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*Founder-controlled firms, Geographical Diversification and Performance. An empirical study on publicly listed Swedish firms.*


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## ABSTRACT

This study investigates the relationship between founding-family governance, international activities and corporate performance in the Swedish institutional setting. Previous research has mainly studied founder-controlled firms, i.e. firms where founders or their descendants hold top management positions, in the context of corporate performance and ownership composition. In particular, this paper anchors in the theoretical bodies of finance and international business and hypothesizes a negative effect of founding family governance on internationalization decisions. Nevertheless, these firms are anticipated to outperform other entities when they engage in international activities. Unlike other studies, this paper investigates whether the founder's control of voting rights impacts the decision to geographically diversify. Furthermore, this paper examines whether there is a distinction in financial performance of founding family firms where the founders employ top management positions (CEO or Chairman of the board) versus serving as board members only. The initial sample consists of 5,228 firm-year observations from listed entities on the Nasdaq OMX Stockholm Exchange between 2001 and 2019. Following prior research, the sample is further narrowed to 3,048 unique firm-year observations which forms the basis for the empirical analyses. The results from the statistical regressions find abutment in all the proposed research hypotheses. Specifically, this paper finds strong support that founder-controlled firms indeed are present in fewer geographical locations and as such are less internationalized compared to firms having dissimilar governance structures. These results are further enhanced when increasing the founders share of voting rights. Nevertheless, although founder-controlled firms seem to follow the incremental internationalization process as described by the Uppsala Model, they seem to outperform other entities when they undertake internationalization decisions. The overall findings further imply that firms where the original founder persists substantial control create superior value, have efficient strategies and are more profitable which in turn indicates that such entities might be a favorable investment opportunity for outside stakeholders.



***Key words:*** *Internationalization, founder-controlled firms, foreign sales, voting rights, corporate performance, geographic diversification.*

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# 1 INTRODUCTION

Firms in today's global economy are exposed by an external pressure to internationalize their business to remain competitive. Factors such as enhanced use of new technology, marketing, efficient supply chain management, market liberalization, and R&D activities form the basis of an extensive set of resources and capabilities that provide opportunities for international expansion of business activities (Naldi & Nordqvist, 2008). The phenomenon of globalization poses a compelling question: does the benefits of geographical diversification outweigh the costs? The answer is bilateral, however the tendency among researchers seems to be that the relationship between internationalization and corporate performance are closely associated (Qian, Li, Li, & Qian, 2008).

Many studies in recent years have examined corporate ownership structures and the consequences on firm performance. Research performed by La Porta *et al* (1999) showed that several firms have a concentrated ownership structure, meaning that they have a controlling shareholder interest which is usually a family or the State. The results further demonstrated that such owners most commonly were referred to as the original founders of the firm. These enterprises are described as "founder-controlled firms" and are typically characterized by decision-makers having extraordinary strong personal motives in relation to international expansions (Faccio & Lang, 2002). Regardless of ownership composition, it is commonly accepted that non-domestic activities and internationalization strategies affect corporate performance (Yang & Driffield, 2012).

This study sheds light on the disparities between founder-controlled firms and entities having other ownership compositions and whether corporate governance structure influences the decision to internationalize. Specifically, I look at internationalization of public founding family firms in the Swedish institutional context. Literature from the international business field suggests that a firm's resources and capabilities will be decisive for the success of geographical diversification strategies (e.g., Naldi & Nordqvist, 2008; Strange et al., 2009). Especially, founder-controlled firms seem to encounter resource challenges when entering foreign markets. They normally appreciate other qualities such as organic long-term growth strategies and personal commitment that may enhance the international expansion process of their business activities, although at a slower pace compared to other firms (Naldi & Nordqvist, 2008). Nevertheless, lack of resources such as financial strength, limited knowledge and experience from foreign markets, and restricted management capabilities might prevent founder-controlled firms from seizing internationalization opportunities (ibid).

The pace of corporate decisions, including strategies on geographical diversification, will typically be divergent for founder-controlled firms compared to other entities. Ordinarily, the founders will have exceptional knowledge of the business and will further be reluctant to give up control of the organization. The original founders often lack diversification, meaning that they are heavily invested in a limited number of assets. As a result, founder-controlled firms are subject to a high firm-specific risk (Demsetz & Lehn, 1985; Shleifer & Vishny, 1997). The founders are normally close-to-business which is demonstrated by excellent overview and control over most of the decision-making. Thus, agency problems between owners and management are generally not present (Jensen & Meckling, 1976). However, these are replaced by agency conflicts between majority and minority shareholder due to information asymmetry (Shleifer & Vishny, 1986).

The empirical analyses consist of multiple regressions performed on a unique unbalanced sample of listed Swedish corporations. Sample data are manually collected from approximately 3,000 annual reports and contain information on foreign sales and employees, geographical locations and ownership compositions of the entities. Swedish firms are further known for transparency in financial disclosures and high quality in the accounting information (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Leuz, Nanda, & Wysocki, 2003). This study extends the work performed by Mattias Hamberg and Alice Schmuck in a preliminary draft paper. They investigated publicly listed Swedish firms and whether there is a relationship between founder-controlled firms, international activities and performance for the time period between 2001 to 2013. Their results are already significant and show that Swedish founding family firms are less internationalized and expel cautious behavior when conducting geographical diversification. Additionally, their results further suggest that performance and internationalization decisions are closely associated for founder-controlled firms (Schmuck & Hamberg, 2019). This paper expands their work by examining the time period from 2001 to 2019 and 1) whether entities with dissimilar governance structures have different degree of internationalization, and 2) whether corporate performance is correlated to different approaches of internationalization strategies of founder-controlled firms compared to other enterprises. Additionally, this thesis will present different interpretations of founding family firms and challenge their impact on internationalization decisions and corporate performance.

This paper suggests an incremental internationalization process for founding family firms as described by the Uppsala Model (Johanson & Vahlne, 1977). The purpose of the model is to maintain control of the firm while entering foreign markets step-by-step and to gradually

obtain knowledge from international operations rather than pursuing an intensifying geographical diversification of business activities. Considering this approach, firms may utilize knowledge-sharing across geographical expansions into new foreign locations.

Subsequently, the paper investigates the association between performance and international activities for founder-controlled firms. The extent of geographical diversification will be measured by three different dimensions; the amount of non-domestic sales, the number of foreign employees, and the presence in foreign locations. Previous research has shown that firms with a concentrated ownership, i.e. founding family firms, have a greater Tobin's Q (TQ) value and higher performance compared to other firms (Hamberg, Fagerland, & Nilsen, 2013). In this study, I find that the extent of international activities does not necessarily correlate with better performance in general. The results emphasize that founding family governance firms perform better than the average family firm. Furthermore, the findings suggest that founder-controlled firms benefit from an internationalization process in line with the Uppsala Model; an incremental and cautious expansion step-by step while maintaining control of the business.

Opposed to the assumption that family governance is detrimental, this paper finds enhanced corporate performance in founding family firms where the original founders hold top management positions (CEO or Chairman) compared to other firms. In particular, the results strongly suggest that such firms outperform other founding family firms where the founders only serve as board members. Furthermore, this paper also finds a clear tendency that increased ownership concentration, measured as an increase in voting rights by the founding family, resulted in a lower degree of internationalization.

This single-country research contributes to the growing founding family firm literature in at least three ways. First, the Uppsala Model is used to provide further insight on the characteristics of founder-controlled family firms that are associated to international activities in contrast to other firms. Based on the results of this study, founding family entities in the Swedish context seem to perform better when taking on a cautious behavior in the internationalization process. These firms are, in general, present in fewer geographical regions compared to other owners. Unlike other studies, this paper investigates how increased ownership concentration in terms voting rights, affects foreign diversification decisions. The findings indicate that increased ownership concentration of the founding family is correlated to a lower degree of internationalization. Second, this study adds to the theoretical grounds of international business by investigating disparities between the internationalization of founding family firms versus other organizations and whether the type of ownership affects corporate

performance. Research is still scarce on the association between different owner types, international expansion strategies and profitability (Fernández & Nieto, 2006; Graves & Thomas, 2006; Johanson & Vahlne, 2009). Lastly, this thesis extends former research findings by establishing disparities in performance between founding family governance where founders employ top management positions compared to other family firms where founders serve as board members in a unique Swedish institutional setting.

The remainder of this paper is organized as follow. In the second chapter, the theoretical foundations resulting in three research hypotheses will be presented. Specifically, the Uppsala process model of internationalization will be utilized to better understand the geographic diversification strategy and characteristics of founder-controlled firms in contrast to other owners. The third chapter presents the overall research strategy and the methodological choices for this study, including the regression models. Furthermore, this section will describe the manual data collection process and the unique unbalanced sample consisting of publicly listed firms in Sweden during the fiscal years 2001 to 2019. The following section includes the empirical analyses of the data presented in section three and investigates the relationship between ownership types, internationalization and corporate performance. Section five concludes the paper and provides suggestions for further research.

## 1.2 Purpose

The aim of this paper is to examine the relationship between founder-controlled firms, internationalization and performance and whether different interpretations of "founder" imply divergent impact on internationalization decisions of the firm. Establishing and investigating the association between corporate governance, international expansion and financial performance should be of interest for both corporate stakeholders (and potential investors) as well as academics within the field. The study is performed for Swedish listed entities and as such it adds to a growing body of founding family literature by considering different regulatory requirements and culture.

# 2 THEORY AND RESEARCH HYPOTHESES

This chapter will substantiate the underlying theory for my research hypotheses. First, founder-controlled firms and corporate governance in previous literature will be presented. This section will focus on dissimilarities between founder-controlled firms and entities having other owners. Subsequently, I will explain different internationalization strategies before intertwining the Uppsala Model of internationalization with the approach of founder-controlled firms. Lastly, the coherence between internationalization, founder-controlled firms and performance is described. Building on the theoretical foundations presented, three research hypotheses are formulated at the end of this chapter.

## 2.1 Founder-controlled firms and corporate governance in previous literature

There is a significant theoretical body of recent literature on the relationship between corporate governance and firm performance. Features of the ownership structure, i.e. who is defined as the controlling shareholder, influences a firm's managerial behavior and strategic decision-making (La Porta, Lopez-de-Silanes, & Shleifer, 1999). In a broad sense, governance theory concerns how firms are effectively and efficiently managed to ensure that they are operated in the interest of the controlling shareholder and generates sufficient returns (Strange, Filatotchev, Buck, & Wright, 2009). International business and strategies of multinational enterprises have been widely studied in the past and can enrich the research on corporate governance and vice versa (ibid). For example, previous studies have focused on firms in a specific context neglecting the fuller picture of internationalization. Extending these arguments, the underlying governance of a company can be directly associated to both the strategic decisions and corresponding outcome of international business expansion (Qian, Li, Li, & Qian, 2008).

Founder-controlled firms, i.e. firms where the controlling shareholder is the original founder (and often a family), will typically have different characteristics compared to other firms. In short, these disparities are intertwined and relate to agency problems and incentive alignment (La Porta, Lopez-de-Silanes, & Shleifer, 1999). Jensen & Meckling (1976, p. 5) define an agency relationship as "*a contract under which one or more persons (the principals(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is a good reason to believe that the agent will not*

*always act in the best interest of the principal"*. Following the definition, agency problems describe the classical asymmetric information distribution between managers and shareholders. Managers working with the firm's day-to-day business have superior information compared to the owners. The dissimilarity in incentive alignment relates to how the founder defines the company's key business and interrelated objectives (Anderson & Reeb, 2003; Shleifer & Vishny, 1997). The principal can limit divergencies by giving the agent appropriate incentives which also includes a cost of monitoring to restrain the agent's aberrant actions (Jensen & Meckling, 1976). Typically, founding family owners will rather keep the business running and are more cautious in their strategic business decisions compared to other firms. Hence, the goal of founder-controlled firms is not necessarily value-maximization as any rational investor would expect in an efficient market. However, the ability of founder-controlled firms to reduce information asymmetry and thus align interests between management and controlling shareholders outweighs the prospective negative effect of goal incongruence (Anderson & Reeb, 2003).

The negative consequences of goal incongruence are at least bilateral. At one side, founding family owners are often heavily invested into a finite number of assets which minimizes the potential benefits of diversification. Thus, the firm-specific risk increases parallelly to a decreasing number of investments (Demsetz & Lehn, 1985; Shleifer & Vishny, 1997). As a result of the inflated firm-specific risk, the founders may exhibit sub-optimal decisions leading to low levels of operating and financial risk (Schmid, 2013; Shleifer & Vishny, 1986). On the other hand, founding family owners are typically risk-averse and might be more reluctant to give up control. Hence, they are more cautions in making aggressive business decisions for short-term gains. As such, the family owner would rather focus on sustainable long-term investments and survival of the business rather than selling the company at an attractive offer due to the emotional attachment and pride to what they once established. Moreover, a family owner may for instance be reluctant to outsource production if it means giving up local workplaces. Hence, the interests of founding family owners seem more interpersonal rather than a sole focus on financial performance. The latter scenario applies to Private Equity owners that hold the firm for a defined time-period which tends to be associated with financial intermediaries (Rogers, Holland, & Haas, 2007). All the presented motives for goal incongruences above are surely associated but could potentially have adverse effects on decisions on geographical expansion of the business.

Positive effects of reduced information asymmetry between owners and management also contain various aspects and the elements are somewhat intertwined. First, the emotional connection of founding family owners as described above arises from a closeness-to-the-business since its original inception. The founders are likely to have close ties to both the firm and the personnel as the founders, either directly or indirectly, hired the staff in person establishing a special bond and a corresponding loyalty. These effects are illustrated by a long-lasting imprinting effect (Baron & Hannan, 2002; Beckman & Burton, 2008; Burton, 2001). These effects are for instance reflected in long-term commitment and lower turnover among founding family firms compared to other firms (Gallo & Sveen, 1991). Second, family founders have superior knowledge of the business and perform appropriate monitoring. Thus, management may find it hard to make corporate decisions which are not aligned with the owner's interests (Anderson & Reeb, 2003).

General contracting theory as presented above together with theory on efficient markets are fundamental when studying publicly listed entities. Numerous individuals and corporations voluntarily entrust their financial arsenal to managers based on sophisticated contracting relationships that delineate the rights and obligations of the involved parties (Jensen & Meckling, 1976). An efficient market can be characterized as fully reflecting all available information on prices. The general idea is to reduce agency- and moral hazard problems between stakeholders and managers of publicly traded firms (Fama, 1970). Several instances, such as the Dot-com bubble (1995-01), have resulted in overly bullish markets indicating that the market is not always entirely efficient. However, the accounting information for publicly listed firms in Sweden are available through the annual reports of each firm which is a closer proxy to an efficient market compared to private companies. However, in practice, obtaining all available information involves e.g. transaction costs and different interpretations of market information that need to be accounted for in the efficient market hypothesis for publicly listed firms (Jensen & Meckling, 1976).

To summarize, family owners are normally risk-averse and hence reluctant to give up control of the business. They tend to avoid unnecessary risk-taking for short-term gains and value the long-term sustainable survival rather than selling the firm to an attractive offer. The behavior of family owners can therefore be characterized by caution in the strategic decision-making concerning geographical expansion and international activities. The objective of a founding firm will typically favor long-term strategies and maintain low turnover rates rather than pointless business expansions, potentially at the cost of employees.

## 2.2 Internationalization strategies

Today's global market makes it increasingly difficult for entities to outperform other firms and reach economies of scale. This may be caused by several aspects, such as enhanced and increased use of technology, lower threshold for acquiring knowledge about foreign markets and efficient supply chain management. Hence, firms face an external pressure to internationalize their business in order to remain competitive (Naldi & Nordqvist, 2008).

Internationalization can be defined as "*a firm's propensity to expand its cross-border activities in terms of the intensity (for example, level of export) and the scope (for example, number of countries to which the firm exports) of such activities"* (De Clercq, Sapienza, & Crijns, 2005, s. 409). Founding family firms encounter the choice of globalization strategies in the international diversification process which is closely associated to the degree of foreign commitment (Claver & Quer, 2007). Research has already suggested that market entry strategies are beneficial for founding family firms in their internationalization process (ibid.). The scope of internationalization strategies is endogenous as it is influenced and limited by a firm's assets and resource endowment. An increased presence and expansion to new global regions is associated with a complexity of managing non-domestic commitment such as foreign government officials, local law and requirements, suppliers, customers and agencies (Sui & Baum, 2014). Thus, the international expansion involves increased investments and firm-specific risks not necessarily favored by founding family firms. The following section will discuss founder-controlled firms in association with the Uppsala Model of internationalization in terms of market entry which is an alternative path of global diversification closer to the founding family firms' objectives.

## 2.3 Founder-controlled firms and the Uppsala Model of internationalization

A successful internationalization process requires, among others, significant investments in facilities or acquisitions of subsidiaries across borders. Founding family firms might exert several distinct characteristics that distinguish them from other firms. In this section, it is argued that they are exposed to substantial firm-specific risk due to lack of diversification of their assets. Furthermore, founding family owners are often reluctant to give up control of the firm they once established. Thus, the choice of internationalization strategy will typically exhibit signs of caution and risk-averseness compared to other owners.

The original Uppsala Model composed by Johanson & Vahlne (1977) concerns the internationalization of family firms and is often cited as the traditional theory within this literature (Bobillo, Rodríguez-Sanz, & Tejerina-Gaite, 2013). The model suggests an incremental process of internationalization, meaning that the firm takes on a cautious perspective by learning and acquiring deeper understanding step-by-step prior to an intensification of foreign commitment. By this strategy, the firm-specific risk will be substantially reduced as the owners avoid both unnecessary risk-taking and extraordinary short-term investments into unknown markets (Johanson & Vahlne, 1977).

The incremental internationalization process of founding family governance as described by the Uppsala Model finds support in previous literature (Claver & Quer, 2007). The ability to expand geographically has become increasingly important in today's global economy. However, evidence suggest that founding family firms often tend to ignore the importance of gaining knowledge about foreign activities and prospective business relationships (Pukall & Calabrò, 2014). These results are supported by Naldi & Nordqvist (2008, p. 5) and further defined as the main constraints for geographic diversification for founding family firms as "…*the family's tendency to avoid risk taking* (Fernández & Nieto, 2006), *the conservatism and resistance to change among family leaders* (Gallo & Sveen, 1991; Ward, 1987) *and the lack of formal control and planning systems* (Graves & Thomas, 2006)".

Founding family firms often have more loyal employees and appreciate sustainable long-term growth strategies compared to other firms which in turn is expected to positively affect the ability of geographical diversification (Claver, Rienda, & Quer, 2008; Gallo & Sveen, 1991). Contrary, this also suggests that internationalization processes conducted by founder-controlled firms will be characterized by a circumspect behavior that in turn decelerates the diversification progress. Nevertheless, even though founding family governance tend to favor internal financing, this might actually benefit the company due to the organic and sustainable nature of the internationalization strategy. Founder-controlled firms also have a more concentrated ownership which results in increased firm-specific risk. In essence, they will indeed have a slower pace of internationalization and make less direct foreign investments, i.e. acquisitions, compared to firms having diversified owners. Results have shown that founder-controlled firms aim at generating surplus from limited geographical regions rather than extensive diversification across borders (Zahra, 2003). These arguments support the fact that founding family firms follow the incremental internationalization process as the described by the Uppsala Model.

To summarize, founding family firms exert cautious and risk-averse behavior in business decisions. They tend to appreciate interpersonal aspects rather than short-term economic gains and are reluctant to give up control of the firm. Moreover, founding family owners often have close ties and emotional affect to the business and hence value sustainable long-term growth. Following these characteristics, it can be assumed that they are *per se* less internationalized compared to other firms. In the extension of this hypothesized negative effect, this paper will also examine whether the same association is maintained when the voting rights of the founding family gradually increases. Building on these arguments, the first research hypotheses of this paper is formulated as follows:

> ***Hypothesis 1a:*** *Founding family governance has a negative effect on internationalization.*
>
> ***Hypothesis 1b:*** *Founding family governance has a negative impact on geographic diversification.*

Hypothesis one is tested both in respect of the extent (in terms of foreign sales and employees) and latitude (number of geographical regions) of internationalization. Principally, one would associate internationalization with increased revenue streams due to foreign commitments (Capar & Kotabe, 2003; Kotabe, Srinivasan, & Aulakh, 2002; Tallman & Li, 1996). However, as mentioned before, founder-controlled firms are reluctant to make business decisions that may lead to unnecessary risks. This will impact the extent of sales across borders and the willingness to invest as strategic diversification to foreign markets is a costly and uncertain process. Researchers have previously suggested that the firm-specific risk will be reduced parallelly to the increase in number of geographical locations, i.e. expansion to non-domestic markets (Contractor, Kumar, & Kundu, 2007; Capar & Kotabe, 2003; Qian, Li, Li, & Qian, 2008). Furthermore, given the cautious behavior of founder-controlled firms, they are expected to be less engaged in diversification and acquisitions of foreign subsidiaries. Typically, they would focus on sustainable long-term survival rather than undertaking the major financial risks associated to foreign direct investments. Following the reasoning above, the lack of diversification implies that founder-controlled firms indeed have a greater firm-specific risk compared to other firms as the literature also suggest. They might diversify geographically; however, at a significantly slower pace due to uncertain nature of unknown markets. This is in

line with the results of other researchers which found that founding family governance and the presence in geographical regions are negatively correlated (Sanchez-Bueno & Usero, 2014). As such, founder-controlled firms are expected to have fewer international activities compared to other owners.

## 2.4 Founder-controlled firms, internationalization and performance

This part of the paper presents the theoretical body regarding the relationship between ownership type, international activities and performance both anchoring in international business and finance literature. Researchers within the international business segment have already found results showing that the degree of international activities have a positive association to corporate performance (Kotabe, Srinivasan, & Aulakh, 2002; Tallman & Li, 1996). As already explained in previous sections, the internationalization process will be different for founder-controlled firms in contrast to other firms. By geographical diversification of business activities, enterprises may utilize resources such as R&D activities, marketing, new technology and financial assets to obtain economies of scale (Yang & Driffield, 2012). However, it has become increasingly difficult to stand out to in a competitive market.

Increased foreign commitment may benefit firms in several ways. On one hand, the organization may profit from sharing knowledge and previous experience across borders. On the other hand, the firm may avoid pitfalls and rely on critical success factors from prior experience in other geographical business locations (Capar & Kotabe, 2003). Researchers agree that the same reasoning is applicable to family firms. However, the available literature on this area is scarce (Kontinen & Ojala, 2010).

From a finance literature perspective, the results from previous studies strongly suggest that the association between corporate governance and performance is highly correlated (Anderson & Reeb, 2003; Isakov & Weisskopf, 2014; Shleifer & Vishny, 1997). Furthermore, it is widely acknowledged by several researchers that founding family firms have enhanced corporate performance compared to other enterprises (Anderson & Reeb, 2003; Barontini & Caprio, 2006; Hamberg, Fagerland, & Nilsen, 2013; Isakov & Weisskopf, 2014; Villalonga & Amit, 2006).

Founder-controlled firms exert a cautious behavior in decision-making. Hence, they are expected to conduct more efficient investments compared to firms with other owners (James, 1999). As such, agency problems between shareholders and managers seem rather

unproblematic as the firm and its owners have their incentives aligned due to e.g. long-term commitment, motivation, incentive structures and the presence of founders being close-to-business (Demsetz & Lehn, 1985). Anderson and Reeb (2003, p. 1305) further claim that: "*…the family's wealth is so closely linked to firm welfare, families may have strong incentives to monitor managers and minimize the free-riding problem inherent with diffused shareholders. If monitoring requires knowledge and information about firm technology and processes, families potentially provide superior oversight because of their lengthy involvement with the firm*". Thus, by aligning incentives ultimately decreases the cost of monitoring and further benefits the firm in the value maximization of the business in terms of profitability.

Combining the finance and the international business literature, the amount of foreign sales and the degree of international commitment will benefit from a founding family ownership structure. Following this reasoning, the second research hypothesis of this paper is derived as follows:

> ***Hypothesis 2:*** *Founding family governance have a positive effect on the relationship between geographical expansion and performance.*

Lastly, building on the same reasoning and theory presented above, this paper will investigate the performance of founder-controlled family firms when the founders hold top management positions such as Chief Executive Officer (CEO) or Chairman of the Board. Contrary to the assumption that family governance is detrimental, several researchers find significant positive associations between this governance structure and profitability (see e.g. Anderson & Reeb, 2003; Hamberg, Fagerland & Nilsen, 2013). Anderson & Reeb (2003) studied large public U.S founding family firms present on the S&P 500 and the correlation to firm performance. In particular, they found strong results indicating that family members (founders or their descendants) holding top management positions exhibit a positive association to corporate performance measures compared to other firms. These results were consistent irrespective of accounting for other blockholders or the discrepancy between control rights and family governance. This study investigates the relationship and difference between firm performance when the founding family employs top management positions versus serving as a board member only in a large single-country study in the Swedish institutional setting. Hence, the third and final research hypothesis of this paper is:

***Hypothesis 3:*** *Founding family firms having original founders or descendants in top management positions (CEO or Chairman) will outperform other entities.*

To summarize, this chapter has provided a theoretical foundation of previous literature within international business, finance and the founding family firm field. Based on the presented theory, this paper has derived three research hypotheses as formulated above. The following section will describe methodological choices and operationalizations of the variables subject to empirical analyses.

# 3 RESEARCH METHOD AND DESIGN

This chapter aims at introducing the methods applied to address and test the hypotheses formulated in section two. First, the methodological considerations will be substantiated. Subsequently, the sample and data collection process will be described followed by a section on quality and validity and an operationalization of the different variables utilized in this paper. The last section will discuss the models and potential collinearity in the statistical regressions performed.

## 3.1 Research strategy

Bryman and Bell (2015, chapter 2 and 3) argue for two methodological considerations that must be addressed prior to empirical research; 1) the choice of research strategy, i.e. whether the underlying data should be investigated using a numerical or text-based approach, and 2) research design and method. The latter refers to the frameworks used to properly collect and analyze data to answer the overall research hypotheses as presented in chapter two. Scholars distinguish between qualitative and quantitative research strategies where the principal difference lies in the treatment of theory and research. A qualitative method is an inductive approach, meaning that its primary goal is to create hypotheses or theories based on the data collection. The quantitative approach is deductive, i.e. testing of pre-defined hypotheses prior to statistical simulation (Bryman & Bell, 2015, p. 23).

This paper employs a quantitative longitudinal approach to examine the relationship between founder-controlled firms, international activities and performance. The data sample is fairly large and as such a quantitative research design is considered most appropriate to investigate dependent and independent variables through statistical simulations using regression and correlation analyses. Regressions will be run using both univariate and multivariate approaches. The former means that only one variable is included in the regression, while the latter explains several variables simultaneously (Bryman & Bell, 2015, chapter 15). Further, this paper adopts a deductive approach to test the research hypotheses which is considered natural given the choice of research strategy. The following section will further elaborate the research method applied in this study.

## 3.2 Research design and method

Following Bryman & Bell (2015, chapter 3), a research design is simply a guiding framework for the data collection and empirical analyses in order to conclude with specific results. This paper uses a longitudinal approach as the sample consists of repeated observations over the time period 2001 to 2019 including the same variables every year (extent of foreign sales, number of foreign employees, presence in different geographical regions and corporate performance).

The research method is commonly referred to as the technique used in data collection (Bryman & Bell, 2015). Swedish firms are transparent in financial disclosures (Leuz, Nanda, & Wysocki, 2003), and hence all the information for this study is publicly available through either the annual report of each firm or in financial databases such as Thomson Reuters Eikon database. The sample collection procedure will be explained in more details in the following section.

## 3.3 Sample collection procedure

The sample used in this study consists of listed entities on the Nasdaq OMX Stockholm Exchange between 2001 to 2019. The benefit of using 19 years of data material will minimize the risk of biases such as cyclical effects of peaks and recessions. In turn, a long time period will provide a more realistic and fair view of the development over the time period under investigation. A large sample of data may also enable any generalization of the results.

### *3.3.1 The Swedish institutional setting*

Swedish firms, and specifically founder-controlled firms, have been subject to several studies in the past. As an example, a study performed by Hamberg et al. (2013) found that founder-controlled firms domiciled in Sweden outperformed firms having other ownership compositions during the same time period. These findings are consistent with results from other studies on founder-controlled firms in the United States and Switzerland (Anderson & Reeb, 2003; Isakov & Weisskopf, 2014).

Further, geographical diversification and export of goods and services of Swedish firms' business is central to the strategic decision-making. The Swedish economy has seen a major increase in exports during the last couple of decades. As an example, Swedish exports in 2019

amounted to approximately 47.02%[1] of GDP, compared to only 11.73%[2] in the United States. Previous studies on the relationship between firm performance and internationalization show that small European companies, in this case firms domiciled in Sweden, will have many small subsidiaries that are highly geographically diversified (Glaum & Oesterle, 2007).

Accounting information for Swedish listed entities is publicly accessible due to extensive nature and transparency of the financial information provided to stakeholders. Further, the accounting information in the financial reports are of high quality (Leuz, Nanda, & Wysocki, 2003). Findings by La Porta et al. (1999) supports the transparency in the Swedish market and their results demonstrate that Swedish firms disclose annual reports containing more detailed financial reporting compared to firms domiciled in other countries. As such, it enables the collection of necessary accounting information on international activities of the Group and its subsidiaries located in foreign markets. The latter follows a mandate to disclose segment reporting and business activities across geographical locations according to the requirements of IFRS 8[3]. Lastly, the benefit of transparency in the annual financial statements renders the gathering of information on shareholders at an individual level. Thus, it is feasible to identify and separate founder-controlled firms from entities having different corporate governance.

### *3.3.2 Sample and data collection*

As previously mentioned, the data sample for the empirical analyses consists of listed entities on the Nasdaq OMX Stockholm Exchange between the years 2001 to 2019. This is a large, unbalanced data set, i.e. it eliminates prospective risk of survival bias. The total sample consists of 606 unique publicly listed Swedish firms including a total of 5,228 firm-year observations manually collected from each firm's annual report. Additionally, accounting information on financial performance is downloaded from the Thomson Reuters Eikon database and information on voting rights and ownership concentration are manually collected from SIS Ägarservice.

As presented in Appendix I, table 1, the initial data set consisted of 5,228 observations (606 unique listed firms) from different industries before any adjustments. However, aligning the study with previous research, investment companies, real-estate firms and financial

[1] Source: https://www.theglobaleconomy.com/Sweden/exports/ (visited 27.05.21)
[2] Source: https://www.theglobaleconomy.com/USA/exports/ (visited 27.05.21)
[3] Listed entities are mandated to follow IFRS 8 on segment reporting in order to disclose information on foreign business activities to current and potential investors.

institutions are removed from the sample (885 firm-years) due to different regulatory requirements and business environment compared to the remaining sample. I will also exclude firms lacking publicly available accounting information (253 firm-years) and firms missing annual reports for a specific year (13 firm-years). As this paper investigates the degree of internationalization of founding family firms in Sweden, entities having only non-Swedish business operations (139 firm-years) and firms not domiciled in Sweden (344 firm-years) will also be precluded. Lastly, firms with a defined home marked outside Sweden (317 firm-years) and firms having only Swedish operations (229 firm-years) are also excluded from the total samples. These adjustments and exclusions resulted in a final unbalanced sample of 3,048 firm-year observations (341 unique firms) as evident in Appendix I (table 1).

### *3.3.3 Data collection procedure*

The final unbalanced panel of 341 unique publicly listed Swedish entities constitutes 3,048 firm-year observations between the years 2001-2019. Data between 2001 and 2013 was manually collected by Mattias Hamberg and Alice Schmuck. The accounting information for the years between 2014-2019 was obtained from public databases and manually from the notes to the financial statements from each firm's annual reports. This included reading almost 1,500 annual reports and manually collect and asses detailed accounting information which forms the basis for the empirical analyses. Specifically, the manual data collection centers around three elements: 1) the total number of employees, both international and domestic, 2) the extent of total sales, both global and domestic, and 3) the presence in geographical markets (in terms of employees or subsidiaries).

## 3.4 Quality and validity

When conducting research, several moments need to be addressed with regards to the internal validity in the operationalization of the unbalanced data set. For instance, the risk of ecological fallacy is present in all studies having variables on an aggregated level due to the ambiguous nature and causality concerns between the observations in the sample and the individual variables (Gordon, 2015). This could potentially lead to e.g. underestimations of founder-controlled firms' desire to make internationalization decisions compared to firms having other owners.

The final sample is diminished from 5,228 to 3,048 firm-year observations as described in section 3.3.2 to account for the internal validity and erroneous inference of the sample by excluding unnecessary interference between the different variables.

### *3.4.1 Level of significance*

To explain the foundation of statistical evidence in the regression analyses, one or several levels of significance are applied. The intention is to evaluate the precision, correctness and prospective generalizability of the results (Gordon, 2015; Bryman & Bell, 2015). The level of statistical precision depends on the subject under investigation. Nevertheless, the 5%-level is most commonly used in research and will also be applied in this study. However, I will also present the accuracy of the regressions at both $p<0.01$ and $p<0.001$ in my analyses to better capture the statistical coherence and strength between the different variables. The expected significance of results is closely correlated to the size of the data sample. The unbalanced data set used in this thesis is large compared to other studies, which indicates that we expected significant results at a higher statistical percentile (ibid).

### *3.4.2 Explained variance and F-test*

R squared ($R^2$) is used to depict the extent of explained variance in the test variable in the regression models given the independent and control variables. A higher $R^2$ would indicate higher explanatory power of the total variance in the dependent variable under investigation. This is a sensitive measure which tends to increase parallelly to the addition of independent variables. As such, the study rather applies *adjusted* $R^2$ which accounts for and adjusts based on the number of variables added to the statistical models (Gordon, 2015, chapter 6).

Furthermore, I will utilize the F-test in the regressions to evaluate if the addition of one or several variables in the models results in a significant contribution to the explanatory strength of the variance in the dependent variable. The F-test will be applied at a 5%-level. In particular, if the p-value associated with the F-value is very small (0.000), we can conclude that the control variables reliably predict the main dependent variable in the models (Gordon, 2015, chapter 6).

## 3.5 Operationalization of variables

### *3.5.1 Corporate financial performance measurement*

This study uses return on assets (*ROA*) as the measurement of corporate performance following previous research (Barnett & Salomon, 2012; Barontini & Caprio, 2006; Isakov & Weisskopf, 2014; Orlitzky, Schmidt, & Rynes, 2003; Qian, Li, Li, & Qian, 2008). *ROA* is derived as net profit in relation to total assets[4] and is not only a standard performance measurement, it is also most commonly used in both internationalization literature and founding family owner studies (Barontini & Caprio, 2006; Hamberg, Fagerland, & Nilsen, 2013; Qian, Li, Li, & Qian, 2008). This paper investigates the relationship between ownership, geographical diversification and performance which is ambiguous, and it is uncertain whether performance is driven by international expansion of business activities. As such, performance will be both included and excluded in the statistical tests. I will also employ the control variable Tobin's Q which is a measure associated with financial performance. Tobin's Q is further unraveled in section 3.5.5 below.

### *3.5.2 Measures of international activities*

The extent of foreign activity will be measured using both a main and alternative approaches. The former measure is described as *FORSALE*, while the latter is defined as *FOREMPL*. Both measures are further interpreted below:

*FORSALE* = the amount of sales outside Sweden, scaled by total sales

*FOREMPL* = the number of employees outside Sweden, scaled by total employees

In line with previous studies, the amount of foreign sales is most commonly adopted. Following table 1 in Appendix I, it is evident that the majority (approximately 91%) of the listed entities in the unbalanced sample determine Sweden as their home market. As previously mentioned, Swedish firms listed on the Nasdaq OMX Stockholm Exchange follow a mandate to disclose segment reporting and business activities across geographical locations according

[4] ROA will be winsorized at the 1%-level to normalize the sample distribution and eliminate extreme values which allows for parametric statistical tests. See further explanation in section 3.6.1

to the requirements of IFRS 8[5]. Due to the discretionary nature of the standard, firms not domiciled in Sweden and having international home markets will not be incorporated in the analyses.

The alternative measure of foreign activity *FOREMPL* has been included for robustness reasons to strengthen the conditions of the statistical tests. Transparency in financial disclosures combined with local Swedish law requires entities to publish information on total salary expenses, sick leave and average number of employees – both domestic and non-domestic, for each fiscal year. The data on average number of employees are located in each firm's annual report for every fiscal year as described in the section regarding the manual sample collection procedure.

A final approach of international activities is defined as *FORDIV* and is measured by the number of geographical regions that the firm has employees and subsidiaries. The measure is interpreted as follows:

*FORDIV* = the natural logarithm of the number of geographical regions that the firm is present, in each fiscal year

The extent of business activities in regions across borders are derived from either internal investment in resources or foreign acquisition of internal resources. Regions are further described as areas having several similarities such as economic development, culture and living standards. Several previous studies have based the level of internationalization as a percentage on e.g. the extent of foreign sales in relation to net profit from business activities in different countries. However, an exclusive focus on the number of countries the firm has entered neglects the inequalities between markets across borders such as different cultures and trade barriers. The latter would for instance be lower between Canada and the US compared to Sweden and the US. Hence, the world is segregated into a finite number of markets or regions having similar characteristics to navigate the disparities in the internationalization measurement of previous researchers (Qian, Li, Li, & Qian, 2008). Contrary to Qian et al. (2008) which suggested ten

[5] Listed entities are mandated to follow IFRS 8 on segment reporting in order to disclose information on foreign business activities to current and potential investors and stakeholders.

global regions, this study adopts thirteen regional economies[6] to measure the degree of internationalization.

### *3.5.3 Measures of founder-controlled firms*

According to Villalonga and Amit (2006), the definition of family firms typically consists of three essential aspects which must be identified and differentiated: control, ownership and management. Having a family management reduces the asymmetric information distribution problem suggested by classical agency theory as the distance between managers and owners is eliminated (Jensen & Meckling, 1976). Hence, a positive effect is anticipated from founding family governance. Nevertheless, this might be partly offset by the costs of maintaining a founding family management even though the firm could hire superior managers (Villalonga & Amit, 2006). The definition of founding family owners is used to create a dummy variable in the data set equal to one when the founder, or founding family, meets the following criteria:

1) holds a significant part of the capital and serves as the largest single owner of the firm,

2) has significant control of the business, i.e. controls more than ten percent of the voting rights, and

3) employed in top management positions, either engaged as Chairman of the Board, CEO of the company or Board Member[7].

The firms meeting all three criteria are defined as the variable *FOUNDER* in the data sample. A more general variable *FAMILY* has also been included to separate the measurement of founding family governance from other family firms in the statistical analyses. Another dummy variable equal to one is used for all family firms meeting the predefined criteria 1) and 2) as described above. As such, the main difference between founding family governance and

[6] The regional economies include Sweden, other Nordic countries, other EU member firms, other European countries (non-EU members), USA and Canada, other American countries, African countries, Middle Eastern countries, developed Asian countries (Japan, South Korea and Singapore), China, India, other Asian countries, and Oceanian countries. A detailed listing of the data sample is available on request.

[7] In publicly listed firms in the US, internal directors can dominate the Board and be engaged as both Chairman and CEO. This is, however, not prohibited by Swedish law. It is a legal requirement that the Boards in Swedish publicly listed entities consist of a minimum of three members where the internal corporate executives cannot represent more than one out of three seats in the Board of Directors.

other family owners is that the latter does not necessarily require employment in top management positions in the firm.

For founder-controlled firms, the total amount of voting rights and thus the degree of influence on business decisions are closely associated. Increased percentage of total voting rights will naturally indicate greater influence of the firm. This measure is also expected to affect most decisions regarding international expansion, type of industry, capital structure of the firm (highly leveraged or internally financed), liquidity, etc. In that respect, the relation between independent and dependent variables should be compound. Throughout the different analyses, I will present coefficients between these variables – both from univariate and multivariate regressions. The general impression is that founders or descendants of founders are generally less present in executive positions such as CEO or Chairman of the Board due to e.g. lack of in-depth competence required for the job. This is illustrated by a decrease of approximately 36% in founders holding top management positions between 2001 and 2019 (see Appendix I table 2). Such positions are instead replaced by professional managers having superior knowledge of the industry. Nevertheless, founders still hold positions as Board Members and keeps a significant share of the voting rights in order to remain control of the strategic decision making. The hypothesized relationship between performance of founding family firms holding top management positions in contrast to other firms will be analyzed in chapter four. Moreover, this will be examined by comparing the original definition of *FOUNDER* as explained above with alternative measures where the founder or founding family do not hold top management positions, but instead serve as Board Members. The aim is to examine the influence on corporate performance and whether it varies between the different interpretations of founders.

### *3.5.4 Measures of founding family firms where founders hold top management positions*

Building on the description and measurement above on founder-controlled firms, a similar approach will be utilized to measure founding family firms where founders hold top management positions. According to Villalonga and Amit (2006), the definition of family firms typically consists of three fundamental aspects which must be identified and differentiated: control, ownership and management. The two first predefined criteria in the founder-definition above, i.e. 1) holding a significant part of the capital and serves as the largest single owner of the firm, and 2) has significant control of the business, i.e. controls more than ten percent of the voting rights - will be utilized in the creation of two new dummy-variables to test the third

research hypothesis. The first measure defined as *FOUNDERTOP* represents all firms meeting these criteria where founders employ top management positions such as CEO or Chairman. The second measure characterized as *FOUNDERBOARD* describes all firms meeting the two predefined criteria, however the founders serve as Board Members only (see Appendix I, table 2 for an overview of the founder's fundamental activity in the firm). Additionally, both measures will involve the interaction variables *FOUNDERTOPxFORSALES* and *FOUNDERBOARDxFORSALES* respectively.

Unlike previous studies, this paper examines the hypothesized positive relationship between financial performance and the founder's activity in publicly listed firms on Nasdaq OMX Stockholm Exchange as outlined by the third research hypothesis. The ultimate goal is to investigate whether comparable results to what Anderson & Reeb (2003) found in their study on firms listed on the S&P 500 can be achieved in the Swedish institutional setting.

### *3.5.5 Control variables*

In addition to the fundamental dependent variables presented above (*FORSALE*, *FOREMPL*, *FORDIV* and *ROA*), this study also employs several control variables which are further facilitated below. As previously mentioned, the relationship between dependent and independent variables is ambiguous and the coefficients in the different measures from the statistical tests need to be interpreted cautiously. The nature of founders' impact on business decisions are likely to affect important judgements such as internationalization, liquidity, capital structure, type of industry, etc., which is captured by the *FOUNDER*-variable. Thus, several different regression models will be tested to account for the complex relationship between the variables. In addition, a correlation matrix together with results from both univariate and multivariate models will be presented. The analyses include year-dummies to account for business cycles and to normalize the results. As such, by including year-dummies, the corporate performance of firms before and after instances such as the Telecom crash (2001-02) and the Financial crisis (2008-09) will be normalized over the time period under investigation.

The ratio of market value to the replacement cost of total assets in each fiscal year is called Tobin's Q. Following previous finance literature, I will use the market value of common

equity (market capitalization) plus the book value of interest-bearing debt[8] scaled by total assets as a proxy for Tobin's Q (see e.g. Villalonga & Amit (2006)).

In addition to this measure, several other firm-specific variables are applied which are further unraveled below:

- *LOGAGE* = the natural logarithm of the numbers of years since original inception until the respective fiscal year
- *LIQUIDITY* = cash divided by total assets at the end of each fiscal year
- *INTANGIBLE* = total intangible assets scaled by total assets at the end of each fiscal year to measure intangible asset intensity
- *EFFICIENCY* = total sales revenue scaled by total assets at the end of each fiscal year to measure production efficiency
- *FINLEV* = interest-bearing debt divided by total shareholder equity at the end of each fiscal year
- *EMPLOYEE* = total number of employees scaled by total assets at the end of each fiscal year to measure employee intensity
- *SIZE* = the natural logarithm of the market value of equity (market cap) at the end of each fiscal year
- *ROA* = net profit scaled by total assets at the end of each fiscal year. This measure will be applied both as a dependent and control variable when testing the different research hypotheses
- *DUAL* = entities with dual-classes of shares are assigned a dummy variable of 1 at the end of each fiscal year
- *OWNCON* = measured as the ownership concentration, i.e. the voting rights controlled by the 5 largest shareholders of the firm (in percentage) at the end of each fiscal year

These measures rely on accounting information extracted from the Thomson Reuters Eikon Database and the Compustat Global database. Data for *LOGAGE* is manually collected to construct the measure as described above whereas data for *DUAL* and *OWNCON* are manually collected from SIS Ägarservice. Since the statistical models rely on an exhaustive set

[8] By using market value of equity and book value of interest-bearing debt as a proxy for market value of the firm, we avoid arbitrary assumptions about amortizations and inflation rates that is required by more sophisticated measures of Tobin's Q.

of firm-specific control variables, industry-measures will not be included in the analyses. Untabulated year controls will be applied to regulate for intertemporal differences.

## 3.6 Statistical tests

To examine the research hypotheses of this paper and the alleged relationship between founding family governance, internationalization and performance, both univariate and multivariate regressions are performed. The first research hypotheses (1a and 1b), which are "*Founding family governance has a negative effect on internationalization"* and "*Founding family governance has a negative impact on geographic diversification"*, will be investigated using either *FORSALES*, *FOREMPL* or *FORDIV* as dependent variable. The independent variables (test variables) in these analyses are *FOUNDER* or *FAMILY* together with several control variables. To address hypothesis 1a, the two most extensive regression models can be derived as follows:

I. $FORSALE_t = FAMILY_t + FOUNDER_t + ROA_t + TQ_t + SIZE_t + AGE_t + FINLEV_t + INTANGIBLE_t + EMPLOYEE_t + EFFICIENCY_t + LIQUIDITY_t + DUAL_t + OWNCON_t + YEAR + \varepsilon_i$

II. $FOREMPL_t = FAMILY_t + FOUNDER_t + ROA_t + TQ_t + SIZE_t + AGE_t + FINLEV_t + INTANGIBLE_t + EMPLOYEE_t + EFFICIENCY_t + LIQUIDITY_t + DUAL_t + OWNCON_t + YEAR + \varepsilon_i$

In order to answer the first research hypothesis (1a) of the paper, both models will be applied using alternative approaches and control variables. Specifically, measures associated with corporate performance, i.e. *ROA* and *TQ*, will be excluded from some of the statistical regression models. These are precluded due to the hypothesized relationship between corporate performance and geographical diversification decisions of founder-controlled firms as proposed by the second research hypothesis. Furthermore, the control variable *SIZE* will also be detached from some variations of the regressions because the examination of internationalization in smaller countries by default indicates a correlation between size and foreign business activities.

Hence, it is questionable whether *SIZE* actually drives the geographical diversification decisions of a firm.

In particular, *FORDIV* will be used as the main dependent variable when investigating research hypothesis 1b and the extension of it, i.e. whether a gradual increase of ownership concentration by the founding family affects geographical diversification decisions. In particular, the original definition of *FOUNDER* will be maintained with minor modifications. Instead of applying 10% voting rights as the minimum requirement of control, several regressions will be run using 20%, 30% and 50% voting rights to examine whether there is a significant difference in internationalization decisions. The model can be formulated as follows:

III. $FORDIV_t = FAMILY_t + FOUNDER_t + ROA_t + TQ_t + SIZE_t + AGE_t + FINLEV_t + INTANGIBLE_t + EMPLOYEE_t + EFFICIENCY_t + LIQUIDITY_t + DUAL_t + OWNCON_t + YEAR + \varepsilon_i$

The second research hypothesis, which is formulated as "*Founding family governance has a positive effect on the relationship between geographical expansion and performance"* is investigated by using the following model:

IV. $ROA_t = FAMILY_t + FOUNDER_t + FORSALES_t + (FOUNDER_t \times FORSALES_t) + SIZE_t + AGE_t + FINLEV_t + INTANGIBLE_t + EMPLOYEE_t + EFFICIENCY_t + LIQUIDITY_t + DUAL_t + OWNCON_t + YEAR_t + \varepsilon_i$

When analyzing the second research hypothesis, the aim is to examine both the interaction between foreign activities and performance of founder-controlled firms as well as the separate effects between these measures. Thus, the following test variables added to the regression models are *FOUNDER x FORSALES* and *FOUNDER x FORDIV*.

The third and final research hypothesis is derived as "*Founding family firms having original founders or descendants in top management positions (CEO or Chairman) will outperform other entities"*. Model IV presented above will be utilized in order to examine the hypothesized relationship, i.e. employing *ROA* as the essential dependent variable and the two variables *FOUNDERTOP* and *FOUNDERBOARD* as the fundamental test variables in different univariate and multivariate regression models. In addition, the interaction variables *FOUNDERTOPxFORSALES* and *FOUNDERBOARDxFORSALES* will also be applied, respectively.

### *3.6.1 Normalizing the sample*

To reduce the impact of skewness and kurtosis in the sample, this paper applies "winzoring" on the 1%-level which is a technique used to normalize the sample by accounting for business cycles and minimize the impact of extreme values. The reason for this is that regression models rely on the assumption of a normal distributed sample (Hamberg, 2012). The models will remain the predicted explanatory strength, but extreme observations will be replaced by more "normal" values. However, regular extreme observations are essential for the analysis. Thus, it is essential to demonstrate that the technique is not supposed to eliminate such values. Instead, these are rather substituted with other values providing the possibility to capture the effects of for instance internationalization decisions before, during and after events such as the Financial crisis (2008-09).

### *3.6.2 Collinearity*

Collinearity explains the level of inter-correlation between independent variables in the regression model. This is tested to mitigate the risk of an intertwined relationship between dependent and independent measures in terms of the predicted strength of the statistical models (Hair, Anderson, Tatham, & Black, 1995). The correlations between all variables, both dependent and independent, are presented in the different tables in the appendices. If the correlation between two of the independent measures equals 0.3 or higher this might indicate an exclusion of one of the independent variables (Pallant, 2010). The Variance Inflation Factor (VIF) is another measure used to further scrutinize the presence of collinearity. If the correlations illustrate a VIF-value of 10 we could argue for an appearance of collinearity. Nevertheless, the correlations between the measures in this study illustrate a mean VIF in the

range between 1.79 to 2.08 (displayed in the bottom of each regression model output) for all variables which demonstrates that the interpretation of the results is not ambiguous.

In short, this chapter has emphasized and justified the methodological considerations necessary to test the research hypotheses as formulated in section two. The underlying data collection procedure, the Swedish institutional setting and the statistical models have been explained. Additionally, the dependent and independent variables together with the control variables that the regressions rely on have been operationalized. Based on the theoretical models presented in this section, the following chapter constitutes of both the empirical analyses and the corresponding presentation of the results from numerous regression models.

# 4 EMPIRICAL ANALYSIS AND DISCUSSION

This chapter entails the empirical analyses and corresponding results of the study. The relation between founder-controlled firms, internationalization strategies and firm performance will be examined and discussed using different statistical approaches. First, the descriptive statistics utilized in the paper will be outlined. Subsequently, the correlation analysis between the variables will be discussed followed by the findings and interpretation of results from the various regression models to answer the research hypotheses formulated in chapter two.

## *4.1 Descriptive statistics and correlations*

The descriptive statistics of a sample provides a systematic presentation of the size and composition of the total population. Appendix II (table 3) illustrates the properties of the key variables applied in the study, including information on observations, mean, standard deviation, minimum- and maximum values. These variables are used to assess the relationship between founder-controlled firms, international activities and corporate performance. To increase the transparency of the results, skewness and kurtosis are also presented in Appendix II, table 3. Skewness measures the extent and direction of asymmetry (positively or negatively shifted) in the observations. A normal distributed sample should have a skewness of zero. Kurtosis indicates the heaviness of both tails in the observations. Samples that are normally distributed have a kurtosis of three (Bryman & Bell, 2015, chapter 15).

The dependent variables will be explained in more detail. From Appendix II (table 3), it is evident that the extent of foreign sales on average is 0.63, ranging from 0 to 1. The variable is slightly negatively skewed and is light tailed distributed. The average number of foreign employees is 0.47 with minimum and maximum levels of 0 and 1. The sample is somewhat normally distributed with a light tail. Geographic diversification, measured as the natural logarithm of the numbers of regional economies in which the firm is present, is on average 0.493 ranging from 0 to 1.079. The sample is positively skewed and marginally light tailed. Worth noticing is that n=2,898 observations for this variable. Firms only present in Sweden in terms of employees and subsidiaries are not accounted for in this measure. The relatively low mean in the foreign diversification measure might be explained by a recent acceleration in public listings. Newly listed firms tend to be present in fewer geographical locations compared to large mature firms as seen in the data sample, irrespective of the inherent corporate governance structure. *ROA* is a fluctuating measure which is negatively skewed and holds a

heavy tail. The mean is slightly positive, indicating that the average firm is asset efficient, i.e. profitable in relation to total assets (Anderson & Reeb, 2003).

Table 4 illustrates a matrix of correlations between dependent, test and firm-specific control variables for the total unbalanced sample of n=3,048 firm-year observations.

**Table 4: Correlation Matrix**

Matrix of correlations for "FORSALES" Sample (N=3,048)

| Variables | ForSales | ForEmpl | Fordiv | Family | Founder | ROA | TQ | Size | LogAge | Finlev | Intangible | Employee | Efficiency | Liquidity | Dual | Owncon | Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ForSales | 1,000 | | | | | | | | | | | | | | | | |
| ForEmpl | **0,604*** | 1,000 | | | | | | | | | | | | | | | |
| Fordiv | **0,587*** | **0,639*** | 1,000 | | | | | | | | | | | | | | |
| Family | -0,014 | -0,020 | 0,019 | 1,000 | | | | | | | | | | | | | |
| Founder | **-0,181*** | **-0,095*** | -0,034 | **0,410*** | 1,000 | | | | | | | | | | | | |
| ROA | **0,045*** | **0,124*** | **0,122*** | **0,084*** | **0,125*** | 1,000 | | | | | | | | | | | |
| TQ | **0,236*** | **-0,075*** | -0,005 | -0,022 | **0,064*** | **0,149*** | 1,000 | | | | | | | | | | |
| Size | **0,358*** | **0,414*** | **0,503*** | **-0,082*** | -0,008 | **0,272*** | **0,224*** | 1,000 | | | | | | | | | |
| LogAge | **0,186*** | **0,261*** | **0,299*** | 0,024 | -0,015 | **0,146*** | **-0,088*** | **0,282*** | 1,000 | | | | | | | | |
| Finlev | 0,026 | **0,039*** | 0,027 | -0,015 | -0,020 | -0,011 | -0,024 | 0,021 | 0,006 | 1,000 | | | | | | | |
| Intangible | **0,060*** | **0,244*** | **0,051*** | **-0,066*** | **-0,220*** | **-0,048*** | **-0,084*** | **0,054*** | **-0,128*** | 0,002 | 1,000 | | | | | | |
| Employee | **-0,272*** | -0,034 | **-0,102*** | **0,112*** | **0,192*** | **-0,075*** | **-0,094*** | **-0,188*** | 0,007 | -0,019 | **-0,091*** | 1,000 | | | | | |
| Efficiency | **-0,367*** | **-0,146*** | **-0,246*** | **0,106*** | **0,170*** | **0,072*** | **-0,074*** | **-0,184*** | **-0,053*** | **-0,041*** | **-0,281*** | **0,493*** | 1,000 | | | | |
| Liquidity | **0,123*** | **-0,176*** | **-0,095*** | **-0,092*** | **0,060*** | **-0,036*** | **0,464*** | **-0,058*** | **-0,173*** | **-0,067*** | **-0,271*** | **-0,048*** | **-0,074*** | 1,000 | | | |
| Dual | -0,007 | **0,042*** | **0,152*** | **0,294*** | **0,444*** | **0,102*** | **-0,041*** | **0,138*** | **0,136*** | -0,018 | **-0,155*** | **0,118*** | 0,029 | -0,034 | 1,000 | | |
| Owncon | **-0,083*** | -0,012 | **0,068*** | **0,360*** | **0,464*** | **0,113*** | **-0,084*** | -0,025 | **0,113*** | 0,016 | **-0,201*** | **0,141*** | **0,111*** | **-0,109*** | **0,439*** | 1,000 | |
| Year | **0,177*** | **0,176*** | **0,108*** | 0,012 | **-0,087*** | **0,151*** | **0,155*** | **0,225*** | **0,117*** | 0,025 | **0,299*** | **-0,158*** | **-0,119*** | -0,030 | **-0.121*** | **-0.042*** | 1,000 |

*** Shows significance at the 0.05 level**

N=3,048. See table 3 for descriptive statistics

Both *FORSALES* and *FOREMPL* and *FORSALES* and *FORDIV* show a significant positive correlation at 0.604 and 0.587 respectively at $p<0.05$. Furthermore, *FORSALES* and *FOUNDER* has a significant negative coefficient at 0.181 ($p<0.05$), while *FORSALES* and *FAMILY* has a negative association, however not significant at the 5%-level. The matrix of correlations further expresses that the measures *FORDIV* and *FAMILY* are positively correlated at 0.019 whereas *FORDIV* and *FOUNDER* have a negative coefficient at -0.034, but none are significant at $p<0.05$. However, these measures take on the expected signs and indicate that the average family firm is generally more engaged in international diversification compared to founder-controlled firms. These figures support the first research hypothesis (both 1a and 1b) of this paper, i.e. that founding family governance has a negative effect on the extent of foreign activities.

All the measures *FORSALES, FOREMPL, FORDIV, FAMILY, FOUNDER, SIZE* and *LOGAGE* are positively correlated to *ROA* ($p<0.05$). Thus, the second research hypothesis is supported indicating that both founder-controlled firms and average family firms outperform other firms when they engage in international activities. Furthermore, *SIZE* and *LOGAGE* are positively associated to *FORSALES*, *FOREMPL* and *FORDIV*. This could be explained by that large and mature firms, on average, score higher on geographical diversification compared to smaller firms. This result is as expected, since larger firms, generally, have more assets and resources to spend on foreign activities and commitments.

The relationships and results as presented above should be interpreted with caution due to the moderate magnitude of the correlations. Furthermore, the analysis does not consider industry effects and does not control for year-fixed effects. Hence, to improve reliability of the observed relationships, both univariate and multivariate regressions will follow in the subsequent sections.

Lastly, all regression models present a mean VIF value to account for collinearity between the different variables applied in the statistical tests. As explained in section 3.6.2, the various regression models illustrate a mean VIF between 1.79 and 2.08 which indicates that the risk of an intertwined relationship between the variables is absent. Additionally, all models in the different tables have a "Prob > F" equal to 0.000 which indicates that all the control variables reliably predict the dependent variable in the regressions. This also emphasizes the underlying strength and significance of the various models (Gordon, 2015).

### *4.2 Founding family governance and the effect on international activities*

To test the first research hypothesis (1a) which is defined as: "*Founding family governance has a negative effect on internationalization"*, both univariate and multivariate analyses were conducted. The univariate regressions were performed with both *FORSALES* and *FOREMPL* as dependent variables. As reflected in table 5 and 6, we see the relationship between founding family governance and the extent of international activities for the total unbalanced sample of n=3,048 firm-year observations between fiscal years 2001 and 2019.

## Table 5: Foreign sales and founding family governance

| | FORSALES | | | | |
|---|---|---|---|---|---|
| *Variables* | *Univariate* | *Model 1* | *Model 2* | *Model 3* | *Model 4* |
| Family | -0.012 | | 0.028 | | |
| | (-0.35) | | (0.86) | | |
| Founder | -0.110** | -0.096* | | -0.108** | -0.105** |
| | (-2.90) | (-2.43) | | (-2.83) | (-2.99) |
| TQ | -0.034*** | | 0.030*** | 0.032*** | 0.024*** |
| | (6.51) | | (5.12) | (5.40) | (4.11) |
| ROA | 0.022 | | -0.010 | 0.005 | -0.051 |
| | (0.48) | | (-0.25) | (0.12) | (-1.40) |
| Size | 0.095*** | | | | 0.066*** |
| | (7.34) | | | | (4.98) |
| LogAge | 0.113** | 0.113** | 0.128*** | 0.116** | 0.081* |
| | (3.00) | (2.98) | (3.41) | (3.07) | (2.23) |
| Finlev | 0.002 | 0.001 | 0.001 | 0.001 | 0.001 |
| | (1.53) | (1.22) | (1.47) | (1.17) | (0.89) |
| Intangible | 0.007 | -0.037 | -0.015 | -0.032 | -0.033 |
| | (0.09) | (-0.41) | (-0.16) | (-0.36) | (-0.40) |
| Employee | -0.078*** | -0.030 | -0.032 | -0.027 | -0.020 |
| | (-4.32) | (-1.72) | (-1.76) | (-1.55) | (-1.32) |
| Efficiency | -0.144*** | -0.111** | -0.115** | -0.110** | -0.099** |
| | (-4.75) | (-3.19) | (-3.11) | (-3.11) | (-3.02) |
| Liquidity | 0.275** | 0.287** | 0.079 | 0.088 | 0.157 |
| | (3.13) | (2.99) | (0.82) | (0.95) | (1.74) |
| Dual | 0.008 | 0.043 | 0.011 | 0.043 | 0.019 |
| | (0.22) | (1.19) | (0.33) | (1.27) | (0.56) |
| Owncon | -0.117 | -0.016 | -0.097 | -0.0002 | 0.037 |
| | (-1.55) | (-0.20) | (-1.21) | (-0.00) | (0.47) |
| Constant | - | 0.596*** | 0.569*** | 0.554*** | 0.418*** |
| | | (5.69) | (5.26) | (5.19) | (4.19) |
| N | 3 048 | 3 048 | 3 048 | 3 048 | 3 048 |
| Adjusted R2 | - | 0,214 | 0,229 | 0,246 | 0,287 |
| Prob > F | - | 0,000 | 0,000 | 0,000 | 0,000 |
| Year-fixed effects | Yes | Yes | Yes | Yes | Yes |
| Firm clustered std. Error. | Yes | Yes | Yes | Yes | Yes |
| Mean VIF | - | 1,83 | 1,79 | 1,81 | 1,80 |

t statistics in parentheses

* p<0.05, **p<0.01, *** p<0.001

## Table 6: Foreign employees and founding family governance

| | FOREMPL | | | |
|---|---|---|---|---|
| *Variables* | *Univariate* | *Model 1* | *Model 2* | *Model 3* |
| Family | -0.016 | | -0.019 | |
| | (-0.47) | | (-0.57) | |
| Founder | -0.054 | -0.039 | | -0.039 |
| | (-1.35) | (-0.88) | | (-1.02) |
| TQ | -0.018* | | -0.007 | -0.021* |
| | (-2.12) | | (-0.81) | (-2.51) |
| ROA | 0.132** | | 0.137** | 0.050 |
| | (2.96) | | (2.75) | (1.39) |
| Size | 0.115*** | | | 0.110*** |
| | (8.22) | | | (7.63) |
| LogAge | 0.171*** | 0.177*** | 0.171*** | 0.109** |
| | (3.80) | (3.98) | (3.88) | (2.69) |
| Finlev | 0.003 | 0.002 | 0.003 | 0.002 |
| | (1.43) | (1.77) | (1.86) | (1.61) |
| Intangible | 0.302*** | 0.309*** | 0.318*** | 0.310*** |
| | (3.72) | (3.40) | (3.49) | (3.70) |
| Employee | -0.001 | 0.011 | 0.014 | 0.027 |
| | (-0.08) | (0.65) | (0.79) | (1.44) |
| Efficiency | -0.053** | -0.032 | -0.039 | -0.021 |
| | (-2.62) | (-1.59) | (-1.92) | (-1.15) |
| Liquidity | -0.375*** | -0.149 | -0.121 | 0.005 |
| | (-3.76) | (-1.37) | (-1.14) | (0.05) |
| Dual | 0.038 | 0.045 | 0.033 | 0.001 |
| | (1.05) | (1.17) | (0.89) | (0.02) |
| Owncon | -0.007 | -0.005 | -0.035 | 0.046 |
| | (-0.08) | (-0.06) | (-0.41) | (0.60) |
| Constant | - | 0.162 | 0.199 | -0.109 |
| | | (1.59) | (1.93) | (-1.12) |
| N | 3 048 | 3 048 | 3 048 | 3 048 |
| Adjusted R2 | - | 0,157 | 0,164 | 0,271 |
| Prob > F | - | 0,000 | 0,000 | 0,000 |
| Year-fixed effects | Yes | Yes | Yes | Yes |
| Firm clustered std. Error. | Yes | Yes | Yes | Yes |
| Mean VIF | - | 1,83 | 1,79 | 1,80 |

t statistics in parentheses
* p<0.05, **p<0.01, *** p<0.001

The two most distinct multivariate models applied to address the hypothesized negative association adopt *FORSALES* and *FOREMPL* as dependent variables respectively and the dummy measure *FOUNDER* as the fundamental test variable. The tables above also report coefficients and t-statistics (in parentheses) for the univariate and multivariate regressions including statistical significance at $p<0.05$, $p<0.01$ and $p<0.001$. To normalize the sample used in the regressions, year-dummies have been included to account for fixed-year effects as well as firm-clustered standard errors. Moreover, the multivariate regressions consist of numerous firm-specific control variables embedded in the different models which will be further interpreted below.

In line with previous studies, the first regression model employs the extent of foreign sales scaled by total sales (*FORSALES*) as the main measure of international activities. The results from the different statistical tests are presented in table 5. As illustrated in the table, the adjusted R-square, i.e. the explanatory power of the regression models, improves continuously when more firm-specific control variables are added. The univariate analysis strongly emphasizes a negative association between *FOUNDER* and *FORSALES* (t-stat -2.90 at $p<0.01$), which suggests that founder-controlled firms are interconnected with a lower extent of foreign sales.

Model 1 in table 5 supports the findings from the correlation matrix, that is, we see a significant negative association between founding family governance and the extent of foreign sales at $p<0.05$ (t-stat -2.43). When excluding *FOUNDER* and include performance measures (*TQ* and *ROA*) in model 2, we see that the average family firm is positively associated with foreign sales. However, the finding is not statistically significant which imply that founder-controlled firms are not substantially less internationalized compared to average family firms.

Model 3 and 4 in table 5 support the findings in model 1 and contains the most novel and important result from the regression models. Firms having founding family governance are less internationalized compared to other firms. This association is demonstrated by a negative correlation and statistical significance between the test measure *FOUNDER* and the dependent variable *FORSALES* at $p<0.01$ (t-statistics between -2.83 and -2.99). The results remain significant at the same percentile irrespective of whether we review the univariate or multivariate analyses and whether controlling for firm-specific variables such as corporate performance (*TQ* and *ROA*) and the size measure (*SIZE*).

Several of the firm-specific variables takes on the expected signs in the various models in table 5. For instance, *SIZE* (t-stats between 4.98 and 7.34, all at $p<0.001$) and *LOGAGE* (t-stats between 2.23 and 3.41, at different percentiles) both demonstrate a statistically significant relationship to the extent of foreign sales in the multivariate and univariate analyses. This might be explained by the fact that mature and established firms tend to have more foreign sales compared to newly listed entities. This finding is also supported by the correlation matrix in table 4 where both measures have a significant positive correlation with *FORSALES* at the 5%-level.

Interestingly, the corporate performance measure *TQ* has a significant negative coefficient with *FORSALES* in the univariate analysis ($p<0.001$). However, we see a statistically significant positive association when different firm-specific control variables are added to the models as evident in model 2-4 in table 5 (t-stats between 4.11 and 5.40, all at $p<0.001$).

The alternative measure of foreign activity *FOREMPL* is applied as the dependent variable illustrated by table 6. From the univariate analysis, both *FAMILY* and *FOUNDER* are negatively correlated to *FOREMPL*, however not statistically significant. Contrary, both *SIZE* and *LOGAGE* are significant at $p<0.001$ which proves that the number of foreign employees is closely associated to the maturity and size of the firm as expected. The univariate analysis further demonstrates that the extent of foreign employees is associated to enhanced financial performance measured by *ROA* (t-stat 2.96 at $p<0.01$). When adjusting for size and corporate performance measures in model 1, the coefficient for *LOGAGE* remains statistically significant at $p<0.001$. *FOUNDER* is still negatively associated to *FOREMPL* but not significant, indicating that founder-controlled firms are not significantly less internationalized in terms of employees compared to the average family firms.

Model 2 in table 6 further supports the univariate analysis, that is, both corporate performance and maturity noted as *LOGAGE* are positively correlated to *FOREMPL* (t-stat 2.75 at $p<0.01$ and t-stat 3.88 at $p<0.001$ respectively). Model 3 still demonstrates a negative relationship between founding family governance and the number of foreign employees, yet not statistically significant. Nevertheless, this model includes the highest adjusted R-square illustrating the explanatory power of the model. However, despite insignificant results for the *FOUNDER* variable, the correlation matrix in table 4 illustrates a significant negative correlation between founding family ownership and the number of foreign employees. This

further supports the hypothesized association between founding family governance and international activities as formulated in hypothesis 1a.

Another important finding is that the variable *FAMILY*, which represents all the founding family firms and average family firms, is not statistically significant in the univariate and multivariate regressions for *FORSALES* and *FOREMPL* (t-stats between -0.35 and 0.86). These results indicate that the average family-controlled firm does not have significantly fewer international activities compared to other firms. Hence, the association indicates that founder-controlled firms are less internationalized because they are controlled by a founding family and not because they are family firms *per se*.

Other firm-specific control variables have statistically significant results. In particular, the dependent variable *FORSALES* are associated to *TQ*, *SIZE*, *LOGAGE*, *EFFICIENCY* and *LIQUIDITY*. Moreover, *ROA*, *SIZE*, *LOGAGE* and *INTANGIBLE* are associated with *FOREMPL*. The presented results acknowledge the hypothesized negative relationship in hypothesis 1b between founding family governance and the extent of internationalization.

In conclusion, the first research hypothesis (1a) is supported by the empirical data and results, i.e. that there is a negative association between founding family governance and the extent of international activities. The findings demonstrate that founder-controlled firms are generally less internationalized compared to the average family firm and other owners. To further investigate the correlation between ownership type and the presence in geographical regions, *FORDIV* will be used as the main dependent variable in the following section in the investigation of hypothesis 1b.

### *4.3 Founding family governance and the presence in geographical regions*

In line with section 4.2, this chapter examines the first research hypothesis (1b) and the association between ownership and geographical diversification. As previously mentioned, this paper follows the approach by Qian et al. (2008) which suggested ten global regions. However, this study adopts thirteen regional economies[9] in the examination of geographical presence and corporate governance (see section 3.5.2 for further explanation). The number of geographical regions varies through the total unbalanced sample of n=3,048 firm-year observation. However,

[9] Details of the geographical segment distribution are excluded from the paper, but available on request.

most firms are present in fewer than four regional economies (approximately 60% of the total sample) which is characterized by low degree of geographical presence. The clear tendency is a gradual internationalization process which can be associated to the number of years since the firm's original inception. Thus, newly listed entities on the Nasdaq OMX Stockholm Exchange seem to be less internationalized compared to large mature firms. The most common region is the Nordics, followed by EU-countries and North America. Only ten percent of the total sample can be characterized by high degree of geographic diversification, i.e. they are present in more than ten regional economies.

Table 7 below illustrates the results from the statistical regressions executed with *FORDIV* as the dependent variable for n=2,898 firm-year observations between 2001 and 2019. Noteworthy, the total number of observations are fewer compared to the previous sections (n=3,048 firm-year observations) due to missing information on regional economies. *FORDIV* is, as previously mentioned, measured as the number of geographical regions in that a firm has employees and subsidiaries[10]. Following the former regression models in this study, *FOUNDER* is still applied as the main test variable.

To test the hypothesized negative association between founding family governance and geographical diversification, both univariate and multivariate analyses have been performed. As reflected in table 7, we see the coefficients and t-statistics (in parentheses) for the regressions including statistical significance at $p<0.05$, $p<0.01$ and $p<0.001$. To normalize the data sample, year-dummies have been included to account for fixed-year effects. Additionally, firm-clustered standard errors have been incorporated for similar purposes. The multivariate regressions consist of numerous firm-specific control variables embedded in the different models which will be further interpreted below. Table 7 also demonstrates that the explanatory power of the statistical models (adjusted R-square) improves continuously with the addition of firm-specific control variables.

The results from the univariate analyses illustrate that *FORDIV* and *ROA* are positively associated (t-stat 3.25 at $p<0.01$). Furthermore, both *SIZE* and *LOGAGE* have statistically significant coefficients to *FORDIV* (t-stats 10.86 and 4.46 respectively, both at $p<0.001$). Hence, such measures will have substantial impact on international diversification as newly listed firms tend to be less geographically diversified compared to mature and large entities.

[10] A total of 13 geographical regions, including Sweden (only presence in Sweden would indicate no geographical diversification).

## Table 7: Foreign diversification and founding family ownership

| | FORDIV | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | VR ≤ 10% | | | | | VR > 20% | | VR > 30% | | VR > 50% | |
| *Variables* | *Univariate* | *Model 1* | *Model 2* | *Model 3* | *Model 4* | *Univariate* | *Model 5* | *Univariate* | *Model 6* | *Univariate* | *Model 7* |
| Family | 0.011 | -0.017 | | | | 0.011 | | 0.011 | | 0.011 | |
| | (0.24) | (-0.40) | | | | (0.24) | | (0.24) | | (0.24) | |
| Founder | -0.02 | | -0.078 | -0.095* | -0.051 | -0.031 | -0.107* | -0.034 | -0.115* | -0.073 | -0.163** |
| | (-0.40) | | (-1.36) | (-2.00) | (-1.18) | (-0.68) | (-2.35) | (-0.76) | (-2.46) | (-1.51) | (-3.30) |
| TQ | -0.004 | 0.001 | 0.002 | | -0.020** | -0.004 | | -0.004 | | -0.004 | |
| | (-0.55) | (0.06) | (0.20) | | (-2.76) | (-0.55) | | (-0.55) | | (-0.55) | |
| ROA | 0.181** | 0.177** | 0.186** | | -0.0001 | 0.181** | | 0.181** | | 0.181** | |
| | (3.25) | (3.07) | (3.16) | | (-0.00) | (3.25) | | (3.25) | | (3.25) | |
| Size | 0.167*** | | | 0.165*** | 0.153*** | 0.167*** | 0.162*** | 0.167*** | 0.163*** | 0.167*** | 0.162*** |
| | (10.86) | | | (11.10) | (10.17) | (10.86) | (10.94) | (10.86) | (11.01) | (10.86) | (10.99) |
| LogAge | 0.232*** | | | | 0.114** | 0.232*** | | 0.232*** | | 0.232*** | |
| | (4.46) | | | | (2.59) | (4.46) | | (4.46) | | (4.46) | |
| Finlev | 0.002 | 0.001 | 0.001 | 0.001 | 0.001 | 0.002 | 0.001 | 0.002 | 0.001 | 0.002 | 0.001 |
| | (1.24) | (0.52) | (0.46) | (0.78) | (0.49) | (1.24) | (0.66) | (1.24) | (0.66) | (1.24) | (0.66) |
| Intangible | 0.028 | -0.102 | -0.109 | 0.052 | 0.026 | 0.028 | 0.052 | 0.028 | 0.053 | 0.028 | 0.039 |
| | (0.28) | (-0.90) | (-0.98) | (0.61) | (0.27) | (0.28) | (0.61) | (0.28) | (0.63) | (0.28) | (0.47) |
| Employee | -0.032 | 0.011 | 0.014 | -0.003 | 0.020 | -0.032 | -0.004 | -0.032 | -0.003 | -0.032 | -0.005 |
| | (-1.88) | (0.55) | (0.71) | (-0.23) | (1.18) | (-1.88) | (-0.24) | (-1.88) | (-0.21) | (-1.88) | (-0.30) |
| Efficiency | -0.115*** | -0.134** | -0.132** | | -0.082** | -0.115*** | | -0.115*** | | -0.115*** | |
| | (-4.25) | (-3.29) | (-3.23) | | (-2.78) | (-4.25) | | (-4.25) | | (-4.25) | |
| Liquidity | -0.239* | -0.317* | -0.293* | -0.102 | 0.033 | -0.239* | -0.114 | -0.239* | -0.111 | -0.239* | -0.135 |
| | (-2.06) | (-2.31) | (-2.13) | (-1.01) | (0.28) | (-2.06) | (-1.11) | (-2.06) | (-1.08) | (-2.06) | (-1.34) |
| Dual | -0.115** | 0.102* | 0.119* | 0.064 | 0.046 | -0.115** | 0.074 | -0.115** | 0.072 | -0.115** | 0.069 |
| | (2.65) | (2.06) | (2.29) | (1.53) | (1.12) | (2.65) | (1.78) | (2.65) | (1.75) | (2.65) | (1.75) |
| Owncon | 0.127 | 0.0042 | 0.049 | 0.152 | 0.139 | 0.127 | 0.181* | 0.127 | 0.192* | 0.127 | 0.219* |
| | (1.33) | (0.04) | (0.43) | (1.67) | (1.64) | (1.33) | (1.99) | (1.33) | (2.18) | (1.33) | (2.43) |
| Constant | - | 0.663*** | 0.630*** | -0.149 | -0.144 | - | -0.136 | - | -0.146 | - | -0.149 |
| | | (6.17) | (5.74) | (-1.96) | (-1.33) | | (-1.77) | | (-1.86) | | (-1.90) |
| N | 2 898 | 2 898 | 2 898 | 2 898 | 2 898 | 2 898 | 2 898 | 2 898 | 2 898 | 2 898 | 2 898 |
| Adjusted R2 | - | 0,112 | 0,118 | 0,276 | 0,324 | - | 0,290 | - | 0,280 | - | 0,290 |
| Prob > F | - | 0,000 | 0,000 | 0,000 | 0,000 | - | 0,00 | - | 0,00 | - | 0,00 |
| Year-fixed effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm clustered std. Error. | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Mean VIF | - | 1,82 | 1,83 | 1,82 | 1,82 | - | 1,83 | - | 1,83 | - | 1,82 |

t statistics in parentheses

* p<0.05, **p<0.01, *** p<0.001

Model 1 and 2 in table 7 substantiate the corporate performance measure *ROA* which is statistically significant in both models at $p<0.01$ when accounting for *SIZE* and *LOGAGE*. However, models 1 and 2 do not express a statistically significant correlation between founding family governance or average family firms and geographical diversification. Although not statistically significant, *FAMILY* in model 1 and *FOUNDER* in model 2 both have negative associations with *FORDIV* as hypothesized in the first research question. Similar results are seen in model 4 which does not illustrate statistically significant results for *FOUNDER*. As such, the results are dependent on which control variables the analyses account for.

Model 3 presents a novel and important finding. By excluding the measures for corporate performance (*ROA* and *TQ*), *LOGAGE*, *EFFICIENCY* and *FAMILY*, we see a clear negative connection between the coefficient for *FOUNDER* and *FORDIV* (t-stat -2.00 at $p<0.05$). These results indicate that founder-controlled firms indeed seem to be less geographically diversified compared to other owners as suggested by theory and the second hypothesis.

Other firm-specific control variables have statistically significant results. For instance, the dependent variable *FORDIV* is associated to *ROA*, *TQ*, *SIZE*, *LOGAGE*, *EFFICIENCY*, *LIQUIDITY* and *DUAL*. The presented results acknowledge the hypothesized negative relationship in hypothesis 1b between founding family governance and the extent of geographical diversification.

### *4.3.1 Increased ownership concentration and the presence in geographical regions*

As an extension of the first hypothesis (1b), both univariate and multivariate regressions have been performed containing different interpretations of the *FOUNDER*-measure as the main test variable. Especially, table 7 above presents the results from regressions where the founding family holds 20%, 30% and 50% of the voting rights respectively and the various impact on foreign diversification (*FORDIV*).

In the univariate analyses, none of the revised founder-interpretations have statistically significant coefficients to *FORDIV*, irrespective of the extent of voting rights. Nonetheless, the t-stat for *FOUNDER* decreases gradually with the increase in voting rights.

The different multivariate regressions presented in table 7 contain interesting results. When adjusting for corporate performance measures (*TQ* and *ROA*), *LOGAGE* and

*EFFICIENCY*, we see that the t-statistics for the *FOUNDER* variable gradually decreases with ownership concentration in models 5-7. All these control variables have statistically significant associations to *FORDIV*, except *TQ*, in the univariate analyses at either $p<0.01$ or $p<0.001$. This can be explained by the fact that large mature firms, which in general are positively associated to corporate performance measures as assessed by the second hypothesis, seem to be present in more geographical regions compared to newly established entities. As such, these measures are excluded in the multivariate models 5-7 in table 7. In particular, the coefficients for *FOUNDER* in table 7 are positively associated to *FORDIV* (t-stats between -2.35 and -2.46 at $p<0.05$). However, when increasing the ownership concentration by the founding family to 50% voting rights as evident in model 7, the measure *FOUNDER* decreases significantly (t-stat -3.30 at $p<0.01$). This demonstrates strong evidence to support the proposed hypothesis. This is a novel and important result which clearly underlines that founding family governance exhibit increased caution and risk-averse behavior parallelly to increased control of the company in terms of voting rights. As such, founder-controlled are less geographically diversified compared to other firms, not because they are controlled by a family but because they are owned by the original founder.

To summarize, the first research hypothesis (1b) is supported by the empirical data and results, i.e. that there is a negative association between founding family governance and the extent of geographical diversification. The findings further reinforce the results from chapter 4.2 regarding international activities and founding family governance. Furthermore, the results prove that founder-controlled firms, in general, are present in fewer geographical regions compared to other owners. These findings are even stronger when the voting rights of the founding family gradually increases from 10% to 50%. To explore what drives the association between corporate performance, founder-controlled firms and foreign activity, the following part will investigate this relationship in more detail.

### *4.4 Corporate performance, founder-controlled firms and foreign activity*

The aim of this section is to investigate research hypothesis 2 which is formulated as "*founding family governance has a positive effect on the relationship between geographical expansion and performance"*. Table 8 reports coefficients and t-statistics (in parentheses) for both univariate and multivariate regressions including statistical significance at $p<0.05$, $p<0.01$ and $p<0.001$. To normalize the sample used in the regressions, year-dummies are incorporated to account for fixed-year effects as well as inclusion of firm-clustered standard errors.

## Table 8: Financial performance, international activities and founding family governance

| | ROA | | | | |
|---|---|---|---|---|---|
| *Variables* | *Univariate* | *Model 1* | *Model 2* | *Model 3* | *Model 4* |
| Family | 0.036* | 0.024 | | | |
| | (2.00) | (1.41) | | | |
| Founder | 0.071*** | | 0.049*** | 0.046*** | 0.008 |
| | (5.25) | | (3.36) | (3.34) | (0.28) |
| ForSales | 0.128 | | | -0.021 | -0.038 |
| | (0.50) | | | (-0.75) | (-1.20) |
| FoundxForsales | 0.118*** | | | | 0.066 |
| | (5.90) | | | | (1.61) |
| Size | 0.053*** | 0.052*** | 0.050*** | 0.052*** | 0.052*** |
| | (7.79) | (8.40) | (8.45) | (7.82) | (7.86) |
| LogAge | 0.067*** | 0.029 | 0.033* | 0.035 | 0.035 |
| | (3.41) | (1.75) | (1.97) | (1.94) | (1.95) |
| Finlev | -0.001 | -0.001 | -0.001 | -0.001 | -0.001 |
| | (-0.56) | (-0.52) | (-0.55) | (-0.54) | (-0.53) |
| Intangible | -0.115*** | -0.031 | -0.023 | -0.024 | -0.027 |
| | (-3.60) | (-1.03) | (-0.78) | (-0.81) | (-0.90) |
| Employee | -0.011 | -0.027** | -0.028** | -0.029** | -0.027** |
| | (-1.54) | (-3.17) | (-3.28) | (-3.30) | (-3.08) |
| Efficiency | 0.030** | 0.052*** | 0.051*** | 0.048** | 0.048** |
| | (2.60) | (3.41) | (3.35) | (3.28) | (3.25) |
| Liquidity | -0.050 | 0.007 | -0.011 | -0.005 | -0.008 |
| | (-0.64) | (0.10) | (-0.16) | (-0.07) | (-0.12) |
| Dual | 0.054*** | 0.010 | 0.002 | 0.002 | 0.003 |
| | (3.42) | (0.65) | (0.13) | (0.15) | (0.21) |
| Owncon | 0.144*** | 0.100* | 0.079 | 0.079 | 0.080 |
| | (3.88) | (2.30) | (1.78) | (1.80) | (1.81) |
| Constant | - | -0.263*** | -0.242*** | -0.234*** | -0.223*** |
| | | (-4.91) | (-4.81) | (-4.74) | (-4.43) |
| N | 3 048 | 3 048 | 3 048 | 3 048 | 3 048 |
| Adjusted R2 | - | 0,155 | 0,159 | 0,159 | 0,160 |
| Prob > F | - | 0,000 | 0,000 | 0,000 | 0,000 |
| Year-fixed effects | Yes | Yes | Yes | Yes | Yes |
| Firm clustered std. Error. | Yes | Yes | Yes | Yes | Yes |
| Mean VIF | - | 1,80 | 1,81 | 1,81 | 2,08 |

t statistics in parentheses

* p<0.05, **p<0.01, *** p<0.001

Table 8 above illustrates the relationship between corporate performance (*ROA* employed as the dependent variable) and founding family governance for the total sample of 3,048 firm-year observations between the fiscal years 2001 and 2019. As the table displays, the adjusted R-square improves continuously when more firm-specific control variables are added to the models. Measures such as *FOUNDER*, *SIZE* and *LOGAGE* are all positively correlated with *ROA* as indicated by the correlation matrix presented in table 4 ($p<0.05$). The results from the univariate models in table 8 further support this finding. Especially, all these measures are statistically significant in the univariate models at $p<0.001$ (t-stats between 3.41 and 7.79).

The different univariate and multivariate analyses generally show a positive coefficient for *FOUNDER* at $p<0.001$ (except model 4) irrespective of which firm-specific control variables are included in the models. Several of the coefficients in the univariate analysis demonstrate a significant coherence to the profitability measure in the analyses. In particular, we see positive correlations between for instance the measures *SIZE* and *LOGAGE* to *ROA* which is expected due to the uncertain nature of newly established entities. Furthermore, the findings from the univariate analyses exhibit a statistically significant relationship for both *FOUNDER* (t-stat 5.25 at $p<0.001$) and the interaction variable *FOUNDxFORSALES* (t-stat 5.90 at $p<0.001$) which is in line with the hypothesized positive relation between founding family governance and profitability when such firms internationalize. Moreover, the univariate analysis emphasizes that the average family firm has a positive association to corporate performance at $p<0.05$ (t-stat 2.00). Contrary to the univariate analysis, the average family firm (*FAMILY*) does not perform better than other firms as evident by model 1 in table 8 when accounting for firm-specific control variables (t-stat 1.41).

The coefficient for *FOUNDER* tends to have a positive association to *ROA* in both the univariate and multivariate models. Notably, being geographically diversified does not necessarily correspond to better performance as illustrated by *FORSALES* (not statistically significant in the univariate or multivariate models). As illustrated by model 2, the measure *FOUNDER* is statistically significant (t-stat 3.36 at $p<0.001$) for founder-controlled firms that do not have foreign sales and as such these firms seem to outperform other firms, irrespective of international activities. If we add *FORSALES* to model 3, we see that founder-controlled firms that increase their foreign commitment in terms of non-domestic sales still outperform other firms (t-stat 3.34 at $p<0.001$). Nevertheless, *FORSALES* is not statistically significant in the various approaches which clearly underline that increased foreign commitment does not necessarily result in amended corporate performance.

However, when including the interaction variable *FOUNDxFORSALES* as illustrated in model 4, founder-controlled firms that increase their foreign commitment do not find significant proof of better financial performance. Nevertheless, the results exhibit the expected sign and thus founding family governance illustrates a positive coherence to financial performance, although not statistically significant (t-stat 1.61).

Regardless of which variables the various models account for, the measure *SIZE* is statistically significant in all models. This finding is as expected and in line with the positive correlation in the matrix as presented in table 4 (significant at the 0.05 level). Interestingly, *EMPLOYEE* has a statistically significant coefficient in all the multivariate regressions which indicates that employee intensity is negatively associated to financial performance (t-stats between -3.08 and -3.30 at $p<0.01$).

To summarize, it is evident that the average family firm does not perform better than other entities as the multivariate regression in model 1 does not demonstrate statistically significant results. However, the results clearly demonstrate that founder-controlled firms outperform other owners, irrespective whether accounting for foreign sales (model 2 and 3). Nevertheless, the results do not exhibit statistical proof of enhanced corporate performance for founding family governance when international activities are increased (model 4).

Table 9 below includes *FORDIV* to measure geographic diversification in relation to corporate performance (*ROA* as dependent variable). Due to missing firm-year observations on foreign locations the sample is somewhat lower compared to previous analyses when *FORDIV* is included as a control variable (n=2,898 versus n=3,048). Similar to table 8 above, model 1 in table 9 demonstrates comparable findings, i.e. the average family firm does not have better corporate performance compared to other firms. However, founder-controlled firms seem to outperform other firms when they internationalize as illustrated by model 2-4 (t-stats between 3.19 and 3.41 at $p<0.001$).

Model 3 and 4 in table 9 does not indicate a statistically significant relationship between corporate performance and the presence in geographical regions (*FORDIV* not statistically significant). Nevertheless, the negative coefficient for the interaction variable *FOUNDERxFORDIV* in model 4 proves that the profitability of founder-controlled firms benefits from a concentration of foreign commitment to relatively few regional economies (t-stat -2.64 at $p<0.01$). This is also reflected in the *FOUNDER* measure which is statistically significant at $p<0.001$ (t-stat 3.41).

## Table 9: Financial performance, foreign diversification and founding family governance

| | ROA | | | | |
|---|---|---|---|---|---|
| *Variables* | *Univariate* | *Model 1* | *Model 2* | *Model 3* | *Model 4* |
| Family | 0.036* | 0.024 | | | |
| | (2.00) | (1.41) | | | |
| Founder | 0.071*** | | 0.049*** | 0.047** | 0.088*** |
| | (5.25) | | (3.36) | (3.19) | (3.41) |
| Fordiv | 0.064*** | | | -0.009 | 0.012 |
| | (3.87) | | | (-0.52) | (0.63) |
| FounderxFordiv | 0.080*** | | | | -0.078** |
| | (4.42) | | | | (-2.64) |
| Size | 0.052*** | 0.052*** | 0.050*** | 0.050*** | 0.049*** |
| | (7.79) | (8.40) | (8.45) | (7.90) | (7.78) |
| LogAge | 0.067*** | 0.029 | 0.033* | 0.035* | 0.033 |
| | (3.41) | (1.75) | (1.97) | (1.98) | (1.88) |
| Finlev | -0.001 | -0.001 | -0.001 | -0.001 | -0.001 |
| | (-0.56) | (-0.52) | (-0.55) | (-0.52) | (-0.55) |
| Intangible | -0.115*** | -0.031 | -0.023 | -0.016 | -0.016 |
| | (-3.60) | (-1.03) | (-0.78) | (-0.60) | (-0.59) |
| Employee | -0.011 | -0.027** | -0.028** | -0.025** | -0.026** |
| | (-1.54) | (-3.17) | (-3.28) | (-3.10) | (-3.24) |
| Efficiency | 0.030** | 0.052*** | 0.051*** | 0.040** | 0.040** |
| | (2.60) | (3.41) | (3.35) | (2.96) | (2.99) |
| Liquidity | -0.050 | 0.007 | -0.011 | 0.024 | 0.024 |
| | (-0.64) | (0.10) | (-0.16) | (0.33) | (0.32) |
| Dual | 0.054*** | 0.010 | 0.002 | 0.002 | -0.001 |
| | (3.42) | (0.65) | (0.13) | (0.10) | (-0.05) |
| Owncon | 0.144*** | 0.100* | 0.079 | 0.067 | 0.063 |
| | (3.88) | (2.30) | (1.78) | (1.49) | (1.40) |
| Constant | - | -0.263*** | -0.242*** | -0.230*** | -0.231*** |
| | | (-4.91) | (-4.81) | (-4.43) | (-4.44) |
| N | 2 898 | 3 048 | 3 048 | 2 898 | 2 898 |
| Adjusted R2 | - | 0,155 | 0,159 | 0,151 | 0,153 |
| Prob > F | - | 0,000 | 0,000 | 0,000 | 0,000 |
| Year-fixed effects | Yes | Yes | Yes | Yes | Yes |
| Firm clustered std. Error. | Yes | Yes | Yes | Yes | Yes |
| Mean VIF | - | 1,80 | 1,81 | 1,82 | 1,99 |

t statistics in parentheses

* p<0.05, **p<0.01, *** p<0.001

Comparable to the models in table 8, we see that the control variable *SIZE* is statistically significant at the p<0.001 percentile regardless of the applied control-variables. Additionally, several of the control variables have stand-alone significant positive association to *ROA* in the univariate analyses. This includes measures such as *FAMILY* (t-stat 2.00), *FOUNDER* (t-stat 5.25), *FORDIV* (t-stat 3.87), *FOUNDERxFORDIV* (t-stat 4.42) and *LOGAGE* (t-stat 3.41) which is in line with the presented matrix of correlations in table 4 (significant at the 0.05 level).

In summary, the results clearly demonstrate and support the hypothesized positive relationship between founding-family governance, geographical diversification and corporate performance as formulated in the second research question. The average family firm does not perform better than other owners. However, the corporate performance of founding family firms is significantly better than other entities and seems to be enhanced from the presence in fewer rather than several geographical regions.

### *4.5 Performance of founding family governance where founders hold top management positions*

This section examines the third and final research hypothesis, i.e. "f*ounding family firms having original founders or descendants in top management positions (CEO or Chairman) will outperform other entities". ROA* is still employed as the main dependent variables similar to previous sections. As before, table 10 and 11 depict coefficients and t-statistics (in parentheses) for both univariate and multivariate regressions including statistical significance at p<0.05, p<0.01 and p<0.001. To normalize the sample used in the regressions, year-dummies are incorporated to account for fixed-year effects as well as inclusion of firm-clustered standard errors. All models obtain a higher degree of explanatory power (adjusted R-square) parallelly to an addition of control variables.

Table 10 utilizes the original definition of founder with minor modifications, i.e. it includes only founding family firms where the founders or descendants hold top management positions (CEO or Chairman of the board). Contrary, table 11 presents founding family firms where founders or their descendants serve as board members only (see Appendix I table 2 for a more detailed distribution of the founder's activity in the firm). In the univariate analyses, both *FOUNDERTOP* and *FOUNDERBOARD* together with the interaction variables have positive associations to "ROA" at p<0.001 (t-stats between 3.83 to 6.49) which is in line with expectations and the presented theory that founding family firms outperform other entities.

## Table 10: Financial performance, international activities and founding family governance (Executive)

| ROA (Top management positions) | | | | | |
|---|---|---|---|---|---|
| *Variables* | *Univariate* | *Model 1* | *Model 2* | *Model 3* | *Model 4* |
| Family | 0.036* | | | | |
| | (2.00) | | | | |
| FounderTop | 0.061*** | 0.045** | 0.043** | 0.004 | 0.045** |
| | (4.02) | (2.87) | (2.83) | (0.14) | (2.74) |
| ForSales | 0.128 | | -0.027 | -0.037 | 0.024 |
| | (0.50) | | (-0.93) | (-1.21) | (0.84) |
| FoundertopxForsales | 0.110*** | | | 0.071 | |
| | (6.49) | | | (1.53) | |
| Size | 0.053*** | 0.051*** | 0.053*** | 0.053*** | |
| | (7.79) | (8.45) | (7.92) | (7.97) | |
| LogAge | 0.067*** | 0.034* | 0.036 | 0.036 | 0.060** |
| | (3.41) | (1.97) | (1.96) | (1.96) | (2.82) |
| Finlev | -0.001 | -0.001 | -0.001 | -0.001 | -0.001 |
| | (-0.56) | (-0.55) | (-0.55) | (-0.54) | (-0.47) |
| Intangible | -0.115*** | -0.029 | -0.029 | -0.031 | -0.030 |
| | (-3.60) | (-0.96) | (-1.00) | (-1.06) | (-0.95) |
| Employee | -0.011 | -0.029** | -0.029** | -0.027** | -0.035*** |
| | (-1.54) | (-3.29) | (-3.31) | (-3.06) | (-3.35) |
| Efficiency | 0.030** | 0.052*** | 0.049** | 0.049** | 0.048** |
| | (2.60) | (3.36) | (3.28) | (3.25) | (3.15) |
| Liquidity | -0.050 | -0.008 | 0.0002 | -0.005 | -0.026 |
| | (-0.64) | (-0.11) | (0.00) | (-0.07) | (-0.37) |
| Dual | 0.054*** | 0.007 | 0.007 | 0.008 | 0.027 |
| | (3.42) | (0.45) | (0.44) | (0.50) | (1.54) |
| Owncon | 0.144*** | 0.089* | 0.089* | 0.086* | 0.064 |
| | (3.88) | (2.03) | (2.03) | (1.92) | (1.34) |
| Constant | - | -0.247*** | -0.236*** | -0.227*** | -0.124** |
| | | (-4.89) | (-4.78) | (-4.48) | (-2.60) |
| N | 3 048 | 3 048 | 3 048 | 3 048 | 3 048 |
| Adjusted R2 | - | 0,157 | 0,157 | 0,158 | 0,112 |
| Prob > F | - | 0,000 | 0,000 | 0,000 | 0,000 |
| Year-fixed effects | Yes | Yes | Yes | Yes | Yes |
| Firm clustered std. Error. | Yes | Yes | Yes | Yes | Yes |
| Mean VIF | - | 1,80 | 1,80 | 2,04 | 1,80 |

t statistics in parentheses

* p<0.05, **p<0.01, *** p<0.001

**Table 11: Financial performance, international activities and founding family governance (Board)**

| | ROA (Board) | | | | |
|---|---|---|---|---|---|
| *Variables* | *Univariate* | *Model 1* | *Model 2* | *Model 3* | *Model 4* |
| Family | 0.036* | | | | |
| | (2.00) | | | | |
| FounderBoard | 0.060*** | 0.020 | 0.018 | -0.016 | 0.027 |
| | (3.83) | (1.46) | (1.28) | (-0.45) | (1.85) |
| ForSales | 0.128 | | -0.029 | -0.034 | 0.023 |
| | (0.50) | | (-1.00) | (-1.18) | (0.77) |
| FounderboardxForsales | 0.098*** | | | 0.059 | |
| | (4.25) | | | (1.06) | |
| Size | 0.053*** | 0.051*** | 0.053*** | 0.053*** | |
| | (7.79) | (8.28) | (7.74) | (7.72) | |
| LogAge | 0.067*** | 0.028 | 0.031 | 0.031 | 0.054** |
| | (3.41) | (1.73) | (1.74) | (1.75) | (2.65) |
| Finlev | -0.001 | -0.001 | -0.001 | -0.001 | -0.001 |
| | (-0.56) | (-0.54) | (-0.53) | (-0.53) | (-0.46) |
| Intangible | -0.115*** | -0.029 | -0.0299 | -0.0305 | -0.0296 |
| | (-3.60) | (-0.97) | (-1.02) | (-1.04) | (-0.95) |
| Employee | -0.011 | -0.026** | -0.027** | -0.027** | -0.033** |
| | (-1.54) | (-3.14) | (-3.19) | (-3.20) | (-3.23) |
| Efficiency | 0.030** | 0.052*** | 0.049** | 0.049** | 0.048** |
| | (2.60) | (3.36) | (3.28) | (3.28) | (3.15) |
| Liquidity | -0.050 | 0.0002 | 0.008 | 0.009 | -0.018 |
| | (-0.64) | (0.00) | (0.12) | (0.13) | (-0.25) |
| Dual | 0.054*** | 0.013 | 0.013 | 0.013 | 0.032 |
| | (3.42) | (0.78) | (0.77) | (0.76) | (1.79) |
| Owncon | 0.144*** | 0.111** | 0.110** | 0.112** | 0.084 |
| | (3.88) | (2.64) | (2.61) | (2.66) | (1.86) |
| Constant | - | -0.251*** | -0.239*** | -0.237*** | -0.128** |
| | | (-4.91) | (-4.81) | (-4.77) | (-2.63) |
| N | 3 048 | 3 048 | 3 048 | 3 048 | 3 048 |
| Adjusted R2 | - | 0,153 | 0,154 | 0,154 | 0,110 |
| Prob > F | - | 0,000 | 0,000 | 0,000 | 0,000 |
| Year-fixed effects | Yes | Yes | Yes | Yes | Yes |
| Firm clustered std. Error. | Yes | Yes | Yes | Yes | Yes |
| Mean VIF | - | 1,79 | 1,78 | 2,03 | 1,79 |

t statistics in parentheses

* p<0.05, **p<0.01, *** p<0.001

If we compare the two tables, the measure *FOUNDERBOARD* is not statistically significant in the various multivariate regressions. However, *FOUNDERTOP* is statistically significant in all models except model 3 (t-stats between 2.74 to 2.87 at $p<0.01$), regardless of the control variables accounted for. The findings presented by model 3 in both tables are in line with the findings in table 8, i.e. that founder-controlled firms that increase foreign commitment (illustrated by the interaction variable) are not automatically associated to enhanced corporate performance. Fascinatingly, despite exhibit statistically significant results, founding family firms employing founders in executive positions have a positive coefficient to corporate performance contrary to such firms with founders serving as board members only which display a negative association to *ROA*. These findings are in line with the hypothesized relationship between corporate performance and top managerial positions for founding family governance firms. Although restricting top management positions to a labor pool of family members can be questionable, active family management can indeed lead to enhanced performance compared to nonfamily firms (Anderson & Reeb, 2003). The empirical tests find strong evidence to support this. In particular, founding family firms with founders in executive positions have statistically significant positive associations with corporate performance relative to founder-controlled family owners where founders serve as board members only.

Another interesting finding is that when adjusting for *FAMILY*, we see that founder-controlled firms that increase their foreign commitment (illustrated by *FORSALES*) have amended corporate performance illustrated in model 2 and 4 in table 10 (t-stat 2.83 and 2.74 respectively at $p<0.01$). Nevertheless, *FORSALES* is not statistically significant in the various approaches in table 10 and 11 which clearly underlines that increased foreign commitment does not necessarily result in enhanced profitability. However, the results from model 3 are somewhat disappointing as they suggest that active founders that internationalize as illustrated by the interaction variable are not performing better than other owners.

In short, this chapter has presented and discussed the empirical results from the statistical regression models. The general tendency is that founding family governance seem to have adverse effects on geographical diversification decisions. Nevertheless, when such firms engage in international activities, they outperform other owners – especially when founders employ top management positions. The following section will conclude the findings presented in this section and provide suggestions for further research.

# 5 CONCLUSIONS

The aim of this study has been to investigate whether founding family governance affects internationalization strategies and the corporate performance of Swedish firms listed on Nasdaq OMX Stockholm Exchange. By manual collection of accounting information from the annual reports of 606 unique listed entities over a time period of 19 years resulted in a total of 5,228 firm-year observation as illustrated in table 1 (Appendix I). In line with former studies, the sample was narrowed to 3,048 firm-year observations. From the data sample, I created different variables to measure both the extent of foreign sales, the number of international employees and the degree of geographical locations of business operations. In order to answer the overall research hypotheses of the paper, several univariate and multivariate regressions have been performed. This chapter will summarize the main findings and results, discuss the contribution of the thesis and present delimitations to the paper. Finally, suggestions for future research within the theoretical landscape of founding family firms will be provided.

## *5.1 Overall empirical results*

In this study, many different regression models, disparate test variable definitions and different combinations of control variables have been applied. Consequently, an ambiguity appears in the interpretation of the results. Having that said, the *overall findings* point in a direction that confirms the proposed research hypotheses of this paper.

According to the first hypotheses (1a and 1b), a negative relationship between founding family governance and internationalization was predicted. The assumed effect was investigated using different measures for international activities. Results from the statistical regressions confirmed the hypotheses and clearly demonstrated that founding family governance has a negative impact on both the extent of foreign sales and the geographical diversification compared to other firms. In particular, as an extension of hypothesis 1b, founding family firms with a gradual increase of ownership concentration for the founder (measured by voting rights) were less geographically diversified compared to other entities. These findings are in line with the Uppsala Process Model for internationalization which suggests that founding family owners are cautious, risk-averse and favor long-term sustainable growth strategies rather than unnecessary risk-taking for short-term gains that may be disruptive for the long-term survival of the firm (Johanson & Vahlne, 1977). As such, founding family firms benefit from an

incremental internationalization process, step by step, in order to maintain control of the business.

The second hypothesis emphasized a positive relationship between founding family governance and corporate performance (*ROA*). The findings suggest that founder-controlled firms indeed perform better than other firms when they engage in international activities. This is in line with previous finance literature which found strong results for the positive association between corporate performance and founding family ownership. The same peculiarities that resulted in lower degree of international activities as evidenced by the first hypotheses apply to the enhanced performance of founder-controlled firms when they make internationalization decisions. These characteristics include caution and conservatism in strategic business decisions, risk-averse behavior and the desire to maintain control. Similar to the arguments above, because founder-controlled family firms expel such qualities, they invest in sustainable long-term strategies and undertake lower risks, which in turn leads to enhanced corporate performance compared to other enterprises.

Deriving from the second hypothesis, the third and final research hypothesis predicted that founder-controlled firms where the founders or heirs hold executive positions (CEO or Chairman of the Board) would outperform founding family owners when founders or descendants serve as board members only. The empirical analyses found strong support for the hypothesized relationship, indicating that active family management and involvement is beneficial and a competitive advantage for listed firms in the Swedish institutional setting. Contrary, a clear tendency of substituting founders in managerial position to outside professional can be seen during the time period under investigation as evident in table 1 (Appendix I). However, the results revealed that greater corporate performance in family firms, relative to other owners, derived from firms that have founders in top executive positions compared to founder-controlled firms having founders as board members only. One interpretation is that the founding family have better understanding of the business and that actively involved family members consider themselves as stewards of the entity. Furthermore, the agency costs are likely to be higher with outside professionals in managerial positions indicating an inverse relationship between agency costs and managerial ownership.

As a final remark, what does the results imply and what do they mean to society? Through this study, I have learned that founding family firms have an incremental approach in their internationalization process, they create more value and are more profitable compared to other entities. The corporate performance of such firms increases parallelly to a rising control

of the entity (in terms of voting rights). Previous studies have shown that founding family firms taken public by the original founders outperform other owners. If the corporate performance remains adequate, the founder will maintain the owner share of the company. Hence, these results imply that firms where the original founder persists substantial control create superior value, have efficient strategies and are more profitable which in turn indicates that such firms might be a favorable investment opportunity for outside stakeholders.

### *5.2 Delimitations*

Although this thesis contributes to current literature in several aspects as previously mentioned, there may also be certain limitations in need of reflection. First, a potential risk of biased results is always present due to subjective interpretations of the results. However, such drawbacks were continuously recognized and considered during the data collection process as well as in the construction of variables. Despite the efforts, I acknowledge the ambiguity of biases and the problem may not be entirely mitigated.

Second, an inherent delimitation of this research relates to generalizability of the results. The study is performed on a unique sample of publicly listed firms in the Swedish institutional setting which is considered as a transparent country regarding financial disclosures. Although the findings are statistically significant, it is questionable whether the results are applicable to other foreign settings with a less efficient market that may be prohibited by e.g. stricter local law, regulations and limitations in the availability of accounting information.

Lastly, the study encounters a methodological problem when testing the extent of internationalization. More precisely, the measure of international activity uses both the proportion of foreign sales (*FORSALES*), foreign employees (*FOREMPL*) and presence in geographical regions (*FORDIV*) as dependent variable. Findings from several univariate and multivariate regressions with different test and control variables have been presented; and somewhat understandably, statistically significant results cannot be found for all variables in all models. The results from the regressions generally show statistical significance for *FORSALES* and *FORDIV*, but not for *FOREMPL*. As such, does this mean that we confirm or refute the research hypotheses? The measure *FOREMPL* was included for robustness reasons as described in chapter three. In line with both former research and the approach of this paper, *FORSALE* has been used as the main approach. Due to statistically significant results from these

regressions together with the results from the alternative measure of international activities (*FORDIV)*, the first research hypotheses (both 1a and 1b) are confirmed.

### *5.3 Suggestions for future research*

This paper is a contribution to a growing body of founding family governance literature. Few studies within this category are performed on publicly listed firms in Sweden. Since this research is limited to a specific context, it would be very interesting to examine similar research hypotheses in other geographical regions. However, it may be difficult to obtain a large and unique unbalanced data set in other countries due to transparency of financial disclosures and requirements set by local law. As an example, Norway has few listed entities which would make the analyses less comprehensive and the corresponding results presumably less significant. An alternative approach could be to investigate private companies. Nevertheless, these firms do not have the same requirements on financial disclosures and annual reports compared to listed entities which may provide challenges in the data collection process. Regardless of the geographical context of future studies, the data set should be fairly large and include an extensive time period in order to obtain statistically significant results.

Another interesting area of research would be to further extend the work performed by (Qian, Li, Li, & Qian, 2008) and explain the global diversification strategies of founder-controlled firms. Specifically, one could for instance compare and quantify companies in three dimensions of internationalization; sales, employees and diversification. It would be fascinating to identify different type of firms and investigate whether there is a significant distinction between global, export, and import firms, their inherent corporate governance structure and the presence in geographical locations.

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# Appendices

## Appendix I

### Table 1: Total Sample Selection

| Year | Listed | Foreign | Industry | No home | Only foreign | Only Swedish | No revenue | Missing | EU home | Nordic home | Final |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *2001* | 290 | 13 | 50 | 8 | 1 | 18 | 11 | 18 | 14 | 10 | 147 |
| *2002* | 288 | 13 | 48 | 8 | 1 | 14 | 11 | 11 | 13 | 13 | 156 |
| *2003* | 273 | 14 | 45 | 7 | 1 | 12 | 12 | 8 | 13 | 16 | 145 |
| *2004* | 270 | 17 | 42 | 6 | 1 | 13 | 11 | 6 | 13 | 19 | 142 |
| *2005* | 266 | 16 | 43 | 6 | 1 | 13 | 8 | 7 | 12 | 19 | 141 |
| *2006* | 268 | 15 | 46 | 8 | 2 | 11 | 6 | 6 | 15 | 21 | 138 |
| *2007* | 267 | 17 | 47 | 6 | 2 | 10 | 6 | 6 | 13 | 21 | 139 |
| *2008* | 256 | 15 | 46 | 3 | 2 | 9 | 9 | 3 | 14 | 14 | 141 |
| *2009* | 251 | 15 | 42 | 3 | 2 | 11 | 8 | 3 | 10 | 4 | 153 |
| *2010* | 243 | 16 | 39 | 3 | 2 | 11 | 8 | 2 | 6 | 3 | 153 |
| *2011* | 247 | 18 | 38 | 3 | 2 | 10 | 9 | 2 | 2 | 3 | 160 |
| *2012* | 248 | 20 | 37 | 3 | 3 | 9 | 9 | 1 | 3 | 2 | 161 |
| *2013* | 251 | 19 | 42 | 4 | 4 | 7 | 9 | 1 | 3 | 2 | 160 |
| *2014* | 262 | 23 | 45 | 4 | 3 | 9 | 7 | 2 | 3 | 2 | 164 |
| *2015* | 279 | 23 | 50 | 4 | 2 | 11 | 7 | 1 | 3 | 2 | 176 |
| *2016* | 296 | 22 | 55 | 5 | 2 | 16 | 7 | 1 | 3 | 2 | 183 |
| *2017* | 314 | 22 | 54 | 7 | 2 | 15 | 7 | 2 | 7 | 2 | 196 |
| *2018* | 328 | 23 | 57 | 8 | 2 | 14 | 15 | 4 | 6 | 2 | 197 |
| *2019* | 331 | 23 | 59 | 6 | 2 | 16 | 18 | 4 | 6 | 1 | 196 |
| *Pooled* | 5228 | 344 | 885 | 102 | 37 | 229 | 178 | 88 | 159 | 158 | 3048 |

### Table 2: Ownership Distribution

| Main owner type | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Founding family governance | 60 | 61 | 54 | 50 | 46 | 44 | 45 | 47 | 48 | 44 | 48 | 48 | 46 | 45 | 47 | 49 | 48 | 47 | 45 | 922 |
| (In % of total sample) | 37 % | 36 % | 35 % | 33 % | 30 % | 30 % | 30 % | 31 % | 29 % | 28 % | 29 % | 29 % | 28 % | 29 % | 30 % | 29 % | 28 % | 28 % | 26 % | 30 % |
| Other family owner | 54 | 55 | 56 | 53 | 64 | 63 | 62 | 67 | 75 | 69 | 70 | 73 | 68 | 71 | 73 | 79 | 82 | 80 | 84 | 1298 |
| Founders in top management positions | 47 | 46 | 39 | 35 | 29 | 27 | 28 | 29 | 27 | 28 | 30 | 27 | 25 | 28 | 30 | 30 | 34 | 30 | 30 | 599 |
| Founders serving as Board Member only | 17 | 25 | 24 | 23 | 22 | 20 | 21 | 21 | 24 | 27 | 24 | 24 | 21 | 22 | 20 | 20 | 22 | 23 | 20 | 420 |
| **Total family ownership (%)** | 70 % | 69 % | 71 % | 68 % | 72 % | 73 % | 72 % | 76 % | 75 % | 72 % | 71 % | 72 % | 69 % | 74 % | 76 % | 76 % | 76 % | 75 % | 76 % | 73 % |
| Financial owner | 21 | 20 | 23 | 25 | 19 | 21 | 20 | 15 | 15 | 19 | 29 | 27 | 30 | 25 | 26 | 28 | 27 | 29 | 27 | 446 |
| Industrial owner | 23 | 26 | 19 | 21 | 18 | 15 | 17 | 17 | 20 | 19 | 8 | 9 | 10 | 7 | 6 | 7 | 6 | 6 | 7 | 261 |
| Other owner | 5 | 6 | 3 | 3 | 5 | 4 | 4 | 4 | 5 | 6 | 12 | 11 | 11 | 8 | 6 | 6 | 7 | 8 | 7 | 121 |
| Total | 163 | 168 | 155 | 152 | 152 | 147 | 148 | 150 | 163 | 157 | 167 | 168 | 165 | 156 | 158 | 169 | 170 | 170 | 170 | 3 048 |

## Appendix II

### Table 3: Descriptive Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max | Skewness | Kurtosis |
|---|---|---|---|---|---|---|---|
| *Dependent variables* | | | | | | | |
| Foreign Sales | 3 048 | 0,630 | 0,291 | 0,000 | 1,000 | -0,401 | 1,913 |
| Foreign Employees | 3 048 | 0,471 | 0,302 | 0,000 | 1,000 | 0,031 | 1,731 |
| Geographic Diversification | 2 898 | 0,493 | 0,344 | 0,000 | 1,079 | 0,143 | 2,008 |
| | | | | | | | |
| *Test variables* | | | | | | | |
| Family firms | 3 048 | 0,686 | 0,464 | 0,000 | 1,000 | -0,802 | 1,643 |
| Founding family firms | 3 048 | 0,269 | 0,444 | 0,000 | 1,000 | 1,042 | 0,444 |
| Founding family (Top) | 3 048 | 0,165 | 0,372 | 0,000 | 1,000 | 1,802 | 4,246 |
| Founding family (Board) | 3 048 | 0,104 | 0,305 | 0,000 | 1,000 | 2,600 | 7,761 |
| | | | | | | | |
| *Firm-specific control variables* | | | | | | | |
| ROA (also used as dependent) | 3 048 | 0,017 | 0,224 | -5,261 | 1,149 | -8,282 | 139,895 |
| Tobin's Q | 3 048 | 1,656 | 1,886 | 0,000 | 29,024 | 4,790 | 40,110 |
| Size | 3 048 | 3,208 | 1,039 | 0,000 | 5,732 | -0,542 | 4,302 |
| Age | 3 048 | 1,524 | 0,429 | 0,000 | 2,636 | -0,151 | 3,368 |
| Financial leverage | 3 048 | 0,570 | 3,485 | -149,069 | 69,470 | -21,636 | 1189,689 |
| Intangible asset intensity | 3 048 | 0,273 | 0,210 | 0,000 | 0,883 | 0,598 | 2,537 |
| Employee intensity | 3 048 | 0,782 | 0,934 | 0,000 | 14,929 | 5,352 | 45,643 |
| Efficiency | 3 048 | 1,259 | 0,710 | 0,000 | 12,375 | 3,957 | 39,547 |
| Liquidity | 3 048 | 0,128 | 0,137 | 0,000 | 0,928 | 2,183 | 8,680 |
| Dual-class shares | 3 048 | 0,495 | 0,500 | 0,000 | 1,000 | 0,020 | 1,000 |
| Ownership concentration | 3 048 | 0,558 | 0,193 | 0,000 | 1,000 | -0,041 | 2,381 |