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RESEARCH NOTES AND COMMENTARIES

FAMILY FIRMS AND INTERNATIONALIZATION-GOVERNANCE RELATIONSHIPS: EVIDENCE OF SECONDARY AGENCY ISSUES

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This article documents that blockholders with both ownership and management control in family firms have different goals compared to blockholders with only ownership (but no management) control. We theorize and find evidence that family controlled and family managed (FCFM) firms negatively moderate the relationships between internationalization and governance mechanisms, while family controlled and nonfamily managed (FCNFM) firms do not. The findings indicate that family owners in FCFM firms have greater opportunities to reap private benefits of control indicating the presence of secondary (principal-principal) agency problems, while these problems are mitigated in FCNFM firms. In emerging economies like India where family firms are ubiquitous, they highlight the need to recognize differing blockholder influences on internationalization-governance relationships and to develop more nuanced theorizing for understanding them.

INTRODUCTION

In the primary agency theoretical framework, a principal concern relates to the distribution of benefits (dividends and other cash flows) by the management among shareholders in proportion to their shareholding (i.e., shared benefits of control, Barclay and Holderness, 1992). However, with ownership dispersion, there is often a lack of adequate oversight of the manager's actions. Consequently, the manager may act opportunistically to the detriment of shareholders' interests, leading to primary agency costs and goal incongruence between shareholders and management. An important governance mechanism that mitigates this goal incongruence is concentrated ownership or blockholding (Jensen and Meckling, 1976). However, while blockholders may be effective in alleviating primary agency issues, they can cause secondary agency issues to arise when they act opportunistically at the expense of minority shareholders. These secondary agency issues arise

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especially when blockholders participate in the management of the firm (Barclay and Holderness, 1992). Therefore, they bear the extra costs of managing the firm, the benefits of which also accrue to other shareholders, even to those who do not actively participate in the management of the firm. Envisioning this possibility, blockholders are tempted to accrue private benefits of control from the firm, i.e., an amount in excess of what would be mandated with the shared benefits of control (Barclay and Holderness, 1989). These private benefits could be pecuniary and/or nonpecuniary in nature, for instance, setting transfer prices of the firm's products to affiliated blockholders' firms at below market rates. Consequently, the misalignment of goals among majority and minority shareholders results in the expropriation of minority shareholders' wealth. In extant literature, this is termed the principal-principal or secondary agency problem (e.g., Young *et al.*, 2008).

Most of the prior work in agency theory has assumed away the differences in blockholder identities, the associated differences in goals among blockholders, and the implications with regard to sharing the private benefits of control (Holderness and Sheehan, 1988). We question this assumption through providing evidence with regard to a prominent class of blockholders, namely family owners. This article examines the nuances associated with the separation of ownership control and management control among family business firms. We argue that family controlled and family managed (FCFM) firms behave differently from family controlled and nonfamily managed firms (FCNFM), because of dissimilar goals and preferences with regard to the shared and/or the private benefits of control.

We test our theory among internationalizing firms. This setting enables us to tease out the dynamics associated with these two seemingly similar blockholders with differing preferences. We build on Sanders and Carpenter's (1998) earlier work that examined the relationships between internationalization and governance characteristics of the firm. The central thesis of their article was that internationalization leads to an increase in organizational complexity that creates information asymmetries. This, in turn, leads to a misalignment of goals between management and owners. Thus, these information asymmetries necessitate that internationalizing firms adopt governance mechanisms such as higher CEO compensation (Tosi and Gomez-Mejia, 1989), low CEO duality, and low proportions of outside directors (i.e., board structure) for better monitoring of management's actions (Dalton *et al.*, 2007) and for managing complexity. However, Sanders and Carpenter (1998) have assumed that all shareholders have largely similar goals of wealth maximization and, hence, support these governance changes. While this is a plausible assumption in the case of dispersed ownership, it needs revisiting in the context of concentrated ownership where secondary agency problems arise. We argue that these internationalization-governance relationships are context specific and that they would vary for firms with concentrated ownership, especially among family business firms. In addition, even within family business firms, we anticipate that these relationships would be different for an FCFM firm versus an FCNFM firm. We base our arguments on the differing preferences for the private and the shared benefits of control among family owners/blockholders, as these owners may have different motivations to hold blocks in the firm (Holderness and Sheehan, 1988). This is conditional upon whether the family owners are also managing the firm. We reveal how the relationships between internationalization and governance mechanisms are altered by the moderating roles played by FCFM as well as FCNFM firms.

These relationships are examined on a sample of 101 publicly listed Indian companies that comprise family business firms at different stages of internationalization, assessed over a seven-year (i.e., 2002 to 2008) time frame. This time period provided a unique context that was characterized by the accelerated pace of internationalization by Indian companies as well as wide-ranging regulatory and institutional reforms undertaken in the Indian corporate governance firmament (Rajagopalan and Zhang, 2008). Examining the differences in goals/preferences among family owners and their implications with regard to the internationalization-governance relationships represents a pioneering contribution to agency, family business, and internationalization literatures.

HYPOTHESES DEVELOPMENT

Among FCFM firms, controlling family owners (blockholders) bear the primary costs and risks of managing the firm. However, the benefits of

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this management are also potentially shared by other shareholders who do not invest their time and effort in managing the firm (shared benefits of control). Consequently, controlling blockholders may feel entitled to the private benefits of control for the extra costs they bear in managing the firm (Barclay and Holderness, 1989). This increases the secondary agency costs. These secondary agency issues are exacerbated in the Indian institutional context because the institutional context provides weak *de facto* protection for minority shareholders' rights and is characterized by very limited external market control mechanisms to mitigate agency conflicts.[1] This creates a climate facilitating the imposition of decisions by controlling blockholders/family shareholders on minority shareholders, leading to the expropriation of wealth or private benefits by these blockholders. Specifically, family owners may be reluctant to adopt governance mechanisms that reduce their control over the firm—such as those that permit greater monitoring of their family affiliated agent's activities and/or those that inhibit them from achieving their personal goals. This may occur despite the fact that strategic initiatives like internationalization necessitate certain types of governance mechanisms (Sanders and Carpenter, 1998). We theorize that secondary agency problems (as well as the private benefits of control) are more evident in family firms where the family has both ownership control as well as management control. Family owners of FCFM firms appropriating these private benefits might jeopardize the firm's international expansion initiatives, thereby imperiling the returns for all shareholders.

FCFM firms: internationalization-governance relationships

As compared to domestic operations, internationalization leads to greater organizational complexity because of greater dissimilarity in languages, variations in business environments and culture, greater variety in interactions between the parent and subsidiaries, discrimination by local governments, and geographic dispersion among regions where the firm's operations are located (Tihanyi and Thomas, 2005). CEOs are compensated more in order to incentivize them to manage this increased complexity (Henderson and Fredrickson, 1996). Sanders and Carpenter (1998) found that an increasing degree of internationalization was positively related to CEO compensation among a sample of U.S. firms. We argue that this relationship is context specific, and is contingent on whether it is a FCFM firm or a FCNFM firm.

Since the CEO is, in all likelihood, a family member in FCFM firms, there are several factors that result in the CEO being paid relatively less (Gomez-Mejia, Larraza-Kintana, and Makri, 2003). First, altruism among family members creates greater goal alignment and inhibits opportunism by family CEOs. Second, the main source of wealth generation for family CEOs would be in the form of dividends or increased market capitalization of the firm. In India, dividends are not taxed, while salary is taxed (as per Section 10 (34) of the Income Tax Act of India, Taxmann, 2011). Therefore, family CEOs might prefer dividends over salary.[2] Third, the family may want to signal to other shareholders through limiting CEO compensation that agency costs are less in the firm. Fourth, in accordance with agency theory, family CEOs will trade greater job security deriving from their family affiliation for lower earnings/compensation (Gomez-Mejia *et al.*, 2003; McConaughy, 2000; Schulze *et al.*, 2001). Finally, the private benefits of control (alluded to earlier) may substitute for the need to incentivize the family CEO with higher compensation (Rediker and Seth, 1995; Walsh and Seward, 1990). Cumulatively, these imperatives attenuate the expected positive relationship between internationalization and CEO compensation in FCFM firms. Consequently,

> *Hypothesis 1a (H1a): The positive relationship between degree of internationalization and CEO compensation is weakened in family controlled and family managed (FCFM) firms.*

Boards of directors have a fiduciary responsibility toward shareholders (Fama and Jensen, 1983).

[1] See La Porta *et al.* (1998) and Balasubramanian (2010) for a comparison of the institutional environment in India *vis à vis* the U.S. and U.K. using the institutional and corporate governance indicators. It illustrates the challenges that minority shareholders face.

[2] Institutionally as per the Companies Act (1956) of India, the overall compensation of the CEO is limited to 5 percent of the net profits earned by the firm unless specific approval is obtained from the government (Ramaiya, 2010). However, recent amendments to the legislation have relaxed these limits.

Outside directors are more likely to monitor the management's actions and their performance objectively as compared to inside directors (Dalton *et al.*, 2007). In order to better manage the increased complexity and information asymmetries resulting from international operations, a greater proportion of outside directors on the board is recommended. However, the controlling family in FCFM firms may not be receptive to having more outside directors to monitor management's activities (Schulze *et al.*, 2001), as these outside directors would demand greater accountability and transparency from management (Carney, 2005).

Additionally, listed firms in India are required to have at least 50 percent of the board members as outside directors (as per Clause 49 of the Indian listing agreement, Balasubramanian, 2010). But FCFM firms may not voluntarily appoint more outside directors beyond this regulatory requirement, because outside directors might inhibit the FCFM owners' preferences toward expropriation of the private benefits of control (Young *et al.*, 2008). Indian FCFM firms also make mutually acceptable board appointments by trading 'outside' directors through interlocking directorates (Veliyath and Ramaswamy, 2000).[3] Since these outside directors are beholden to the CEO for their board appointments (e.g., Wade, O'Reilly, and Chandratat, 1990; Westphal and Zajac, 1995), they may be unwilling to countenance decisions that could potentially negatively impact the family-affiliated CEO. To compound matters, minority shareholders are unable to challenge these suboptimal decisions (of not having an adequately higher proportion of outside directors) effectively, as *de facto* minority shareholders' rights and investor protection rights are relatively lower in the Indian context. Consequently, they are not easily able to seek adequate redress for their grievances for the suboptimal decisions imposed on the firm by the controlling shareholders. Thus, the Indian institutional setting leads to a circumvention of the intent behind governance regulations and facilitates greater family control. Finally, family business owners are concerned with the increased business risk for the firm that accompanies increased internationalization. Since the family's welfare is closely intertwined with that of the firm, they would like to retain greater control over the firm that is engaging in relatively risky strategic maneuvers (such as internationalization) by appointing a greater number of inside directors to the board. All of these arguments suggest a further weakening of the expected positive relationship between internationalization and board structure in FCFM family firms.

Hypothesis 2a (H2a): The positive relationship between degree of internationalization and board structure is weakened in family controlled and managed (FCFM) firms.

CEO duality, implying that the positions of CEO and the board chair are vested in the same person, is an indication of high CEO power (Zajac and Westphal, 1996). Duality helps establish unity of command and clarifies decision-making authority (e.g., Baliga, Moyer, and Rao, 1996). However, duality compromises the ability of the board to reasonably monitor the CEO's practices, policies, and performance since the CEO also serves as the presiding officer of the board (e.g., Cannella and Lubatkin, 1993; Tuggle *et al.*, 2010). Therefore, duality may not be appropriate during international expansions that increase information asymmetries between the CEO and the board (Boyd, 1995; Sanders and Carpenter, 1998).

However, family owners in FCFM firms who wish to expropriate benefits from minority shareholders by colluding with the family-affiliated CEO may not want an independent board chair who monitors the CEO's activities. Additionally, in high business risk situations like internationalization, the family would prefer to have greater control. Greater control is achieved through CEO duality, especially if the CEO is also a family member. In addition, CEO duality has been argued to affect CEO succession (Cannella and Lubatkin, 1993). Family owners of FCFM firms would prefer that next generation/affiliated members of the family succeed as the CEO of the firm. In addition, family owners in FCFM firms seeking to reap the private benefits of control prefer having the board chair and CEO roles vested in a family member (or affiliated) CEO. For these reasons, and because of the power concentrated in these dual positions, FCFM firms may favor CEO

[3] This is owing to the fact that family members would be more comfortable working with 'outside' directors who are from similar social strata. Given the relative paucity of these acceptable 'outside' directors, there tend to be reciprocal arrangements to exchange these 'outside' directors among the family firm boards.

duality. Therefore, the expected negative relationship between internationalization and CEO duality is attenuated in FCFM firms. Consequently,

Hypothesis 3a (H3a): The negative relationship between degree of internationalization and CEO duality is weakened in family controlled and managed (FCFM) firms.

These three hypotheses highlight the existence of secondary agency issues that could lead to the suboptimization of minority shareholders' interests. The suboptimal governance choices of high CEO duality, low CEO compensation, and lower proportion of outside directors (board structure) that accompany internationalization in these FCFM firms may cause inadequate management of organizational complexity, consequently lowering firm performance. These suboptimal decisions can also erode wealth for all shareholders. However, this is not necessarily the case in FCNFM firms. In the subsequent set of three hypotheses, we trace how the interests of family owners in FCNFM firms would be reflected in a reduced need to appropriate private benefits of control, thereby facilitating the firm's international expansion initiatives.

FCNFM firms: internationalization-governance relationships

In contrast to FCFM firms, the CEO of the family business in FCNFM firms is an unaffiliated, nonfamily appointee. In such firms, family owners do not invest a similar degree of effort and time in managing the firms. Consequently, there is a reduced motivation to reward themselves with the private benefits of control. Also, the imperative shifts toward monitoring the nonfamily CEO and to ensuring that he/she works toward the goal of shareholders' wealth maximization and distributing the shared benefits of control among all shareholders. Consequently, family owners in FCNFM firms would be receptive to the changes required in governance mechanisms necessitated by internationalization. For all these reasons, we do not expect FCNFM firms to weaken the internationalization-governance relationships. The nonfamily CEO also does not have the job security that a family member has. This risk is compounded by the performance risks associated with internationalization (given the uncertainties associated with the strategy for which he/she will be held accountable). Since the private benefits that accrue to a family CEO are not available to a nonfamily CEO, they are not viable substitutes for the salary of a nonfamily CEO. Therefore, FCNFM firms need to incentivize the CEO with higher compensation to make up for the risks and the complexity associated with internationalization (Henderson and Fredrickson, 1996) and to retain talent in the firm. Consequently, we anticipate that the relationship between internationalization and compensation will not be attenuated in FCNFM firms.

Hypothesis 1b (H1b): The positive relationship between degree of internationalization and CEO compensation is not weakened in family controlled nonfamily managed (FCNFM) firms.

Because the CEO is not a family member in FCNFM firms, altruism is unlikely to be present, giving rise to a high probability of opportunism by the CEO. Given that internationalization creates greater complexity and information asymmetries, the probability of opportunism by these nonfamily CEOs increases. Consequently, the controlling family would feel a greater need to monitor the nonfamily CEO's activities and prevent opportunistic behavior. A governance mechanism that mitigates such opportunism would be to nominate outside directors who can better monitor the nonfamily CEO and thereby safeguard the shared benefits of control that accrue to all shareholders. Alternatively, they might be better able to monitor the nonfamily CEO's activities, decisions, and practices with an independent nonexecutive Board Chair, i.e., by avoiding CEO duality. Thus, the expected positive relationship between internationalization and board structure and the negative relationship between internationalization and CEO duality would, in both these instances, not be attenuated in FCNFM firms. Consequently,

Hypothesis 2b (H2b): The positive relationship between degree of internationalization and board structure is not weakened in family controlled nonfamily managed (FCNFM) firms.

Hypothesis 3b (H3b): The negative relationship between degree of internationalization and CEO duality is not weakened in family controlled and nonfamily managed (FCNFM) firms.

METHODS

We constructed a balanced panel data set comprising 101 firms spanning a period of seven years (2002 to 2008). Data corresponding to the dependent variables and the independent variables like degree of internationalization (DOI), FCFM, and FCNFM firms, was manually compiled from annual reports of the firms as well as from leading business magazines (such as *Business Today*). Data corresponding to the control variables was collected from the CAPITALINE database provided by Capital Market Ltd.

Dependent variables

CEO compensation was measured as the logarithm of the total of all forms of compensation (including salary, perquisites, bonus, provident fund, and commission) granted to the CEO during the year. CEO duality was a dummy variable coded '1' if the CEO also occupied the position of the chairperson of the board; otherwise it was coded '0.' Board structure was the proportion of outside directors, where outsiders were board members who were not otherwise employed by the firm (Filatotchev and Bishop, 2002).[4]

Independent variables

The firm's degree of internationalization was measured using a variation of Sullivan's (1994) composite measure. We used four dimensions of internationalization, three of which were drawn from Sullivan (1994): foreign sales to total sales (FSTS), foreign assets to total assets (FATA), and the number of overseas subsidiaries to total number of subsidiaries (OSTS). A fourth dimension named Scope was added.[5] The four different variables (FSTS, FATA, OSTS, and Scope) were summed to form our composite measure of degree of internationalization called DOI index, which had a theoretical range of 0 to 4.[6]

We separately constructed both a family controlled firm variable and a family managed firm variable. We termed a firm as a *family controlled* firm (coded '1') if any two of the following three criteria were met (Anderson and Reeb, 2003; La Porta, Lopez-de-Silanes, and Shleifer, 1999): (1) the founding family had a stake of 20 percent or greater in the firm; (2) a member of the founding family was on the board of the firm; and/or (3) a member of the founding family was the chairperson of the board; otherwise it was coded '0.' Likewise, we categorized a firm as a *family managed* firm (coded '1') if any two of the following three criteria were met: (1) a founding family member was the CEO of the firm; (2) a member of the founding family was an executive director; and/or (3) more than one member of the founding family were executive directors; otherwise it was coded '0.' Therefore, a FCFM firm was coded '1' when both the family controlled firm variable and the family managed firm variable had values equal to 1, else it was coded '0.' Similarly, FCNFM firm was coded '1' when the family controlled firm variable had a value equal to 1 and the family managed firm variable had a value equal to 0.[7]

Control variables[8]

We controlled for firm size (logarithm of total firm sales), performance (return on assets or ROA), blockholding, CEO tenure, board size, R&D intensity, business group affiliation, dual listings of firms in both domestic and foreign exchanges, and

[4] Due to space constraints, details on sample construction and definitions of all the variables used in this study are provided in the supplementary file (appendix S1) to this article, which is available from the authors on request.

[5] Scope was expressed as a proportion of the highest number of countries with subsidiaries represented in our sample in a given year (Sanders and Carpenter, 1998). Assets and sales dimensions (FATA and FSTS) captured a firm's dependence on foreign resources and foreign consumer markets, respectively. By contrast, OSTS and Scope indicated the institutional and cultural variety represented in the previous two dimensions (Johanson and Vahlne, 1977). The theoretical range for each dimension was from 0 to 1.

[6] These variables demonstrated good inter-item reliability (Cronbach alpha of 0.733) and loaded on one factor with a high eigenvalue (2.57) and high explained variance (64.24%). In addition, the composite measure was normally distributed.

[7] All FCNFM firms in our sample firms had nonfamily CEOs. This is because criteria 1 and 2 for *family managed* firms are inter-linked (i.e., a CEO is also an executive director). By definition, therefore, if the family member is a CEO of the firm, criteria 1 and 2 are automatically satisfied. Therefore, an FCNFM firm would necessarily have a nonfamily CEO in our sample. For the purposes of collecting data on FCFM and FCNFM firms, we manually extracted data from the annual reports of the firms, from leading business magazines such as *Business Today*, and from corporate history reports in the CAPITALINE database to construct these variables.

[8] Except for the business group and the dual listing dummies, all the control variables have been defined in accordance with Sanders and Carpenter (1998).

industry effects (eight broadly classified industry dummies). Business group affiliation effect was controlled by creating a group dummy, which was coded '1' if the firm was affiliated to a business group; otherwise it was coded '0.' To control for dual listing, we created a cross-listing dummy, which was '1' for firms with dual listings (i.e., in India as well as abroad) and '0' otherwise.

Estimation methods

For models with continuous dependent variables (i.e., those in Hypotheses 1a, 1b, 2a, and 2b), we used random effects panel data regression. For Hypothesis 3a and 3b, the dependent measure (CEO duality) is binary, so we estimated this model using a logistic random effects panel regression.

RESULTS AND ANALYSIS

Table 1 shows the results of tests for all the hypotheses.[9]

We controlled for multicollinearity (i.e., VIF factors were less than 10 in all cases) and heteroskedasticity using White's cross-section method in all regressions. Model 1, which is the base model (BM) with DOI index, FCFM dummy, and the control variables included, and Model 2 correspond to Hypothesis 1a. As expected, we observe a positive and significant impact of DOI index, firm size, performance (ROA), blockholding, and CEO tenure on CEO compensation in Model 1. The results in Model 2 show support for Hypothesis 1a. The interaction term between the DOI index and the FCFM firm dummy is negative and significant, indicating that FCFM firms pay their CEOs relatively less even when international expansion of the firm mandates that the CEO be paid more. Models 3 (BM) and 4 correspond to Hypothesis 2a. Model 3 indicates the positive impacts of the blockholding and the cross-listing dummy as well as the negative effects of firm size on board structure. The negative coefficient for the DOI-FCFM dummy interaction term in Model 4 lends support for Hypothesis 2a. Models 5 (BM) and 6 correspond to Hypothesis 3a. In Model 5, CEO tenure has a positive impact, while the group dummy has a negative impact on CEO duality. Model 5 also reveals the negative and significant value of the coefficient corresponding to the DOI index. Therefore, a firm's degree of internationalization has a negative impact on CEO duality. However, in Model 6, this effect is not significant. Moreover, the interaction term between the DOI index and the FCFM dummy is also not significant. The results of Model 6 indicate that Hypothesis 3a is not supported.

This raises the interesting possibility that in FCFM firms, the controlling owners are possibly forsaking duality in order to have a board with lower proportions of independent directors. Indian governance norms facilitate such substitution since Clause 49 of the listing norms with the stock exchange stipulates that with no CEO duality, only a third of the board members need to be independent. Since family owners would be subjected to more due diligence with a greater number of independent directors who are outside directors, they would prefer an arrangement where the number of outside directors on the board of the firm is less. Models 4 and 6 taken together seem to indicate that duality is being substituted with a lesser number of outside directors. The overall pattern of results corresponding to Hypotheses 1a and 2a provide compelling evidence of the existence of secondary agency issues in FCFM firms. The family owners (and managers) in these firms were able to impose the suboptimal decisions of low CEO compensation and lower proportion of outside directors (board structure), even when the firm's international expansion predicated otherwise. This represents behavior that is potentially detrimental to the interests of minority shareholders, while enabling the extraction of private (nonpecuniary) benefits by controlling family blockholders.

The results corresponding to Hypotheses 1b, 2b, and 3b presented in Models 7 through 12 provide a stark contrast. The direct effects of the FCNFM dummy on governance variables (i.e., in Models 7, 8, 9, 10, 11, and 12, respectively) are opposite to those observed earlier among FCFM firms. The FCNFM dummy has a direct positive impact on CEO compensation in Models 7 and 8. The FCNFM dummy also exhibits a positive impact on board structure in Models 9 and 10 and a negative impact on CEO duality in Models 11 and 12. All of the interaction effects for FCNFM firms (shown in Models 8, 10, and 12) are not significant. These

[9] Descriptive statistics and the correlation matrix of all variables are provided in the supplementary file (appendix S1) to this article, which is available from the authors on request.

Table 1. Results of random effect panel data regression analysis

	FCFM firms						FCNFM firms					
	CEO comp[b]		Board structure		CEO duality		CEO comp[b]		Board structure		CEO duality	
Variables	1	2	3	4	5	6	7	8	9	10	11	12
	(BM)	(H1a)	(BM)	(H2a)	(BM)	(H3a)	(BM)	(H1b)	(BM)	(H2b)	(BM)	(H3b)
DOI index	0.10*	0.31***	0.01	0.04***	−1.09*	−0.77	0.09*	0.08	0.01	0.01	−1.29*	−1.30*
	(0.05)	(0.04)	(0.01)	(0.01)	(0.56)	(0.74)	(0.05)	(0.05)	(0.01)	(0.01)	(0.63)	(0.56)
FCFM dummy	−0.34**	0.01	−0.07***	−0.03	6.89**	8.33**	-	-	-	-	-	-
	(0.14)	(0.14)	(0.02)	(0.02)	(2.22)	(2.83)						
DOI index* FCFM dummy	-	−0.38***	-	−0.04***	-	−0.74	-	-	-	-	-	-
		(0.08)		(0.01)		(1.10)						
FCNFM dummy	-	-	-	-	-	-	0.45***	0.31†	0.10***	0.11***	−6.81***	−14.24***
							(0.13)	(0.17)	(0.02)	(0.02)	(2.04)	(4.44)
DOI index* FCNFM dummy	-	-	-	-	-	-	-	0.18	-	−0.0	-	3.67
								(0.13)		2(0.01)		(3.29)
Size	0.57***	0.59***	−0.01**	−0.01*	0.18	0.35	0.58***	0.58***	−0.01**	−0.01**	0.59	0.42
	(0.03)	(0.04)	(0.01)	(0.01)	(0.43)	(0.45)	(0.03)	(0.03)	(0.01)	(0.01)	(0.51)	(0.42)
ROA	0.69***	0.64***	0.01	0.01	−1.96	−1.68	0.77***	0.75***	0.03	0.03	−3.61	−3.41
	(0.21)	(0.22)	(0.05)	(0.04)	(2.67)	(3.54)	(0.19)	(0.19)	(0.05)	(0.05)	(2.55)	(2.36)
Blockholding	0.87***	1.01***	0.08**	0.10***	−2.96	−3.28	0.78***	0.79***	0.06*	0.06*	−3.54	−2.89
	(0.23)	(0.23)	(0.03)	(0.03)	(2.76)	(2.65)	(0.20)	(0.20)	(0.03)	(0.03)	(2.86)	(2.93)
CEO tenure	0.03***	0.03***	0.01	0.01	0.60***	0.62***	0.03***	0.03***	0.01	0.01	0.58***	0.55***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.09)	(0.10)	(0.01)	(0.01)	(0.01)	(0.01)	(0.10)	(0.09)
Group dummy	0.24†	0.27*	0.05†	0.05†	−3.62†	−4.11*	0.15	0.15	0.03	0.03	−1.27	−0.57
	(0.13)	(0.13)	(0.03)	(0.03)	(2.07)	(2.02)	(0.13)	(0.13)	(0.03)	(0.03)	(1.96)	(1.53)
Cross-listing dummy	0.14†	0.09	0.05***	0.05***	−0.21	−0.29	0.15†	0.15†	0.05***	0.05***	−0.16	0.63
	(0.08)	(0.07)	(0.01)	(0.01)	(1.59)	(1.63)	(0.08)	(0.08)	(0.01)	(0.01)	(1.78)	(1.61)
Adjusted R^2	0.373	0.388	0.079	0.106	-	-	0.372	0.372	0.080	0.080	-	-
F stat.	25.67***	25.88***	4.37***	5.40***	-	-	25.61***	24.27***	4.41***	4.25***	-	-
Wald chi^2	-	-	-	-	112.7***	120.2***	-	-	-	-	109.3***	104.2***

[a] N = 707.
[b] Natural logarithm of CEO compensation. Standard errors are in parentheses.
† $p < 0.1$. * $p < 0.05$. ** $p < 0.01$. *** $p < 0.001$. Intercept, board size, R&D intensity, and industry dummies are included in the regressions, but the coefficients corresponding to these variables are not reported due to space constraints.

results reveal that FCNFM firms do not moderate or attenuate the primary relationships between internationalization and governance variables. The absence of interaction effects lends support for Hypotheses 1b, 2b, and 3b. These contrasting results also offer persuasive evidence regarding the mitigation of corrosive family influences when the family firm is managed by nonfamily managers with no family affiliations.

DISCUSSION AND CONCLUSIONS

Our findings suggest that internationalizing FCFM firms adopt suboptimal governance structures that better enable the family owners to appropriate the private nonpecuniary benefits of control. We find that FCFM firms weaken the internationalization-governance relationships. These suboptimal governance mechanisms are not conducive to effective implementation of international expansion moves and may result in the consequent loss of wealth for other nonfamily shareholders. Thus, they represent an important manifestation of the secondary agency problem among internationalizing FCFM firms. In sharp contrast, we find that FCNFM firms do not modify or weaken these internationalization-governance relationships, indicating that secondary agency issues are less manifest in FCNFM firms. Our findings provide important evidence that demonstrates differences within a class of blockholders (i.e., controlling family owners). These family owners may mitigate primary agency problems, but they could also exacerbate secondary agency issues, especially when the firms are both controlled as well as managed by the family. Interestingly, FCNFM firms seem to be good contrasting models for mitigating both primary and secondary agency issues. Concentrated family ownership helps to monitor management and reduce their tendencies to engage in opportunistic behavior. At the same time, nonfamily management diminishes expropriation of private benefits by family owners. Therefore, nonfamily managers potentially ensure a more equitable distribution of the shared benefits of control among all shareholders.

The findings also emphasize the importance of context specificity and the need for greater midrange theorizing (Hitt, Hoskission, and Ireland, 1994; Ruigrok, Amann, and Wagner, 2007) when examining the complex interplay between primary and secondary agency effects. An interesting nuance is that the results demonstrate some substitution effects, where FCFM firms forsake CEO duality for lower proportions of outside directors on their boards. This lends credence to the possibility of substitution effects among the two governance mechanisms (Rediker and Seth, 1995). The *de facto* weak external governance mechanisms engendered by the institutional environment in India facilitates this behavior by permitting family firms to tweak their governance structures in order to optimize their control over the firm. Our results are also indicative of the need for owners in FCFM firms to recognize the inherent tradeoffs associated with maintaining greater family control on the one hand and successful implementation of internationalization strategy on the other. They also alert policy makers and practitioners to the need to consider alternative governance mechanisms to mitigate principal-principal agency costs. FCNFM firms appear to offer the best of both worlds (i.e., they have lower primary and secondary agency problems). The functioning of the board as an effective monitor can, therefore, be facilitated by having nonfamily management in family controlled firms, especially in the context of internationalization (Filatotchev and Bishop, 2002) and other similar important strategic initiatives.

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SUPPORTING INFORMATION

Additional supporting information may be found in the online version of this article:

Appendix S1. Supporting Information