Internal social capital and international firm performance in emerging market family firms: The mediating role of participative governance

1 Introduction

Internationalisation behaviour of family firms has attracted an increasing amount of scholarly attention in the field of international entrepreneurship (Pukall and Calabrò, 2014; Reuber, 2016; Arregle et al., 2016; Basco, 2014; Kontinen and Ojala, 2010). However, most of the existing research has been conducted in developed countries; and so, there is a dearth of understanding about the international performance of family firms from emerging economies (Carney et al., 2015; Essen et al., 2015; Sabah et al., 2014). The behaviour of such family firms from emerging economies might be different considering the culture and nature of family relationships in these countries and the role that they might play in hindering or supporting internationalisation.

Family firms have been distinguished from their counterparts by family relationships in their firm, which affect their behaviour and performance (Ramón-Llorens et al., 2017; Baronchelli et al., 2016; Segaro et al., 2014). In this research, we focus on the internal social capital of family firms, which refers to ties and relationships between family members working in the firm (Carr et al., 2011; Adler and Kwon, 2002), and study their relationships from a social capital perspective by focusing on structural, relational and cognitive dimensions. Specifically, we explore if and how internal social capital can enhance the *international* performance of emerging market family firms. The majority of prior studies investigating family relationship and firm performance has mainly investigated firm performance in *domestic* markets (Essen et al., 2015; Basco, 2013); there is very limited research examining this relationship on a large scale specifically in the *international* markets and for family firms from *emerging* markets (Pukall and Calabrò, 2014; Kontinen and Ojala,

2010) Therefore, the first research question of this paper is, *"Does internal social capital of emerging market family firms enhance their international firm performance?"*

Prior studies show that the interaction between family and business does not necessarily create competitive advantage (O'Boyle Jr et al., 2010; Basco, 2013); rather, it is critical to develop appropriate processes and *capabilities* (Sirmon and Hitt, 2003; Basco, 2013). Drawing on the dynamic capability perspective (Teece et al., 1997; Eisenhardt and Martin, 2000), we explore the role of participative governance capability as an intermediary capability between internal social capital and international firm performance. Participative governance capability refers to the development of routines and processes that invite family members in addition to board members to contribute to strategic decision making and implement the required changes in the firm (Eddleston et al., 2012), and although this capability has not been specifically studied in the context of internationalised family firms, prior studies have highlighted the importance of participative strategies in the context of family firms. For example, Alpay et al. (2008) highlight the importance of participative decision making in family firms from emerging markets and confirm its impact on performance. Therefore, in this research we attempt to explore the relationship of participative governance, internal social capital and international firm performance, and also answer the following question:

Does participative governance mediate the relationship between internal social capital and international firm performance of emerging economy family firms?

We have selected Turkey as an emerging economy as it offers an interesting context for the aim of this research because in Turkey, family-owned companies constitute more than 95% of businesses (Findikci, 2008; Kirim, 2002), it is ranked as the seventeenth largest economy, and is a rapidly growing emerging market (Uner et al., 2013). The country has also undergone institutional transformation since the 1980s (Armstrong, 2015), and surging numbers of Turkish family firms are entering international markets (Demirbag et al., 2010). Studies show that many Turkish companies rely on centralized decision-making (Kabasakal and Bodur, 2002; Kabasakal and Bodur, 2007), pursue an autocratic style of leadership and may pursue less participative governance (Marcoulides et al., 1998). Despite this dominant management style in Turkey, researchers have revealed the importance of participative decision making in family firms from emerging markets and have confirmed its impact on performance (Alpay et al., 2008).

This research offers several contributions. First, it adds to the family business and international entrepreneurship literature: whereas the majority of prior research on family firms has been conducted in developed countries (e.g., Merino et al., 2015; Arregle et al., 2012; Fernández and Nieto, 2006; De Massis et al., 2013), there is still much to be learned from family firms in emerging economies that are targeting international markets (Kontinen and Ojala, 2010; Zaefarian et al., 2016). This research extends the existing understanding to the context of Turkey where there are close family relationships, and these relationships might create different expectations compared to those in Western countries.

Second, this article contributes to debates around the impact of family relationships on firm performance (Arregle et al., 2007; Cross and Prusak, 2002; Hoffman et al., 2006; Pearson et al., 2008; Sorenson et al., 2009; Basco, 2014; Hoffmann et al., 2016b) and provides a new understanding in the context of international markets. In this research, we not only investigate the direct relationship of internal social capital and international firm performance, but also examine whether the impact of family relationships should be channelled through participative governance in the context of emerging markets to create competitive advantage.

This research also examines the generalisability of the social capital theory (Nahapiet and Ghoshal, 1998) and dynamic capability perspective (Teece, 2007) in the context of emerging markets by highlighting if and how a combination of *internal* social capital and participative governance *capability* can enhance the *international performance* of family firms. Finally, the findings of this research will shed light on the strategies that family firms' managers from emerging economies should employ to better benefit from the family relationships in their firm and enhance their international firm performance.

2 Theoretical background

In this section, we first review the literature of social capital theory and introduce different dimensions of internal social capital, then follow this with the literature review of dynamic capability, and the introduction of participative governance capability. After that, we develop the related hypotheses based on these concepts.

2.1 Social capital theory

According to Nahapiet and Ghoshal (1998, p. 243), social capital refers to the "sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individuals or social units." Social capital theory postulates that network relationships offer its members "the collectivity-owned capital, a 'credential' which entitles them to credit, in various senses of the world" (Bourdieu, 1986: , pp. 248-249). There are two types of social capital: external (bridging) and internal (bonding). External social capital is related to the external ties and relationships between the organisation and external parties (family or non-family), while internal social capital focuses on ties and relationships between individuals or groups working in the organisation (Adler and Kwon, 2002). For our study, we focus on internal social capital, which refers to capital embedded within the collective ties of family members working in the company, and consists of three dimensions: structural, relational and cognitive (Nahapiet & Ghoshal, 1998) which are explained below.

2.1.1 Structural dimension

The structural dimension in family firms is related to overall patterns of interactions, density and connectivity of social ties, as well as 'who' you know and 'how' you would reach them (Zheng, 2010; Tsai and Ghoshal, 1998; Burt, 1992). The position of an actor in the social structure of interactions can be critical in accessing resources (Tsai and Ghoshal, 1998; Pearson et al., 2008), and studies have found that close relationships allow people to know each other better, share information and benefit from each other's resources (Sanchez-Famoso et al., 2014; Carr et al., 2011).

This dimension is related to the relationships that family members have developed with each other over time as part of the interaction in their family (Hoffman et al., 2006), and social interactions, and the structure and strength of ties between family members, can be utilised to benefit the family firm (Arregle et al., 2007; Pearson et al., 2008): in other words, the relationships in the *family* social structure can be transferred and utilised in the *firm* (Coleman, 1988; Carr et al., 2011; Pearson et al., 2008). According to Carr et al. (2011, p. 1210), since family members employ their relationships "to get things done" in the family, they can employ those relationships to carry out tasks in the firm, and this integration of family and firm and the transference of the internal network ties of the family to the firm may create abundant social capital that is not easily developed in non-family firm situations (Pearson et al., 2008).

2.1.2 Relational dimension

The relational dimension pinpoints "the kind of personal relationship people have developed with each other through a history of interaction. This concept focuses on particular relations people have, such as respect and friendship, that influence the behaviour" (Nahapiet and Ghoshal, 1998: , p.244). The interaction among family members enhances their relationship and strengthens the established trust between them over time (Arregle et al., 2007; Pearson et al., 2008), and this relational aspect is also a catalyst for setting norms of cooperation, teamwork, openness and reciprocity (Dess and Shaw, 2001).

Trust and trustworthiness are developed as a result of the relationships (Nahapiet and Ghoshal, 1998). In a trusted relationship, the trustworthy actor can stimulate others collectively to participate in joint efforts to achieve goals that would not have been possible without established trust (Tsai and Ghoshal, 1998; Pearson et al., 2008). Collective trust and the personal bonds in relationships allow family members to rely on each other, and enable them to tackle everyday challenges of cooperation and coordination (Carr et al., 2011) for the achievement of a common goal (Pearson et al., 2008; Nahapiet and Ghoshal, 1998).

2.1.3 Cognitive dimension

The cognitive dimension describes attributes that support shared understanding of collective goals (Nahapiet and Ghoshal, 1998), and this dimension enables individual members to develop a common language in the firm, combine their resources, negotiate with each other and develop a shared meaning (Sanchez-Famoso et al., 2014). This shared vision and these values are valuable assets that can help organisations to engage in shared communication and integration of ideas, which facilitates achieving its goals (Rutherford et al., 2008; Sharma, 2008). Because of the presence of intense and enduring relationships, individual goals of family members usually converge more quickly toward the collective goal(s) of the family firm (Hoffman et al., 2006).

In the context of family firms, the cognitive dimension is deeply rooted in family history, and family members have a deep understanding of the values of the family and the business, often creating a unique cultural component that its competitors cannot easily imitate (Carr et al., 2011; Zahra et al., 2004). The shared vision in the family firm conveys values like the importance of the continuation of the business, and alignment of the purpose of business and family provides a common understanding necessary for achieving family goals (Pearson et al., 2008; Eddleston et al., 2012).

2.2 Dynamic capability and participative governance

Dynamic capability advocates argue that firms' resources should be combined with specific capabilities to generate superior performance (Teece, 2007), and this implies that the differences in the performance of firms are seldom the *result* of their own resources but rather the *application* of those resources (e.g., capabilities) (Grant, 1991). Dynamic capabilities are thus those processes where resources are acquired, integrated, transformed or reconfigured to create value-adding activities (Teece et al., 1997; Eisenhardt and Martin, 2000). They include strategic and organisational processes such as strategic decision making that are deeply embedded in the companies (Eisenhardt and Martin, 2000; Teece, 2007).

Participative governance refers to "the capability of both the family and the board of directors to participate in the development of corporate strategy" (Eddleston et al., 2012: , p. 351), and it means that family members also contribute to decision making and attempt to implement the required changes in the organisation to achieve the family firm's strategic priorities (Eddleston and Kellermanns, 2007). Participative governance and how the information is shared and decisions are made play a critical role in family firms because of the double role that the family member has – being a member of the business as well as the family (Filbeck and Smith, 1997; Arregle et al., 2012). In participative governance, the board of directors can support the family in identifying the key priorities in strategic planning (Chrisman et al., 2004), implementing strategies, monitoring performance, and providing the required support whenever needed (Schulze et al., 2001; Eddleston et al., 2012).

While interaction and exchange of information is generally beneficial for top managers (Thomas and McDaniel, 1990; Basco, 2013), a participative culture is particularly critical in family firms (Kellermanns and Eddleston, 2004; Eddleston et al., 2012). In participative governance, both board members and family members contribute to the goal-setting process which clarifies where the employees should direct their efforts (Fang et al., 2005; Lee and Feng, 2011). This is important as family firms are often criticised for the poor participation of family members in decision making (Eddleston and Kellermanns, 2007; Stavrou, 1999). The strategic objectives of the firm are also communicated to all family members working in the company, and this allows individuals to have a better understanding of the strategic direction of the firm and reduces individual biases (Ketokivi and Castañer, 2004).

After deciding on the strategic direction of the business, it is important that family firms are also capable of implementing the required changes in the organisation (Vago, 2004). Studies have shown that some family firms resist any changes (Vago, 2004; Ward, 2010) because they develop emotional attachments to their business (Miller et al., 2003) and are reluctant to change its strategic position (Kellermanns and Eddleston, 2006); this reluctance to change therefore highlights the importance of nurturing a family culture that supports change to achieve strategic objectives (Zahra et al., 2004). Communicating strategic priorities in participative governance enhances psychological ownership and mobilises the support of family members in the implementation of change and achieving strategic objectives (Zahra, 2003).

3 Hypothesis development

3.1 Internal social capital and international firm performance

Grounded on social capital theory (Nahapiet and Ghoshal, 1998), we postulate that in the context of emerging markets, internal social capital can enhance international firm performance.

First, the structure and strength of ties among family members in emerging economies can be exploited to offer access to other resources (Nahapiet, 2008). Family members tend to share their resources because of the duality of family and business relationships (Sirmon and Hitt, 2003; Danes et al., 2009). For example, Sirmon and Hitt (2003, p.343) explain that family firms benefit from survivability capital as family members are willing to contribute their personal resources (e.g., free labour and money) if the company is in need, which can create competitive advantage and enhance international performance of emerging market family firms. Family members might also support the firm with patient financial capital (Sirmon and Hitt, 2003) which allows pursuit of long-term goals that can consequently create competitive advantage (Bhaumik et al., 2010) and enhance firm performance both in domestic (Dreux, 1990) and international markets.

Nahapiet and Ghoshal (1998) explain that exchange of information helps firms to better absorb and assimilate knowledge that can create competitive advantage. Information sharing might be even more crucial when family firms from emerging economies enter a different environment of overseas markets and need to quickly learn the differences to adapt to the changes and ensure a good international firm performance. Information sharing also enhances family members' learning and will help them to achieve a greater understanding of the formal documented practices (Leana and Pil, 2006) and the direction of the firm in international markets (Zaefarian et al., 2016). Finally, higher levels of communication and cooperation facilitates creation of new knowledge and development of more innovative strategies and products (Zheng, 2010) to succeed in an international arena which may be particularly necessary for family firms from emerging economies (Sui and Baum, 2014).

The relationships and trust among family members in emerging economies can also contribute positively to international firm performance. First, family firms benefit from long-standing and existing trust between family members because of their previous family relationships, which might take some time to be developed among employees of non-family firms. Existing trust between family members in a family firm can facilitate better collaboration among them, and create competitive advantage and better firm performance (Misztal, 1992) in international markets. For example, in the context of Turkey, studies have shown that family firms are highly loyal to their founders and trust them and follow their advice (Koc¸el, 2006). Such a trusted family member can easily encourage other family members to collectively achieve a firm's goals (Tsai and Ghoshal, 1998; Pearson et al., 2008) which is necessary for successful operation in international markets.

With the trusted relationship between family members, family firms are confident that they will not be faced with opportunistic behaviour (Nahapiet and Ghoshal, 1998; Carr et al., 2011; Pearson et al., 2008), and this is especially critical when emerging economy family small and medium-sized enterprises (SMEs) have very limited resources for internationalisation (Gallo and Pont, 1996; Kontinen and Ojala, 2010).

Calabrò et al. (2016) also show that family firms trust the incoming generation and embrace their knowledge and experience. According to Zaefarian et al. (2016), some family firms from emerging economies send their second and third generations to developed countries to obtain related up-to-date industry or international business knowledge to ensure their success and better firm performance in international markets. Related education of family members can then enhance family firms' knowledge and help them better manage the complex changes they have to apply in the international environment (Cerrato and Piva, 2012). This is pivotal, as research suggests that lack of qualified human capital can be a major barrier to the internationalisation of SMEs (Leonidou, 2004) from emerging economies (Tesfom and Lutz, 2006).

In contrast to non-family firms, the trusted relationships among family members also save family firms from having to write detailed contracts to elicit the best performance from family members. Instead, controlling mechanisms are informal which reduces monitoring costs, supports flexible decision-making (Bhaumik et al., 2010), and enables family firms to better adapt to changes in the business environment (Donckels and Fröhlich, 1991; Dreux, 1990).

Finally, we posit that having shared understanding improves international firm performance of emerging market family firms. Since children receive their socialisation from their parents during childhood (Berger and Luckmann, 1991), children in family firms have a better understanding of the norms and values of the family, which can subsequently enhance the performance of family firms (Arregle et al., 2007) from emerging economies in international markets. Development of shared vision about internationalisation among family members can also develop commitment and enhance their international firm performance (Calabrò et al., 2016; Scholes et al., 2016; Graves and Thomas, 2008).

Family firms are often characterised as being risk-averse (Gómez-Mejía et al., 2007; Naldi et al., 2007). This is more pronounced in the context of family firms from emerging markets that have relatively less experience in international markets (Bhaumik et al., 2010) and may have concerns about their survival in these markets (Berrone et al., 2012) and about losing socio-emotional wealth (Berrone et al., 2012). The risk averseness might even be exacerbated among family firms from emerging economies with uncertainty avoidance cultures like Turkey (Kabasakal and Bodur, 2002; Kabasakal and Bodur, 2007). However, as the markets are becoming more globally competitive, family firms from emerging economies are under increasing pressure to enter international markets to ensure their long-term survival and profitability (Kontinen and Ojala, 2010). Therefore, when shared understanding about the necessity for and direction of the firm's international activities has been developed in a family firm, it can enhance commitment of family members and international firm performance (Graves and Thomas, 2008).

Shared vision can also mobilise the support of family members, which can create competitive advantage for family firms in international markets. For example, Zaefarian et al. (2016) provide some examples of how family members from emerging economies collectively make decisions about their internationalisation and send their family members to the targeted countries to learn about the customers, culture, rules and regulations with the goal of improving their international performance.

To sum up, internal social capital can create competitive advantage and enhance international performance of emerging market family firms. Therefore, we suggest:

Hypothesis 1: Internal social capital of family firms from emerging markets improves international firm performance.

3.2 Mediating role of participative governance in the relationship of internal social capital and international firm performance

In this research, we postulate that in the context of emerging markets, a strong internal social capital makes family members more capable of contributing to participative governance which then enhances international firm performance. As mentioned before, participative governance refers to "the *capability* of both the family and the board of directors to participate in the development of corporate strategy" (Eddleston et al., 2012: , p. 351). In participative governance, in addition to board members, family members understand the strategic objectives of the firm and have the capability to manage and implement required changes to achieve a new strategic direction (Eddleston et al., 2012). When family firms adopt a participative governance approach, family members are also invited to partake in the process of decision-making, and support the implementation of the required changes in their organisation (Eddleston and Kellermanns, 2007). This contribution to the joint goal setting clarifies the direction in which employees should devote their efforts (Fang et al., 2005; Lee and Feng, 2011).

Here, we explain how internal social capital makes family members more *capable* of contributing to participative governance and deciding about strategic objectives and implementing them, which then improves international firm performance.

Family members in a family firm know each other very well, and share information and resources (Sanchez-Famoso et al., 2014; Carr et al., 2011; Sirmon and Hitt, 2003). Being both a member of a family and the business, family members have many interactions and can share international business-related information, which can contribute to more informed decision-making in participative governance (Filbeck and Smith, 1997; Arregle et al., 2012) and better performance (Lee and Feng, 2011). In addition, family members can share information to develop a consensus about the required changes for achieving those goals (Tsai and Ghoshal, 1998; Arregle et al., 2007). When family members are involved in decision-making, they feel stronger psychological ownership and better understand the challenges that the firm might face in the international markets (Zahra, 2003). Boards of directors can also guide family members in highlighting the key priorities of the firm (Chrisman et al., 2004) in international markets. When family members learn about international priorities, they are more willing to share their resources (financial, human capital, etc.) to improve the family firm performance (Sirmon and Hitt, 2003).

Because of the trust developed among family members, family firms are more inclined to invite family members to participate in decisions involving the strategic direction of the firm. In addition, the trustworthy actors in the family firm can play the role of leaders and encourage family members to cooperate in managing and implementing change processes or new strategic directions of the firm (Dess and Shaw, 2001; Carr et al., 2011; Hoffman et al., 2006). Trusted leaders also enable cooperative behaviours and collective action in the absence of clear mechanisms to nurture and support those behaviours (Coleman, 1990): the trusted relationship is particularly important in participative governance as many family firms may resist any changes (Kellermanns and Eddleston, 2006) that are critical for success in international markets. In such a culture, family leaders can encourage changes to achieve strategic objectives (Zahra et al., 2004).

Internal social capital also helps family members from emerging economies to have shared understanding of the company's strategic objectives in international markets, agree on these, and contribute to achieving those goals and improving firm performance (Rutherford et al., 2008; Sharma, 2008; Sanchez-Famoso et al., 2014). In addition, when family members have a good understanding of an organisation's direction, they are more willing to subordinate their personal goals and give priority to collective and organisational strategic objectives (Leana and Van Buren Iii, 1999). Shared understanding of strategic decisions and changes can also support the implementation of changes that might be required in international markets.

The positive relationship between participative governance and firm performance has also been established in prior studies (Chirico et al., 2011; Kellermanns and Eddleston, 2004; Basco, 2013; Eddleston and Kellermanns, 2007). Development of participative governance capability is particularly important for family firms from emerging economies as they are often criticised for ineffective management (Gómez-Mejía et al., 2007). Participation of family members in decision making enhances their commitment to the business, improves family firm resilience (Chrisman et al., 2011), and positively influences firm performance

(Mahto et al., 2010). Studies have indicated that high-performing family firms are characterised by high participation of family members in decision-making (Upton et al., 2001; Basco, 2013). In these types of firms, family members are more committed to enhancing the quality of decision making and implementing strategies (Kellermanns and Eddleston, 2004).

Participative governance might be even more necessary for family firms in emerging markets to transform the advantages of internal social capital to international firm performance. In fact, considering the close relationship of family members, when they are not involved in key decision-making of the company, a sense of dissatisfaction and frustration might emerge (Eddleston and Kellermanns, 2007). Instead, involvement of family members in strategic decision-making can translate the internal social capital of emerging economy family firms into a better international firm performance. Therefore, we suggest that:

Hypothesis 2: The relationship between internal social capital and international firm performance is mediated by participative governance capability.

Figure 1 depicts the proposed model.

Insert Figure 1 about here

4 Methodology

4.1 Turkey

The specific context of Turkey offers interesting insights for the aim of this research, as there is a strong collectivist culture in Turkey which demonstrates the importance of relationships among close and extended family members. Family members in Turkey are thus considerate of the needs of the groups that they are a member of (e.g., close and extended family) and take care of these needs (Hofstede, 2016). Studies also show that in-group collectivism (e.g., kinship) is dominant in Turkish firms' business culture, which makes it particularly relevant to this research (Kabasakal and Bodur, 2002; Kabasakal and Bodur, 2007). The dominance of kinship in the context of Turkey might offer new insights into the existing understanding of family firms and their characteristics that may not have been found in Western countries.

Turkish business culture is characterised by high power distance (Kabasakal and Bodur, 2002; Kabasakal and Bodur, 2007) and dominant leaders who might favour centralized decision making and little delegation (Kozan and Ilter, 1994; Tatoglu et al., 2008). Existence of high power distance demonstrates a low preference of a participative style of management and a reluctance amongst employees to express dissent. Studies have also corroborated that business leaders in Turkey adopt a more autocratic style of leadership and pursue less of a consensus leadership style (Marcoulides et al., 1998).

4.2 Sample and data collection

In order to empirically test the hypotheses developed in the previous section, we collected data from Turkish family firms where more than 95% of businesses in this country are family-run (Findikci, 2008; Kirim, 2002). The initial population provided by KOSBEG (Small and Medium Enterprises Development Administration) consisted of 2,500 family manufacturing firms; collecting data from just manufacturing companies reduces the effect of industrial differences on international firm performance (Graves and Thomas, 2008; Wincent et al., 2014). The questionnaire was first developed in English, and then translated by two professional translators into Turkish and then back-translated to English (Fang and Zou, 2009), and this process continued until there was consensus between the translators that both English and Turkish versions had equal measurements (Lu et al., 2010). The questionnaire was developed in Survey Monkey and sent to the CEOs or most senior executives by email. We selected CEOs as the key informants since they have an in-depth understanding of both the family and the business (Zahra et al., 2000; Eddleston et al., 2012; Kumar et al., 1993). We managed to collect 411 responses, which represents a response rate of 16.44%, comparable with the response rate of most studies on family firms (Eddleston et al., 2012; Chrisman et al., 2007).

In screening the collected data, we first made sure that the companies met our definition of SMEs and that the number of their employees did not exceed 250 persons (Commission, 2016). We chose SMEs in this research for several reasons. First, SMEs have been identified as key contributors to national economies (OECD, 1997). Specifically, according to the data collected in 2014 in Turkey, SMEs constitute 99.8% of the total number of enterprises (Turkish Statistical Institute, 2016). Second, most of theories in the field of international business have been designed for large multinational companies and these theories may not necessarily be applicable to SMEs that are constrained with limited resources for internationalisation (Gallo and Pont, 1996; Kontinen and Ojala, 2010).

We asked the respondents several questions to make sure they met our definition of family firms, including whether they view themselves as family firms (Carr et al., 2011), whether family members are among the major shareholders, are on the board of directors, or have management positions (Abdellatif et al., 2010). We also selected only those family firms that confirmed that they had international operations. This screening method as well as data-cleaning processes resulted in 192 usable SME questionnaires from families that had entered international markets. Following the procedure suggested by (Armstrong and Overton, 1977), we did not find any significant differences between the responses of early and late respondents, so there is no issue of non-response bias in this study.

4.3 Variables and Measures

Internal social capital. Carr et al. (2011) view internal social capital as a second-order factor structure and identify structural, cognitive and relational dimensions as latent indicators of this construct which were used in this research (see Appendix 1 for the full list of items).

Participative governance. Items employed for measuring participative governance were based on the research of Eddleston et al. (2012) (see Appendix 1).

International firm performance. International firm performance was measured with subjective ratings (Brouthers and Xu, 2002; Lu et al., 2010; Liu et al., 2015) (see Appendix 1). We used subjective ratings because accessing SMEs' financial data is challenging and respondents are not keen to disclose details of actual information (Brouthers et al., 2015). Prior studies have suggested that relying on perceptual measures is acceptable since most of the top managers' decisions rely on their perception of performance We asked respondents to identify their satisfaction with the sales volume, market share, profitability, market access, return on investment, customer satisfaction and development of image in international markets (adapted from Jantunen et al., 2005; Lu et al., 2010). We also asked them to indicate the percentage of overseas sales to total sales (Jantunen et al., 2005), which we used as one indicator of international firm performance.

4.4 Control variables

We introduced several control variables to filter out their influence on international firm performance. To control for the effect of industry on our research, we only collected data from manufacturing firms (Eberhard and Craig, 2013; Majocchi and Zucchella, 2003), as research suggests that international performance differs according to the industry of the firm (Dimitratos et al., 2004). We controlled for firm age as prior studies have indicated that older firms may demonstrate better performance in international markets (e.g., Zahra, 2003; Davis and Harveston, 2000). We measured firm age by the number of years that the firm has been established (Eberhard and Craig, 2013). Size of the firm was measured as the number of employees working in the company (Eberhard and Craig, 2013; Lu et al., 2010). Some researchers have shown that larger firms are more resourceful and might perform better in international operations (Zahra, 2003; Yadong and Peng, 1999).

Previous studies have also highlighted that prior internationalisation of firms positively impacts their international performance (Pangarkar, 2008; Barkema and Drogendijk, 2007) Therefore, we controlled for the number of countries that a company is selling its products to (Lu and Beamish, 2001), and the number of years it has been engaged in international operations (Dimitratos et al., 2004).

Finally, we controlled for environmental uncertainty (see Appendix 1); an uncertain environment may have a negative impact on a firm's international performance (Child et al., 2003). To measure this construct, we employed the items suggested by Lu et al. (2010).

5 Analysis

5.1 Reliability and Validity of the Constructs

We first analysed the measurement model following the procedure suggested by Byrne (2012) using Mplus 7 (Muthen and Muthen). The results of confirmatory factor analysis (CFA) (Byrne, 2012) indicate a good fit with a comparative fit index (CFI) of 0.97, a Tucker-Lewis Index (TLI) of 0.97, a root mean square error of approximation (RMSEA) of 0.04, and X^2= 443.25, and degree of freedom (df)= 333 ($p <.001$) (Hu and Bentler, 1999; Byrne, 2012). Convergent validity tests whether the indicators of a construct share a high proportion of variance in common (Hair et al., 2010). We employed several approaches to ensure convergent validity among measures. First, statistically significant standardised loading estimates as well as high loadings (above 0.5 or ideally above 0.7) (Hair et al., 2010) of indicators on each construct demonstrate good convergent validity, as was the case in the majority of our indicators (see Appendix 1 for details of measurement model).

Second, the average variance extracted (AVE) was calculated, and since all AVEs are close to or above the threshold of 0.5, convergent validity can be inferred (see Table 1). The third method to assess convergent validity is by calculating construct reliability (CR), with high construct reliability (above 0.7) (Hair et al., 2010) indicating that internal consistency exists and that the measures represent the identified constructs, as is demonstrated in Table 1.

We employed discriminant validity to ensure each construct is distinct from other constructs. In this research, discriminant validity was concluded because the AVE values for any two constructs were greater than the square of their correlation between those two constructs (Hair et al., 2010) (see Table 1).

5.2 Assessment of Common Method Bias

We utilised several techniques to protect our results from common method bias. First, following the suggestion of Podsakoff et al. (2003) when designing the questionnaire, we used different response formats: for example, for internal social capital, we used Likert scales, and for variables such as firm size and international experience, we used open-ended questions. At the beginning of the questionnaire, we also stressed the anonymity and confidentiality of responses and explained that there is not a wrong or right answer. When designing the questionnaire we also separated dependent and independent variables (Krishnan et al., 2006). Furthermore, after collecting data, we utilised several statistical techniques to address the concern of common method bias. First, we employed Harman's single factor analysis to test the existence of common method variance at the item level (Podsakoff and Organ, 1986). The results of an unrotated principal component analysis illustrated that a single method factor cannot explain most of the variance. The highest single variance extracted was 35.6%, indicating that common method bias is not a concern in this research. The second technique we employed to investigate potential common method bias was CFA (Podsakoff et al., 2003) and with this method, we loaded all items on a "common method" factor. The result illustrated poor fit to the data (X^2=2167.28 DF=350; RMSEA=0.16; CFI=0.5; TLI=0.46; SRMR=0.18), corroborating our prediction that common method bias is not a problem in our data.

6 Results

We tested the hypothesised relationships by using SEM according to Mplus (Muthen and Muthen) version 7. Table 1 presents descriptive statistics and correlation of key variables.

Insert Table 1 about here

To test mediation, we employed bootstrapping because of the proven advantages (Preacher and Hayes, 2008; Kenny and Judd, 2014; Zhao et al., 2010) to the prior mediation analysis technique of Baron and Kenny (1986). The bootstrapping method allows calculation of direct effect, indirect effect and total effect simultaneously with level of significance (confidence intervals (CI)) (Zhao et al., 2010). The goodness of fit indices show a good model fit (Byrne, 2012) (CFI=0.93, TLI=0.92, RMSEA=0.06, and X^2=785.76 and DF=442 (X^2/df =1.78) (p <.001)). Figure 2 depicts the result of structural model analysis.

Insert Figure 2 about here

The result of our analysis presented in Figure 2 illustrates that internal social capital improves international firm performance as the total effect (the sum of direct and indirect effect) is β= 0.157, 95% CI= 0.012 to 0.301, supporting hypothesis 1. Also, as the direct effect of internal social capital on international firm performance is insignificant β= 0.11, 95% CI= -0.045 to 0.281 and the indirect effect (through participative governance) is significant β= 0.051, 95% CI= 0.008 to 0.128, we conclude that there is full mediation (Zhao et al., 2010) supporting hypothesis 2.

The findings of this research also reveal that the impact of the number of countries entered (β=0.03 p=0.001<0.05) by family firms has a positive and significant impact on international performance of family firms. However, the number of years of international activities does not play a significant role in the international performance of family firms (β=0.03 p=0.07>0.05). This makes sense as many companies might have entered international markets many years ago, but they may not have been active in international business. Our findings also demonstrate that the bigger the size of the companies, the better the international performance they will have (β=0.01 p=0.000<0.05), but the age of family firms has a negative impact on their international performance (β=-0.02 p=0.003<0.05).

Finally, environmental uncertainty has a non-significant impact on family firms' international performance (β=0.002 p=0.99).

To rule out alternative explanations, we tested a series of alternative models. First, it could be argued that instead of considering internal social capital as a second order construct, each dimension of internal social capital (structural, relational and cognitive) may have a direct impact (as a first order construct) on international firm performance, and participative governance might mediate the relationship between each of these dimensions and international firm performance. We thus tested this model but did not find any mediation relationship; in addition, there was not any significant relationship between each dimension and international firm performance.

It could also be contended that considering the nature of family firms and the goal of passing the business to the next generation, family firms might be *satisfied* with international firm performance but this may not necessarily reflect an actual better performance. To test this argument, we created two models, one with subjective measures of international firm performance (satisfaction with the sales volume, market share, profitability, market access, return on investment, customer satisfaction and development of image in international markets) and one model with international sales percentage as the only international performance indicator. The fit indices of the former and latter model were (CFI=0.93, TLI=0.93 RMSEA=0.06 =771.54 and df=438) and (CFI=0.94, TLI=0.93, RMSEA=0.07, X^2=483.26 and df=236) respectively. Interestingly, our analysis revealed that internal social capital improves subjective measures of international firm performance, and participative governance mediates the relationship between internal social capital and international firm performance (total effect: β=0.161, 95% CI= 0.016 to 0.311; indirect effect β=0.051 , 95% CI= 0.008 to 0.129; direct effect β=0.11, 95% CI= -0.036 to 0.282). However, when international sales percentage was included as the only objective firm performance, neither internal social capital improves international sales percentage, nor participative governance mediates this relationship (total effect: β=-0.401, 95% CI= -3.601 to -2.580 ; direct effect β= -0.923, 95% CI= -4.144 to 1.980 ; indirect effect β= 0.522, 95% CI=-0.125 to 1.512).

7 Discussion and conclusion

Our research provides fresh input into the long-standing debate about the impact of family involvement on firm performance (Rutherford et al., 2008) in international markets. In this study, we examined the relationship between internal social capital and international firm performance of family firms from emerging economies. Our empirical evidence demonstrates that participative governance is a necessary organisational capability that should be developed to nurture the benefits of involvement of family members in a firm. In fact, we reveal that participative governance capability is a mediating factor that acts as an internal organisational transformation and resource configuration mechanism that enable emerging economy family firms to realise the benefits derived from internal social capital. According to our research, family firms should develop participative governance capability (Eddleston et al., 2012) where the strategic objectives of a firm are communicated to family members, thereby ensuring shared understanding and mobilising the collective endeavours of both board members and family members in the implementation of required changes (Eddleston et al., 2012). In line with previous scholars (Kellermanns and Eddleston, 2004), we posit that when family members are invited to play a role in directing the firm and setting objectives, they not only share their information (Patel and Fiet, 2011) and resources (Corbetta and Salvato, 2004; Davis et al., 1997) with the family firm but also feel more empowered in implementing the required changes (Davis et al., 1997) when entering international markets, which can enhance performance (Mahto et al., 2010; Zahra, 2003).

Our findings are interesting specifically in the context of Turkey. Prior studies show that the majority of business managers in Turkey pursue an autocratic style of management (Marcoulides et al., 1998) and may not involve family members in decision making. Our findings corroborate the importance of considering the collectivist culture and the necessity of involving family members in addition to board members in strategic decision-making and the implementation of required changes. When participative governance is developed, family firms from the emerging economy can then benefit from competitive advantage in international markets created by unique family social capital.

This study makes several theoretical contributions. First, in line with social capital theory (Nahapiet and Ghoshal, 1998; Eberhard and Craig, 2013; Zhou et al., 2007; Pinho and Prange, 2016), our findings reveal (Carr et al., 2011) that *internal* social capital can improve international firm performance. We also reveal that it is through participative governance capability that internal social capital of family firms can improve their international performance. Our research thus supports the dynamic capability perspective by delineating that the sole possession of resources is not adequate. Instead, it is critical that organisations develop internal processes and routines to better utilise those resources (Teece, 2007; Eisenhardt and Martin, 2000). This is also consistent with the proposition of Basco (2013) arguing that internal social capital should be aligned with some organisational behaviour to enhance performance. Our study also responds to the calls for further research about how the family can contribute to firm performance and the need to identify the contingencies and configurations that enable family firms to enhance their performance (Sciascia et al., 2012; Basco, 2013).

Our findings also corroborate prior research that has highlighted the critical role of governance structure (Chrisman et al., 2013; Eddleston et al., 2012; Sirmon and Hitt, 2003;

Steier, 2004) and particularly participative governance (Eddleston et al., 2012) in family firms in international markets (Filatotchev et al., 2001; Hsiang-Lan et al., 2014).

Moreover, our research adds to international entrepreneurship research. It examines the relationship between internal social capital and international firm performance and extends the current work on the relationship between family involvement and firm performance (Arregle et al., 2007; Cross and Prusak, 2002; Hoffman et al., 2006; Pearson et al., 2008; Sorenson et al., 2009) to international business. In addition, this research has collected data from family firms in an emerging economy, which has been less studied (Kontinen and Ojala, 2010; Zaefarian et al., 2016).

Our research also offers interesting insight into the international performance of family firms. According to our findings, participative governance mediates the relationship between internal social capital and international firm performance only when we consider different aspects of the satisfaction of family firms. Specifically, our analysis demonstrates that neither internal social capital improves international sales percentage nor participative governance mediates the relationship between internal social capital and international sales percentage. These findings corroborate prior propositions that family firms might give priority to non-economic goals (Chrisman et al., 2012; Hoffmann et al., 2016a; Lumpkin and Brigham, 2011; Berrone et al., 2012; Gómez-Mejía et al., 2007); for them, international success of their business may not necessarily be related to increased international sales.

Another interesting contribution of our research is related to the role of different dimensions of internal social capital. In this research, we reveal that only when different aspects of structural, relational and cognitive dimensions of internal social capital come into play together can they improve international firm performance. In addition, we show that participative governance only mediates the relationship between internal social capital and international performance when all aspects of structural, relational and cognitive are brought together as internal social capital. Our findings thus highlight the necessity of developing relational (e.g. trust) and cognitive (e.g. shared vision) dimensions among family members to benefit from resources and commitment of family members (structural aspect). This is in line with the research of other scholars emphasizing viewing different dimensions of internal social capital as one construct (Carr et al., 2011; Pearson et al., 2008).

From a managerial perspective, our research delineates new strategies that family firms can employ to enhance their performance in international markets. First, our findings demonstrate that involvement of family members can create competitive advantage for emerging economy family firms. In fact, emerging economy family firms can benefit from structural, relational and cognitive advantages that family relationships can offer to improve their overall performance in international markets.

Our findings also reveal the importance of the development of participative governance capability. In fact, family firm managers should not only embrace the role of family members in setting the strategic objectives of the firm, they should also invite them to participate in decision-making in addition to board members. When entering international markets, emerging market family firms should explain the necessity and importance of internationalisation to their family members and highlight the strategies that the family firms are going to pursue. Benefiting from the cognitive capital of family relationships, by sharing information and creating a shared vision, family members can then employ their relationship to enhance the firm performance in international markets. When family members appreciate the importance of internationalisation, they can then utilise their trusted relationships to support the internationalisation activities. In addition, family members can employ their resources such as patient capital or survivability capital to better support their internationalisation, which can create competitive advantage for them in international markets.

Our findings also illuminate the necessity and importance of the development and employment of all aspects of structural, relational, and cognitive relationships simultaneously. In addition, our findings suggest that emerging economy family firms should only develop participative governance when they have brought together these different aspects of internal social capital. Otherwise, none of the structural, relational or cognitive aspects of internal social capital can improve international firm performance; Also, development of participative governance capability cannot mediate the relationship between each of these aspects and international firm performance.

7.1 Limitations

Our research is not without limitations. First, we only conducted this research in one emerging economy, Turkey, and, thus, its generalisability is restricted. Future research can enhance our findings by collecting data from both developed and developing countries. Second, in this research we only collected data from manufacturing family SMEs and did not control for different sectors in manufacturing. Researchers can build on this and examine our findings in different sectors of the manufacturing industry, and also in the service industry and in bigger companies. Third, in this research we only focused on one capability that should be employed by family firms. Future research can explore the role of other potential capabilities and test their impact on firm performance in both domestic and international markets. Fourth, while we have controlled for the impact of key variables on international firm performance, additional variables such as prior international experience of the founders can be controlled for in future studies. Finally, it should also be noted that, in this research, we focused on the relationship between internal social capital and *international* firm performance, so our findings are only applicable to firm performance in international markets.

List of Tables

Table 1- Descriptive statistics and correlations

	Mean	SD	CR	AVE	1	2	3	4	5	6	7
1. International firm performance	2.31	1.43	0.89	0.48	1						
2. Internal social capital	4.72	1.38	0.97	0.92	.11(.01)	1					
3. Participative governance	3.75	1.56	0.94	0.81	.27**	.26**(0.07)	1				
4. Environmental uncertainty	2.85	1.2	0.72	0.47	-.15	-.01	-.05(0)	1			
5. Age	20.26	16.11	NA	NA	-.1	-.07	-.05	0.07	1		
6. Size	33.64	37.9	NA	NA	.31**	-.1	.08	-.3**	.12	1	
7. Years of international experience	8.02	8.98	NA	NA	.19	-.02	.06	-.15	.52**	.16*	1
8. Number of countries	7.07	10.83	NA	NA	.33**	-.14*	.06	-.08	.16**	.27**	.33**

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

- Numbers in parentheses are the squared correlation of constructs.

Figure 1- Conceptual framework

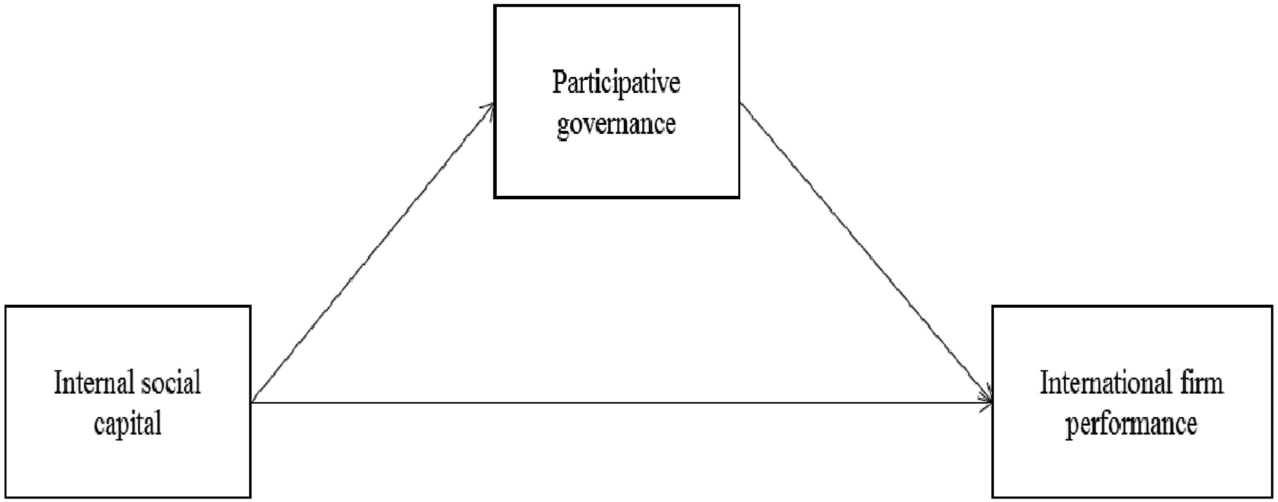
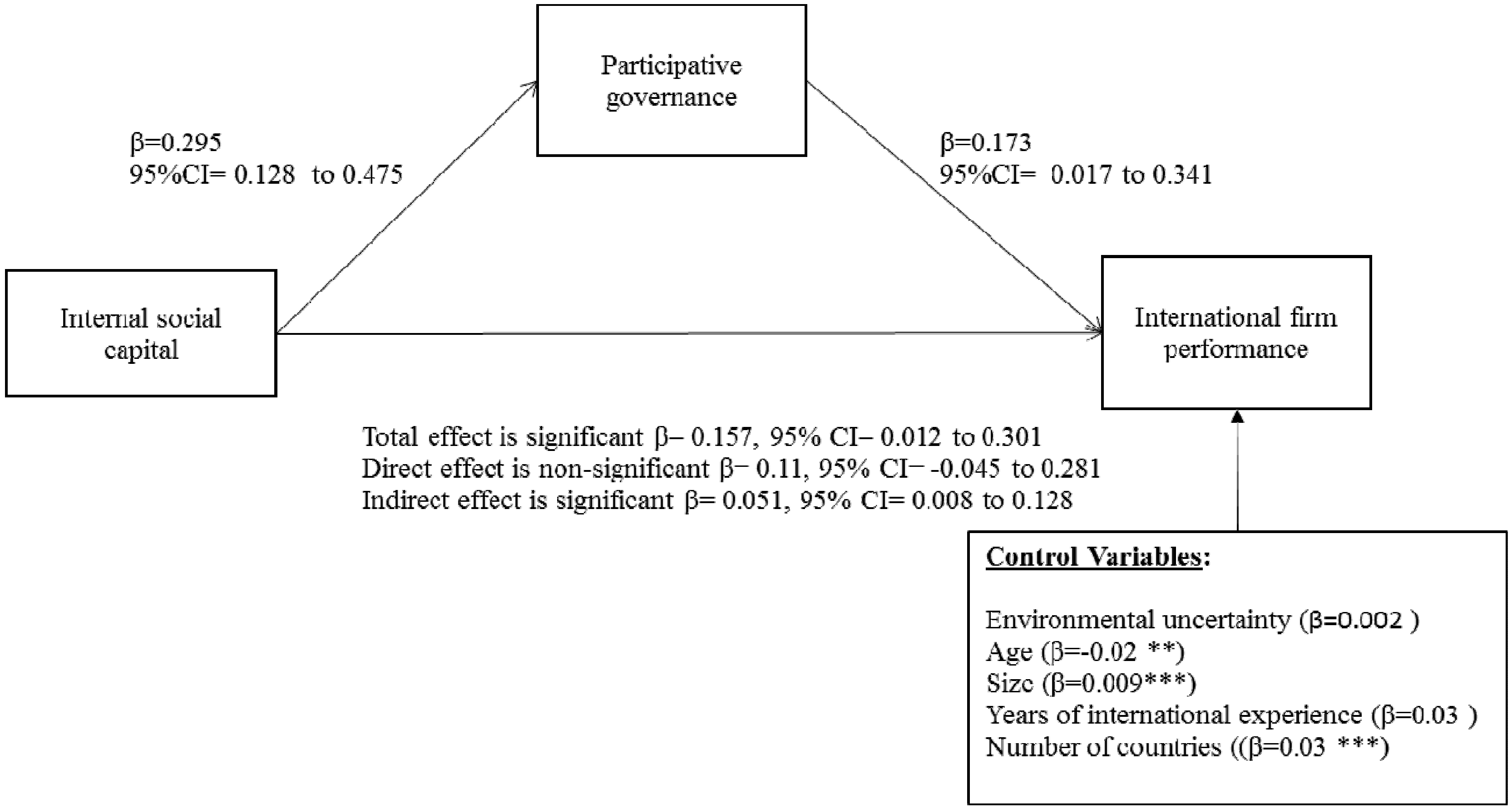


Figure 2 Results of structural model



*p<0.10, **p<0.05, *** p<0.001

Appendix 1

Measurement model				
	Estimate	S.E.	Est./S.E*.	P-Value
International firm performance				
satisfaction with:				
Sales volume	0.828	0.028	29.763	0.000
Market share	0.762	0.035	21.568	0.000
Profitability	0.575	0.053	10.808	0.000
Market access	0.866	0.026	33.335	0.000
Return on investment	0.783	0.037	20.976	0.000
Customer satisfaction	0.432	0.065	6.646	0.000
Development of image	0.719	0.037	19.500	0.000
Development of know how	0.656	0.040	16.557	0.000
International sales percentage	0.471	0.057	8.220	0.000
Participative governance				
The board of directors has the capability to manage and implement change processes or new strategic directions	0.810	0.039	21.019	0.000
Family members have the capability to manage and implement change processes	0.880	0.022	39.134	0.000
The board of directors participate in developing the corporate strategy	0.951	0.019	49.507	0.000
Family members understand the company's strategic objective	0.958	0.010	97.754	0.000

Environmental uncertainty				
It has been difficult to forecast the sales quotas of products in overseas markets	0.612	0.065	9.464	0.000
The product exported has been greatly influenced by changes in the trade policies of overseas markets	0.562	0.055	10.244	0.000
It has been difficult to forecast the competitive advantage of their products in overseas markets	0.884	0.061	14.384	0.000
Structural dimension				
Family members who work in this firm engage in honest communication with one another	0.880	0.031	28.209	0.000
Family members who work in this firm have no hidden agendas	0.806	0.030	26.904	0.000
Family members who work in this firm willingly share information with one another	0.895	0.017	53.283	0.000
Family members who work in this firm take advantage of their family relationships to share information	0.858	0.024	35.068	0.000
Relational dimensions				
Family members who work in this firm have confidence in one another	0.826	0.029	28.590	0.000
Family members who work in this firm show a great deal of integrity with each other	0.898	0.018	50.441	0.000
Overall, family members who work in this firm trust each other	0.864	0.026	33.194	0.000

Family members who work in this firm are usually considerate of each other’s feelings	0.850	0.029	29.833	0.000
Cognitive dimension				
Family members who work in this firm are committed to the goals of this firm	0.938	0.013	73.653	0.000
There is a common purpose shared among family members who work in this firm	0.924	0.015	59.795	0.000
Family members who work in this firm view themselves as partners in charting the firm’s direction	0.874	0.035	25.262	0.000
Family members who work in this firm share the same vision for the future of this firm	0.880	0.018	47.839	0.000
Internal social capital				
Social dimension	0.977	0.013	74.982	0.000
Relational dimension	0.992	0.012	83.123	0.000
Cognitive dimension	0.903	0.018	50.849	0.000
*Est.= Estimate (factor loading) S.E.= Standard error				

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