets, both tangible and intangible distances create obstacles that inhibit the flow of information, and hamper a firm’s survivability in host countries (Johanson and Wiedersheim-Paul, 2007; Mezias, 2002). Two central aspects of distance are cultural distance (Kogut and Singh, 1988; Shenkar, 2012; Tihanyi, Griffith, and Russell, 2005) and geographic distance (Egger and Pfaffermayr, 2004; Li and Vashchiko, 2010; Ragozzino, 2009).

Cultural differences between nations or societies is one approach used to examine organizations’ international expansion choices and performance (Benito and Gripsrud, 1992; Hofstede, Neuijen, Ohayv, and Sanders, 1990; Kogut and Singh, 1988; Tihanyi et al., 2005). While the term cultural distance has been criticized for connoting symmetry and a steady state among different countries, and for hidden assumptions and biases at both conceptualization and measurement levels (Mcsweeney, 2002; Shenkar, 2012; Shenkar, Luo, and Yeheskel, 2008), it helps to show a variance from the home country to different host countries and remains a popular construct over the past few decades (Zaheer et al., 2012). Scholars have offered ‘friction’ as a substitute metaphor denoting intercultural engagement and as a platform from which to reassess the cultural encounter in the context of foreign direct investment (Shenkar, 2012; Shenkar et al., 2008). The main reason for this is to take into account the multidimensionality and heterogeneity in distances between home and host countries.

At the same time, geographic distance often plays a key role directly affecting cross-border expansion or moderating the cultural effects on FDI, which cannot be isolated as an independent hazard capable of impacting a firm’s international investment (Berry, Guillen, and Zhou, 2010; Ghemawat, 2001; Ragozzino, 2009). It reflects physical remoteness that is often associated with challenging transportation or communication links due to the lack of common borders (Ghemawat, 2001), and has a negative impact on the amount of investment undertaken by foreign investors (Grosse and Trevino, 1996; Ragozzino, 2009). Based upon the findings highlighting the importance to geographic distance as a proxy for information asymmetry, which is critical in cross-border investment, business decision makers in more remote areas face greater challenges in evaluating business opportunities abroad.

In contrast, studies show that individuals who have studied and worked abroad have the knowledge that enables them quickly to identify promising new market opportunities, raise capital, build management teams, and establish partnerships with specialist producers located far away (Saxenian, 2006; Welch and Hao, 2015; Wright, Liu, Buck, and Filatotchev, 2008). Foreign experiences and possession of internationally recognized foreign academic certificates have been shown to lead to foreign cultural understanding. In other words, international education does not simply teach students knowledge and skills, but the whole process also transmits the culture of a particular institution and the social system to which it is bound. Thus, when distance has been used to predict increase of LOF by generating higher unfamiliarity and discriminatory hazards for foreign firms in host countries (Campbell et al., 2012; Eden and Miller, 2004; Kostova and Zaheer, 1999), returnees’ international experience effectively minimizes the disadvantages compared to others who have not been abroad. The challenge for companies, however, has been their inability to take advantage of the cultural understanding of their returnee managers (Caligiuri, 2006).

**The new international expansion path for the ‘haves’**

When the second-generation joins the family business’ executive level, it often involves a mutual adjustment processes in the family system with the transfer of power from one generation to the next (Barnes and Hershon, 1994; M. A. Gallo et al., 2004; Stavrou, 1999). On the one hand, the company’s organizational style can greatly influence new comber individuals (Tilcsik, 2014), but on the other hand, even when second-generation managers uphold their responsibilities within the family and try to learn the business, they still can disagree with parents about their independence and roles in decision making (Kwak and Berry, 2010). This suggests that the vision and managerial style of next-generation successors can greatly influence the internationalization pathways undertaken by the family business (Graves and Thomas, 2008). Their international education and living experiences help in shaping both professional capability and cultural understanding, and can thus overcome the barriers created by distance. Such experiences allow them to gain access to needed resources from overseas, including professional knowledge, advanced technology, information, distribution networks and relationships with critical constituencies, such as government contacts in a foreign market, which ultimately affect the firm’s development (Arregle, Hitt, Sirmon, and Very, 2007; De Wit, 2008; Lin et al., 2014; Saxenian, 2006). It was found that there are significant knowledge spillover effects associated with returnees (Liu et al., 2010; Qin and Estrin, 2015), and they can effectively engage in international business with the appropriate protocols (Hao and Liu, 2017).

Because returnees help bridge differences brought by distance and can be a source for entrepreneurial innovation (Lin et al., 2014; Qin and Estrin, 2015; Saxenian, 2006; Welch and Hao, 2015; Wright et al., 2008), generational involvement in family business can trigger episodes of active internationalization (Bell, McNaughton, and Yong, 2001; Bell et al., 2003; Graves and Thomas, 2008). Next generations have been observed creating opportunities for themselves through new subsidiaries or by fostering the business through international expansion (Enrique Claver et al., 2009; Fernández and Nieto, 2006; Muñoz-Bullón and Sánchez-Bueno, 2012; Okoroafa and Perryy, 2010). Specific and regional experiences exert influences on the international expansion location through affecting the cost and the uncertainty of operating in foreign markets (Yu, 1990). The learning experiences of Chinese students in Western countries not only enhance their knowledge, but also affect their psychographics, including their personality traits, values, beliefs, preferences and behavioral patterns (Hao and Welch, 2012; Taylor, 2001). Therefore, the previous distant ‘Western’ countries are no longer unfamiliar after some experiences studying and living in the West. The internationalization process, then, will not necessarily manifest itself in a gradual expansion model from culturally close markets to culturally more distant locations. Instead, returnee second-generation managers can be more confident in expanding to host countries where they had prior experience, and the usage of their international experience is more prominent. Therefore, we propose:

Hypothesis 1: Chinese family businesses are more likely to expand to Western countries when a second-generation manager had prior educational experience in the West.

We posit that there are two moderators to the above relationship: company size and regional international activity. As there is heterogeneity across family enterprises and regional differences (Pukall and Calabro, 2014; Sharma and Chua, 2013), we outline two moderating factors: one at an organizational level and one at an external environment level to shed light on this specific context.

At the organizational level, firm size has been a key factor that argues for having direct and indirect effects on firms’ diversification and internationalization (Calof, 1994; Dass, 2000; Gaur, Kumar, and Singh, 2014; Grossmann, 2007; Michael Geringer, Beamish, and DaCosta, 1989). In the FB context, firm size, often measured by total assets or total number of employees, has been used as a proxy for the amount of resources and is thought to positively affect internationalization (Banalieva and Eddleston, 2011; Strike, Berrone, Sapp, and Congiu, 2015; Zahra, 2003). Larger sized businesses with significant total assets often reflect companies with more mature operations and performance, along with the adoption of professional management (J. Zhang and Ma, 2009). Therefore, we posit that returnee second-generations’ knowledge and skills learned abroad would be more appreciated, in particular for international business issues; such that:

Hypothesis 2: The level of a family business’ total assets positively moderates the relationship between second-generation’s international experiences and the family business international expansion.

Because studies have shown that countries differ from one another in governance and innovation systems (Berry et al., 2010; Zhou and Guillen, 2015), cross-regional studies highlight inequality and divergence in aspects of economic growth, technology conditions and internationalization levels (Yao and Zhang, 2001; W. Zhang and Ke, 2002). It is evident, therefore, that distance can vary by regional economic groups. Firms from a home region that shares more commonality with the host country can more readily overcome distance in the expansion process (Miller and Richards, 2002; Qian, Li, and Rugman, 2013). Thus, level of the regional international activity can influence local firms’ international expansion processes. Companies in a home environment that has more international experience are more likely to enter foreign markets (Zhou and Guillen, 2015). We posit, therefore, that the value of family members’ international experience will be more obvious and prominent for a firm’s international expansion when the firm is located in a more active international region. This leads to:

Hypothesis 3: The level of the home province’s internationalization positively moderates the relationship between the second-generation’s international experiences and the family business international expansion.

Therefore, we propose the following model:

[INSERT FIGURE ONE ABOUT HERE ]

In addition to testing the above main model, we wanted to test in an exploratory way whether there were other individual factors that could alter the influence of the returnee family member. It includes second-generation managers’ age, gender, and position to examine that did returnees have more influence if they were older, male, and board members. Then the number of family business returnees, which aimed to learn did more returnees have a stronger influence. Last was about the family control that looked at if greater family control of the business may lead to greater influence of the returnee.

**METHODS**

**Data**

The targeted sample in this study is publicly listed Chinese family businesses with second-generation managers. Family businesses in China are defined by the Chinese government as having at least 30% family ownership. This is more conservative than Rafael and colleagues’ (1999) definition of family business, which is the controlling shareholder controls more than 20 percent of votes. We analyzed the companies’ annual reports from 2008-2014 to determine if they had second-generation managers, and excluded any companies that did not. Next, we went through the educational background of the second-generation managers to determine whether they have overseas diplomas. We used educational background with its associated internships and OPT as the measure for overseas experience because the second-generation experience in China is so recent that there has not been a large cadre of people seeking overseas assignments and then returning to the family business. This allowed us to divide the sample firms into two groups: family businesses with returnee second-generation managers and family businesses with only local second-generation managers.

The data in regards to international expansion, including Foreign Direct Investment (FDI) and cross-border Merger and Acquisition (M&A), came from the Chinese Ministry of Commerce database and the CSMAR database. We collected the data for level of international activity and GDP of the family businesses’ home provinces from the official website of the National Bureau of Statistics of China. The financial statements of family businesses were gathered from the CSMAR database. We used the data as of 2014 to test our hypotheses, mainly because the time period allowed analysis of the most updated information. The dataset includes 188 family businesses that had second-generation managers in 2014.

**Definitions**

**Returnee second-generation.** Returnee second-generation suggests a man or woman who has direct kinship to the founder of the business and obtained an overseas academic degree. In locating the second-generations among the listed family companies, we first reviewed the annual reports and prospectuses of those companies. Then we searched through all TMT profiles of 795 family businesses for personnel who shared the same family name as and were at least 18 years younger than the controlling person. This approach allowed us to include the firm owner’s sons, daughters, nephews and nieces. There were 188 different family businesses that had second-generation managers. Next, we reviewed the publicly disclosed bios for international background information; such as, location of the host country and obtained education qualifications. By using the STATA search engine, we went through all the TMT profiles of the 188 family businesses with second-generation managers, and found that 136 of 188 companies had just local second-generations, and 52 of 188 companies had returnee second-generations. These returnees’ overseas experiences were clustered into seven countries or regions: US, UK, Canada, Western Europe excluding UK, Australia, New Zealand and Russia.

**Overseas investment.** Overseas investment by a family business is measured by the number of a firm’s overseas investment projects by 2014, including FDIs and cross-border MandA, which were used as our indicator of the internationalization progress.

**International level of a family business’s home province.** We located the home province of the targeted family businesses by where they registered the company in the CSMAR database. At the same time, we obtained the import and export volume and GDP of the respective provinces from the National Bureau of Statistics of China. We used foreign-trade dependence (FTD), which is defined as import and export volume divided by GDP as an appropriate proxy of International level (Beck, 2002; Krugman, 2008). The function is as follows:

**Family business scale.** We used natural logarithmic formation of total assets to measure the size of the family businesses (Banalieva and Eddleston, 2011). Because some papers use number of employees instead to measure firm scale, we compared the two measures. We collected the number of employees of each firm in our sample. The average number of employees hired by family businesses with second-generations is 2980.72, with the 5% quantile at 446, and the 95% quantile at 6506. The correlation coefficient between the number of employees and total assets is significantly positive (t value is 17.47), which implies their similar effects when measuring firm scale.

All the variables we used in this paper and their definitions are listed in Table 1:

**[INSERT TABLE 1 ABOUT HERE]**

**Analytical approach**

Regression is used as the main analytical approach in this study. Our regression model is as follows:

*Overseas investment* is the number of investment projects in foreign countries in 2014; *Returnee second-generation* is a dummy variable distinguishing the family businesses with returnee second-generations versus local second-generations only. *Control variables* include international level of family businesses’ home provinces, firm scale, shareholding ratio of family, other managers’ overseas backgrounds, and returnee second-generation age, gender and position. We ran three models, with the simple relationship first, then adding the moderators, and then adding the exploratory variables.

**RESULTS**

It was found that family businesses with returnee heirs are much more internationally active compared to the others. In addition, the other hypotheses are supported by our regression results as well. Generally speaking, in the larger family businesses from more active international regions, second-generation returnees can play a more significant role in their firms’ international expansion. None of the exploratory variables were found to be significant in any of the models.

**Descriptive Statistics**

The descriptive statistics are shown in Table 2. The columns in Table 2 are arranged as: number of observations, arithmetic mean value, standard deviation, minimum value and maximum value. From Table 2, we can recognize that, on average, each Chinese family business with a second-generation has 1.574 investment projects in the seven countries or regions as of 2014. The most aggressive firm had 33 projects in foreign countries, while some firms had none. This variation provides us the opportunity to make high power tests.

**[INSERT TABLE 2 ABOUT HERE]**

More than 67% of second-generation managers were members of the board. On average, there was more than one male second-generation manager in the sample firms. The average number of second-generation managers was about 1.5 in each family business. The share owned by the controlling person of a Chinese family business was on average 43%. The average age of the second-generation was about 34 (if there was only one second-generation manager it refers to his age), which is younger than ordinary to be TMT members of listed companies in China. Because the age of one second-generation person was not disclosed in their annual report and we could not find it through internet searches, we used 187 observations in regressions when *Age* is controlled.

**Regression Results**

The results of OLS regressions are shown in Tables 3 and 4. From the baseline results, we find that family businesses with returnee second-generations are significantly more motivated to participate in internationalization activities compared to the family businesses whose second-generations do not have overseas experience. Moreover, other managers’ overseas background did not have any significant influence on international expansion when there existed returnee second-generations. This is consistent with our hypothesis 1.

**[INSERT TABLE 3 ABOUT HERE]**

Larger firms were found to have a higher probability of international expansion. In addition, the family businesses in provinces with higher international activity were found to invest significantly more in foreign countries. The results are robust with the varying of control variables.

Table 4 displays the results of the moderator tests. The coefficient of the interaction of home provinces’ international levels and second-generations’ overseas experiences is significantly positive (Table 4: column 1). Namely, level of home province’s internationalization positively moderates the relationship between second-generation’s international experiences and the family business’ international expansion. This supports hypothesis 2.

**[INSERT TABLE 4 ABOUT HERE]**

The coefficient of the interaction of level of family business’ total assets and second-generations’ host country is significantly positive as well (Table 4: column 2). This implies that in larger family businesses, second-generation’s international experience can play a more significant role when the firm goes abroad. This supports hypothesis 3. The coefficient of *Returnee second-generation* becomes significantly negative, which implies in the firms whose total assets equal zero, returnee second-generations will hinder the international expansion. However, a zero asset firm just does not exist in reality. We conducted an F-test on whether the sample mean of total assets times the coefficient of interaction, plus the coefficient of *Returnee second-generation* is larger than zero. The result shows that, on average, the overseas background of second-generations plays a significantly positive role in promoting international expansion (F-value is 15.42, significant at 1% level).

To test whether returnees had more influence once they joined the TMT, we searched the date when second-generations joined in the management team. There are 158 family firms whose second-generations’ join date can be precisely addressed. Then we collected the number of overseas investments before and after the join date. Using these data, we did placebo tests by respectively regressing the number of overseas investments before and after the join date on the returnee second-generation dummy variable. The results are displayed in Table 5.

**[INSERT TABLE 5 ABOUT HERE]**

As shown in column 1 of Table 5, when we use number of overseas investments before the join date as the dependent variable, the coefficient of *Returnee second-generation* is positive. This implies that firms with returnee second-generations make overseas investments when their second-generations come back. But the coefficient is obviously larger and more significant when number of overseas investments after the join date is used as the dependent variable (column 2, Table 5). Taken together, the returnee second-generations play a role in the firms’ internationalization, especially after their joining the management team.

**Further tests**

As mentioned above, second-generations’ host countries and firms’ investment destinations are mainly constituted by seven countries/regions. We addressed second-generations’ host country and the number of firms’ investment projects in each country by 2014. Using firm-country level data (including 1309 observations when we control *Age*, 187 times 7), we test whether Chinese family businesses are more likely to expand to the countries where a second-generation had prior educational experience. The results are shown in Table 6.

**[INSERT TABLE 6 ABOUT HERE]**

As shown in Table 6, the coefficients of *Returnee second-generation\_country level* is significantly positive, which implies family businesses tend to invest in the countries in which its second-generations have studied. This also provides more convincing proof for the returnee second-generations’ function in mitigating the distance between home country and host country. Chinese family businesses with returnee second-generations are not only more likely to invest in Western countries, but more dramatically in the countries where their second-generations have studied.

In addition, we did some other tests to protect the robustness of our results. Firstly, on the method of expansion, we respectively regressed the number of FDIs by 2014 and the number of cross-border MandAs by 2014 on the *Returnee second-generation*. Both of the coefficients are significantly positive, but the former one is larger and more significant (coefficient in FDI regression is 1.243 and t-value is 3.51, coefficient in MandA regression is 0.793 and t-value is 1.79), which implies returnee second-generations could promote international expansion by both ways, but FDI is more welcomed. Secondly, on the regression model, the dependent variable in our regression model is the number of investment projects in foreign countries. If the firm did not have any projects, it will equal 0. Poisson regression model is more applicable for the distribution of our data. In statistics, Poisson regression is a generalized linear model form of regression analysis used to model count data and contingency tables, and is sometimes known as a log-linear model. So we repeated the regression in the baseline results, and the untabulated result is consistent with Table 3, which implies our regression model is robust. Finally, we calculated the number of family businesses’ foreign investment projects by 2013, repeated the regressions as in Table 3, and got consistent results with the above.

**Discussion of Endogeneity**

Endogeneity problems may arise from the role of non-family member returnee managers, since they could as well mitigate the distance between China and Western countries. More importantly, firms with more returnee managers can provide their second-generations more foreign social networks, which may make them more likely to study abroad.

This concern can be relieved as follows. The number of non-family member TMTs with foreign experience (excluding second-generation TMTs) has been controlled in the regression. As we have displayed in Table 3, the coefficients of the second-generations’ overseas experiences are significantly positive, but the coefficients of the other returnee TMTs are insignificant. This implies that the second-generation senior managers’ international backgrounds have distinct value to the firm’s internationalization despite non-family member TMTs’ international backgrounds. Even though international expansion is important to firms’ long-term development, it is full of risk at the same time. Compared to the other returnee TMTs, the overseas experience of second-generations is more important in the expansion of family business.

**DISCUSSION**

This study addressed returnee second-generation’s effect on their family businesses’ global expansion, as well as two key moderating factors, one at an external environment level and one at an organizational level. Our results show that family businesses with returnee second-generation managers are not following the traditional incremental internationalization pattern. They, instead, tend to be more active in investment in Western countries compared to family businesses with only local second-generation managers. It suggests that their international experiences abroad helped in reducing perceived risk when investing abroad, specifically to the location where they had prior experience. Furthermore, our findings show that a firm’s regional environment and size strongly influence the family business’ internationalization process, which is consistent with other studies (Arregle et al., 2007; Cerrato and Piva, 2012; M. Gallo and Pont, 1996; Josefy, Kuban, Ireland, and Hitt, 2015; Q. Liang, Zhou, and Zou, 2016). We found that these two also positively moderate the second-generations’ effect on family businesses’ international expansion.

This implies that companies tend to think about overseas investment as they get bigger and are from international zones, and as part of that they are more likely to send the second-generation abroad to finalize their decision on investing internationally. The data seem to suggest that they are doing this with an eye to succession, and that the decision is not solely to go international. This is in contrast to family businesses that had returnee non-family members in the TMT, as the non-family returnee managers did not have a significant influence on international expansion. If a company was just looking to go abroad, non-family returnees should be as significant.

Also, family returnees with more experiences or who on the board of directors should be significant, but in fact they are not. This leads to the conclusion that any second-generation returnee is necessary because the family business is looking at internationalization in conjunction with succession. Thus individual factors such as age, gender, numbers of siblings, and being a board member are not crucial issues, which further highlight the “clan-like” organizational structures that emphasize direct kinship familial relations (Boisot and Child, 1996; Sharma and Chua, 2013) Tsang, 2001) Another finding worth pointing out is that in Confucian oriented cultures that stress the importance of the male and the son, our finding suggests that female returnee heirs in China’s family businesses show no significant differences with male heirs. One reason could be the improvement of Chinese women’s social status and welfare since Chairman Mao’s statement that ‘Women held half of the sky’, and another reason may be the result of the one-child policy[[1]](#footnote-1) which limits business owners’ choices in choosing heirs.

**Limitations**

This study takes an initial step toward understanding returnee second-generation’s encounters and their subsequent effects on their FBs’ international development. We believe that the results are generalizable to FBs in many developing economies, and perhaps other FBs that have returnee heir executives. However, some limitations of this study include the following issues. First, we rely on publicly listed data, which may affect its generalizability. The scale of unlisted private businesses in China is far too big and diverse across 34 provinces, and the data are usually incomplete as smaller businesses often avoid business information disclosure. Moreover, we focused on the second-generations who became a TMT member of the firm, which may overlook the influence of second-generations who studied or worked abroad but do not join the TMT. They may also affect their parents’ decision on international expansion, including FDI locations. These data could not be gleaned because there is no disclosure of family business owners’ direct kinship information if they do not serve as top managers. Lastly, in the second-generation identification process, we used family name and age searches of TMTs, followed by manual identification through public news reports and company annual reports, which may include FB owners’ son, daughter, nephew and other direct second-generation family members, but miss out some indirect second-generations, such as sons/daughters-in-law. The personal information disclosure in annual reports does not include the kinship between owner and other top managers, which makes it difficult to recognize owners’ indirect descendants. Nevertheless, as we controlled other managers’ overseas background, which would include such indirect family members if any returnee sons/daughters-in-law serve as top managers, the result implies that they did not play a significant role in the firms’ international expansion.

**Future research**

We recommend several future research areas to extend this study to specific industries and cross-contexts. At the individual level, it would be useful to examine how specific international experiences of second-generations evolve over time and affect the family business, such as work experiences and length of time of staying abroad. From the organizational level, we suggest further exploration of the dynamics within the family businesses, such as returnee family members’ involvement and influences compared to non-family member returnee executives. While research on training international managers shows that international training may not be well utilized for repatriates, our findings imply that it may not be the situation for family businesses. We found that Chines family businesses are more likely to take the business abroad after the returnee second-generation returns from international training and to take advantages of their children’s international training and experiences.

**CONCLUSION**

In conclusion, returnee second-generation executives tend to encourage their FBs’ global expansion in a more radical fashion because their international experience may be a source to reduce distance and to overcome LOF in host countries. Our framework pointed out the importance of second-generations’ background in FBs’ global expansion process, and contributes to the international business and family business literature by revealing the impact brought by their international education experience, which leads to predictions on FBs’ international engagement and location choice.

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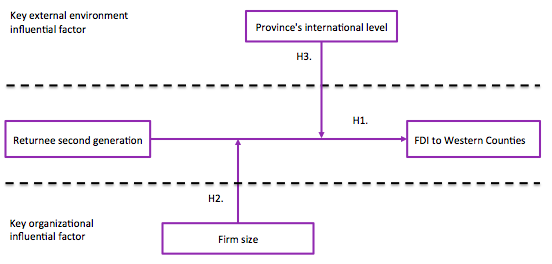
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Figure 1 Internationalization model for family businesses with returnee second-generations



**Table 1: Definition of Variables**

|  |  |
| --- | --- |
| **Variable name** | **Definition** |
| Overseas investment | Number of investment projects in foreign countries by 2014, including FDI and cross-border MandA. |
| Returnee second-generation | Dummy variable that whether there is any returnee second-generation top manager, is=1, no=0 |
| Returnee manager | Dummy variable that whether there is any returnee manager (exclude second-generation), is=1, no=0 |
| Home province international level | International level of family businesses’ home province, import and export volume divided by GDP (%) |
| Total asset | Natural logarithmic formation of total asset of family business |
| Age | Average age of second-generation managers. If there was only one second-generation manager, it refers to his age |
| Family business board member | Dummy variable that whether any second-generation manager is member of board of directors, is=1, no=0. If there existed returnee second-generation managers, it refers to whether any returnee second-generation manager is on board |
| Gender | Number of male second-generation manager. It equals 0 if all the second-generation managers were female |
| Family shares | Shareholding ratio of family |
| Number of second-generation | Total number of second-generation managers in a family business |

**Table 2: Statistical Description**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Variable | Obs. | Mean | Std. Dev. | Min | Max |
| Overseas investment | 188 | 1.574 | 3.522 | 0 | 33 |
| Returnee second-generation | 188 | 0.276 | 0.448 | 0 | 1 |
| Returnee manager | 188 | 0.297 | 0.458 | 0 | 1 |
| Home province international level | 188 | 0.086 | 0.054 | 0.007 | 0.197 |
| Total asset | 188 | 21.57 | 0.938 | 19.50 | 24.79 |
| Age | 187 | 33.71 | 5.313 | 24 | 47 |
| Family business board member | 188 | 0.661 | 0.425 | 0 | 1 |
| Gender | 188 | 1.100 | 0.749 | 0 | 4 |
| Family shares | 188 | 43.45 | 10.86 | 30 | 85.03 |
| Number of second-generation | 188 | 1.519 | 0.762 | 1 | 6 |

**Table 3: Baseline Empirical Results**

|  |  |  |  |
| --- | --- | --- | --- |
|  | (1) | (2) | (3) |
|  | Overseas investment | Overseas investment | Overseas investment |
| Returnee second-generation | 2.290\*\*\* | 1.982\*\*\* | 2.036\*\*\* |
|  | (4.16) | (3.73) | (3.66) |
|  |  |  |  |
| Returnee manager |  | 0.570 | 0.569 |
|  |  | (1.09) | (1.06) |
|  |  |  |  |
| Home province international level |  | 10.746\*\* | 11.397\*\* |
|  |  | (2.42) | (2.48) |
|  |  |  |  |
| Total asset |  | 1.026\*\*\* | 1.017\*\*\* |
|  |  | (4.12) | (3.99) |
|  |  |  |  |
| Age |  |  | 0.039 |
|  |  |  | (0.75) |
|  |  |  |  |
| Family business board member |  |  | 0.296 |
|  |  |  | (0.52) |
|  |  |  |  |
| Gender |  |  | 0.127 |
|  |  |  | (0.29) |
|  |  |  |  |
| Family shares |  |  | -0.016 |
|  |  |  | (-0.74) |
|  |  |  |  |
| Number of second-generation |  |  | -0.215 |
|  |  |  | (-0.49) |
|  |  |  |  |
| Constant | 0.941\*\*\* | -22.21\*\*\* | -22.691\*\*\* |
|  | (3.25) | (-4.14) | (-3.99) |
| *Num. of Observations* | 188 | 188 | 187 |
| *R*2 | 0.085 | 0.203 | 0.210 |

**Table 4: Moderator Test Results**

|  |  |  |
| --- | --- | --- |
|  | (1) | (2) |
|  | Overseas investment | Overseas investment |
| Returnee second-generation\* Home province international level | 16.816\* |  |
| (1.85) |  |
|  |  |  |
| Returnee second-generation\* Total asset |  | 1.878\*\*\* |
|  | (3.45) |
|  |  |  |
| Returnee second-generation | 0.448 | -38.382\*\*\* |
|  | (0.44) | (-3.27) |
|  |  |  |
| Returnee manager | 0.581 | 0.389 |
|  | (1.09) | (0.74) |
|  |  |  |
| Home province international level | 4.611 | 10.577\*\* |
|  | (0.79) | (2.37) |
|  |  |  |
| Total asset | 0.989\*\*\* | 0.483 |
|  | (3.90) | (1.65) |
|  |  |  |
| Age | 0.036 | 0.046 |
|  | (0.70) | (0.92) |
|  |  |  |
| Family business board member | 0.208 | 0.187 |
|  | (0.37) | (0.34) |
|  |  |  |
| Gender | 0.098 | -0.008 |
|  | (0.23) | (-0.02) |
|  |  |  |
| Family shares | -0.015 | -0.018 |
|  | (-0.70) | (-0.86) |
|  |  |  |
| Number of second-generation | -0.171 | -0.224 |
|  | (-0.39) | (-0.52) |
|  |  |  |
| Constant | -21.467\*\*\* | -10.979\* |
|  | (-3.78) | (-1.70) |
| *Num. of Observations* | 187 | 187 |
| *R*2 | 0.225 | 0.260 |

**Table 5: Sequential Test Results**

|  |  |  |
| --- | --- | --- |
|  | (1) | (2) |
|  | Investment before join date | Investment after join date |
| Returnee second-generation | 0.466\*\*\* | 1.592\*\*\* |
|  | (2.63) | (2.82) |
|  |  |  |
| Returnee manager | 0.217 | 0.414 |
|  | (1.25) | (0.75) |
|  |  |  |
| Home province international level | 0.816 | 9.199\*\* |
|  | (0.56) | (2.00) |
|  |  |  |
| Total asset | 0.247\*\*\* | 0.492\* |
|  | (2.87) | (1.79) |
|  |  |  |
| Age | 0.002 | -0.006 |
|  | (0.13) | (-0.11) |
|  |  |  |
| Family business board member | -0.034 | 0.309 |
|  | (-0.20) | (0.55) |
|  |  |  |
| Gender | 0.052 | 0.151 |
|  | (0.39) | (0.35) |
|  |  |  |
| Family shares | 0.003 | -0.010 |
|  | (0.41) | (-0.46) |
|  |  |  |
| Number of second-generation | -0.043 | -0.042 |
|  | (-0.31) | (-0.09) |
|  |  |  |
| Constant | -5.494\*\*\* | -10.461\* |
|  | (-2.85) | (-1.70) |
| *Num. of Observations* | 158 | 158 |
| *R*2 | 0.126 | 0.135 |

**Table 6: Country-level Test Results**

|  |  |  |  |
| --- | --- | --- | --- |
|  | (1) | (2) | (3) |
|  | Investment in each country | Investment in each country | Investment in each country |
| Returnee second-generation\_country level | 0.061\*\*\* | 0.060\*\*\* | 0.060\*\*\* |
|  | (4.74) | (4.61) | (4.60) |
|  |  |  |  |
| Returnee manager |  | 0.029 | 0.030 |
|  |  | (1.30) | (1.33) |
|  |  |  |  |
| Home province international level |  | 0.050 | 0.061 |
|  |  | (0.26) | (0.31) |
|  |  |  |  |
| Total asset |  | 0.023\*\* | 0.023\*\* |
|  |  | (2.22) | (2.15) |
|  |  |  |  |
| Age |  |  | 0.001 |
|  |  |  | (0.59) |
|  |  |  |  |
| Family business board member |  |  | 0.009 |
|  |  |  | (0.37) |
|  |  |  |  |
| Gender |  |  | -0.004 |
|  |  |  | (-0.20) |
|  |  |  |  |
| Family shares |  |  | -0.000 |
|  |  |  | (-0.15) |
|  |  |  |  |
| Number of second-generation |  |  | 0.004 |
|  |  |  | (0.22) |
|  |  |  |  |
| Constant | 0.036\*\*\* | -0.476\*\* | -0.515\*\* |
|  | (3.53) | (-2.11) | (-2.18) |
| *Num. of Observations* | 1316 | 1316 | 1309 |
| *R*2 | 0.017 | 0.022 | 0.023 |

1. One-child policy is a part of the population planning policy of China. It was introduced between 1978 and 1980 and began to be formally phased out in 2015. The policy allowed many exceptions and ethic minorities were exempt. [↑](#footnote-ref-1)