Ownership Strategy and Foreign Affiliate Performance in Multinational Family Business Groups: A Double-edged Sword

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ABSTRACT

We argue that ownership strategies can be a double edged sword for multinational family business groups from emerging economies and the performance of their affiliates located abroad. We test an integrated framework based on internalization and agency theory on a longitudinal dataset of multinational family business groups from Taiwan. We find evidence for the contingent impact of cultural differences and family management on the association between ownership strategy and affiliate performance. While direct ownership is seen as offering more control over the affiliate, we show that this comes at a performance cost for affiliates in culturally different host countries and affiliates under family management. Indirect ownership seems to be one way to positively influence affiliate performance in culturally distant countries, but seems not to be contingent on family management utilization.

1. Introduction

We investigate the effects of ownership strategies on foreign affiliate's performance in multinational family business groups from an emerging economy. We thereby address two gaps in current international business literature. First, with the growing economic importance of emerging markets, new forms of corporate governance emerge that established international business literature struggles to integrate in existing conceptual frameworks (Cumming et al., 2017; Filatotchev and Wright, 2011). For instance, multinational family business groups (MFBGs) surface as the key economic forces from many emerging economies (Singh and Gaur, 2013; Ramamurti and Singh, 2009), and bring with them different ownership and management strategies to control their affiliates abroad (Gaur and Delios, 2015; Singh and Delios, 2017; Singh and Gaur, 2009). How the distinctive governance structure of those MFBGs impacts strategy and performance is a critical issue in international business field (Singh and Delios, 2017; Singh and Gaur, 2009). Second, MFBGs from emerging economies show a more pronounced usage of indirect ownership and family management to control foreign affiliates (Aguilera and Crespi-Cladera, 2016; Morck et al., 2005). Although there is ample of literature on direct ownership stakes and performance in foreign affiliates (e.g. Brouthers, 2002; Gaur and Lu, 2007) existing research often neglects the importance of indirect ownership as a cross border control tool for MFBGs. Existing studies also show little consistency in their findings reaching from positive, negative, to non-significant links between ownership strategy and foreign affiliate performance (e.g., Brouthers, 2002; Contractor et al., 2016; Peng et al., 2008; Shirodkar and Konara, 2017).

We believe that such complex ownership strategies can be a double-edged sword for MFBGs from emerging economies. For example, indirect ownership means the family controls a wide range of affiliates through crossholdings and magnifies relatively small levels of ownership to achieve control in a family business group (Almeida and Wolfenzon, 2006; Claessens et al., 2002; Morck et al.,

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2005). While indirect ownership requires less financial resources and allows for faster internationalization, it is also a corporate governance technique that might not be easily transferred across borders (Cumming et al., 2017). Indirect ownership also signifies a lower degree of commitment to the foreign affiliate (Anderson and Gatignon, 1986). Because of their aversion to outsider influence, MFBGs might complement such governance structures with family management in order to maintain direct managerial control. So far, the effects of transferability of corporate governance, and family management techniques have rarely been investigated in a single comprehensive study on emerging market MFBGs. For instance, Gaur and colleagues provide tentative insights into how group affiliation and ownership structure of Indian business groups may generate contingent impact on the relationship between performance and internationalization strategy (e.g., Gaur and Delios, 2015; Gaur and Kumar, 2009; Gaur et al., 2014); however, they do not consider more detailed corporate structure aspects such as the supplementary use of family management in affiliates abroad. Singh and Delios (2017) for instance, is one of the nascent studies that look at the internal governance workings of an enterprise. They include governance structure as well as family ownership characteristics to examine the growth strategies of enterprises from an emerging economy. However, their study does ignore the distinctive direct and indirect ownership structure of a family business group on the foreign affiliates.

In order to shed further light on that issue, we employ the theoretical perspectives of internalization theory and agency theory. An integrated approach is justified in our case because not only do we need to focus on transaction cost minimising governance structures, which is the stronghold of internalization theory, but also the nature and role of ownership, which is best investigated using agency theory (Claessens et al., 2000; Filatotchev and Wright, 2011). In particular, internalization theory provides our framework with key contingencies that guide multinational corporate governance. For instance, reducing uncertainty in cross border transactions requires an understanding of how easily governance structures can be transferred abroad across cultural differences (Brouthers, 2002; Magnusson et al., 2008). On the other hand, agency theory allows us to understand more complex corporate governance structures, such as indirect ownership and how potential conflicts of interest affect foreign affiliate performance.

This study contributes to current literature as follows. First, we develop an integrated framework that includes key characteristics of MFBGs from emerging economies such as the lack of fully functioning financial markets in the home country and the resulting emphasis on indirect ownership in foreign affiliates (Bhaumik et al., 2010; Contractor et al., 2016). Second, we also link with existing family business literature that emphasises their aversion to outsider influence (Erdener and Shapiro, 2005; Filatotchev et al., 2007). We therefore investigate how the management technique of using family managers, interacts with ownership strategies and resulting affiliate performance. Third, we utilize longitudinal data from foreign affiliates of MFBGs (Aguilera and Crespi-Cladera, 2016; Filatotchev et al., 2007). This is important because family enterprise's internationalization has been previously investigated predominantly from a corporate perspective (Gómez-Mejía et al., 2010). In particular, this study focusses on performance at the affiliate level, since affiliates are directly affected by ownership strategies (Levy, 2009). Lastly, we also follow Singh and Gaur's (2013) call for more research on complex family enterprises that dominate many emerging economies, in our case Taiwan.

2. Literature review and hypothesis development

2.1. Foreign affiliate ownership strategies and performance in multinational family business groups

Although the impact of family ownership on internationalization decisions and overall performance has been investigated before (Bhaumik et al., 2010; Erdener and Shapiro, 2005; Filatotchev et al., 2007), surprisingly few studies have focussed on the link between ownership strategies and affiliate performance. Within the ownership strategy literature, direct ownership has received the most attention. There is some agreement that direct ownership manifests the controlling family's commitment and interest on the focal affiliate, with positive performance implications (Anderson and Reeb, 2003; Claessens et al., 2000, 2002). This is because greater financial commitment also increases the managerial attention the affiliate receives, as well as the potential expansion of mandates for example. Direct ownership also reduces uncertainty in decision making. By uncertainty we mean the unpredictability of decision outcomes. However, the case is less straight forward for indirect ownership. For instance, previous studies suggest that indirect ownership increases the controlling family's likelihood to behave opportunistically and can cause principal-principal agency conflicts (Claessens et al., 2000, 2002; La Porta et al., 1999; La Porta et al., 2002). Principal-principal agency conflicts occur when family owners behave in way that places minority shareholders at a disadvantage, hence, the ownership interests are not aligned. In other words, direct and indirect ownership in a family business group is seen as a trade-off between the costs of family opportunism and the benefit of family commitment (Young et al., 2008). From a broader agency theory perspective the case seems therefore rather straight forward: direct ownership is good, and indirect ownership is bad for foreign affiliate performance.

This changes, however, if we include internalization theory considerations. The theory suggests that firms internationalize with a transaction costs minimising corporate governance structure, to access, develop, or utilize resources (Dunning, 1988, 2001). Hence, international ownership strategy is driven by firm specific resources (Rangan, 1998), rather than with the intention to exploit minority stakeholders as suggested in agency theory. This is of importance especially in the case of MFBGs from emerging markets which might require a higher degree of financial flexibility to finance international expansion (Almeida and Wolfenzon, 2006; Bhaumik et al., 2010; Levy, 2009). Although some MFBGs from emerging markets appear cash rich, the lack of trust in financial markets and intermediaries, and the family's traditional desire for control, indicate a preference for conservative financial self-reliance during international expansion (Liang et al., 2014; Shirodkar and Konara, 2017). Additionally, indirect ownership might also be a way to address a shortage of tried and trusted family management resources (Muñoz-Bullón and Sánchez-Bueno, 2012). Hence, indirect ownership might be an alternative ownership strategy for MFBGs to maintain family control in the long run during international expansion. In other words, the impact of ownership on affiliate performance, according to internalization theory, is

contingent on a number of conditions that affect the deployment and utilization of firm specific resources (Brouthers, 2002, 2013; Contractor et al., 2016). This aspect is less clear from an agency theory perspective alone.

The above considerations lead us therefore to believe that an integrated framework based on agency and internalization theory is most suitable to better understand the impact of ownership strategies on foreign affiliate performance. This is further underpinned to two adjacent arguments. First, family enterprises have the option to use of family management as an additional and unique way to influence foreign affiliate development (Muñoz-Bullón and Sánchez-Bueno, 2012). Second, from traditional internalization theory, we also need to consider the moderating impact of differing cultural contexts in order to understand the transferability of corporate governance across borders (Cumming et al., 2017). Both will be discussed next.

2.2. Cultural differences, ownership, and foreign affiliate performance

Cultural differences between home and host country refer to differences in values, norms and habits.[1] How those cultural differences effect ownership strategy has been investigated in the ownership literature with mixed results (Chakrabarty, 2009; Liesch et al., 2011; Kim and Gao, 2013). Cultural differences matter because they provide an indication for the transferability of corporate governance practises across country borders (Cumming et al., 2017). Especially cultural differences affect the transfer of family business specific values and norms (Chakrabarty, 2009; Tsang, 2001). The transferability might be hindered by cultural differences because they represent additional costs for communication and interpretation, and increase asymmetric information as well as liability of foreignness (Hennart, 2009; López-Duarte and Vidal-Suárez, 2013). Furthermore, cultural differences also create uncertainty in decision making and might therefore be considered as a threat to families' control over the business (Erdener and Shapiro, 2005; Gómez-Mejía et al., 2010).

This threat to the unique characteristics of family enterprises is likely to influence ownership strategies. For instance, a lower financial commitment might be preferred by the family enterprise in order to retain maximum financial flexibility in host locations with larger cultural differences (Bhaumik et al., 2010; Filatotchev et al., 2007). This might be especially the case for MFBGs from emerging markets, due to financial and managerial resource constrains. Indirect ownership also provides more flexibility in terms of managerial decision making in the foreign affiliate and hence reduce the uncertainty that would otherwise be encountered by transferring the home grown corporate governance structure, which is likely to occur under direct ownership. This is contrary to agency theory expectations, which would predict negative performance implications for indirect ownership in the affiliate due to principal-principal agency conflicts (Claessens et al., 2000, 2002; La Porta et al., 1999). Instead, we argue that, from an internalization theory perspective (Brouthers, 2013), when faced with larger cultural differences between home and host country, indirect ownership is an optimal ownership structure to minimize transaction costs leading to positive performance in the affiliates.

Direct ownership, on the other hand, represents a stronger financial and managerial commitment to the foreign affiliate (Filatotchev et al., 2007). However, family businesses are often short of managerial talent. This is because of their reluctance to have outsiders influence strategic decision making and the therefore limited career prospects they can offer (Erdener and Shapiro, 2005; Muñoz-Bullón and Sánchez-Bueno, 2012). This is of particular relevance in culturally distant environments in which the foreign affiliate might be confronted with the burden of liability of foreignness (Hennart, 2009; Shirodkar and Konara, 2017). For instance, linking into local networks might come with prohibitively high transaction costs. Hence, the additional costs incurred by direct ownership of affiliates in culturally different locations, might outstrip family management and corporate governance capability. We therefore depart again from agency theory predictions and argue that direct ownership in such foreign affiliates negatively moderates their performance. In other words, direct ownership is not sufficient to internalize the externalities caused by cultural differences.

Hypothesis 1. Cultural differences will negatively moderate the association between direct ownership and foreign affiliate performance.

Hypothesis 2. Cultural differences will positively moderate the association between indirect ownership and foreign affiliate performance.

2.3. Family management, ownership, and foreign affiliate performance

The utilization of family management is a distinctive family firm specific management characteristic (Arregle et al., 2007). The use of family members as managers to exercise control over foreign affiliates is very common (Chung, 2014), although the empirical evidence on its impact on performance itself is mixed (Gómez-Mejía et al., 2010; Zahra, 2003). We argue here that there exists a link between ownership strategy, family management utilization, and foreign affiliate performance.

Direct ownership represents a vested interest in the foreign affiliate and greater financial and managerial commitment by the MFBG. From an agency theory perspective, assigning a family manager might therefore provide the family enterprise with an increased sense of control (Villalonga and Amit, 2006). It might also ensure an alignment of the different ownership interests. From an

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[1] That is not to say that cultural differences are exhaustively representing differences between countries. Ghemawat (2001) for instance identifies four different dimensions; the organisational theorist Scott (1995) identifies three. However, studies indicate that cultural differences are important factors that explain a good amount of variation between countries (e.g.; Berry et al., 2010; Dahms, 2015; Dahms (in press), Dikova et al., 2010). We also would also like to reiterate that cultural differences can be seen as a more direct threat to family tendency on lowering the external involvement than say economic or administrative differences between countries.

internalization perspective, the use of family managers eases the flow of intangible knowledge within the MFBG and consequently supports the utilization and deployment of firm specific resources (Gaur et al., 2007). Family management also reduces internal transaction costs in minimising the need to internationally transfer home grown formal control mechanisms (Zahra, 2003). However, it also increases the costs of developing external relationships due to increased liability of foreignness for instance (Hennart, 2009). This might be in particular relevant for MFBGs from emerging markets which might be also interested in accessing location specific resources (Dunning, 2001; Erdener and Shapiro, 2005). These additional costs are likely even more severe for MFBGs from emerging markets that might lack adequately qualified family managers (Muñoz-Bullón and Sánchez-Bueno, 2012). Hence, internalization theory predicts a negative association between direct ownership and foreign affiliate performance if a family manger is heading the affiliate.

From an internalization theory perspective, indirect ownership is seen as a preference for financial flexibility rather than control over the affiliate itself (Almeida and Wolfenzon, 2006; Levy, 2009). Indirect ownership is also used to protect the family business from potential opportunistic behaviour of the foreign affiliate (Filatotchev et al., 2008). Another scenario is that indirect ownership, especially during international expansion, is a financial necessity. Family financial resource constrains might make it necessary to send a family manager in an affiliate that is only indirectly owned to establish trust among the other shareholders and stakeholders for instance. Hence, use of family management in indirectly owned foreign affiliates might actually reduce agency conflicts. Levy (2009) observes similar behaviour in the Belgian family business group Colruyt, which strategically placed its family members to complement control over indirectly owned affiliates. Similar behaviour has also been found in MFBGs from emerging markets (Luo and Chung, 2005). Hence, family management positively moderates the association between indirect ownership and affiliate performance.

Hypothesis 3. Family management will negatively moderate the association between direct ownership and foreign affiliate performance.

Hypothesis 4. Family management will positively moderate the association between indirect ownership and foreign affiliate performance.

3. Research method

3.1. Data and sample

This study utilizes a multinational family business group sample in Taiwan from 1999 to 2003 (e.g., Chung and Chan, 2012; Luo and Chung, 2005). We examined this time period since it was without major economic shifts such as the IMF crisis that occurred during the early 1990s (Lasserre and Schütte, 2006; Luo and Chung, 2005). The researchers classified as a family business group, businesses managed or controlled by a specific family or set of families and owned by a previous generation of the same family (or families). This definition is consistent with prior studies (Anderson and Reeb, 2003; Miller and Le-Breton-Miller, 2005). The result was a sample of 51 family business groups.

The creation of family ownership structure in foreign affiliates is a strategic decision that occurs at the affiliate level; however, the character of the nested family business group will influence each foreign affiliate decision. Thus, the multi-level and longitudinal nature of the data for the family business groups examined by this study makes appropriate the use a hierarchical linear model (Bryk and Raudenbush, 1992) to consider the growth pattern of the data. It also deals with possible intra-level correlations. Researchers argue that combining panel data with the possible level-of-analysis concern can overcome a biased inference and the implicit assumption that cross-sectional analysis on the single level may occur (Dansereau et al., 1999).

One benefit of panel data in multi-level design and the utilization of relevant data analysis techniques is that researchers can treat the data from each level and each year as separate data points (Bryk and Raudenbush, 1992; Dansereau et al., 1999). Thus, for each year, we can examine foreign affiliate performance and use the information from that year in our analysis. In total, we have 2398 foreign affiliate-level data points operating in more than 30 host countries. A detailed sample overview can be found in appendix A1 & A2.

3.2. Variables

3.2.1. Dependent variable (Y): foreign affiliate performance

As indicated by previous studies (e.g., Brouthers, 2002, 2013; Delios and Beamish, 1999; Gaur and Lu, 2007), the performance of foreign affiliates is often treated as company secret. Hence, it is hard to obtain accounting-based performance data from foreign affiliates. Other studies utilize survey based data to measure foreign affiliate performance (e.g., Brouthers, 2002, 2013; Delios and Beamish, 1999; Gaur and Lu, 2007). In this study, we use the financial performance in each foreign affiliate to indicate if the foreign affiliate performs efficiently or productively. We utilize the sales revenue to indicate foreign affiliate performance (Errunza and Senbet, 1984; Zahra, 2003). The sales revenue in each foreign affiliation can also measure the foreign affiliate's international performance (Errunza and Senbet, 1984).

3.2.2. Ownership stakes variables (O1 & O2): direct and indirect ownership in a foreign affiliate

To calculate the foreign affiliate ownership stakes in each family business group, we utilize the measurement of direct and indirect

ownership originally developed by Claessens et al. (2000, 2002) and La Porta et al. (1999, 2002). We identify the major shareholders and their shares in each affiliate, including domestic and foreign affiliates, from multiple sources of secondary databases, such as the China Credit Information Service (2001, 2002, 2003, 2004, 2005). The data from the China Credit Information Service shows each affiliate's major shareholders and percentages of ownership. Affiliates' major shareholders can be individuals, companies, or both. If there is missing data on how many shares major shareholders own we sought that information from the annual reports. In the case of a family business groups, family members can exert ultimate control over the family business group through both direct and indirect ownership types. In La Porta and his colleagues work, they define a firm's ownership structure as indirect if: (1) it has an ultimate owner and (2) there is at least one listed affiliate between it and the ultimate owner in the chain of 20 percentage voting right (La Porta et al., 1999: 477). However, La Porta, Claessens, and their colleagues cover only listed affiliates (Claessens et al., 2000, 2002; La Porta et al., 1999, 2002), but here we can include units that are both private and listed affiliates. Therefore, we define a controlling shareholder as someone who has x percent indirect control over firm A if (1) the shareholder directly controls firm B, which, in turn, directly controls x percent of the votes of firm A or (2) the shareholder directly controls firm C, which, in turn, controls x percent of the votes of firm B, and firm B directly controls x percent of the votes of firm A. When multiple shareholders have different percentages of the votes in the control chain, we pick the one with the highest minimum voting stake along the chain (La Porta et al., 1999, 2002), which is also the weakest link in the chain (Claessens et al., 2000). The measurement of **indirect ownership in a foreign affiliate (O2)** is the sum of shares pertaining to cross-shareholding of a focal foreign affiliate that involves more than one listed affiliate in the same family business group.

Further, **direct ownership in a foreign affiliate (O1)** is the sum of the shares in a focal foreign affiliate that is directly owned by family members, i.e. the shares registered in any family member's name (Claessens et al., 2000, 2002; La Porta et al., 1999, 2002). For instance, suppose that firm A has four major shareholders: (1) 10% of its shares owned by one family member, (2) 15% of its shares owned by a brother-in-law, and (3 & 4) 20% and 17% of its shares individually owned by another two affiliations in the same family business group. In this case, we calculate the family direct control in firm A is 25% (10% plus 15%).

3.2.3. Moderating variable (M1): cultural differences

This study utilizes the measurement method developed by Kogut and Singh (1988) to measure cultural differences between host and home country based on Hofstede's (1980) culturally integrated index. The Hofstede's (1980) culturally integrated index indicates the taken-for-granted and shared understanding of the social life in a country, and contains 5 dimensions (individualism, uncertainty avoidance, masculinity, long-term orientation and power distance) in the culturally integrated index. This cultural difference measurement developed by Kogut and Singh (1988) is utilized previously (e.g., Gómez-Mejía et al., 2010; Slangen and Hennart, 2008). This study codes the country scores and calculates the cultural differences to indicate the specific cultural differences between Taiwan and the host country year by year.

3.2.4. Moderated variable (M2): family management in the foreign affiliate

Following previous studies, we utilize a dummy-coded variable to indicate whether the foreign affiliate CEO is the family member or not (Gómez-Mejía et al., 2010; Villalonga and Amit, 2006). We identify a family member as the CEO of a foreign affiliate from multiple secondary databases, including business group directories, public information in newspapers, magazines, or website information. We utilize the last name of the person to identify whether the foreign affiliate CEO has direct blood relationships with the founder and also the siblings since they are all influential in the family enterprise network (Chung and Chan, 2012; Luo and Chung, 2005).

3.2.5. Control variables

The level of analysis in this research is the foreign affiliate, and each foreign affiliate is nested in a specific family business group. Thus, we must control the influence from the group-level and foreign affiliate-level variables. Table 1 contains the descriptions of all the control variables used in this study.

3.3. Method

In this study we use longitudinal multi-level data. Therefore, this study employs the Multilevel Mixed-effects Maximum Likelihood Model (ML model) in STATA 9.0 software. Researchers use the ML model in regression when the data is characterized by influences from the nested group-level variables and from the foreign affiliate-level variables (Dansereau et al., 1999; Rabe-Hesketh and Skrondal, 2008). The repeated foreign affiliate observations from the same family business group may result in foreign affiliate observations nested in the same group. Therefore, we selected this model to account for the effects from the group-level influence and the effects from the foreign affiliate-level influence.

To ensure the appropriateness of the data for this model of analysis, we conduct a number of tests. First, we employ the test developed by Brown and Forsythe (1974) to test the null hypothesis of equality of variances across groups. The test rejected the null assumption of homoskedasticity across the panel. Next, since the data is characterized by a multi-level term with a longitudinal concern, the model selected has to consider the growth pattern of the data and also deal with the possibly intra-level correlation (Bryk and Raudenbush, 1992; Dansereau et al., 1999). We also account for contemporaneous correlation—that is, the residuals of units observed in each time period correlate with residuals, the model selected needs to consider the observation from each year as a separate data point (Rabe-Hesketh and Skrondal, 2008). We perform the Hausman test to justify whether the fixed-effect or random-effect model is specified. The test suggests the fixed effect model.

Table 1
Control variables list.

Name	Measurement	Reference
Group-level control variables		
Group size	The family business group's total assets	Gong, 2003; Khanna and Rivkin, 2001
Group age	The years from the family business group's founding year to the current year	Gong, 2003; Khanna and Rivkin, 2001
General international experience	The total foreign assets of the business group in each year	Harzing, 1999
Group performance	The accounting-based measurement of the performance in the family business group	Khanna and Rivkin, 2001; Luo and Chung, 2005
International diversification	The entropy measurement is defined as ID = $\Sigma_i[S_i\ln(1/S_i)]$, where S_i is defined as the sales attributed to global market region i, and $\ln(1/S_i)$ is the relative weight given to each global market region (the logarithm of the inverse of its sales). The foreign market regions are classified as Africa, Asia and Pacific, Europe, America and the Oceania.	Hitt et al., 1997
Founder leadership	A dummy-coded variable to indicate whether the family founder still serves as the key decision-maker in this family business group	Morck et al., 2005
Foreign affiliate-level control variables		
Manufacturing foreign affiliate	The dummy-coded of manufacturing industry in the foreign affiliate	Slangen and Hennart, 2008
Distribution foreign affiliate	The dummy-coded of distribution function of the industry in the foreign affiliate	Brouthers, 2002
Foreign affiliate's age	The foreign affiliate's age in a specific year	Gong, 2003; Shirodkar and Konara, 2017
Foreign affiliate's asset	The foreign affiliate's assets in a specific year	Gong, 2003; Shirodkar and Konara, 2017
GDP growth rate of the host country	GDP growth rate of the host country indicates the potential growth opportunity in the host country	Shirodkar and Konara, 2017
Economic differences	This variable is measured by calculating the differences of the log transformed GDP per capita between home and host country year by year during the period examined	Oxley and Yeung, 2001
Average labor cost	Average labor cost of the host country indicates the potential operation cost in the host country	Harzing, 1999

4. Analysis

4.1. Correlations

The bivariate correlations in Table 2 indicate that the dependent variable, i.e., the foreign affiliate's performance, has a positive correlation with indirect ownership in family business groups. The family indirect ownership in foreign affiliate correlates significantly with several variables, including the cultural differences between the home and the host country, and the use of family management in the foreign affiliate. The results of the causal analysis are discussed next.

4.2. Causal analysis

This research tests several models to investigate the causal effects of the control variables and the integrated influence from the ownership stakes and moderated factors. The Wald chi-square values are significant for all models. Therefore, this research satisfies the model-of-fitness and the model setting.

Several of the group-level and the foreign affiliate-level control variables were significant. Table 3 shows that some of the foreign affiliate's characteristics significantly influence the foreign affiliate performance. Specifically, industry (whether the foreign affiliate has a manufacturing or distribution function), age, and assets all have significant effect on the foreign affiliate performance. Additionally, the host country average labour cost as well as the relative economic differences between the home and the host country influences the foreign affiliate performance.

Hypotheses 1 and 2 argued that cultural differences moderate the association between ownership stakes and foreign affiliate performance. Looking at the isolated effect from ownership first, we find that direct and indirect ownership stakes only have a weak association with foreign affiliate performance. However, as we consider the moderated factors, the ownership stake impact on the foreign affiliate performance is becoming significant.

Table 3 shows that cultural differences negatively moderate the association between direct ownership and affiliate performance. We also found that cultural differences positively moderate the association between indirect ownership and affiliate performance. Therefore, H1 and H2 are supported.

Hypothesis 3 argued that family member management negatively moderates the association between direct ownership and affiliate performance. This has been confirmed. However, in Hypothesis 4 we argued that family management will positively moderate the association between indirect ownership and affiliate performance. Although we predicted the correct directionality, the value failed to become statistically significant. We will discuss the results in the following section.

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Table 2
Correlation matrix.

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Foreign affiliate sales revenue	0.04	0.20																	
2. Direct ownership	0.90	0.41	−0.02																
3. Indirect ownership	0.12	0.11	−0.12*	0.02															
4. Cultural differences	2.15	1.23	0.05**	0.01	0.13**														
5. Family management	0.38	0.35	−0.02	−0.01	0.23**	0.21**													
6. Group age	39.35	16.73	0.14**	−0.03*	0.04**	−0.07**	−0.04**												
7. Group asset	1.18	14.05	0.37**	0.02	−0.17**	0.01	−0.16**	0.08**											
8. Group performance	1.64	3.99	0.05**	−0.02	0.01	0.03	0.05**	0.05**	0.04**										
9. Founder leadership	0.46	0.50	0.10**	−0.01	0.07**	−0.04**	0.08**	−0.07**	0.13**	0.08**									
10. International diversification	0.55	0.32	0.33**	0.01	−0.04**	0.13**	0.02	−0.06**	0.07**	−0.01	0.04**								
11. Group's foreign experiences	1688.10	1530.68	0.60**	0.01	−0.12**	0.04**	−0.03	0.08**	0.53**	0.02	0.16**	0.24**							
12. Manufacturing foreign affiliate	0.29	0.46	0.12**	−0.03	−0.11**	−0.36**	−0.15**	0.09**	0.01	0.01	0.12**	−0.02	0.07**						
13. Distribution foreign affiliate	0.13	0.03	0.06**	−0.01	0.03	−0.01	−0.06**	0.07**	−0.05**	0.04**	−0.05**	0.06**	0.01	−0.27**					
14. Foreign affiliate age	5.75	5.25	0.06**	−0.02	0.13**	−0.07**	0.07**	0.14**	0.07**	−0.05**	−0.02	−0.01	0.08**	0.02	0.14**				
15. Foreign affiliate asset	144.73	67.98	0.08**	0.01	0.14**	0.03*	0.07**	−0.04**	0.05**	0.05**	0.05**	0.04**	0.13**	0.03	−0.06**	0.14**			
16. GDP growth rate	0.08	0.47	0.07**	−0.01	0.05**	−0.06**	0.01	0.20**	0.07**	−0.07**	0.08**	0.01	0.08**	0.08**	−0.01	0.01	−0.04**		
17. Economic differences	0.56	0.39	0.05**	−0.03	−0.11**	−0.44**	−0.22**	0.12**	0.01	−0.01	0.10**	−0.13**	0.01	0.50**	−0.08**	−0.10**	0.03*	0.07**	
18. Average labor cost of host country	1725.84	1395.73	0.03*	0.02	0.13**	0.60**	0.21**	−0.10**	0.02	−0.01	−0.06**	0.12**	0.06**	−0.48**	0.08**	0.07**	0.02	−0.06**	−0.56**

Note: Group's asset, Group's foreign asset, and Foreign affiliate's asset are indicated by US. million dollars; average labor cost of the host country is indicated by U.S. dollars.
* If P ≤ 0.05.
** If P ≤ 0.01 (two tailed).

Table 3
Causal analysis results.

Y = foreign affiliate sales revenue	M1	M2	M3-1	M3-2	M4
Constant	0.64 (3.15)	0.57 (3.16)	1.24 (3.15)	1.43 (3.15)	2.81 (3.78)
Single effect of ownership stakes					
Direct ownership in foreign affiliate		−0.27 (0.16)	−0.18 (0.15)	−0.25 (0.16)	−0.16 (0.17)
Indirect ownership in foreign affiliate		−0.22 (0.14)[+]	−0.26 (0.15)[+]	−0.24 (0.15)	−0.25 (0.16)
Moderated effect-affiliate level					
Cultural differences ∗ direct ownership			−0.03 (0.02)[*]		−0.03 (0.01)[*]
Cultural differences ∗ indirect ownership			0.22 (0.11)[*]		0.19 (0.12)[*]
Family CEO in foreign affiliate ∗ direct ownership				−0.76 (0.33)[*]	−0.70 (0.32)[*]
Family CEO in foreign affiliate ∗ indirect ownership				0.41 (0.27)	0.32 (0.27)
Moderators					
Cultural differences			−0.32 (0.06)[**]		−0.31 (0.06)[**]
Family CEO in foreign affiliate				−0.34 (0.10)[**]	−0.32 (0.10)[**]
Control vs.-affiliate level					
Manufacturing foreign affiliate	1.48 (0.12)[**]	1.46 (0.12)[**]	1.42 (0.12)[**]	1.43 (0.12)[**]	1.39 (0.12)[**]
Distribution foreign affiliate	1.72 (0.12)[**]	1.73 (0.12)[**]	1.62 (0.13)[**]	1.69 (0.12)[**]	1.59 (0.12)[**]
Foreign affiliate age	0.04 (0.01)[**]	0.04 (0.01)[**]	0.03 (0.01)[**]	0.04 (0.01)[**]	0.03 (0.01)[**]
Foreign affiliate asset	0.85 (0.20)[**]	0.85 (0.02)[**]	0.86 (0.02)[**]	0.86 (0.02)[**]	0.87 (0.02)[**]
Host country's GDP growth rate	0.19 (0.13)	0.18 (0.13)	0.18 (0.12)	0.17 (0.12)	0.17 (0.12)
Economic differences	0.10 (0.15)[*]	0.40 (0.18)[*]	0.72 (0.20)[**]	0.38 (0.19)[*]	0.69 (0.19)[*]
Average labor cost of the host country	0.01 (0.02)[+]	0.02 (0.01)[+]	0.01 (0.01)[*]	0.01 (0.01)[*]	0.01 (0.02)[*]
Control vs.-group level					
Group's age	−0.03 (0.04)	−0.03 (0.04)	−0.05 (0.03)	−0.04 (0.03)	−0.05 (0.03)
Group's asset	0.01 (0.17)	0.01 (0.17)	0.02 (0.17)	−0.03 (0.17)	−0.02 (0.17)
Founder leadership	−1.36 (2.06)	−1.30 (1.06)	−1.30 (1.05)	−1.41 (1.05)	−1.40 (1.04)
Group performance (ROA)	0.01 (0.02)	0.01 (0.01)	0.01 (0.02)	0.01 (0.01)	0.01 (0.001)
Level of international diversification	0.23 (0.23)[+]	0.28 (0.23)[+]	0.26 (0.23)	0.27 (0.23)	0.26 (0.23)
General international experiences	0.04 (0.11)	0.04 (0.11)	0.02 (0.22)	0.04 (0.11)	0.02 (0.02)
R-square-within	**0.48**	**0.48**	**0.49**	**0.49**	**0.49**
R-square-between	**0.40**	**0.40**	**0.31**	**0.35**	**0.27**
R-square-overall	**0.44**	**0.44**	**0.43**	**0.43**	**0.45**
Wald Chi-2	**185.57**[**]	**161.96**[**]	**138.46**[**]	**136.62**[**]	**119.88**[**]
Number of foreign affiliates	**2669**	**2661**	**2661**	**2659**	**2659**
Number of groups	**51**	**51**	**51**	**51**	**51**

Note: 1. Standard deviation data given in parentheses.
[+] If P ≤ 0.10.
[*] If P ≤ 0.05.
[**] If P ≤ 0.01.

5. Discussion & conclusions

In this article, we addressed two main gaps in current international business literature; the first was to suggest a way to integrate newer forms of corporate governance prevalent in emerging markets, such as MFBGs, in current international business frameworks. Second, we focus on two concrete examples of such corporate governance practises, direct and indirect ownership, and their effect on foreign affiliate performance under the contingencies of cultural differences and family management. We propose an integrated conceptual framework based on internalization and agency theory. Using a sample of longitudinal data of Taiwanese MFBGs we empirically tested our predictions. We also extend existing studies by focusing on the affiliate level of performance rather than the business group itself.

Overall, we found that ownership strategies are indeed a double edged sword for MFBGs in that the effects on foreign affiliate performance are contingent on cultural differences and family management involvement. Our results support the argumentation that larger cultural differences negatively moderate the association between direct ownership and foreign affiliate performance (Hypothesis 1). It supports our view that MFBGs still struggle to manage cross border cultural differences. However, we also show that indirect ownership in the foreign affiliate is a way to circumvent such additional governance and management costs (Hypothesis 2). This provides support for the notion that MFBGs seek ways to mitigate the effects of limited transferability of corporate governance and management across country borders. For instance, while Bhaumik et al. (2010) show that the governance structures of family enterprises might hinder their international expansion, we extent their research in showing that family enterprises also possess governance structures to circumvent such potential disadvantages.

We also include the contingency of family management in our framework. We found that family management negatively moderates the association between direct ownership and affiliate performance (Hypothesis 3). Thus, while family management and direct ownership are likely to reduce internal cost of transaction, the negative externalities incurred through, for instance liability of foreignness, appear to outweigh those internal benefits. This finding expands the argument by Hennart (2009) for instance in showing that negative externalities, caused by lacking local network access, might be even more pronounced in the case of MFBGs from emerging markets. We also expand Bhaumik et al. (2010) who only considered shareholdings in affiliates, but neglected the

possibility to use family managers as a control mechanism in MFBGs. Lastly; we found that the link between indirect ownership and performance was not significantly moderated by family management (Hypothesis 4). This might be because the impact of actual family management might be more symbolic in indirectly owned affiliates rather than operational. In a way, indirect ownership might also indicate a lack of integration of the affiliate with the rest of the multinational network (Contractor et al., 2016), and family management itself is not sufficient to generate more than figurative influence.

5.1. Conceptual implications

In this article, we suggested an integrated theoretical framework that applied insights from internalization and agency theory perspectives. We believe such an approach contributes to future theory development because it allows incorporating the unique characteristics of MFBGs from emerging economies. For instance, financial markets might be less developed in emerging economies and hence the traditional expectation from agency theory that indirect ownership creates principal-principal agency conflicts (Claessens et al., 2000, 2002; La Porta et al., 1999, 2002) might provide only an incomplete picture of the internationalization process in MFBGs. Instead, we argued that indirect ownership can also be a necessity for such family businesses because of their preference for financial autonomy and the aversion to outsider influence. We thereby expand the discussion initiated by Filatotchev and Wright (2011) in emphasising the complementarities between the two perspectives. By focussing on cultural and family management contingencies, we also build upon the discussions by Cumming et al. (2017). In particular, we emphasise the mutual importance to include company specific contingencies such as family management and external ones such as cultural differences in order to understand the transferability of corporate governance strategies across borders.

Furthermore, our conceptual framework consisting of agency and internalization theory also complements the more commonly used institutional theory lens (e.g. Gaur and Lu, 2007; Shirodkar and Konara, 2017). From an institutional theory perspective, multinationals are likely to mimic local management practises to increase performance in host countries. This focus on external contingencies, however, neglects the internal workings of firms and of multinational family business groups from emerging markets in particular. Our framework suggests that internal transaction costs minimising rational determines firm ownership structure, staffing decisions, and performance in foreign affiliates. This seems in particular relevant to multinationals from emerging markets, which might lack the resources and experience to adapt their firm specific advantages to local institutional pressures.

Therefore, we believe that we also contribute to the wider debate in emerging market multinationals research. This is because in those emerging markets multinational family business groups tend to capture the majority of economic activity (Chang, 2006). Within those companies, family ownership plays an important role in corporate decision making. Other researchers, such as Steier et al. (2015) or Gómez-Mejía et al. (2010), argue that they also differ in the way decisions are rationalized. In particular, the focus on the preservation of socioemotional wealth plays a dominant role. However, our research departs from their sole focus on socio-emotional wealth preservation concern. While we acknowledge the importance of family management as a vital impact on MFBG's decision making, we also highlight that financial realities, in our case ownership decisions in foreign-affiliates, influences affiliate performance beyond mere socioemotional wealth considerations. This is because even family owned emerging market multinationals need to actively compete abroad in order to retain their status at home.

Lastly, our results also provide some indication on how MFBGs deal with strategic ambidexterity, in our case to simultaneously manage exploration and exploitation (O'Reilly and Tushman, 2013). MFBGs from emerging economies in particular might struggle to align their resources and their strategy. In this study, we showed that family management, seen as a family firm specific resource can also impede performance and thereby making the achievement of organisational ambidexterity much harder (Raisch and Birkinshaw, 2008). Hence, while research on strategic ambidexterity is still ongoing (e.g. Junni et al., 2013), we indicate that MFBGs from emerging economies, with their distinct characteristics such as family management as a key resource, might require further conceptual attention.

5.2. Managerial and policy implications

Besides the above theoretical contributions, this study also offers interesting managerial and policy implications. For instance, managers at MFBG headquarters and affiliate level need to be aware of the limited transferability of home grown governance and management structures. This is especially the case in locations that show pronounced cultural differences which might go beyond the managerial capability of the family management team. An indirect ownership strategy might be more promising in such constellations. Policy makers should also be aware of cultural differences between home and host country when attracting foreign direct investment. Larger cultural differences might put an additional managerial burden on the multinational and subsequently the affiliate performance. After all, the performance of the foreign affiliate is an important consideration for the sustainability of the investment by the MFBGs.

5.3. Limitations and future research

Our study has limitations which could provide the basis for future research. The first one is on the sample. This study relied on a sample of Taiwanese MFBG's. It thereby reduces bias often found in other studies that focus exclusively on developed countries. However, it would be beneficial to extent the sample and include MFBG's from other countries to see the generalization of the findings from this study or even conduct comparative studies among countries, such as India and China (e.g., Singh and Gaur, 2009). This is because MFBGs from Asia tend to have a far bigger extended family member network than family enterprises from home

countries with traditionally smaller core families (Chandler Jr, 1977; Hamilton, 1997).[2] For example, for those family enterprises in U. S. A., even though the founding family ownership has significant performance impact (Anderson and Reeb, 2003), these family enterprises tend to move to non-family oriented managerial forms over time (Chandler Jr, 1977). However, in Asia, the founding family still remains dominant on both ownership and management control, even in foreign affiliates. Besides extending the sample to other similar cultural locations, we also suggest that further researches can extend the concept of closely personal links to other non-family business groups in East Asia since in those non-family business groups those close founding team members can reach the status of "inner circle" on decision-making rights that is quietly similar to the family members in a family business group even though these founding team members might not be actual blood ties among them (Luo and Chung, 2005; Chung and Dahms, 2016).

Second, the number foreign affiliates are not evenly distributed among business groups in our sample and thus may cause the biased analysis among the groups. We chose the sample to gain a full picture of Taiwanese MFBGs international activities, rather than just focussing on certain international champions only. Hence, while some family business groups have a larger number of foreign affiliates, others do not. However, the utilization of longitudinal data as well as multiple family business group analysis can reduce the possible distribution bias caused by the non-evenly distributed problem. Additionally, according to the information in Appendix A1, family business groups may decide their ownership and management decision in foreign affiliates based on the foreign affiliate characteristics rather than the absolutely number of foreign affiliates. Thus, controlling the nested group factors as well as the foreign affiliate factors are helpful to understand the relationships among variables in MFBGs sample. In sum, because MFBGs from emerging economies play an increasingly important role in the global market, understanding the role of family influence is a critical issue. Therefore, although the single-country sample in this study is a limitation, the evidence in this study illustrates the important influence of founding family on ownership and management in MFBGs and further researches can extend the findings to understand more about the coordination and control issues of MFBGs.

Furthermore, performance of foreign affiliates can be assessed in a number of ways. In line with relevant studies (e.g. Brouthers, 2002, 2013; Delios and Beamish, 1999; Gaur and Lu, 2007), we have chosen the foreign affiliate sales as a proxy for performance; however, more in depth and possibly a mix of subjective and objective performance indicators might provide a richer picture of performance as an outcome of ownership strategies in foreign affiliates. Furthermore, sales figures can also be subject to company transfer pricing policies. Future research might include more extensive performance measures, such as return on sales or return on assets (e.g., Gaur and Kumar, 2009; Singh and Gaur, 2009). Moreover, we found that family management has no moderating impact on affiliate performance. We suggested that was because of the figurative nature of such assignments; however, qualitative in depth case studies would be required to verify our suggestion. Lastly, we have looked at family management from the position of managing directors in the foreign affiliates. Adjacent studies (e.g. Hiebl, 2013) have indicated that other positions within the top management team, such as chief financial officers, can also play a crucial role in family business decision making. It might therefore be worthwhile for future studies to take a broader perspective on the positioning of family vs non-family managers in the MFBG's hierarchy.

5.4. Conclusion

In this study, we argue that ownership strategies can be a double edged sword for MFBGs in relation to performance of the foreign affiliates. While the link between ownership and performance in foreign affiliates has been investigated before (e.g. Contractor et al., 2016; Shirodkar and Konara, 2017), the implications for family enterprises as a dominant corporate form in many emerging economies (Chakrabarty, 2009), has so far received less attention. We found evidence for the contingent impact of ownership on affiliate performance. While direct ownership might be tempting to gain a sense of control over the affiliate, we show this comes at a performance cost for affiliates in culturally different host countries under family management. Indirect ownership seems to be one way to positively affect affiliate performance in culturally distant countries, but seems not to be contingent on family management.

Acknowledgement

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[2] We would like to thank the anonymous reviewer for pointing this out to us.

Appendix A1. Family business groups data by industrial sector*

	Total no. of FBG	Average age	Size (average assets) (U.S. million)	Average no. of affiliates	Average no. of foreign affiliates	Average degree of direct ownership	Average degree of indirect ownership	Average cultural differences	Average percentage of family members as the head of foreign affiliates
Manufacturing	31	41.52	5450.02	57.48	26.24	0.87	0.12	2.18	0.47
Non-metal mineral	3	46.33	3034.52	38.13	19.67	0.89	0.11	1.51	0.62
Textile, apparel and leather	6	38.28	6245.37	48.62	17.48	0.84	0.11	1.92	0.45
Food	2	37.50	6851.29	104.00	37.10	0.90	0.07	1.98	0.12
Chemical and plastic	3	40.40	15,105.74	45.27	22.67	0.89	0.12	1.82	0.83
Transportation	2	51.00	4557.87	83.00	23.40	0.87	0.04	2.67	0.30
Electronic and household appliances	8	36.64	4183.84	67.72	37.56	0.85	0.16	2.37	0.52
Paper manufacturing	2	49.00	1613.09	41.50	15.80	0.93	0.11	1.99	0.24
Steel and metals equipment	1	39.00	888.30	13.00	5.80	0.99	0.13	2.47	0.34
Electronic wire and mechanics equipment	3	44.00	5044.27	69.60	37.80	0.91	0.11	2.38	0.44
Constructing	1	56.40	1427.03	19.80	9.80	0.09	0.02	2.81	0.36
Service	19	30.04	11,460.58	45.17	11.00	0.99	0.11	2.03	0.40
Financial service	11	27.40	15,997.69	40.35	12.14	1.04	0.08	2.11	0.36
Logistics service	1	36.00	2191.98	22.80	4.40	0.94	0.31	2.11	0.46
Transportation	2	34.50	6820.87	38.50	12.80	0.87	0.10	1.47	0.45
Constructing investment	5	30.81	3649.76	51.95	9.52	0.85	0.24	2.13	0.49
Others	1	42.00	11,091.10	105.40	7.20	0.95	0.18	1.99	0.67
Summary	51	36.78	7771.18	52.52	20.06	0.90	0.12	2.15	0.45

Note: 1.*All data calculated at year-end 1999 to 2003. We calculate the data by averaging the within-group data over 5-years, and then calculate the average data within a specific industrial sector. Industrial sector definitions of business groups based upon nature of core company business. If the core company of the business group is both engaged in manufacturing and service sectors, this business group will be classified to other category. 2. This table reveals the family business groups description, not the foreign affiliates description in each group.

Appendix A2. Foreign affiliates data by host country

Region and country	Total no. of foreign affiliates	Average age of foreign affiliates	Size (average assets) (U.S. million)	Average revenue (U.S. million)	Average direct ownership	Average indirect ownership
Asian region	2820	5.84	45.55	27.62	0.89	0.12
China	1319	5.91	38.26	31.64	0.89	0.12
Hong Kong	755	5.23	43.01	21.25	0.88	0.12
Southern Korea	12	4.75	22.44	7.86	0.87	0.08
Japan	68	6.62	23.66	39.39	0.86	0.15
Singapore	223	6.56	52.25	30.12	0.90	0.12

Vietnam	59	5.08	13.96	5.92	0.85	0.07
Philippines	114	5.93	39.43	17.25	0.94	0.05
Indonesia	54	7.30	28.13	25.29	0.93	0.12
Thailand	67	6.67	58.16	43.27	0.90	0.24
Malaysia	123	6.55	61.92	31.31	0.89	0.12
Cambodia	5	5.40	42.57	17.03	0.99	0.20
India	5	8.40	17.60	9.13	0.84	0.12
People's Republic of Bangladesh	1	5.00	15.49	8.40	0.45	0.00
United Arab Emirates	8	4.25	1.55	1.57	0.59	0.02
Israel	3	3.67	9.43	2.84	0.01	0.01
Jordan	4	4.75	15.31	11.79	0.89	0.01
American region	1911	5.61	45.77	33.36	0.93	0.11
U.S.A.	463	5.77	33.89	24.17	0.87	0.10
Canada	51	6.31	60.24	18.54	2.85	0.15
Mexico	19	3.53	20.67	13.51	0.83	0.53
Bahamas	1	1.00	0.01	0.00	1.00	0.00
Honduras	4	7.75	8.64	2.57	0.66	0.01
Panama	53	4.94	31.76	9.67	0.92	0.05
Samoa	13	7.23	44.71	61.20	0.91	0.07
Brazil	5	4.60	17.78	11.77	0.60	0.01
Costa Rica	5	5.80	47.21	42.34	0.89	0.40
Colombia	1	6.00	9.76	1.44	1.00	0.00
European region	237	5.90	29.51	33.86	0.89	0.12
U.K. and overseas territories*	1416	5.58	45.83	35.05	0.88	0.12
U.K.	102	6.20	42.19	37.12	0.88	0.17
France and overseas territories**	8	6.25	22.75	34.21	0.92	0.12
Netherland and overseas territories***	45	6.18	40.44	40.45	0.93	0.16
Ireland	3	7.00	16.33	18.24	0.99	0.67
Belgium	5	1.60	1.92	0.01	0.60	0.01
Germany	34	5.56	25.59	30.21	0.82	0.12
Italy	7	4.86	10.58	4.88	0.83	0.14
Luxembourg	3	17.00	71.71	78.68	1.00	0.65
Denmark	5	4.00	8.57	6.20	0.95	0.00
Czech Republic	36	5.58	16.31	6.85	0.96	0.22
Poland	2	6.50	18.27	0.01	0.01	0.00
Slovakia	6	3.83	62.51	83.40	0.87	0.00
African region	13	4.92	145.62	11.29	0.88	0.12
Mauritius	13	4.92	145.62	11.29	0.88	0.12
Overseas regions (includes the Independ islands or the overseas territories)****	61	5.33	20.39	16.43	0.85	0.07
New Zealand	1	5.00	0.50	0.00	0.67	0.00
Australia	23	5.65	20.19	6.75	0.80	0.09
Summary	5048	5.75	44.73	29.83	0.90	0.12

Note: 1. All data calculated at year-end 1999 to 2003. We calculate the data by averaging the within-group data over 5-years, and then calculate the average data within a specific country.

2.* U.K. and overseas territories include U.K., the B.V.I. Islands, the Samoa Island, and the Bermuda Islands.

3.** France and overseas territories includes France and New Caledonie.

4. *** Netherland and overseas territories includes Netherland and the Netherland Antilles.

5.**** The Overseas regions includes the New Zealand, the Australia and the overseas territories that are not in the domain land of the country.

6. This table reveals the foreign affiliates description by host country, not the family business group description.

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