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A B S T R A C T

There is considerable variation across countries in both the extent to which large publicly listed firms are family-owned and the dominance of such family-owned firms in stock markets. The literature presents competing theoretical viewpoints on what influences such country-level variation. On one hand, institutional economists suggest that institutional voids can have a strong influence. On the other hand, cultural sociologists suggest that a country's culture can have a strong influence. One type of institutional void is a lack of institutional norms and regulations needed for monitoring contracts (which can discourage owners from hiring professional agents for top management positions in their firms) and another type of institutional void is a lack of financial credit availability in the country. Cultural dimensions include collectivism (i.e. cohesion within in-groups/families) and power distance (i.e. inequalities in society). This country-level empirical study suggests that both national culture and institutional voids influence family ownership patterns around the world, and that institutional voids moderate the influence of national culture. National culture has a stronger influence when a country has institutional voids; however, the influence of national culture weakens when institutional voids are overcome.

1. Introduction

In some countries, many of the largest publicly listed firms are family-owned. A firm is said to be family-owned if a person is the controlling shareholder; that is, a person (rather than a state, corporation, management trust, or mutual fund) can garner enough shares to assure at least 20% of the voting rights and the highest percentage of voting rights in comparison to other shareholders (Kets de Vries, 1993; La Porta, Lopez-De-Silanes, and Shleifer, 1999).[1] The literature suggests that the number of large publicly listed firms which are family-owned varies from country to country (Pedersen and Thomsen, 1997; Roe, 1994). Further, in some countries, family-owned firms dominate the country's stock market, meaning that the market value of equity of family-owned firms is substantially higher in comparison to that of non-family-owned firms in their respective countries (La Porta et al., 1999). This study will limit its focus to the country level antecedents of family ownership of large publicly listed firms across countries.[2] The two specific research questions about family ownership of large publicly listed firms are as follows. First, why are a number of large publicly listed firms in some countries family-owned? Second, in some countries, why do family-owned firms dominate the stock market (in terms of market value of equity) in comparison to non-family-owned firms? The literature presents the following contrasting theoretical viewpoints on these issues.

[1] This includes the assumption that a family member can potentially have much greater voting rights than the shares actually owned by the member because of family ties, pyramids, and cross-shareholdings (see La Porta et al., 1999).

[2] In accordance with La Porta et al (1999), this study will not attempt to analyze the internal structure of individual families or firms, and the study assumes that every family owns and votes its shares collectively. The level of analysis of this study is country level and not firm level.

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On one hand, institutional economists suggest that institutional voids in a country can have a strong influence (Fama, 1980; North, 1990). Institutional voids are defined as the lack of institutional facilities, norms, and regulations needed for a well functioning economy (North, 1990). One type of institutional void is an 'institutional void in agency contracting', where a lack of institutional norms/regulations needed for monitoring contracts can create difficulties and discourage owners from hiring professionals for top management positions in their firms. Agency theory economists have strongly recommended that owners should hire professional agents (that is, hire meritorious managers who do not necessarily have familial ties with owners) because "separation of security ownership and control, typical of large corporations, can be an efficient form of economic organization" (Fama, 1980: 288). An institutional void in agency contracting is a barrier to the recommendation by agency theorists because the institutional void makes hiring and signing contracts with anonymous people a difficult hassle and makes owners uncomfortable with the prospect of monitoring any hired non-family managers (Fama, 1980; Jensen and Meckling, 1976). For example, such agency contracting deficiencies have been found in Italy where owners try to retain managerial control through various means (Bianchi, Bianco, and Enriques, 2001). Another type of institutional void is an 'institutional void in financial credit availability', where underdeveloped or poorly functioning financial banking institutions lead to a lack of financial credit availability in a country. Regulations that encourage the growth of healthy banking institutions for assuring financial credit to those who approach banks are largely absent when there is an institutional void in financial credit availability (Fligstein, 1990; North, 1990). Though an institutional void in financial credit availability blocks access of average population to credit, business families are usually less affected because of their internal cash flow (Khanna and Palepu, 2000). Such internal cash flow from within the family during an institutional void in financial credit availability has been observed, for example, in family led chaebols in Korea and family led firms and groups in India and Chile (Khanna and Palepu, 2000; Khanna and Rivkin, 2001). Institutional economists have strongly argued that such institutional voids in agency contracting and financial credit availability influence economic and business structures (Clague, 1997; Eggertsson, 1990).

On the other hand, cultural sociology researchers suggest that a country's culture can have a strong influence (DiMaggio, 1994). In contrast to institutional economists, cultural sociologists argue that economic and business structures are culturally embedded, meaning that the structures vary in accordance with the society's culture (Biggart and Delbridge, 2004; Fligstein, 1996; Swedberg, 1997; Zelizer, 1988). Culture is "the collective programming of the mind which distinguishes the members of one human group from another" (Hofstede, 1980a:25). Collectivism and power-distance are two major dimensions of national culture. Cultures with high *collectivism* are those with greater solidarity and cohesion among members of extended families/groups (Gudykunst, Matsumoto, Ting-Toomey, Nishida, Kim, and Heyman, 1996). The literature suggests that cultures with high collectivism display reduced opportunistic behavior, reduced costs of transactions within the family/group, and greater attempts to retain ownership of their businesses within their dynasty (Gomez-Mejia, Nuñez-Nickel, and Gutierrez, 2001; Gudykunst et al., 1996). Such collectivism has been reflected, for example, in Chilean family-owned firms with strong kinship bonds and Nicaraguan family-owned firms having a moral community feeling that prohibits opportunistic behavior (Khanna and Palepu, 2000). Cultures with high *power-distance* are those where societal inequalities in status and power are considered acceptable (Markus and Kitayama, 1991). The literature suggests that cultures with power-distance are those where a socio-economic class/status system prevents the upward mobility of certain sections of society, and where disparities exist in availability of opportunities and distribution of wealth and power (Markus and Kitayama, 1991). Such power distance has been illustrated, for example, in countries having a history of bazaar economies (Geertz, 1973), Confucian economies (Dore, 1983), fiefs (Boisot and Child, 1996), and clans (Ouchi, 1980). Cultural sociologists have strongly argued that markets are cultural arenas where various "categories of economic action are culturally variable and socially constructed" and hence a country's cultural dimensions are an underlying root cause that influence the existence and dominance of social and economic structures of a country (DiMaggio, 1994:28).

The contrasting viewpoints offered by institutional economists and cultural sociologists suggest that addressing this study's research questions will need to incorporate a historical perspective of both institutional voids and national culture. While researchers generally accept the notion that history, culture, and institutions matter, this study responds to the calls for research on exploring how they matter (Jones and Khanna, 2006:454). Previous studies have noted that culture and institutional voids might be important considerations for managers who pursue various international strategies (like alliances, mergers/acquisitions, and diversification) (Hitt, Franklin, and Zhu, 2006; Kotabe and Mudambi, 2004). However, not much is known on how culture and institutional voids might influence ownership structures of firms across countries. The domain of this study is family ownership of large publicly listed firms across countries, and Fig. 1 provides the conceptual framework for this study. The purpose of this study is to argue that both national culture and institutional voids are important antecedents that influenced the nature of family ownership across countries. Importantly, it will be hypothesized that institutional voids moderate the influence of national culture (see Fig. 1). That is, national culture has a

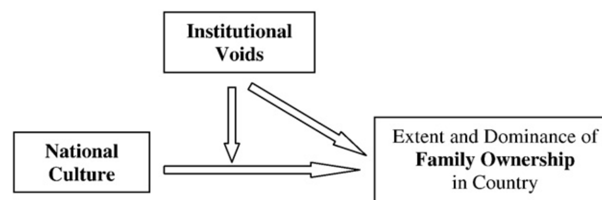

Fig. 1. Conceptual framework.

stronger influence when a country has institutional voids; however, the influence of national culture weakens when the institutional voids are overcome.

The major theoretical contribution of this study is its constructive and simultaneous analysis of the cultural sociology versus institutional economics debate, leading to a holistic understanding of family ownership around the world. This opens avenues for future research where both the theoretical lenses of cultural sociology and institutional voids can simultaneously co-exist. The next few sections of this paper are on theory development and hypotheses. First, the research question of why large public listed firms in some countries are family-owned will be addressed. It will be suggested that if agency contracting becomes difficult and costly due to poor institutional norms/regulations, then owners in collectivist cultures will prefer to have family managers in their firm. However, if agency contracting is made a hassle-free process, then owners will be comfortable in hiring agents (professional managers) based on merit. Second, the research question of why family owned firms dominate the stock market in some countries will be addressed. It will be suggested that a combination of cultural power distance inequalities and a lack of financial credit availability in society can give business families tremendous power and deprive marginal players. However, if institutional void in financial credit availability is overcome, then investors and entrepreneurs can compete against elite business families despite any cultural power distance inequalities. The subsequent sections test the hypotheses and discuss the results.

2. Family ownership in countries: theory and hypotheses

The first research question in this study asks why large publicly listed firms in some countries are often family-owned. The following sections will theoretically justify why certain country-level antecedents, namely, (i) a culture of collectivism, (ii) an institutional void in agency contracting, and (iii) an institutional void in financial credit availability, can play a role in determining the extent of family ownership of large publicly listed firms in a country (see Fig. 2a).

2.1. Culture of collectivism influences family ownership

One dimension of national culture is collectivism. Collectivism is characterized by a tight social framework in which people distinguish between in-groups and out-groups, and people within an in-group are loyal to each other (Hofstede, 1980b:45). A common in-group in the business economy of a collectivist country is the family. In countries with high collectivism, a relatively large number of strong interpersonal relationships are the norm. Collectivist behavior is displayed in the existence of reinforced extended families and groups where fellow members take responsibility and care of each other (Gudykunst et al., 1996).

The argument that family ownership will be more prominent in collectivistic cultures can be supported by sociological theories. Sociological theories (Granovetter, 1985, 1994) support the positive role of solidarity and norms in binding the family into a strongly knit group. In collectivist cultures, the family represents the entrenching of social relationships (Dutta, 1997) where a principle of solidarity exists (Granovetter, 1994). Furthermore, people in collectivist cultures promote trust, cooperation, and cohesion within their extended families, which in turn reduce the costs of monitoring and encourage families to retain ownership and control of their business activities within their extended families (Franke, Hofstede, and Bond, 1991; Knack and Keefer, 1997; Makino, Isobe, and Chan, 2004). The family in collectivist societies allows efficient information flow, lowers transaction costs, allows convergence of mutual interests, and does not have to bear any hassles associated with formal contracting (Williamson, 1994; Williamson and Ouchi, 1981).

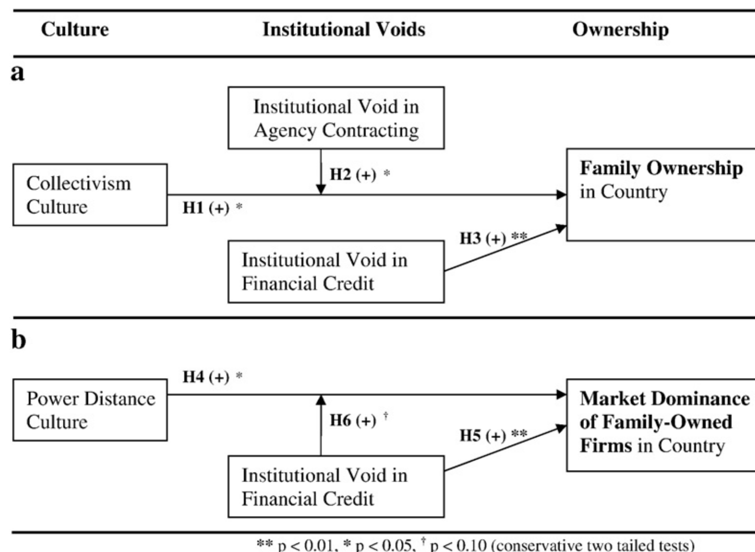

Fig. 2. Models and hypotheses—country level analysis.

Hence, collectivist cultures often feature hereditary relationships and inheritance that favor the retention of wealth and ownership within the family for generations (Fields, 1995:38–44). For example, cultures of Hong Kong and Mexico have high collectivism, which seem to be associated with family ownership patterns: 14 out of the 20 largest publicly listed firms in Hong Kong, and all 20 out of the 20 largest publicly listed firms in Mexico are family owned in 1996 (Hofstede, 2001; La Porta et al., 1999). Based on the above arguments, it can be contended that in countries with a dominant culture of collectivism, a greater number of the large publicly listed firms will be family-owned (see Fig. 2a).

Hypothesis 1. The greater the national culture of collectivism in a country's past, the greater the extent to which large publicly listed firms in the country will be family-owned.

2.2. Collectivism has an influence when institutional void in agency contracting exist

In agency theory literature, professional managers hired by owners for top management positions (such as a CEO or Chairman) are called agents. The professional agents are hired based on merit, and do not necessarily have familial ties with owners. Agents sign employment contracts, which allow owners to monitor the performance of the agents, and therefore prevent the agents from acting against the interests of owners (Eisenhardt, 1989). Agency theorists suggest that a good institutional environment has regulations and norms that allow owners to comfortably hire professional agents for their firm's top managerial positions, and subsequently allow owners to monitor the hired professional agents (Fama, 1980; Jensen and Meckling, 1976). In some countries, a lack of institutional norms/regulations for monitoring contracts discourage owners from hiring and signing contracts with professional agents for top management positions in their firms. This leads to business families continuing the practice of retaining dual responsibilities of both ownership and management within their extended families instead of relying on contracts with professional agents. Such an existence of institutional void in agency contracting goes against the recommendation of agency theory economists that owners should hire professional agents in order to create an efficient form of economic organization where ownership and managerial control are separated (Fama, 1980; Jensen and Meckling, 1976).

An institutional void in agency contracting in a country should strengthen the influence of collectivism on family ownership, and overcoming the institutional void in agency contracting should weaken the influence of collectivism on family ownership (see Fig. 2a) because of the following reasons. First, owners in collectivist societies are emotionally satisfied with their control over a firm when the top managers are also family members, rather than externally hired non-family agents (Gomez-Mejia et al., 2001; James, 1999). Second, evidence from various studies suggests that in collectivist societies, managers who are also owners or have family ties with dominant owners enjoy high job security and therefore prefer to continue the family ownership arrangement (Allen and Panian, 1982; Gomez-Mejia et al., 2001; Schulze, Lubatkin, Dino, and Buchholtz, 2001). Family ownership shelters the family manager/CEO from any negative consequences of real or alleged incompetence (Gomez-Mejia et al., 2001; Schulze et al., 2001), and family managers/CEOs are often willing to accept less compensation than their professional (non-family) counterparts in exchange for job security under family ownership (Gomez-Mejia, Larraza-Kintana, and Makri, 2003). Third, sociological theories (Granovetter, 1985, 1994) suggest that people in collectivist societies place great importance on the long-term financial security of their in-group (comprising of members of extended family), and such financial security can be ensured by having cooperative family managers in their family-owned firms (Beehr, Drexler Jr, and Faulkner, 1997). The above arguments suggest that if an institutional void in agency contracting makes it difficult to separate ownership from management, then collectivism culture will have the strongest influence on the continuance of family ownership of firms in the country. In contrast, if the institutional void in agency-contracting is overcome, that is, institutional norms/regulations make the hiring and monitoring professional agents a hassle-free process for owners, then the culture of collectivism will no longer have an influence on the extent of family ownership. Hence, culture of collectivism will be a greater influence when there is an institutional void in agency contracting, but its influence will diminish when owners can contract with agents with ease.

Hypothesis 2. Institutional void in agency contracting in a country positively moderates the positive association between the country's collectivism culture and the extent to which large publicly listed firms in the country are family-owned, such that the association is stronger when the void is greater, rather than smaller.

2.3. Institutional void in financial credit availability influences family ownership

An institutional void in financial credit availability is a situation where there is a lack of credit facilities from banking institutions in a country. This institutional void can lead to greater family ownership of large publicly listed firms because of the following reasons. For most people, an institutional void in financial credit availability constrains their ability to purchase shares. In contrast, business families can use both their own wealth and social connections to ensure access to finance (Stearns and Allan, 1996). Business families are less affected by an institutional void in financial credit availability that blocks access of the average population to credit (Khanna and Palepu, 2000). In the absence of developed banking institutions, rich business families can internally arrange financial wealth to purchase greater ownership stocks in various firms, while the normal population cannot do so because of the institutional void in financial credit availability. Rich business families can therefore expand their ownership without any resistance and further increase their internal sources of wealth. Hence, institutional void in financial credit availability in a country can promote the continuance and growth of family ownership of firms (see Fig. 2a).

Hypothesis 3. The greater the institutional void in financial credit availability in a country's past, the greater the extent to which the large publicly listed firms in the country will be family-owned.

3. Market dominance of family firms: theory and hypotheses

The second research question in this study asks why family-owned firms dominate the stock market in certain countries. In this study, market dominance by family-owned firms is defined as the market value of equity of the family-owned large publicly listed firms relative to the market value of equity of the entire set of large publicly listed firms (both family and non-family-owned) in a country. The following sections will theoretically justify why certain country-level antecedents, namely, (i) a culture of power distance in a country's society, and (ii) an institutional void in financial credit availability, can influence the relative market dominance of family-owned firms (see Fig. 2b).

3.1. Power distance culture influences market dominance of family-owned firms

Societal inequalities in some countries allow elite business families to wield considerable power. A dimension of national culture is power distance, which is defined as "the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally" (Hofstede, 1980b:45). Power distance in a country is a reflection of the perceived gap between the high power strata of society versus low power strata of society (Hofstede, 1980a, 2001). Countries that have high power distance often follow a socio-economic class or status system that prevents the upward mobility of certain sections of society, and there are disparities in the availability of opportunities and in the distribution of wealth and power (Markus and Kitayama, 1991). In high power distance countries, there are very high status differences among people, and elite business families can exercise their political and economic power to safeguard their own interests, while others in lower strata cannot.

In high power distance countries, firms owned by business families that form the upper strata of socio-economic class or status system dominate business activities in the country, because the business families are often elite members of society and use their status to their own advantage (Kirkman, Lowe, and Gibson, 2006; Markus and Kitayama, 1991; Porter, 1990). In countries that are more accepting of power distance inequalities in society, the business families have tremendous power to deprive marginal players with hardly anyone to monitor or question them (La Porta et al., 1999). Elite family firms get preferential treatment from politicians and the government (Bhagwati, 1982; Krueger, 1974), which can be used for gaining privileged access to the country's resources (Chacar and Vissa, 2005) and also for the creation of regulative entry barriers against entrepreneurial competitor firms (Ghemawat and Khanna, 1998). Further, the political economy literature suggests that powerful business families often use their internal financial resources and power in society to garner excessive revenues (Ghemawat and Khanna, 1998; Khanna and Palepu, 2000). Based on the above theoretical arguments, it can be contended that cultural power distance in a society allows family-owned firms to command a greater market value in the stock market of the country (see Fig. 2b):

Hypothesis 4. The greater the cultural power distance in a country's past, the greater will be the market dominance of family-owned firms in the country.

3.2. Institutional void in financial credit availability influences market dominance of family-owned firms

Institutional void in financial credit availability creates uncertainty in trade, makes market transactions inefficient, increases the difficulties of doing business in a country, and is therefore a deterrent to firms that need to often depend on credit from banks for investments, growth, and survival (Kostova and Zaheer, 1999; North, 1990; Zaheer and Zaheer, 1997). It can be argued that in a country with an institutional void in financial credit availability, the market dominance of family-owned firms will be greater because the lack of financial credit in the country will dampen competition from both independent investment firms (e.g. mutual funds and investment trusts) and entrepreneurial competitors.

Historically, financial banking institutions have played a positive role by scrutinizing and monitoring firms and providing them credit. Further, they ensure that legitimate investor firms can obtain credit for buying ownership stakes and that entrepreneurial firms can get credit both directly from the banks and also from the investor firms (Kortum and Lerner, 2000). In countries with underdeveloped banking and credit systems, even though bankers can assess the creditworthiness of large family firms easily, they find it difficult to assess the creditworthiness of non-family investors and new entrepreneurial firms (Mahmood and Mitchell, 2004). This acts as an entry barrier that makes non-family investment firms unviable or unprofitable, suppresses funding for entrepreneurial firms, and thereby reduces competition for the dominant family-owned firms (Bain, 1956). Business families with their deep pockets can chase away entrepreneurial competitors with preemptive cost cuts (Berger and Ofek, 1995), and family-owned firms can dominate the market by virtue of their privileged access to both internal and external funds (Servaes, 1996). In addition, during financial crises, ruling politicians often coerce government-controlled financial institutions to bail out elite business families (Douma, George, and Kabir, 2006). Hence, business deals in a country with an institutional void in financial credit availability are often largely restricted to well known family-owned firms (Clague, 1997; Greif, 1993), which allow the family-owned firms to capture profitable opportunities and increase the market value of equity of family-owned firms. Based on the above arguments, it can be contended that (see Fig. 2b):

Hypothesis 5. The greater the institutional void in financial credit availability in a country's past, the greater will be the market dominance of family-owned firms in the country.

3.3. Power distance has an influence when institutional void in financial credit exist

It was hypothesized earlier that the culture of power distance in a country's past can influence the market dominance of family-owned firms in a country. It can be further argued that the influence of cultural power distance will be greatest when there is an institutional void in financial credit availability, but the influence will diminish when institutional void in financial credit is overcome (see Fig. 2b). Under an institutional void in financial credit availability, people with lower status in society will find it tougher to access financial credit from banks for investments either in the stock market or in their own entrepreneurial activities. In contrast, elite business families can rely on the wealth that the families themselves own, and this allows them to invest further in the growth of their firms. Both entrepreneurial and existing firms that are not owned by elite business families do not have access to such sources of wealth. Accordingly, cultural power distance combined with an institutional void in financial credit availability will allow family-owned firms to become more dominating by enabling them to garner a larger share of business dealings in the country. However, when financial credit is easily available, the influence of cultural power distance weakens because people from lower strata can now invest in entrepreneurial activities that challenge the dominance of family-owned large firms. Hence, cultural power distance will be a greater influence when there is an institutional void in financial credit availability, but its influence will diminish when financial credit is easily available in the country.

Hypothesis 6. Institutional void in financial credit availability in a country positively moderates the positive association between power distance culture and the market dominance of family-owned firms, such that the association is stronger when the void is greater, rather than smaller.

4. Methods

4.1. Sample and procedure

Time-lagged archival country-level data is collected for this historical study from multiple sources. The data for the two dependent variables for measuring the family ownership patterns across countries comes from a country-level database created during 1995–1996 for 27 countries (La Porta et al., 1999).[3,4,5,6] Since the data source for the two dependent variables is from the 1995–96 period, for longitudinal causality purposes, the measures of the independent variables with hypothesized direct effects (that is, institutional void in financial credit availability and the two cultural dimensions) must longitudinally predate the 1995–1996 period. Hence, institutional void in financial credit availability is measured using country-level data from the period 1976–1993 (Levine and Zervos, 1998), and the national culture dimensions of collectivism and power distance are measured using data that were originally collected in the 1970s and updated during the 1980s and early 1990s (Hofstede, 1980a, 2001). The other variable with a moderating effect, that is, institutional void in agency contracting is measured using country-level data that are from the 1995–1996 period. Important country-level control variables that capture economic and political aspects are also included. Hence, the longitudinal nature of the data from multiple sources fits nicely with the causal directions of the hypotheses (see Fig. 2).

4.2. Measures of dependent variables—ownership across countries

4.2.1. Family ownership in country

A family member is a controlling shareholder when he or she has at least 20% of the voting rights and has the highest percentage of voting rights in comparison to other shareholders. La Porta et al.'s (1999: 492) database of 27 countries, gives a measure for the dependent variable *family ownership* on a scale of 0 to 1, in terms of the extent to which the largest 20 firms within each country are family-owned. It is the number of firms among the 20 largest firms in the country that are family-owned divided by 20. The highest value of one indicates that all of the 20 largest firms in the country have a family member as the controlling shareholder (for example, Mexico), whereas the lowest value of zero indicates that none of the 20 largest firms in the country are under family control (for example, UK).

[3] Data on ownership structures across the world are difficult to obtain due to limited disclosure by various countries and the limited international coverage of available databases. The data collected and published in the La Porta et al (1999) study seem to be the only usable source available at this point of time that fits with the theoretical motivations of this paper.

[4] The purpose of the La Porta et al (1999) study was to provide a more realistic perspective on how firms across the world are owned. The study of ownership structures of large firms in 27 countries showed that in contrast to the popular western perception that large publicly listed firms have either widely held ownership or ownership by financial institutions, the reality is that many of the large publicly listed firms across the world are either owned by families or by governments. In contrast to La Porta et al (1999), this paper attempts to theorize and test the historical antecedents of family ownership from the perspective of both national culture and institutional voids.

[5] La Porta et al (1999) relied on variety of electronic and non-electronic sources to assemble their dataset, such as, WorldScope, Lexis Nexis, Bloomberg Financial Systems, various websites on the internet (such as those for the Paris Bourse and The Financial Times), annual reports, 20F filings for firms with American Depositary Receipts, proxy statements, and numerous country-specific manuals/books that describe ownership structures in specific countries.

[6] To ascertain the ownership structures, La Porta et al (1999) investigated the extent to which governments, financial institutions, corporations, or families own shares in the largest 20 firms in each country. Overall, La Porta et al (1999:491) provide “average ownership patterns for each country”, and “compare average patterns for the world” across the 27 countries.

4.2.2. Market dominance of family-owned firms in country

The relative market value of equity that family-owned firms command in a country's stock market is a measure of the dominance of family-owned firms over the stock market in the country. La Porta et al.'s (1999: 501) database of 27 countries provides percentage values for each country on a scale of 0 to 1, calculated within a set of the 20 largest firms of each country. The computed measure is the market value of equity of the largest firms that are family-owned divided by the market value of equity of all the 20 largest firms in the country. A value closer to one indicates that family-owned firms have market dominance in the country, while a value closer to zero indicates that family-owned firms are not dominant in the country's stock market. Note, that this measure is conceptually distinct from the earlier measure for the other dependent variable for family ownership. It is possible that in a country many firms are family-owned (high family ownership in country), but they may command substantially lower market value (low market dominance of family-owned firms), and vice versa. For example, in Singapore the family ownership value is 0.3 indicating that 6 of the largest 20 publicly listed firms are family-owned. However, the relative market value of equity of these family-owned firms in Singapore is 0.15, indicating that only 15% of the total market value of the 20 firms is accounted for by the 6 family-owned firms (La Porta et al., 1999:492–501).

4.3. Measures of independent and moderating variables

4.3.1. Cultural factors of collectivism and power distance

Hofstede (1980a, 2001, 2007) provides country level values for the dimensions of collectivism (which is a reverse scale of individualism), and power distance. Hofstede's cultural dimensions were developed using data from surveys of over 88,000 employees from 72 countries in 20 languages at IBM between 1967 and 1969 and again between 1971 and 1973 (Hofstede, 1980a). The dataset was updated with more survey information during the 1980s and early 1990s (Hofstede, 2001). As documented by recent literature reviews (Kirkman et al., 2006), Hofstede's country-level dimensions have been consistently and extensively used for empirical research over the past quarter century at multiple levels of analysis (including the country level of analysis), and have shown validity over time.

4.3.2. Institutional void in financial credit availability

Development of banking sector institutions in a country ensures the availability of financial credit. International Monetary Fund's *International Financial Statistics* provides data on the extent of credit given by banks to the private sector as a proportion of GDP, and serves as an indicator of the banking sector development and financial credit availability in the country (Levine and Zervos, 1998). Specifically, the measure used is the total amount of loans made to the private sector by commercial banks and deposit taking banks divided by the country's GDP, averaged over the 1976–1993 period for each country (Levine and Zervos, 1998). This ratio quantifies the banking sector development in terms of the credit given specifically to private sector. The lack of such banking sector credit during the period 1976–1993 (that is, reverse scale of the above ratio) is used as the measure of institutional void in financial credit availability. This measure longitudinally precedes the earlier discussed dependent variables that are measured for the period 1995–1996.

4.3.3. Institutional void in agency contracting

The measure for this construct is an indication of how often a controlling family member is also the CEO, Chairman, Honorary Chairman, or Vice-Chairman of the largest firms in the country, and is obtained from La Porta et al's (1999:501) database of 27 countries created during the 1995–96 period. It provides percentage values for each country on a scale of 0 to 1 calculated within a set of the 20 largest firms of each country. A value closer to one indicates an institutional void in agency contracting whereby the family ownership and management are generally not separated in the country, while a value closer to zero indicates that the ownership and management are mostly separate in the country and that owners are comfortable in hiring/contracting professional managers. For example, for Italy the value is 1 indicating that there is an institutional void in agency contracting; however, for Austria the value is 0.33 indicating that 67% of the time family owners do not hold a top management position[7].

4.4. Measures of country-level control variables

The literature suggests that GNP per capita, government policy stability, and population are suitable country-level controls (Henisz, 2002; Levine and Zervos, 1998).

4.4.1. GNP per capita

The gross national product (GNP) per capita is measured using data sourced from the *World Bank* and *International Monetary Fund* in constant US dollars ending 1994. This measure controls for the possibility that richer countries may have different ownership forms in comparison to poorer countries (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998: 1142).

[7] Note that collectivism culture and institutional void in agency contracting are conceptually unrelated. Collectivism is a cultural phenomenon embedded in the minds of people of a collectivist country. In contrast, institutional void in agency contracting is due to poor institutional rules and regulations by policy makers of a country, which is reflected in owners finding it a hassle to contract with professional agents. Table 1 shows that these two constructs are not correlated (r=−0.10, non-significant).

Table 1
Unstandardized means, standard deviations, and correlations

	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variables										
(1) Family ownership	0.30	0.23	1.00							
(2) Market dominance of family-owned firms	0.25	0.22	0.96**	1.00						
Control variables										
(3) GNP per capita	18603.33	7711.01	−0.44*	−0.46*	1.00					
(4) Gov. policy stability	0.44	0.16	−0.27	−0.29	0.27	1.00				
(5) Population	37407.80	55210.60	−0.12	−0.02	0.14	−0.04	1.00			
Predictors/Moderators										
(6) Collectivism culture	49.00	22.21	0.50**	0.47*	−0.47*	−0.48*	−0.18	1.00		
(7) Power dist. culture	44.19	19.01	0.42*	0.52**	−0.35†	−0.45*	0.17	0.58**	1.00	
(8) Inst void—Financial	0.97	0.43	0.58**	0.61**	−0.57**	0.16	−0.08	−0.05	0.04	1.00
(9) Inst void—Agency	0.71	0.21	−0.05	0.09	0.11	−0.06	0.23	−0.10	0.22	−0.29

$^{**}p<0.01$, $^{*}p<0.05$, $^{\dagger}p<0.10$ level (conservative two tailed tests).

4.4.2. Government policy stability

Public policy involves the making of institutional regulations, laws, and decisions by a country's government (Cochran, 1974). The political constraints measure *polcon-III* for the year 1994 (Henisz, 2002) accounts for public policy stability of countries in terms of the constructive resistance to abrupt policy changes and the existing checks and balances that prevent unilateral decisions with unanticipated consequences. This measure helps in controlling for the stability of institutional policies in countries.

4.4.3. Population

The population of countries (in thousands) is sourced from the *Penn World Tables* for the year 1995. This measure controls for the possibility that highly populated countries might have larger firms with greater number of owners and lower ownership concentration.

5. Results

Table 1 gives the correlations among the constructs measured for this study, and all the hypothesized main effects show strongly significant correlations ($p<0.01$). Separate hierarchical regression analyses are carried out to test the hypothesized effects on the two dependent variables (see Tables 2 and 3). The variables involved in interactions are centered as per recommended practice (Aiken and West, 1991). The value of variance inflation factors (VIF) found in the hierarchical regression analysis are in the range of 1 to 3, well below the rule-of-thumb cut-off of 10, and hence there is no evidence of any multicollinearity problems in the models. As per standard recommended practice, continuous variables are used in the regression equation for testing moderating effects, and for graphical interpretation using interaction plots (see Fig. 3) the moderator variable is bifurcated at its mean into low and high and the independent variable is plotted at −1 standard deviation (low) and +1 standard deviation (high) from its mean (Aiken and West, 1991; Cohen and Cohen, 1983).

Table 2
Hierarchical regression: family ownership in countries

Dependent variable: family ownership in countries		Parameter estimates β (Standardized β' within brackets)			
		Step 1	Step 2	Step 3	Step 4
		Controls	Predictors	Moderator	Interaction
Intercept		0.31**	0.30	0.30	0.31*
GNP per capita		−0.00*	0.00	0.00	0.00
Gov. policy stability		−0.27	−0.26	−0.28	−0.30
Population		−0.00	−0.00	0.00	−0.00
H1: Collectivism culture			0.006*	0.006*	0.004†
			(0.53)	(0.53)	(0.39)
H3: Institutional void in financial credit			0.42**	0.42**	0.39**
			(0.77)	(0.79)	(0.73)
Institutional void in agency contracting				−0.09	−0.04
				(−0.08)	(−0.04)
H2: [Collectivism culture × Institutional void in agency contracting]					0.02*
					(0.33)
ANOVA	R^2	0.3462*	0.6333**	0.6383**	0.7321**
	F, df, p-value	3.53,3,0.03	6.22,5,<0.01	5.0,6,<0.01	6.25,7,<0.01
Change between steps	ΔR^2		0.2871**	0.005	0.0938*
	F, df, p-value		7.04,2, <0.01	0.24,1,0.63	5.60,1,0.03
Power analysis of steps using R^2 values (Reduced model is Step 1, $\alpha=0.05$, $n=24$)	*Power*		0.954	0.923	0.991

$^{**}p<0.01$, $^{*}p<0.05$, $^{\dagger}p<0.10$ level (conservative two-tailed tests), Sample size $n=24$ countries has sufficient power.

Table 3
Hierarchical regression: market dominance of family-owned firms in countries

Dependent variable: Market dominance of family-owned firms in country		Parameter estimates β (Standardized β' within brackets)		
		Step 1	Step 2	Step 3
		Controls	Predictors	Interaction
Intercept		0.25**	0.25**	0.25**
GNP per capita		−0.00**	−0.00	0.00
Gov. policy stability		−0.26	−0.31	−0.43†
Population		0.00	−0.00	−0.00
H4: Power Distance Culture			0.005* (0.39)	0.004* (0.38)
H5: Institutional void in financial credit			0.32** (0.61)	0.29** (0.55)
H6: [Power Distance Culture × Institutional Void in Financial Credit]				0.008† (0.31)
ANOVA	R^2	0.3623*	0.6506**	0.7162**
	F, df, p-value	3.98, 3, 0.02	7.08,5, <0.01	7.57,6, <0.01
Change between steps	ΔR^2		0.2883**	0.0656†
	F, df, p-value		7.84,2, <0.01	4.16,1,0.056
Power analysis of steps using R^2 values (Reduced model is Step 1, α=0.05, n=25)	*Power*		0.971	0.993

**$p<0.01$, *$p<0.05$, †$p<0.10$ level (conservative two-tailed tests), Sample size n=25 countries has sufficient power.

Table 2 gives the hierarchical regression results for the 'extent of family ownership' of large publicly listed firms as the dependent variable. The collected data allows a sample size of n=24 countries, and power analysis shows that the power of steps in Table 2 are well above the typically recommended lower limit of 0.8, and hence the sample size is clearly sufficient to test the hypotheses (Cohen and Cohen, 1983). Step 2 containing the main effects has a significant R^2 (coefficient of determination indicating explained variance) of 0.63, suggesting that the individual main effects in the step can be interpreted with confidence. Step 4 containing the interaction term has a significant R^2 of 0.73, suggesting that the interaction effect can also be interpreted with confidence. Hypothesis 1 is supported (standardized β'=0.53, $p<0.05$), which suggests that the greater the national culture of collectivism in a country's past, the greater the extent to which large firms in the country are family owned. Hypothesis 2 is supported (β'=0.33, $p<0.05$), suggesting that the positive association between collectivism culture and family ownership of firms is positively moderated by the presence of institutional void in agency contracting. That is, the influence of collectivism culture is strong when institutional void in agency contracting is present; however, the influence of collectivism culture weakens with better institutional regulations and norms that make owners comfortable in hiring professional non-family top managers. As shown in the interaction plot of Fig. 3a, the main effect of collectivism culture on the extent of family ownership is strongest when institutional void in agency contracting exists (simple slope=0.17, t=2.91, $p<0.01$), and is weakest when institutional norms make contracting with professional agents a hassle-free process (simple slope=0.02, t=0.29, $p>0.10$). In other words, the extent of collectivism culture will cease to matter in countries where good institutional norms and regulations make it easy to separate ownership and management. Next, Hypothesis 3 is supported (β'=0.77, $p<0.01$) as shown in Table 2, which suggests that the greater the institutional void in financial credit availability in a country's past, the greater is the extent to which the large firms in the country are family-owned.

Fig. 4 provides a graphical representation of how the extent of family ownership across countries has been influenced by the following two determining factors: (a) the interaction between collectivism culture and institutional void in agency contracting, and (b) the institutional void in financial credit availability. As illustrated in Fig. 4, countries where 25% or more of the largest 20 public firms are family-owned (namely, Mexico, Belgium, Hong Kong, New Zealand, Denmark, Sweden, Israel, Argentina, Norway, Singapore, Greece, Canada, and Portugal), has relatively higher values on one or both of the determining factors. On the other hand, countries where less than 25% of largest 20 public firms are family-owned (namely, Austria, France, Spain, United States, Australia, Germany, Finland, Italy, Netherlands, South Korea, and Japan) has relatively lower values on one or both of the determining factors.

Table 3 gives the hierarchical regression results for 'market dominance of family-owned firms' as the dependent variable. The collected data allows a sample size of n=25 countries, and power analysis shows that the power of steps in Table 3 are well above the typically recommended lower limit of 0.8, and hence the sample size is clearly sufficient to test the hypotheses (Cohen and Cohen, 1983). Step 2 containing the main effects has a significant R^2 of 0.65, suggesting that the individual main effects in the step can be interpreted with confidence. Step 3 containing the interaction term has a significant R^2 of 0.72 suggesting that the interaction effect can be also interpreted with confidence. Hypothesis 4 is supported (β'=0.39, $p<0.05$), which suggests that the greater the cultural power distance in a country's past, the greater the market dominance of family-owned firms in the country. Hypothesis 5 is supported (β'=0.61, $p<0.01$), which suggests that the greater the institutional void in financial credit availability in a country's past, the greater the market dominance of family-owned firms in the country. Hypothesis 6 is supported (β'=0.31, p=0.056), suggesting that the positive association between power distance culture and market dominance of family-owned firms is positively moderated by institutional void in financial credit availability. That is, the influence of power distance culture is strong when institutional void in financial credit availability is present; however, the influence of power distance culture weakens with better banking institutions that make financial credit available. As shown in the interaction plot of Fig. 3b, the main effect of

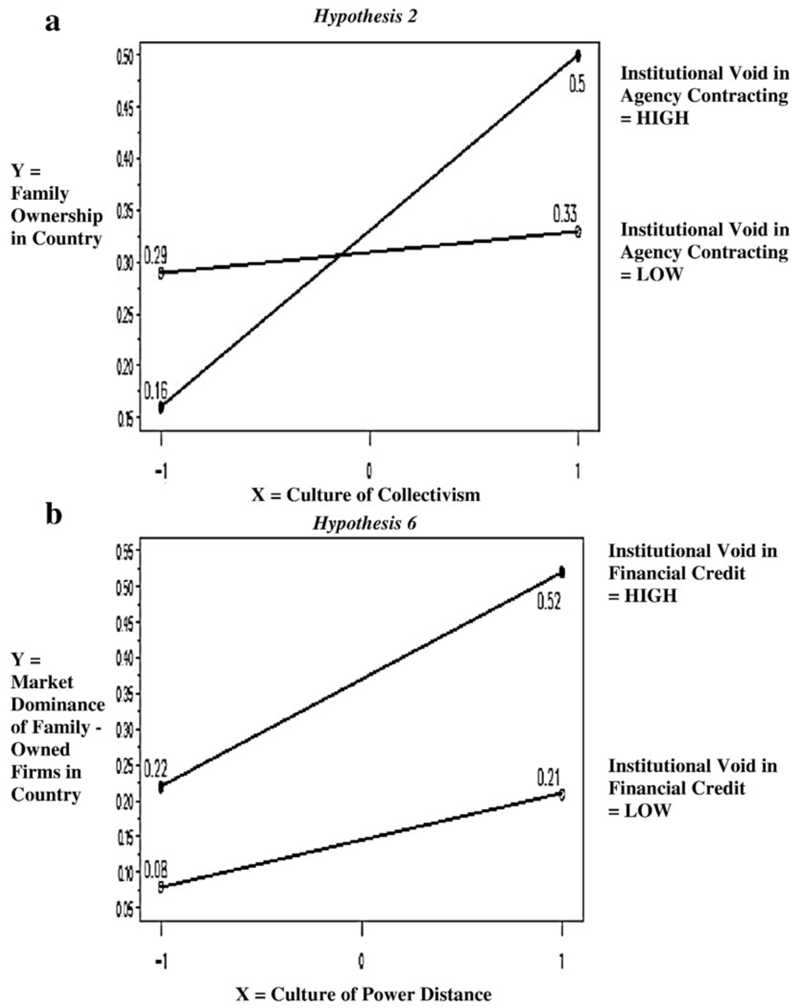

Fig. 3. Interaction plots—institutional voids moderate the influence of culture.

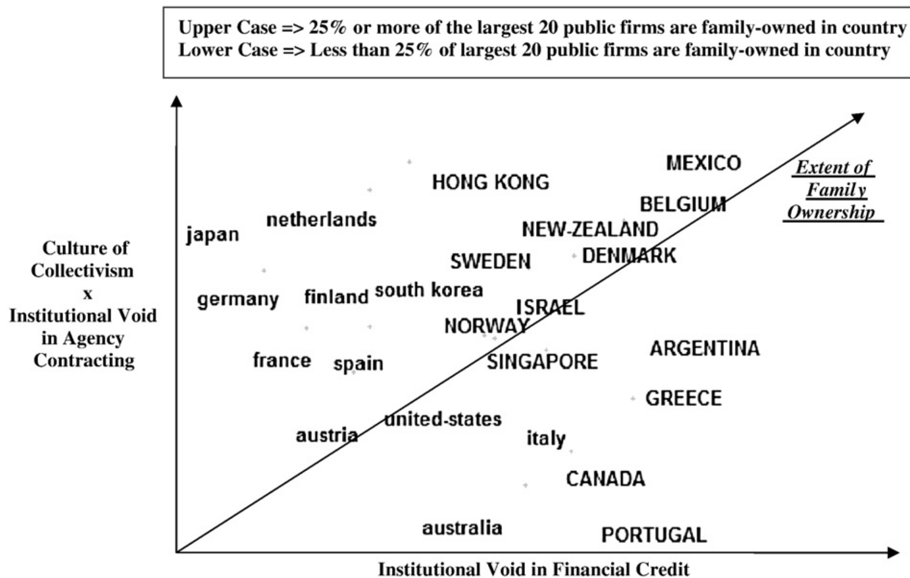

Fig. 4. Graphical representation—determinants of family ownership of large firms across countries.

power distance culture on the market dominance of family-owned firms is strongest when an institutional void in financial credit availability exists (simple slope = 0.15, $t = 3.64$, $p < 0.01$) and is weakest when financial credit is more easily available from banking institutions (simple slope = 0.06, $t = 1.35$, $p > 0.10$). In other words, the extent of power distance culture will matter less in countries where good norms and regulations allow easy availability of financial credit from banking institutions.

6. Discussion

The key finding of this study is that both national culture and institutional voids influence family ownership patterns around the world, and that institutional voids moderate the influence of national culture. In other words, national culture has a strong influence when a country has institutional voids; however, the influence of national culture weakens when a country has effective institutional facilities, regulations, and norms that guarantee a good business environment. Specifically, a country's collectivism culture influences the extent to which large firms in the country are family-owned, such that the association is stronger when there is a greater institutional void in agency contracting in the country. However, the influence of a country's collectivism culture diminishes when a good institutional environment encourages owners to comfortably contract with agents (that is, hire and monitor professional managers) for their firm's top managerial positions. Furthermore, a country's power distance culture influences the market dominance of family-owned firms, such that the association is stronger when there is a greater institutional void in financial credit availability in the country. However, the influence of a country's power distance culture weakens when healthy banking institutions make financial credit easily available in the country. Overall, these findings extend theoretical research in this area by showing that both national culture dimensions and institutional voids are important antecedents with interaction effects, which influence the nature of family ownership in countries. The next section analyzes the theoretical implications of the findings.

6.1. Theoretical implications

Cultural sociologists and institutional economists are sometimes perceived as having opposing viewpoints. For example, institutional economists strongly promote the notion of rationality, and cultural sociologists counter this by arguing that "rationality is itself a culturally variable concept" (DiMaggio, 1994:48). Economic theories (Coase, 1937; Williamson, 1991) have been criticized for not taking seriously the idea that a society's culture, values, and beliefs is central to understanding markets (Biggart and Delbridge, 2004; DiMaggio and Zukin, 1990; Zelizer, 1988). This study uses historical data to address constructively this cultural sociology versus institutional economics debate by simultaneously incorporating both perspectives for a holistic understanding of family ownership around the world, and therefore opens an avenue for future research where both viewpoints can co-exist.

The viewpoint of cultural sociologists suggests that markets are cultural arenas where economic actions are culturally and socially constructed, and supports the argument that culture might have been an underlying root cause that influenced the existence and dominance of certain ownership structures around the world (DiMaggio, 1994:28). The findings of this study lend support to the cultural sociology perspective. Culture "sets limits to economic rationality" and "beliefs and ideologies, taken for granted assumptions, or formal rule systems" can therefore influence economic activities and structures (Zukin and DiMaggio, 1990:17). It should be noted that culture might continue to influence ownership structures in the future despite globalization. Globalization is neither precluding nor contradicting cultural diversity (Guillén, 2001), is probably restoring the distinctive diversity in cultures (Albrow, 1997), and is producing a "resurgent affirmation of identities" (Cox, 1996:27). Globalization may be homogenizing people towards a more rational understanding each others cultures, but is not destroying the local cultures themselves, because the "ethnic feeling is a powerful bond" (Mazlish, 1993:14), and researchers have accordingly noted that "no such thing as a global culture is emerging" (Guillén, 2001:254).

The viewpoint of institutional economists suggests that the existence and dominance of ownership structures can result from institutional voids arising from a lack of institutional norms and regulations needed for a well functioning economy (Fligstein, 1990; North, 1990). The findings of this study lend support to the institutional economics perspective. At the same time, the findings also extend both the cultural sociology and institutional economics perspective by showing that when a country has institutional voids, then the country's cultural aspects will have a stronger influence on the existence and dominance of family ownership. In other words, the influence of culture is greater when a country has institutional voids, and the influence of culture diminishes when institutional voids are removed by implementation of effective institutional facilities, regulations, and norms.

6.2. Policy and managerial implications

The findings of this paper can be useful for policy makers and managers. The first set of findings provides some answers to the question of why large publicly listed firms in some countries are often family-owned. National culture of collectivism in a country's past seems to influence the extent to which large publicly listed firms in the country are family-owned. Further, the association between culture of collectivism and family ownership seems to weaken when policy makers overcome the country's institutional void in agency contracting. Collectivist behavior and agency contracting seem to counter each other. Hence, policy makers must recognize that if agency contracting becomes a hassle due to poor institutional norms/regulations, then owners in collectivist countries might prefer to have family managers in their firm because the family in collectivist societies allows efficient information

flow and convergence of mutual interests among family members without the hassles of formal contracting. However, if policy makers can overcome the institutional void in agency contracting, then owners will find agency contracting a hassle-free process, and this will encourage them to hire professional agents based on merit. When agency contracting is made hassle-free, it allows a more fair competition in the job market, whereby in order to retain their jobs the family managers have to be at least as competent as non-family professionals. Further, institutional void in financial credit availability in a country's past seems to influence the extent to which the large publicly listed firms in the country are family-owned. Hence, policy makers must note that a lack of financial credit may provide a comparative advantage to rich business families. While the business families can use both their own wealth and social connections to ensure access to finance, the marginal non-family players will lack the finances necessary for purchasing ownership shares in traditionally family-owned firms.

Agency theorists suggest that non-family ownership is a more professional approach to running firms. Have non-family owned firms been more successful? It depends. Findings of this study seem to indicate that a country's cultural power distance and financial credit availability have a role in determining the market dominance of family-owned versus non-family-owned firms in a country. Policy makers need to recognize that in countries with power distance inequalities in society, the business families have tremendous power to deprive marginal players with hardly anyone to monitor or question them. This puts the onus on policy makers to ensure a level playing field to reduce the perceived gap between the high power strata of society versus low power strata of society. Towards this end, overcoming any institutional void in financial credit availability might be helpful towards creating a more level playing field. It seems that the association between cultural power distance and market dominance of family-owned firms becomes weaker when policy makers overcome the country's institutional void in financial credit availability. When institutional void in financial credit availability is overcome, investment firms can obtain credit for acquiring ownership stakes in firms that have been traditionally owned by families, and managers in entrepreneurial firms can get credit both directly from the banks and from the investment firms to compete against the large family-owned firms. Hence, it seems that family-owned firms might have an edge in countries with greater cultural power distance and institutional voids, whereas non-family owned firms might have an edge in countries with lesser cultural power distance and where policy makers have removed institutional voids.

Overall, both policy makers and managers can use the findings of this study as a foundation for their decisions. At the same time, researchers should exercise caution in their expectations from policy makers and managers. Overcoming such institutional voids is very tough in some countries because the ruling politicians and policy makers may themselves have selfish interests in favoring the elite business families instead of creating a level playing field for everyone by removing institutional voids (Douma et al., 2006; Ghemawat and Khanna, 1998).

6.3. Limitations and future research

A conceivable limitation of this study might be that constraints in the availability of country-level data led to a relatively lower sample size of countries. However, this should be less of a concern because country-level studies typically have lower sample sizes (La Porta et al., 1999; Pedersen and Thomsen, 1997). Most importantly, power analysis clearly showed that the power of regressions in Tables 2 and 3 are well above the typically recommended lower limit of 0.8, which gives confidence that the sample size is sufficient to test the hypotheses (Cohen and Cohen, 1983). The theoretical motivations of this study are strong, and the longitudinal nature of the historical data fits well with the theoretical motivations. At the same time, a limitation of this study is that the data may seem a bit outdated. Though this is a valid concern, there are indications that the findings of this study will continue to be contemporarily relevant as suggested by the practitioner and theoretical literatures below.

First, many recent case studies seem to suggest that the findings from this study have contemporary relevance. For example, a Harvard Business Review article provides many contemporary examples suggesting that differences in worldwide business practices “have deep cultural origins” (Graham and Lam, 2003: 82), and that business families in collectivist countries like China continue to place great value on “personal links”, which are often “hometown, family, school, or previous business ties” (Graham and Lam, 2003: 86). Further, a recent case study on Harilela Enterprises, a “second-generation, multi-billion-dollar Asian family business, run for decades by six brothers”, highlights the attempts to retain ownership and employment within the extended family “as it transitions to the third generation of siblings and cousins” (Ward, Mansinghka, Tran, and Sambamurthy, 2006: 1). Another recent case study on the family-owned German firm Merck KGaA discusses institutional voids in terms of a “combination of legal, structural, and organizational constructs” that have helped to “cement the influence of the descendants of the founding family in a highly effective way” (Neumann and Tapies, 2006: 1). Importantly, a new compendium of numerous case studies titled ‘Culturally sensitive models of family businesses worldwide’ suggests that national culture and institutional voids continue to have an influence on family businesses in Latin America, Germanic Europe, Nordic Europe, Latin Europe, Eastern Europe, sub-Saharan Africa, Middle East, southern Asia, Confucian Asia, and Anglo regions (Gupta, Levenburg, Moore, Motwani, and Schwarz, 2008a). In a related paper, the editors of the case studies compendium have advocated the need for empirical research on “the cultural system, business system, market system, and the institutional system” in “predicting the family business behavior” (Gupta, Levenburg, Moore, Motwani, and Schwarz, 2008b: 18). Hence, the findings of this study that both national culture and institutional voids influence family ownership patterns around the world, and that institutional voids moderate the influence of national culture, seem to have contemporary relevance for practitioners.

Second, the literature on ownership structures suggests that “ownership patterns tend to be relatively stable” over time (La Porta et al., 1999:475), and this is probably because the underlying antecedents to the ownership patterns remain relatively stable over time. That is, cultural sociologists have suggested that diversity in national culture has continued to remain relatively stable (Albrow, 1997; Cox, 1996; Guillén, 2001; Mazlish, 1993), and institutional economists have suggested that the process of

overcoming institutional voids often meets considerable resistance from various selfish interests and is therefore a very slow process (Eggertsson, 1990; Fligstein, 1990; North, 1990). Hence, arguments in the theoretical literatures on ownership structures, national culture, and institutional voids suggest that the results of this study may continue to have contemporary relevance for academic researchers for many more decades. As and when the data becomes accessible for a wider range of countries in the coming decades, future research should test if the theoretical arguments in this study continue to hold relevance.

7. Conclusion

This study supported the growing recognition that societies are historically shaped by both cultural and institutional factors, and that a path dependence exists where traditional systems show "remarkable durability and resilience" with "enduring effects that influence subsequent development" (Inglehart and Baker, 2000:49; Jones and Khanna, 2006). By simultaneously considering cultural and institutional factors this study avoided a tendency to exclusively use either cultural sociology or institutional economics as the sole explanation (Zelizer, 1988), and instead presented a balanced theoretical analysis to show that family ownership patterns around the world are determined by a combination of both cultural and institutional factors. Results suggest that both national culture and institutional voids influence family ownership patterns around the world, and that institutional voids moderate the influence of national culture. National culture has a stronger influence when a country has institutional voids, but the influence of national culture weakens when institutional voids are overcome.

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