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Institutional Origin and Chinese Family Firms' Dot Tax Haven Internationalization

Ke Gong¹ , Dustin Odom¹, and Taewoo Kim²

¹University of Southern Mississippi, USA and ²University of Louisiana at Monroe, USA

Corresponding author: Ke Gong (ke.gong@usm.edu)

(Received 29 June 2023; accepted 28 June 2024)

Abstract

This study investigates how institutional origin affects the dot tax haven (DTH) internationalization of Chinese family firms (FFs). Drawing on institutional theory and the mixed gamble perspective, we propose that restructured FFs (RFFs), originating from state-owned enterprises (SOEs), are more likely to engage in DTH internationalization than entrepreneurial FFs directly established by family founders. This propensity is attributed to the institutional legacies inherited from their SOE predecessors, which create a distinct potential gain-loss calculus. Our empirical analysis of publicly listed Chinese FFs from 2012 to 2021 demonstrates that restructured FFs are 30% more likely to use DTH and establish 43% more DTH subsidiaries than entrepreneurial FFs. This tendency, however, is mitigated by the firms' economic ties to financial institutions. Our study enhances understanding of FFs' global entrepreneurial decision-making, contributing to FF heterogeneity research. A novel aspect of our study is examining the impact of institutional legacies on FFs – a topic less explored in family business literature. Furthermore, our findings provide insights for policymakers and regulators, emphasizing the importance of tailored policies that consider the intricate interplay between institutional origin and contemporary entrepreneurial goals in FFs.

摘要

本研究探讨了制度渊源如何影响中国家族企业（FFs）的小型避税港（DTH）国际化。基于制度理论和混合博弈视角，我们提出，与家族创始人直接创办的创业型家族企业相比，源自国有企业（SOE）的重组型家族企业更可能参与 DTH 国际化。这种倾向可归因于其国企前身遗留下来的制度遗产所形成的独特潜在损益考量。对 2012 年至 2021 年间中国上市家族企业的实证分析表明，重组家族企业使用 DTH 的可能性比创业家族企业高 30%，并且建立的 DTH 子公司数量多 43%。然而，这一倾向受到企业与金融机构间经济纽带的制约。本研究加深了对家族企业全球创业决策以及家族企业异质性的理解。其新颖之处在于考察了制度渊源对家族企业的影响——该主题在家族企业文献中较少被探讨。此外，我们的研究结果强调制度渊源与当代创业目标之间复杂相互作用的重要性，为政策制定者和监管者提供了启示。

Keywords: dot tax haven; family business; institutional origin; institutional theory; mixed gamble

关键词: 家族企业; 小型避税港; 制度渊源; 制度理论; 混合博弈

Introduction

Dot tax havens (DTHs) – small island economies such as the Cayman Islands (Hines Jr & Rice, 1994) – have become integral to the internationalization of Chinese firms as they increasingly establish DTH subsidiaries to navigate cross-border capital flow regulations strategically (Driffield, Jones, Kim, & Temouri, 2021). Indeed, Chinese firms have led to substantially larger global fundraising through DTH subsidiaries than previously estimated.¹ Family firms (FFs), the most prevalent corporate form (De Massis, Frattini, Majocchi, & Piscitello, 2018), are no exception – they have established a considerable number of DTH subsidiaries to leverage global opportunities for financial optimization and

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market expansion (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014), which enabled them to improve overall resource management and innovativeness on an international scale (Zahra, 2005). For instance, the real estate giant Country Garden Holdings, controlled by the Yang family and originating from a state-owned enterprise (SOE), has been utilizing DTH subsidiaries for years, illustrating a strategic blend of legacy management and entrepreneurial agility (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007).

DTH internationalization by Chinese FFs transcends mere financial maneuvering, embodying an entrepreneurial initiative. This strategic movement aligns with fundamental entrepreneurial tenets of opportunity identification and exploitation (Sarasvathy, 2001), demonstrating a sophisticated grasp of financial efficiencies and international tax optimization crucial for global competitive advantages (Barney, Ketchen, & Wright, 2011). Inherent in this approach is entrepreneurial alertness to market opportunities, reflecting agility and global competitiveness (Teece, 2018). Thus, establishing DTH subsidiaries involves strategic risk management, a core aspect of entrepreneurial orientation encompassing innovativeness, proactiveness, and risk-taking (Shepherd, Williams, & Patzelt, 2015). However, despite the entrepreneurial facets as essential sources of competitive advantages, we lack knowledge of FFs' DTH internationalization. Such a void in our understanding is attributed to the skewed scholarly attention to comparing FFs' propensity for internationalization with non-FFs' (e.g., Arregle, Chirico, Kano, Kundu, Majocchi, & Schulze, 2021), often not sufficiently accounting for the heterogeneity within FFs. This lack of attention to FF heterogeneity may have led to inconsistent findings (Chirico, Sirmon, Sciascia, & Mazzola, 2011), highlighting the need to explore factors that capture this heterogeneity and their implications for FFs' internationalization strategies, such as their use of DTHs.

One critical source of heterogeneity among Chinese FFs stems from their distinct institutional origins.² Over the last four decades, China's economic reform has given rise to two major origins of Chinese FFs: (1) *restructured FFs* emerged from the privatization and restructuring of former SOEs and (2) *entrepreneurial FFs* established directly by family founders (Cheng, Li, Liu, & Liu, 2023). Hence, the institutional origin represents a fundamental difference in the historical legacies and formative experiences of restructured and entrepreneurial FFs, which profoundly shaped their characteristics and, consequently, strategic choices (Arregle, Duran, Hitt, & Van Essen, 2017).

Despite the importance of institutional origin in shaping FFs' characteristics and strategic decisions, we know little about how it affects their DTH internationalization, which is vital, as entrepreneurial decision-making among FFs is inherently diverse (Liu, Qian, Lu, & Shu, 2023), reflecting their distinct backgrounds and driving forces in shaping their internationalization approaches, risk management, and opportunity recognition (Arregle et al., 2017). The current study, therefore, aims to unravel these nuances and complexities by answering the following questions: How does the institutional origin influence Chinese FFs' DTH internationalization, and what are the boundary conditions?

To this end, we employ institutional theory to theorize how institutional origin affects FFs' DTH internationalization by influencing FFs' loss and gain calculation in DTH utilization. In addition, the socioemotional wealth (SEW)³ perspective is also adopted to consider how divergent SEW focus (i.e., community- or family-driven SEW) stemming from different institutional origins leads FFs to weigh potential gains and losses (analyzed through the lens of mixed gamble approach) differently regarding DTH utilization. To deepen our understanding of the boundary conditions of institutional origin, we investigate the moderating roles of second-generation leadership presence and the firms' economic ties to financial institutions. Based on data from publicly listed Chinese FFs between 2012 and 2021, our empirical analysis reveals that restructured FFs show a significantly higher propensity for DTH use and establish more DTH subsidiaries than their entrepreneurial counterparts. However, this tendency is mitigated by the firms' economic ties to financial institutions, while second-generation leadership does not significantly affect the institutional origin effect on DTH internationalization.

Our study contributes to family business and international entrepreneurship research in several ways. First, this study highlights the vital role of institutional origin in FFs' decision-making processes, particularly about participating in global entrepreneurial activities, thereby contributing to the family business literature mainly focusing on family/founder imprint or legacy and unveiling determinants of

FFs' DTH utilization. Second, we contribute to the knowledge of FF heterogeneity by showing that the extent to which FFs utilize DTH could vary depending on various aspects of FFs, such as institutional origin. Lastly, our research offers practical implications for policymakers and regulators who seek to understand and regulate FFs' DTH utilization. By highlighting the unique blend of institutional legacies and current entrepreneurial objectives in FFs, we underline the necessity of nuanced policy approaches considering these complex dynamics.

Research Background

DTH and FFs

Tax havens are countries that provide favorable tax systems and financial confidentiality to foreign individuals and firms (Dharmapala & Hines Jr, 2009). Over recent decades, tax haven internationalization has emerged as a strategic facet of multinational enterprises' (MNEs) broader international entrepreneurship strategies for serving legitimate business purposes such as asset protection and facilitating global trade (Jones, Temouri, Kirillos, & Du, 2023). They provide firms with a variety of financial advantages, such as reduced tax obligations (Desai, Foley, & Hines Jr, 2006), increased privacy (Kemme, Parikh, & Steigner, 2017), and easier access to foreign financial markets (Driffield et al., 2021), enabling them to maximize profits and expand global operations. Tax havens are intricately linked with conventional foreign direct investment (FDI), underscoring its significance in international trade, economic development, and technology transfer (Driffield et al., 2021).

There are two main tax haven types: Big Eight tax havens (BETHs) and DTHs (Desai et al., 2006). The scale and sophistication of their activities distinguish BETHs from DTHs. Unlike the case of BETHs⁴, DTHs are small island economies such as Bermuda and the Cayman Islands that offer low or zero corporate tax rates, lax regulation, and high levels of secrecy (Jones & Temouri, 2016). These distinctive aspects of DTHs sometimes render them associated with illicit activities, such as tax evasion and money laundering, which may create corporate social irresponsibility (CSI) perception among stakeholders (Temouri, Nardella, Jones, & Brammer, 2022), thereby leading to pressures of deinstitutionalization (Maguire & Hardy, 2009). Despite public scrutiny, MNEs, including FFs, increasingly adopt DTH internationalization (Deng, Yan, & Sun, 2020), indicating its importance beyond mere financial secrecy to encompass broader strategic and entrepreneurial goals. For instance, the total value of Chinese firms primarily listed in three major DTHs exceeds \$3.7 trillion (Tan, 2021).

The prevalence of DTH internationalization has led researchers to explore the phenomenon in the context of family business. For example, Temouri et al. (2022) find that SEW considerations lead to FFs' lower propensity for DTH internationalization than non-FFs. While recent studies have illuminated the dynamics of FFs' DTH internationalization compared with non-FFs, it is still largely veiled whether and why some FFs are more likely to engage in DTH internationalization than other FFs. That is, we still lack knowledge of the sources of FF heterogeneity in DTH internationalization. Given the influential role of heterogeneity stemming from the institutional context in FF behavior (Fang, Singh, Kim, Marler, & Chrisman, 2022) and that institutions affect Chinese firms' tax haven investment (Deng et al., 2020), we propose that the institutional origin of Chinese FFs will shape their DTH utilization and warrant further investigation. Our study concentrates explicitly on DTHs rather than BETHs due to the more distinct perception of CSI associated with DTHs. This more observable CSI perception in DTHs allows us to more accurately delineate the gain-loss calculus undertaken by FFs with different institutional origins.

The Institutional Origin of Chinese FFs: Restructured vs. Entrepreneurial

Most Chinese FFs emerged due to significant social changes initiated by China's reform and opening-up policy in 1978, driven by the imperative to participate in globalization and achieve economic growth (Hong, 2018). This emergence took place through two primary pathways: (1) the privatization and restructuring of SOEs as a dominating policy during China's economic transition (Jia, Huang, & Man Zhang, 2019) and (2) the promotion of entrepreneurial FFs in the wake of

economic liberalization (Qin & Deng, 2016). These pathways have become the two major institutional origins of Chinese FFs with considerable differences: *restructured FFs* originating from SOEs and *entrepreneurial FFs* arising from family founders (see Cheng et al., 2023).

Unlike entrepreneurial FFs directly established by family founders, restructured FFs have transitioned from an SOE-centric model, which often included broader motivations such as social, distributional, or ideological goals, to a family-centric governance system. This shift has profound implications for their entrepreneurial decision-making due to broader motivations, risk tolerance, and weaker corporate governance inherited from the SOE past (Grøgaard, Rygh, & Benito, 2019). Restructured FFs, for example, may have a penchant for maximizing corporate and social value, while entrepreneurial FFs may prioritize creating shared value of the family to differentiate themselves in the market and build a positive reputation when they make strategic decisions (Chen, Li, & Yuan, 2022).

Hence, different institutional origins may lead restructured and entrepreneurial FFs to emphasize different types of SEW (Gu, Lu, & Chung, 2019). We propose that restructured FFs prioritize community-driven SEW while entrepreneurial FFs emphasize family-driven SEW. Community-driven SEW is the socioemotional wealth FFs gain from contributing to and engaging with the broader community, including Corporate Social Responsibility (CSR) and maintaining a positive public image. In contrast, family-driven SEW focuses on maintaining family control, influence, and legacy within the firm, directly benefiting the family's interests and preserving family identity. Due to their historical state affiliations and obligations from the SOE-centric model, restructured FFs may prioritize broader community-driven SEW. Conversely, entrepreneurial FFs inherently prioritize family-driven SEW, focusing on preserving and enhancing the family's immediate socioemotional assets. Additionally, restructured FFs must reconcile the institutional legacy of their SOE predecessors with family dynamics, a challenge that entrepreneurial FFs do not face.

We contend that the decision-making process in restructured FFs regarding DTH internationalization may involve a unique calculus of potential gains and losses shaped by their transition from SOE to family governance. This calculus considers not only financial outcomes but also the alignment with transformed family dynamics and newly adopted entrepreneurial goals. Below, we employ the institutional theory to hypothesize how the SOE institutional legacy in restructured FFs may give rise to a distinct calculus of potential gains and losses for family owners of restructured FFs compared with those of entrepreneurial FFs through the lens of the mixed gamble approach.

Hypotheses Development

FF Origin and DTH Internationalization

Building on the behavioral agency model (BAM), researchers introduced the mixed gamble perspective to explain the heterogeneous strategic behaviors of FFs. This perspective suggests that FFs do not frame decision-making solely on a gain or a loss; instead, they weigh each decision's potential gains and losses to determine which is most favorable for the FF (Martin, Gomez-Mejia, & Wiseman, 2013). This perspective explains the FFs that do not depict the typical conservative behaviors generally expected due to preserving the affective endowments of the firm. In particular, FFs will relax loss-aversion behaviors to protect SEW when potential gains in socioemotional or financial wealth outweigh the potential loss (Gomez-Mejia, Patel, & Zellweger, 2018). The mixed gamble viewpoint also provides further insights into the heterogeneous behaviors of FFs, such as innovation (Kim, Sexton, & Marler, 2023), initial public offering (IPO) approaches (Kotlar, Signori, De Massis, & Vismara, 2018), tax aggressiveness (Bauweraerts, Vandennoot, & Buchet, 2020), and internationalization efforts (Alessandri, Cerrato, & Eddleston, 2018). Leveraging the mixed gamble approach (Cambrea, Ponomareva, Pittino, & Minichilli, 2022), we argue that the institutional origin of an FF will influence its calculation of financial and nonfinancial gains and losses associated with DTH internationalization.

Restructured FFs tend to 'carry on' the social and environmental institutional ethical norms of their SOE predecessors, such as maintaining stable employment and protecting environments for the community, which are integral aspects of internal CSR (Ye, Zhu, Shi, & Li, 2022) as well as long-term environmental innovation – a commitment that further underscores their inherited social initiatives

(Cheng et al., 2023). The inherited sense of social obligation (i.e., isomorphic pressures from the SOE legacy) makes restructured FFs more likely to pursue *community-driven SEW* than *family-driven SEW* compared with entrepreneurial FFs. However, this commitment can substantially burden the family owners who now run the firm, thus promoting the use of DTH to access overseas fundraising and flexible tax management strategies, as the potential financial gains from DTH utilization can help them achieve the community-driven SEW goals.

Unlike the case of restructured FFs, entrepreneurial FFs, without the SOE institutional legacy, may prioritize family-driven SEW, such as family reputation (Parker, Gong, & Mui, 2022), because their central focus is the family. Due to the immediate power of family-driven SEW stemming from the informal institution of the family (Soleimanof, Rutherford, & Webb, 2018), entrepreneurial FFs are more likely to weigh the potential losses to family-driven SEW greater than the possible financial gains from participating in DTHs (Temouri et al., 2022). Given that the use of DTHs, which some stakeholders view as a controversial strategy and CSI, may pose a risk to their family-driven SEW (Temouri et al., 2022), entrepreneurial FFs may be reluctant to utilize DTH internationalization. In a word, entrepreneurial FFs may compromise financial gains from DTH utilization for preserving family-driven SEW, while restructured FFs do not need to compromise financial gains for community-driven SEW; instead, they are motivated to use the financial gains generated from DTH to attain community-driven SEW.

Moreover, the inherent moral hazard and soft budget constraints typical of SOEs (Grøgaard et al., 2019) could instill a distinct approach to financial risk in restructured FFs. Accustomed to a lax financial discipline and often expecting state support in adverse scenarios, these FFs might exhibit a higher risk tolerance than purely private-owned enterprises. This risk tolerance makes restructured FFs perceive potential financial losses as trivial, enabling them to pursue bold strategies, such as exploiting DTH internationalization. Therefore, restructured FFs are more likely to engage in DTH internationalization than entrepreneurial FFs.

Restructured FFs may also establish more DTH subsidiaries than entrepreneurial FFs because fulfilling their community-driven SEW goals requires a larger network of DTH subsidiaries to facilitate operations across multiple jurisdictions, providing greater access to financial resources and tax management opportunities. In contrast, entrepreneurial FFs, primarily focused on preserving family-driven SEW, may adopt a more conservative and targeted approach, leading to the establishment of fewer DTH subsidiaries, as their international strategies are driven by more consolidated family-driven decision-making processes aimed at minimizing risks. Taken together, we posit:

Hypothesis 1a (H1a): Restructured FFs are more likely to adopt DTH internationalization than entrepreneurial FFs.

Hypothesis 1b (H1b): Restructured FFs establish more DTH subsidiaries than entrepreneurial FFs.

The Moderating Role of Second-Generation Top Management Team (TMT) Involvement

The structure of the family (or families) involved in controlling ownership of the firm may experience many shifts and fluctuations throughout the timeline of the firm's existence. Given FFs' intertwined family and business systems (Habbershon, Williams, & MacMillan, 2003), such family dynamics will likely be associated with FF structure changes. One structural change in FF management that may be interwoven with family dynamics (e.g., an increasing number of adult-like members in the family) is the participation of the second generation in the FFs' management positions, involving entrepreneurial decision-making responsibilities (Shi, Graves, & Barbera, 2019). The presence of the second-generation leader implies a significant shift within the controlling family, paving the way for eventual leadership transition and legacy management, accentuating the FFs' motive of transgenerational succession (Chua, Chrisman, & Sharma, 1999). Thus, the involvement of second-generation leadership often marks a significant change in the FF's strategic priorities and risk preferences, and such shifts are attributed to the differing values, educational backgrounds, and strategic visions

between the founding and subsequent generations, as extensively documented in family business literature (Porfirio, Felício, & Carrilho, 2020). We thus posit that the involvement of second-generation in top management team (TMT) (CEO and Chair) mitigates the impact of institutional origin on FFs' DTH internationalization.

As restructured FFs experience a second-generation involvement in TMT, the institutional legacy of the SOE is further removed from the firm, and pressures from the informal institution of the family will increase the family-driven SEW focus of the firm (Soleimanof et al., 2018). As the new generation of decision-makers of the restructured FFs has not yet tinged with the legacy and norms stemming from the institutional origin, they are likely to alter some of the institutional norms carried over from the entity being an SOE, thus diluting the influence of institutional origin on FFs' DTH utilization. Moreover, second-generation involvement represents an increased family essence for FFs to reinforce owner families' desire for transgenerational succession and intentions to preserve their control over the firm. Thus, second-generation involvement indicates more weight on preserving family-driven SEW due to greater family institutional pressures that influence the entrepreneurial process (Chrisman & Patel, 2012). For restructured FFs, the presence of second-generation leaders may change the governance dynamic and significantly alter the firm's strategic orientation from community-driven to family-driven. This transition is critical because it reshapes their calculation of gains and losses associated with DTH internationalization so that they may perceive the losses related to DTHs as more significant. Therefore, the enhanced family involvement and essence due to including the second generation in the TMT, the less powerful the impact of the SOE institutional origin is on the restructured FFs' DTH utilization. In contrast, entrepreneurial FFs, which have been family-centric from their inception, experience a less dramatic shift when second-generation members assume leadership roles. Here, the governance change reinforces existing family-centric practices rather than signaling a departure from state-oriented strategies. As a result, the impact of second-generation leadership in entrepreneurial FFs might not be as stark in shifting the firm's strategic approaches, particularly in internationalization and risk management associated with DTH.

Additionally, while restructured FFs expand DTH networks to support complex operations and fulfill community obligations, second-generation leadership introduces a nuanced approach incorporating family-centric values, emphasizing strategic oversight and reputational risk management. This generational shift leads to a more judicious evaluation of the necessity and implications of each DTH subsidiary, aligning the firm's practices more closely with those of entrepreneurial FFs, which inherently prioritize a conservative approach due to their focused family-driven SEW goals. Consequently, the presence of second-generation leaders effectively mitigates the restructured FFs' propensity for extensive DTH subsidiary establishment, steering these firms toward sustainable growth and compliance with global business standards. Therefore:

Hypothesis 2a (H2a): Second-generation TMT involvement mitigates restructured FFs' stronger tendency (vs. entrepreneurial FFs) to adopt DTH internationalization.

Hypothesis 2b (H2b): Second-generation TMT involvement mitigates restructured FFs' stronger tendency (vs. entrepreneurial FFs) to establish more DTH subsidiaries.

The Moderating Role of Economic Ties to Financial Institutions

A firm's economic ties to financial institutions, mainly through shareholdings in banks and other financial institutions, can substantially impact the firm's entrepreneurial choices and outcomes (Lai, Li, & Chan, 2020). Firms holding bank shares enjoy mitigated financial constraints, improved investment efficiency, and enhanced governance due to more vigorous scrutiny and higher disclosure standards (Wang, Luo, Tian, & Yan, 2020). Subsequently, these factors may shape the firm's approach to internationalization strategies, including DTH engagement. Reflecting an institutional perspective, this factor emphasizes how firms in financial networks exhibit distinct capacities and motivations to manage risks associated with utilizing DTHs. These relationships are critical in shaping how firms

approach potentially risky international strategies, altering their risk assessment and strategic behaviors in compliance with broader financial and ethical standards, thus moderating the influence of institutional origins on DTH utilization.

Restructured FFs' SOE legacy and established political connections stemming from their institutional origin often translate into more beneficial relationships with financial institutions (Deng et al., 2020). That is, accumulated intangible assets (e.g., better knowledge regarding financial institutions and close connections) from institutional origin enable restructured FFs to utilize their economic ties to financial institutions properly and effectively. For instance, for these firms, holding bank shares may lead to more favorable loan terms and lower financial expenses, particularly during periods of tight monetary policy, because of their institutional background. Moreover, such privileged financial access through the ties provides a buffer against financial market fluctuations and regulatory uncertainties (Guo & Xiao, 2021). Thus, the financial security and advantages provided by these ties can significantly diminish the necessity for DTH internationalization as a financial management strategy, given the restructured FF's ability to leverage domestic financial resources more effectively (Lu, Zhu, & Zhang, 2012). In contrast, for entrepreneurial FFs without the SOE legacy, the effect of economic ties to financial institutions on their tendency to adopt DTH internationalization is likely to be weaker, as they may view the same level of privileged access and beneficial relationships with financial institutions as a threat to their family-driven SEW.

Moreover, the integration of restructured FFs into the financial ecosystem through these economic ties leads to increased scrutiny from stakeholders (Wang et al., 2020). This heightened visibility and resultant transparency may cause restructured FFs to be more risk-averse, particularly in DTH activities perceived as risky or opaque. The ethical norms of the financial institutions economically tied to the restructured FF may apply additional pressures to refrain from entrepreneurial practices associated with potential illicit activities, such as DTH internationalization. The isomorphic pressures to align with the ethical norms of the financial institution may cause restructured FFs to emphasize the affective endowments, i.e., reputation, in their entrepreneurial decision-making processes, thus aligning the entrepreneurial decision-making process similar to that of entrepreneurial FFs. Restructured FFs, therefore, may view the potential gains from DTH internationalization as less compelling than the potential reputational and operational risks.

Moreover, restructured FFs' propensity to establish more DTH subsidiaries is mitigated when these firms have economic ties to financial institutions, which offer financial stability and access to better financial resources, reducing the need for high-risk financial mechanisms like DTHs. These ties also subject the firm to greater scrutiny and higher standards of transparency, aligning them more with the risk-averse and reputation-focused strategies typical of entrepreneurial FFs. Therefore:

Hypothesis 3a (H3a): Economic ties to financial institutions mitigate restructured FFs' stronger tendency (vs. entrepreneurial FFs) to adopt DTH internationalization.

Hypothesis 3b (H3b): Economic ties to financial institutions mitigate restructured FFs' stronger tendency (vs. entrepreneurial FFs) to establish more DTH subsidiaries.

Methods

Data and Sample

We compiled a sample of all Chinese FFs listed on the Shanghai and Shenzhen Stock Exchanges from 2012 to 2021 to test our hypotheses. Our dataset combines three sources from the China Stock Market Accounting Research (CSMAR) database highly regarded in management studies (e.g., Jiang, Xia, Devers, & Shen, 2021; Li, Shi, Connelly, Yi, & Qin, 2022): (1) outward foreign direct investment (OFDI), (2) the FF database, and (3) the corporate financial database. CSMAR classifies firms as FFs if their ultimate controlling shareholders are founders, descendants, or relatives by blood or marriage (Wang, Zhao, Sun, & Zhu, 2023). We further refined this classification to include only those firms with over 5% family ownership and at least one family member actively involved in top

management (e.g., as directors, supervisors, and senior managers) (Liu, Qian, & Au, 2022). This approach allows for a more precise capture of governance and strategic decision-making in FFs. We supplemented this dataset with provincial-level data from the National Bureau of Statistics of China and the National Economic Research Institute (NERI) for the Chinese Marketization Index (Liu et al., 2022). All firm-level continuous variables were winsorized between the 1st and 99th percentiles to minimize estimation biases from extreme outliers. Our final sample includes 14,885 observations across 2,493 listed FFs, of which 22.3% are restructured FFs and 77.7% are entrepreneurial FFs. All the restructured FFs were controlled by the state (SOEs) before the firm went public and later controlled by families through ownership transition and restructuring. Within the entrepreneurial FFs, 21.6% were established by one individual founder, while 78.4% were founded by multiple individuals from different families without kinship connections. A *T*-test indicates a significant difference ($p = 0.000$): compared with 8.9% of entrepreneurial FFs, 12.2% of restructured FFs engaged in DTH use, providing initial support for our theory.

Measurements

Dependent variables

Following prior studies (Jones, Temouri, & Cobham, 2018), we define DTHs by identifying the foreign subsidiary establishment in small island economies. *DTH internationalization* and the *number of DTH subsidiaries* are our dependent variables (Temouri et al., 2022). To measure *DTH internationalization*, we used the DTH country list established by Jones and Temouri (2016) and assigned a value of 1 for each FF that has set up at least one subsidiary located in any of the DTH countries in a given year and 0 otherwise. To measure the *number of DTH subsidiaries*, we counted the total number of the firm's DTH subsidiaries in a given year.

Independent variables

Following prior FF origin studies (Cheng et al., 2023), we distinguish two sorts of family businesses based on their roots, using data from the CSMAR database. The first category includes FFs that families directly founded during their IPO.⁵ The second category encompasses those firms that were initially state-controlled at the time of their listing but later transitioned to family control via equity transfer and restructuring processes. To ensure the accuracy and comprehensiveness of our data, we employed an extensive research approach, using various search engines, such as Baidu, for supplemental information gathering. We coded *restructured FF* as 1 if an FF originated from an SOE⁶ and 0 from family founders. This coding system allows us to distinctly classify and analyze the two origins of FFs in our study, facilitating a nuanced understanding of their unique characteristics and strategic behaviors.

Moderating variables

We coded *second-generation TMT* as 1 if second-generation family members serve as the CEO or the Chairperson and 0 otherwise. Following prior research on the significance of economic ties to financial institutions (Fan, Ma, Pan, Yin, & Gao, 2022), we operationalized *economic ties to financial institutions* as a binary variable with a value of 1 if the firm owns shares in a bank or other financial institutions, and 0 if there are no such holdings. This measurement approach allows us to accurately capture the extent of a firm's financial interconnectedness, which may affect its entrepreneurial activities. Both measurements are based on the CSMAR definition.

Control variables

We controlled for a wide range of variables that may affect FFs' DTH engagement: *firm size*, measured by the natural logarithm of total employees, can significantly influence internationalization strategies (Xu, Zhou, & Du, 2019). *Return on assets* (net income divided by total assets), *asset-to-liability ratio* (proportion of a firm's assets that are liabilities), and *cash ratio* (total cash to current liabilities) as they can affect a firm's ability and motivation for DTH activities (Temouri et al., 2022). We measured the

independent director ratio (percentage of independent directors on the board), as board independence impacts strategic decisions (Oh, Chang, & Kim, 2018), and *CEO duality* (the CEO is also the chairperson), as it affects decision-making efficiency. We included *executive overconfidence* by measuring the pay gap between executives and employees (the ratio of average executive compensation to average employee compensation) because senior manager overconfidence affects aggressive strategies (Hayward & Hambrick, 1997; Huang, Jiang, Liu, & Zhang, 2011). Shareholder composition was represented through *controlling family ownership*, *institutional investor ownership*, *state ownership*, and *foreign ownership* (ratio of shares held by each to total shares), reflecting their influence on corporate strategic decision-making, and *ownership control separation* (actual controller's ownership versus control proportion) indicating potential agency problems (Oh et al., 2018). We also controlled the *Big Four* (whether the firm hires a Big Four accounting firm) to capture their influence on DTH decisions. We coded *TMT political tie* as 1 when a TMT member previously held government positions or served as a delegate to the Chinese People's Congress or Chinese People's Political Consultative Conference, 0 otherwise (Zhang, Marquis, & Qiao, 2016).

A binary variable indicating *pollution label* was included at the industry level, as environmental considerations can influence firm strategies (Luo, Wang, & Zhang, 2017). We have included the Herfindahl–Hirschman Index (HHI) to measure competitive intensity within an industry, which can affect the propensity to raise funds internationally. At regional and national levels, we controlled for the provincial *Marketization Index* (Zhang, Xing, Zhang, & Zhang, 2022), as it can affect firms' internationalization opportunities and challenges. We also controlled *CEO and chair turnover in Anti-Corruption* to capture the effects of national-level governance changes, particularly in intensified anti-corruption campaigns (we code it as 1 if there is CEO/Chair turnover in 2013, 2014, 2015, and 2018⁷, 0 otherwise) that alter the risk landscape for FFs, potentially affecting their engagement in tax evasion activities. These controls help isolate the effects of independent variables on FFs' DTH engagement.

Modeling

Following previous tax haven studies (e.g., Ahmed, Temouri, Jones, & Pereira, 2022; Jones & Temouri, 2016; Temouri et al., 2022), we conducted pooled Probit and Poisson regression models⁸ using the 'probit' and the 'poisson' commands in Stata 17 to test the restructured FF effects on the probability and extent to use DTH, respectively (Cohen, West, & Aiken, 2014). We implemented several procedures to alleviate the possible endogeneity risk. First, we lagged our dependent variable by one year relative to the independent and control variables to rule out potential endogeneity issues induced by simultaneity (Hill, Johnson, Greco, O'Boyle, & Walter, 2021). Other than the set of control variables, we incorporated year, industry, and province fixed effects into all regression models to account for within-group change over time, therefore reducing the potential for omitted variable bias and controlling for unobserved heterogeneity (Xu et al., 2019). To control for autocorrelation and heteroskedasticity, we computed robust standard errors clustered by firms (Gao, Yang, & Zhang, 2021).

Results

Table 1 reports the descriptive statistics and correlations. The statistically significant positive correlations between restructured FF and DTH use ($\rho = 0.046$, $p < 0.001$), as well as the number of DTH subsidiaries ($\rho = 0.065$, $p < 0.001$), support our main hypotheses. The variance inflation factors (VIFs) range from 1.01 to 1.76, with a mean of 1.19, thus ruling out the multicollinearity concern.

We provide the results of Probit regression in Table 2. Model 1 is an empty model that only includes the control variables. Model 2 incorporates restructured FF as the independent variable to test H1a. The effect of restructured FF on DTH use is statistically significant ($\beta = 0.194$, $p = 0.026$), supporting H1a. The finding is also practically significant in that the marginal effect of the variable restructured FF on DTH use is 0.029, indicating that with all other variables being held constant, the likelihood of DTH use is 30% higher for restructured FFs than the average probability (0.097)

Table 1. Descriptive statistics and correlations (*N* = 14,885)

Variables		Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1	Dot tax haven use	0.097	0.295	1.000										
2	Number of dot tax haven	0.168	0.611	0.842***	1.000									
3	Restructured FF	0.223	0.416	0.046***	0.065***	1.000								
4	Second-generation TMT	0.168	0.374	−0.034***	−0.030***	−0.084***	1.000							
5	Economic ties to financial institutions	0.047	0.211	−0.023***	−0.029***	0.125***	−0.027***	1.000						
6	Family tenure	6.001	4.287	0.130***	0.106***	0.006	0.133***	0.045***	1.000					
7	Firm size	7.420	1.165	0.146***	0.139***	−0.112***	0.066***	0.043***	0.251***	1.000				
8	Firm performance (ROA)	0.052	0.085	−0.017**	0.002	−0.113***	0.023***	0.020**	−0.091***	0.163***	1.000			
9	Asset liability ratio	0.402	0.207	0.108***	0.094***	0.265***	−0.026***	0.097***	0.194***	0.227***	−0.278***	1.000		
10	Cash ratio	0.002	0.006	0.044***	0.040***	0.010	−0.006	−0.020**	0.028***	0.056***	−0.004	0.036***	1.000	
11	Independent director ratio	37.879	5.322	0.035***	0.034***	−0.018**	−0.005	−0.045***	−0.023***	−0.069***	−0.028***	−0.011	0.007	1.000
12	CEO duality	0.377	0.485	−0.003	−0.003	−0.118***	−0.121***	−0.051***	−0.082***	−0.043***	0.017**	−0.076***	0.007	0.118***
13	Executive overconfidence	4.865	3.405	0.079***	0.096***	0.020**	0.034***	0.039***	0.122***	0.518***	0.176***	0.118***	0.061***	−0.039***
14	Controlling family ownership	33.897	13.973	−0.041***	−0.037***	−0.189***	0.052***	−0.012	−0.233***	0.055***	0.198***	−0.102***	0.008	0.049***
15	Institutional ownership	34.197	23.930	0.065***	0.079***	0.210***	−0.016**	0.050***	0.057***	0.227***	0.115***	0.145***	0.020**	−0.079***
16	State ownership	0.002	0.013	−0.004	−0.004	0.028***	−0.015*	0.013	−0.043***	0.004	−0.005	0.005	−0.013	−0.015*
17	Foreign ownership	0.006	0.038	0.001	−0.003	−0.053***	−0.021**	−0.027***	−0.127***	0.036***	0.075***	−0.066***	−0.007	−0.010
18	Ownership control separation	4.889	7.295	−0.016**	0.004	0.170***	−0.013*	0.096***	0.125***	0.127***	0.030***	0.121***	0.020**	−0.101***
19	Big Four	0.026	0.158	0.102***	0.112***	−0.003	0.002	−0.003	0.021***	0.188***	0.044***	0.062***	0.032***	−0.002
20	TMT political tie	0.344	0.475	−0.005	−0.008	−0.070***	0.040***	0.058***	0.041***	0.082***	0.004	0.040***	−0.003	−0.017**
21	Pollution label	0.128	0.334	−0.058***	−0.054***	−0.013*	0.037***	0.036***	−0.013	−0.005	0.021***	−0.008	−0.001	−0.033***
22	Herfindahl–Hirschman Index	0.124	0.131	0.079***	0.089***	0.073***	0.024***	−0.033***	0.002	−0.002	−0.035***	0.082***	−0.003	−0.003
23	Regional institutional level	9.073	1.630	0.071***	0.057***	−0.219***	0.033***	−0.158***	0.047***	0.051***	0.019**	−0.028***	−0.004	0.064***
24	CEO/Chair anti-corruption turnover	0.075	0.263	0.015*	0.023***	0.127***	0.002	−0.002	−0.010	−0.025***	−0.065***	0.058***	0.007	0.001

		12	13	14	15	16	17	18	19	20	21	22	23	24
12	CEO duality	1.000												
13	Executive overconfidence	−0.051***	1.000											
14	Controlling family ownership	0.064***	0.052***	1.000										
15	Institutional ownership	−0.087***	0.214***	0.220***	1.000									
16	State ownership	0.001	0.013	−0.025***	0.069***	1.000								
17	Foreign ownership	0.013	0.060***	0.117***	0.266***	−0.003	1.000							
18	Ownership control separation	−0.118***	0.107***	0.115***	0.528***	0.013*	0.020**	1.000						
19	Big Four	−0.026***	0.179***	0.041***	0.152***	0.002	0.067***	0.057***	1.000					
20	TMT political tie	−0.084***	0.041***	0.019**	0.045***	0.013	−0.031***	0.063***	−0.002	1.000				
21	Pollution label	−0.024***	−0.001	0.022***	−0.030***	−0.002	−0.004	0.024***	−0.029***	0.028***	1.000			
22	Herfindahl–Hirschman Index	−0.028***	0.022***	0.010	0.089***	−0.003	0.004	0.051***	0.028***	0.005	−0.056***	1.000		
23	Regional institutional level	0.103***	−0.005	0.068***	−0.043***	−0.055***	0.030***	−0.071***	0.042***	−0.122***	−0.065***	0.009	1.000	
24	CEO/Chair anti-corruption turnover	−0.078***	−0.030***	−0.058***	0.021**	0.014*	−0.023***	0.009	−0.002	−0.036***	0.005	0.011	−0.045***	1.000

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 2. Probit and Poisson regression results

Variables	Probit regression: DTH use					Poisson regression: The number of DTH subsidiaries				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Restructured FF (H1a)		0.194** (0.087)	0.212** (0.090)	0.232*** (0.088)	0.254*** (0.091)		0.363** (0.148)	0.398*** (0.151)	0.408*** (0.147)	0.446*** (0.151)
RFF × Second-generation TMT (H2a/H2b)			−0.159 (0.254)		−0.181 (0.254)			−0.359 (0.505)		−0.382 (0.505)
RFF × Economic tie to financial institutions (H3a/H3b)				−0.673*** (0.234)	−0.683*** (0.234)				−1.403*** (0.453)	−1.417*** (0.452)
Second-generation TMT	−0.225** (0.103)	−0.220** (0.103)	−0.193* (0.113)	−0.221** (0.103)	−0.191* (0.113)	−0.342* (0.206)	−0.329 (0.207)	−0.258 (0.231)	−0.329 (0.207)	−0.253 (0.230)
Economic tie to financial institutions	−0.056 (0.117)	−0.083 (0.119)	−0.086 (0.119)	0.154 (0.139)	0.154 (0.138)	−0.207 (0.254)	−0.261 (0.257)	−0.269 (0.255)	0.237 (0.280)	0.236 (0.278)
Family tenure	0.035*** (0.008)	0.037*** (0.008)	0.037*** (0.008)	0.037*** (0.008)	0.037*** (0.008)	0.041*** (0.016)	0.044*** (0.015)	0.045*** (0.015)	0.043*** (0.015)	0.044*** (0.015)
Firm size	0.160*** (0.038)	0.172*** (0.038)	0.173*** (0.038)	0.171*** (0.039)	0.172*** (0.039)	0.250*** (0.065)	0.271*** (0.064)	0.273*** (0.065)	0.270*** (0.064)	0.272*** (0.064)
Firm performance (ROA)	−0.191 (0.311)	−0.197 (0.308)	−0.191 (0.307)	−0.178 (0.308)	−0.171 (0.307)	0.347 (0.580)	0.334 (0.568)	0.341 (0.569)	0.368 (0.564)	0.376 (0.565)
Asset liability ratio	0.450*** (0.172)	0.380** (0.175)	0.378** (0.174)	0.387** (0.174)	0.385** (0.174)	0.623* (0.320)	0.485 (0.317)	0.485 (0.316)	0.495 (0.315)	0.495 (0.314)
Cash ratio	6.127** (2.681)	6.119** (2.684)	6.115** (2.690)	6.241** (2.689)	6.238** (2.697)	2.753 (4.388)	3.065 (4.350)	3.133 (4.355)	2.870 (4.434)	2.938 (4.447)
Independent director ratio	0.012** (0.005)	0.011** (0.005)	0.011** (0.005)	0.012** (0.005)	0.012** (0.005)	0.021** (0.010)	0.020** (0.010)	0.021** (0.010)	0.021** (0.010)	0.021** (0.010)
CEO duality	−0.002	0.005	0.006	0.002	0.003	−0.004	0.015	0.019	0.012	0.016

(Continued)

Table 2. (Continued.)

Variables	Probit regression: DTH use					Poisson regression: The number of DTH subsidiaries				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	(0.063)	(0.063)	(0.063)	(0.063)	(0.063)	(0.117)	(0.117)	(0.118)	(0.117)	(0.118)
Executive overconfidence	−0.002	−0.004	−0.004	−0.004	−0.004	0.010	0.008	0.007	0.008	0.007
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Controlling family ownership	−0.003	−0.002	−0.002	−0.002	−0.002	−0.010**	−0.009*	−0.008*	−0.009*	−0.009*
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Institutional investor ownership	0.005***	0.004**	0.004**	0.004**	0.004**	0.010***	0.008**	0.008**	0.008**	0.008**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
State ownership		−0.294	−0.247	−0.241	−0.209	−0.201	−0.926	−0.927	−0.898	−0.859
		(1.310)	(1.297)	(1.295)	(1.297)	(1.294)	(2.388)	(2.386)	(2.373)	(2.377)
Foreign ownership		0.188	0.320	0.329	0.322	0.332	−0.417	−0.135	−0.115	−0.135
		(0.516)	(0.519)	(0.519)	(0.519)	(0.519)	(0.856)	(0.855)	(0.854)	(0.851)
Ownership control separation		−0.017***	−0.018***	−0.018***	−0.018***	−0.018***	−0.016	−0.017	−0.016	−0.017
		(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.011)	(0.011)	(0.011)	(0.010)
Big Four		0.415**	0.423***	0.421**	0.413**	0.411**	0.491**	0.513**	0.507**	0.504**
		(0.163)	(0.164)	(0.164)	(0.164)	(0.165)	(0.226)	(0.225)	(0.225)	(0.224)
TMT political tie		0.004	0.018	0.017	0.014	0.012	−0.019	−0.003	−0.008	−0.010
		(0.065)	(0.065)	(0.065)	(0.065)	(0.065)	(0.129)	(0.129)	(0.128)	(0.129)
Pollution label		−0.256**	−0.258**	−0.260**	−0.262**	−0.264**	−0.496**	−0.507**	−0.509**	−0.510**
		(0.117)	(0.117)	(0.117)	(0.117)	(0.117)	(0.251)	(0.252)	(0.251)	(0.252)
Herfindahl–Hirschman Index		0.664***	0.648***	0.651***	0.643***	0.646***	0.879***	0.835**	0.842**	0.828**
		(0.233)	(0.235)	(0.234)	(0.235)	(0.235)	(0.336)	(0.339)	(0.339)	(0.339)
Regional institutional level		−0.063	−0.063	−0.063	−0.060	−0.060	−0.161	−0.159	−0.162	−0.151
		(0.047)	(0.047)	(0.047)	(0.047)	(0.047)	(0.103)	(0.101)	(0.101)	(0.099)
CEO/Chair anti-corruption turnover		0.007	−0.011	−0.013	−0.016	−0.018	0.140	0.108	0.104	0.104

	(0.056)	(0.056)	(0.056)	(0.056)	(0.056)	(0.106)	(0.108)	(0.108)	(0.109)	(0.109)
Year, Industry, and Province fixed effects	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Constant	−2.381***	−2.552***	−2.570***	−2.542***	−2.562***	−3.025***	−3.310***	−3.342***	−3.332***	−3.365***
	(0.555)	(0.560)	(0.560)	(0.562)	(0.562)	(0.973)	(0.959)	(0.960)	(0.955)	(0.955)
Observations	14,885	14,885	14,885	14,885	14,885	14,885	14,885	14,885	14,885	14,885
Number of firms	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493
Pseudo R^2	0.120	0.122	0.122	0.124	0.124	0.137	0.140	0.141	0.143	0.143

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Robust standard errors in parentheses.

of DTH use. Meanwhile, the independent effect of second-generation leaders on DTH use is significantly negative ($\beta = -0.220$, $p = 0.033$), aligning with the family-driven SEW perspective. We report the moderating effects using Model 5 (the full model). The results indicate that second-generation TMT involvement does not significantly reduce ($\beta = -0.181$, $p = 0.475$) the restructured FFs' tendency to use DTH, thus not supporting H2a. The moderating effect of economic ties to financial institutions on restructured FFs' tendency to use DTH is statistically significant ($\beta = -0.683$, $p = 0.003$), supporting H3a. The marginal effect of economic ties is -0.092 , showing that having economic ties to financial institutions would reduce a restructured FF's probability of using DTH by 95%.

Table 2 also reports similar findings of the Poisson regression on the number of DTH subsidiaries established by FFs. Again, Model 6 is an empty model, while Model 7 incorporates restructured FF to test H1b. Restructured FF has a statistically and practically significant ($\beta = 0.363$, $p = 0.014$) impact on the number of DTH subsidiaries, supporting H1b. The incidence-rate ratio (IRR) is 1.43, meaning that, holding everything else constant, restructured FFs establish 43% more DTH subsidiaries than entrepreneurial FFs. We use Model 10 (the full model) to interpret the moderating effects. The results indicate that second-generation TMT involvement does not significantly reduce ($\beta = -0.382$, $p = 0.449$) restructured FFs' number of DTH subsidiaries, not supporting H2b. The moderating effect of economic ties is significant ($\beta = -1.417$, $p = 0.002$), supporting H3b. The IRR is 0.24, indicating a 76% decrease in the number of DTH subsidiaries established by restructured FFs if they had economic ties to financial institutions.

The negative impact of ownership control separation on DTH utilization challenges conventional expectations. Theoretically, a broader gap between ownership and control might foster more aggressive tax haven strategies, reflecting a divergence in the interests of managers and owners. However, we find a more intricate interplay between family governance structures and DTH strategies, possibly due to prioritizing long-term family legacy over short-term financial gains derived from tax optimization strategies. Similarly, the unexpected negative correlation between pollution labels and DTH utilization invites further scrutiny. Prevailing logic might suggest that firms burdened with environmental compliance costs seek financial relief through the strategic use of DTHs. Yet, this result implies a potential reputational risk aversion among environmentally concerned firms, indicating a reluctance to engage in practices that could exacerbate their public image. These findings underscore the need for a deeper understanding of the multifaceted influences of family values, governance structures, and societal expectations on international strategies.

Robustness Tests

We conduct a series of robustness tests to ensure the validity of our empirical findings. First, we utilized the propensity score matching (PSM) method to alleviate possible endogeneity concerns resulting from selection bias and omitted variables that might impact DTH use and SOE restructuring (Hill et al., 2021). We used the one-to-one nearest neighbor PSM technique (caliper of 0.01⁹) to match each restructured FF with an entrepreneurial FF based on all the control variables and the moderators (Cheng et al., 2023). We then reran the Probit and Poisson regressions using the matched sample containing 2,453 firm-year observations with 868 FFs; the results shown in Table 3 are consistent with those in the main models.

Second, we employed a two-stage least squares (2SLS) analysis to address the endogeneity concern. In our 2SLS analysis, the level of excess employment across the entire industry of the focal firm in the year preceding their restructuring is the instrumental variable. Excess employment in the industry indicates the degree of social burden or noneconomic objectives the enterprises carry (Johansson, Luo, Rickne, & Zheng, 2017). A higher level of excess employment indicates heavier social burdens, which could be inversely related to the likelihood of an SOE's restructuring into an FF. Yet, industry-level excess employment is conceptually separate from a firm's DTH decision. Thus, this instrument should be strongly associated with the likelihood of an SOE restructured to an FF as the endogenous variable but should not directly relate to DTH use as the outcome variable, making it a valid instrument (Hill et al., 2021). In the first-stage probit model, we regressed restructured FF on *industry excess*

Table 3. Propensity score matching regression results

Variables	Probit regression: DTH use					Poisson regression: The number of DTH subsidiaries				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Restructured FF (H1a/H1b)		0.258** (0.110)	0.300*** (0.115)	0.305*** (0.113)	0.347*** (0.117)		0.405** (0.173)	0.443** (0.179)	0.455*** (0.174)	0.493*** (0.181)
RFF × Second-generation TMT (H2a/H2b)			−0.369 (0.363)		−0.374 (0.362)			−0.369 (0.585)		−0.374 (0.576)
RFF × Economic ties to financial institutions (H3a/H3b)				−0.681** (0.328)	−0.685** (0.327)				−1.074* (0.555)	−1.076* (0.551)
Second-generation TMT	−0.312* (0.183)	−0.311* (0.184)	−0.125 (0.224)	−0.322* (0.184)	−0.133 (0.224)	−0.412 (0.301)	−0.416 (0.302)	−0.207 (0.330)	−0.424 (0.300)	−0.212 (0.324)
Economic ties to financial institutions	−0.031 (0.184)	−0.060 (0.189)	−0.070 (0.189)	0.287 (0.256)	0.280 (0.255)	−0.237 (0.343)	−0.290 (0.347)	−0.297 (0.343)	0.288 (0.446)	0.283 (0.440)
Control variables	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Year, Industry, and Province fixed effects	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Constant	−1.433 (0.975)	−1.543 (0.977)	−1.542 (0.982)	−1.578 (0.981)	−1.574 (0.986)	−1.051 (1.520)	−1.161 (1.478)	−1.150 (1.469)	−1.242 (1.472)	−1.231 (1.465)
Observations	2,453	2,453	2,453	2,453	2,453	2,453	2,453	2,453	2,453	2,453
Number of firms	868	868	868	868	868	868	868	868	868	868
Pseudo R ²	0.132	0.138	0.140	0.141	0.143	0.215	0.223	0.227	0.229	0.232

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Robust standard errors in parentheses.

employment and all the control variables from the main models (lagged by one year). Results show that industry excess employment significantly reduces the likelihood of becoming restructured FF ($\beta = -0.016$, $p = 0.000$) while very weakly associated with DTH use ($r = 0.022$), suggesting its suitability as a legitimate instrumental variable in our 2SLS model. We computed the inverse Mills ratio (IMR) and incorporated it into the second-stage model that predicts DTH use. The second-stage results (Table 4) align with those of the main models.

Third, we conducted a placebo test by randomly assigning a fictitious restructured FF identifier to an FF, thus ruling out omitted variable bias (Cai, Lu, Wu, & Yu, 2016; Cheng et al., 2023). There are 22.3% restructured FFs in our full sample, so we randomly selected 22.3% of all the FFs and assigned them a fictitious restructured FF identifier, with the remaining being entrepreneurial FFs. We repeated this random assignment of a fictitious identifier 2,000 times (using the *simulate* command in Stata 17) and reran the main Probit and Poisson models 2,000 times by replacing the real restructured FF with the pseudo-independent variable – the simulated fictitious restructured FF identifier. Theoretically, if any major omitted variable exists, the effect of randomly assigned fictitious restructured FF should be significantly different from zero (La Ferrara, Chong, & Duryea, 2012). Both coefficients after 2,000 repetitions have mean values around zero – the placebo effects on DTH use and the number of DTH subsidiaries are -0.000 and -0.002 , respectively, which significantly depart from the two vertical red lines that represent our baseline coefficients (0.194 and 0.363 in Table 2)¹⁰, further confirming that potential omitted variables do not significantly bias our findings (see Supplementary Appendix 1).

Fourth¹¹, we employed Logistic and Tobit regressions to test the same main models. Supplementary Appendix 2 Table 5 reports the results that are consistent with the main findings. Fifth, we adopted a stricter FF identifier that labels FFs as firms owned and managed by two or more family members (see Chrisman, Sharma, Steier, & Chua, 2013; Gómez-Mejia, Chirico, Martin, & Baù, 2021), in which the sample size reduced to 11,886 observations and 2,249 firms. The results are consistent with the main findings. Supplementary Appendix 2 Table 6 reports the Probit and Poisson regression results based on the stricter FF definition.

Sixth, Macau is included in our DTH list (Jones & Temouri, 2016); given its unique status as a Special Administrative Region of China and its proximity to the mainland, subsidiaries in Macau might engage primarily in legitimate business activities rather than tax avoidance. We conducted a robustness test by excluding Macau from the list of DTHs to rule out the potential bias introduced by including a region with such distinctive characteristics. The reanalysis of our data showed that our findings remained consistent (see Supplementary Appendix 2 Table 7). This exercise not only reinforced the validity of our findings but also demonstrated that our analysis is robust to variations in the composition of the DTH list, even when considering unique regional dynamics such as those presented by Macau.

Seventh, we examined FFs' engagement in BETHs (see Supplementary Appendix 2 Table 8). Our results indicate that restructured FFs are less likely ($\beta = -0.166$, $p = 0.013$) to establish subsidiaries in BETHs than entrepreneurial FFs, with no significant difference ($\beta = -0.012$, $p = 0.884$) between these two types of FFs regarding the number of BETH subsidiaries. This could be due to the perceived strategic fit or risk assessment associated with larger, more economically integrated tax havens characterized by their grander scale and greater visibility, presenting higher reputational risks and regulatory scrutiny. This increased exposure might conflict with the restructured FFs' need to balance their inherited public-sector responsibilities with private-sector financial goals, making BETHs less attractive. This contrast in behavior, especially when compared with our findings related to DTHs, suggests a nuanced strategic approach by FFs based on their origins and the nature of the tax havens.

Lastly, although we do not compare FFs and non-FFs but rather explore the heterogeneity within FFs, we included two additional *T*-tests to solidify the core argument that the differences in DTH usage between restructured FF and entrepreneurial FF are exclusively due to the heterogeneity inherent within FFs. Firstly, within the subset of restructured firms, we compared restructured non-FFs with restructured FFs and found no significant difference ($p = 0.440$) in their DTH usage. This outcome indicates that the restructuring process itself does not influence DTH strategies. If restructuring were a major determinant, we would expect to see a significant difference in DTH strategies between

Table 4. 2SLS IV regressions with the instrument – Industry excess employment in the year preceding FF restructuring

Variables	First stage	Second stage									
	Probit regression: Restructured FF	Probit regression: DTH use					Poisson regression: The number of DTH subsidiaries				
		Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Industry excess employment	−0.016*** (0.002)										
Restructured FF (H1a/H1b)			0.190** (0.088)	0.207** (0.090)	0.228*** (0.088)	0.248*** (0.091)		0.362** (0.149)	0.397*** (0.151)	0.407*** (0.148)	0.444*** (0.151)
RFF × Second-generation TMT (H2a/H2b)				−0.145 (0.254)		−0.164 (0.253)			−0.353 (0.504)		−0.370 (0.503)
RFF × Economic ties to financial institutions (H3a/H3b)					−0.699*** (0.238)	−0.706*** (0.238)				−1.433*** (0.462)	−1.442*** (0.461)
Second-generation TMT	−0.231*** (0.038)	−0.284** (0.116)	−0.268** (0.116)	−0.239* (0.126)	−0.286** (0.117)	−0.254** (0.126)	−0.382* (0.226)	−0.360 (0.229)	−0.283 (0.251)	−0.387* (0.228)	−0.306 (0.249)
Economic ties to financial institutions	0.361*** (0.049)	0.026 (0.136)	−0.017 (0.138)	−0.025 (0.137)	0.254 (0.165)	0.248 (0.165)	−0.155 (0.293)	−0.221 (0.298)	−0.238 (0.295)	0.328 (0.337)	0.315 (0.334)
Inverse mills ratio		0.327 (0.297)	0.262 (0.297)	0.241 (0.295)	0.351 (0.301)	0.327 (0.299)	0.217 (0.569)	0.171 (0.582)	0.130 (0.578)	0.322 (0.578)	0.280 (0.575)
Control variables	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Year, Industry, and Province fixed effects	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Constant	1.702*** (0.139)	−2.255*** (0.561)	−2.447*** (0.566)	−2.472*** (0.565)	−2.400*** (0.569)	−2.427*** (0.568)	−2.955*** (0.969)	−3.255*** (0.960)	−3.300*** (0.962)	−3.230*** (0.942)	−3.276*** (0.944)
Observations	16,195	14,885	14,885	14,885	14,885	14,885	14,885	14,885	14,885	14,885	14,885
Number of firms	2,574	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493
Pseudo R^2	0.252	0.120	0.122	0.122	0.124	0.125	0.137	0.140	0.141	0.143	0.143

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Robust standard errors in parentheses.

FFs and non-FFs post-restructuring. This underscores the likelihood that the differences we observed in our primary study are rooted in the distinct characteristics of FFs rather than in their restructuring status. Secondly, we examined non-FFs by contrasting restructured non-FFs with their nonrestructured counterparts. The lack of significant disparity ($p = 0.620$) in DTH usage here reinforces our premise, suggesting that the restructuring factor is not a decisive element in DTH strategy decisions. Therefore, these additional *T*-tests bolster our findings, highlighting that the variations in DTH usage are intimately linked to the FF heterogeneity rather than to their restructuring status or general categorization.

Discussion

The salience and prevalence of tax havens have garnered significant scholarly interest in the tax haven internationalization strategy (Jones et al., 2023). Recent studies build upon this research stream by delving into the implications of tax havens for FFs (e.g., Temouri et al., 2022), revealing that the unique characteristics of FFs substantially shape their strategic choices concerning tax haven utilization. We extend this emergent line of research in family business literature by investigating how FFs' institutional origin influences their DTH utilization. Drawing from a mixed gamble approach and institutional theory, we theorize that FFs with divergent origins may have different perceptions regarding the potential gains and losses associated with DTH internationalization (different reference points), thus yielding disparate strategic choices in this domain.

The findings of this study based on a unique Chinese FF dataset, which includes FFs with two different origins, provide evidence that the institutional origin of FFs indeed promotes their propensity for engaging in DTH behaviors, therefore highlighting the noteworthy role played by institutional heritage and legacy in strategic decision-making, particularly regarding DTH internationalization. More specifically, restructured FFs exhibit a greater inclination toward DTH activities when compared with their entrepreneurial counterparts, primarily due to the divergent reference points and emphases engendered by their institutional origin. Our findings align harmoniously with the extant literature emphasizing the critical role of institutional origin and imprint in the FFs' strategic behaviors, such as innovation (Cheng et al., 2023). The significant role of institutional origin found in this study is also consistent with the extant studies that underscore the pivotal role of organizational path dependence in family businesses (de Groote & Kammerlander, 2023), as it implies that the initial status of FFs exerts a substantial influence on their future trajectories. Thus, our findings further bolster the notion that 'origin matters' to FFs (Cheng et al., 2023).

We also delved into the boundary conditions to better understand the role of FFs' institutional origin in DTH utilization. Our study unveils that the extent to which institutional origin affects the FFs' DTH utilization may vary depending on external conditions. In particular, our finding of the notable influence wielded by economic ties to financial institutions (external connection) on FFs' DTH behavior further supports the existing literature that accentuates the importance of networks and connections. Our finding regarding the role of economic ties is particularly fruitful in that it adds more nuances to the extant literature, mainly focusing on political connections rather than considering various ties family firms could have with various economic entities. This insight further elucidates the multifaceted interaction between FFs and various economic entities, thereby expanding our knowledge of the complex dynamics underpinning FFs' strategic choices.

The nonsignificance of H2a and H2b may be attributed to several factors. While the involvement of second-generation leaders typically signals a shift toward more conservative and family-oriented governance, these dynamics can be more complex in practice. The second generation's views on internationalization and risk may not always align with conservative strategies, especially if they have been educated or socialized in environments that favor aggressive growth and globalization strategies. Also, the second generation may interpret the importance of varying SEW types differently to further professionalize the firm (Stewart & Hitt, 2012). Lastly, the strong SOE legacy in restructured FFs might continue to exert a significant influence regardless of generational changes in management. This enduring influence could overshadow the moderating effect of second-generation involvement and may warrant further scholarly exploration. However, the second-generation leader's independent

effect on DTH use is significantly negative, indicating a family-driven SEW orientation. This finding is meaningful because it further supports the findings of extant literature, highlighting the pivotal role of second-generation involvement in FFs. By capturing the critical role of second-generation TMT involvement, our study demonstrates how changes in the FF structure due to shifting family dynamics could affect the firm's global entrepreneurial activity.

Our study contributes to family business literature in several ways. First, by adopting a unique data-set capturing different origins of Chinese FFs, our study sheds light on the salient role of institutional origin/legacy in FFs' strategic decision-making process, particularly about involvement in global entrepreneurial activities. As the case of restructured FFs in China vividly shows, FFs may emerge from various origins, including SOEs, and the origins may leave behind a distinct legacy that endures and exerts a lasting influence on the FFs. Nonetheless, a large portion of studies in the family business literature primarily focuses on the family legacy (Hammond, Pearson, & Holt, 2016), family imprinting (Marques, Bikfalvi, & Busquet, 2022), and founder imprinting (Pieper, Smith, Kudlats, & Astrachan, 2015) to explain distinctive aspects of FFs based on the assumption that FFs are typically originated from individual founders or families. Consequently, different types of legacy, imprints, or heritages rooted in various organizational origins are not yet fully explored in the family business literature (see exceptions: Cheng et al., 2022). Therefore, our findings underscore the substantial impact of institutional origin/legacy and serve to bridge the gap in the literature. Moreover, this nuanced exploration sheds light on the strategic underpinnings of FFs' internationalization entrepreneurial efforts, offering fresh insights into their complex motivations and behaviors on the global stage.

Second, our study contributes to the knowledge of heterogeneity among FFs, as some FFs may exhibit greater/weaker proclivity for engaging in DTH internationalization than other FFs due to their distinctive aspects, such as institutional origin and economic ties to financial institutions. Thus, we shed light on the possible sources of FF heterogeneity in DTH utilization. Moreover, by considering the restructured FFs, which emerged as a consequence of profound social transformation in China, we illuminate the underlying sources of the distinctiveness of Chinese FFs while also underscoring the pivotal role played by societal changes in comprehending the multifaceted nature of FFs in different countries. Thus, our finding further supports the role of FF heterogeneity in different countries or continents (Fang et al., 2022).

Finally, our study has important practical implications for policymakers and regulators aiming to understand and regulate FFs' DTH utilization. In particular, our finding sheds light on the drivers of DTH internationalization among FFs and the factors that moderate this link for policymakers and regulators. This knowledge can influence the creation of rules and regulations that support the lawful use of DTHs by FFs and limit the risks connected with this approach. By recognizing FFs' institutional origins, second-generation TMT involvement, and economic ties to financial institutions, regulators may customize their approaches to various types of businesses, improving the efficacy of their regulatory efforts.

Limitations and Future Research Directions

While our study offers valuable insights into the relationship between FFs' origin and DTH internationalization, it also presents several limitations that open avenues for future research. First, in consonance with the existing body of literature (e.g., Cheng et al., 2022), our theorizing is based on the premise that institutional legacy is embedded in the restructured FFs due to their institutional origin. However, we acknowledge that institutional origin does not invariably entail the presence of institutional legacy. For instance, some restructured FFs may exhibit a dearth of institutional legacy despite operating as SOEs over an extended period. Additionally, our theorizing does not encompass a comprehensive examination of institutional legacy's specific types and levels. Thus, our understanding of the role played by institutional origin stands to be enriched by empirical investigations that directly scrutinize the presence, type, and magnitude of institutional legacy rather than relying solely on assumed promises. Furthermore, given that the institutional origin of FFs indicates the convergence between institutional legacy and familial values, there is value in exploring the distinctive consequences

and outcomes that arise from the interplay between diverse types and levels of institutional legacy and a range of familial values (Rau, Schneider-Siebké, & Günther, 2019).

Second, our study undertakes a comparative analysis between restructured and entrepreneurial FFs, primarily investigating the ramifications of institutional origin. However, it is essential to acknowledge that our investigation exclusively focuses on SOEs as the specific root of institutional origin under consideration. Consequently, the generalizability of our findings and the scope of this study could be limited in other contexts. Future research could broaden this scope by examining various forms of FF origins, including private companies, nongovernmental organizations, and different institutional contexts. Such an endeavor would provide a comprehensive view of antecedents and consequences associated with various FF origins.

Lastly, our findings about the moderating role of economic ties to financial institutions suggest that some factors can mitigate the substantive impact of institutional origin on the DTH internationalization of FFs. However, we acknowledge that several uncovered factors may have the potential to wield a pronounced moderating effect on the influence of institutional origin. Hence, we advocate for future research to explore diverse factors that serve as potent moderators. In particular, it would be interesting to investigate the factors that amplify the role of institutional origins within FFs because it explains what keeps FFs with different origins different, thereby contributing to the FF heterogeneity research.

Conclusion

Various organizations, including FFs, have widely implemented DTH internationalization. Our study draws upon institutional theory and the mixed gamble approach to investigate what determines FFs' DTH internationalization. By focusing on the institutional origins of FFs, we uncover a key determinant of their DTH internationalization, thereby enriching the limited existing literature on this topic. Moreover, our findings reveal that several factors can mitigate the impact of institutional origin, further nuanced our understanding of this relationship. Thus, our study not only paves the way for future research on FFs' DTH internationalization but also provides insight into the critical role of FF origin.

Supplementary material. The supplementary material for this article can be found at <https://doi.org/10.1017/mor.2024.32>

Data availability statement. The replication Stata code and data for this study are available in Open Science Framework at <https://osf.io/tb85z/>

Acknowledgments. We sincerely thank Dr. Bin Liu, the Guest Action Editor, and the anonymous reviewers for their exceptional guidance and unwavering support during the review process.

Notes

1. The Global Capital Allocation Project conducted by Columbia University and Stanford University reveals that US and European investment in China primarily flows through Chinese firms' DTH subsidiaries, surpassing \$1.4 trillion by the end of 2020, nearly three times these countries' direct investments in China (Hancock, 2023).
2. Following previous studies (e.g., Cheng et al. 2023; Jin, Guo, Jiang, & Shi, 2024), we define an FF's institutional origin as the formal and informal institutional forces, including state policies, administrative structures, and societal norms, that shape the firm's initial conditions and influence its ongoing strategies and decision-making processes.
3. 'The nonfinancial 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' (Gómez-Mejía et al., 2007: 106).
4. BETHs (i.e., Hong Kong, Ireland, Lebanon, Liberia, Netherlands, Panama, Singapore, and Switzerland) are larger and more developed countries that provide favorable tax regimes but with more sophisticated financial services and legal systems, as well as substantial operations and local markets for MNEs (Temouri et al., 2022). MNEs utilize them to establish complex structures and arrangements that exploit loopholes and mismatches in tax rules. BETHs are primarily hubs for active income, such as management fees, sales, and services, and are used to reallocate taxable income from high-tax to low-tax jurisdictions via intrafirm transactions and transfers of intangible assets (Desai et al., 2006), relying on their reputation and influence.
5. The IPO process inherently involves significant restructuring that may be influenced by the firm's ownership history before listing. Therefore, classifying firms based on their status at IPO is particularly relevant for assessing how the state origin impacts DTH decisions.
6. CSMAR defines SOEs as firms with significant state shareholding, either over 50% (state-owned absolute controlling enterprises) or under 50% but with relative or contractual government control (state-owned relative controlling enterprises). This

classification reflects governmental influence, impacting the strategic decisions and DTH engagement of restructured FFs that inherit these institutional legacies.

7. *T*-test results show that in these intensified years, FF CEO/Chair turnover rate is significantly higher than in other years (23.0% vs. 18.7%, $p = 0.000$).

8. Similar to the findings of previous tax haven studies, only a very small portion (10–11%) of FFs in our sample experienced changes in the DVs over time. Thus, using pooled regressions is justified because it will increase the precision of the estimates compared with using random-effects models (Wooldridge, 2010).

9. We also used calipers of 0.03 and 0.1, the findings remain consistent.

10. Supplementary Appendix 1 Figure 1 depicts the distribution of placebo coefficients after 2,000 iterations.

11. The results of robustness checks 4 through 7 are detailed in Supplementary Appendix 2 Tables 5–8, respectively.

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Ke Gong (ke.gong@usm.edu) is an assistant professor of management at The University of Southern Mississippi. His research focuses on corporate ethical and unethical behaviors. His work has been published in esteemed journals such as *Strategic Management Journal* and *Journal of Business Research*. He serves on the Editorial Review Board of *Asia Pacific Journal of Management* and has over ten years of industry experience, including six years at Intel Corporation.

Dustin Odom (dustin.odom@usm.edu) is an assistant professor of management at The University of Southern Mississippi, US. His research interests include strategy, entrepreneurship, new ventures, and small business, with a focus on family business. Prior to joining academia full-time, he served as a Counselor of the Mississippi-SBDC for 5+ years.

Taewoo Kim (tkim@ulm.edu) is a Bruce and Lizabeth Boulware assistant professor of management at the University of Louisiana Monroe, US. His research interests lie at the intersection of strategy, entrepreneurship, and strategic HRM, with a particular focus on family business. He has published in leading journals such as *Entrepreneurship Theory and Practice*, *Small Business Economics*, and *Asia Pacific Journal of Management*.