Board Composition, Family Ownership, Institutional Distance and the Foreign Equity Ownership Strategies of Turkish MNEs

by

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ABSTRACT

In much of the developing world, families represent the dominant form of firm ownership. This study investigates how this influences equity ownership strategies when firms venture abroad. Drawing on agency theory and institutional theory, we investigate the direct effect of board composition and family ownership on the equity-based ownership strategies of multinational enterprises (MNEs) in their affiliates, and how institutional distance may moderate this. Examining foreign affiliates of listed Turkish MNEs, we find that a high ratio of independent directors is negatively linked to levels of equity ownership of MNE affiliates. We also find that a high ratio of inside directors on the board is positively associated with the equity stake of MNEs in their affiliates. The significant interaction effect between board composition, family ownership and institutional distance helps explain the unexpectedly weak effects of institutional distance.

Keywords: Board composition, foreign equity ownership strategy, family business, agency theory, institutions, Turkey.

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1. Introduction

How do families impact the internationalization activities of firms in which they hold a significant stake? This study investigates the effects of board composition and family ownership on the equity ownership strategies of multinational enterprises from emerging markets (EM MNEs) in their affiliates. Further, we assess the moderating effect of institutional distance on this relationship. MNEs may be subject to pressures from a range of different institutional regimes, reflecting both investor country of origin and where the foreign operations take place. There is an extensive literature on how MNEs behave abroad (Almond et al., 2005; Brewster et al., 2008), which has tended to concentrate on the relative infusion of policies and practices from the country of origin. Less attention has been accorded to the association between the MNE's internal corporate governance mechanisms and foreign equity ownership (e.g. Rhoades & Rechner, 2001; Filatotchev et al., 2007; Musteen et al., 2009; Filatotchev & Wright, 2011). Internal corporate governance reflects both institutions, and the strategies dominant owner interests adopt in response to them. When formal regulation is weak or uncertain, the nature of the latter is vested with particular importance. Whilst weaker institutional coverage may be associated with greater agency problems (La Porta et al. 2000a), this does not preclude actors from improvising solutions that secure the best returns possible under the circumstances (Lane & Wood 2012). Within an emerging market (EM) context, we explore how international investment strategies may be molded by corporate governance realities and dominant ownership forms. This study makes extensive use of recent advances in institutional theory and develops insights into the implications of family capitalism for key players. It further evaluates how internal corporate governance mechanisms intersect with external ones in imposing a specific agenda on the firm.

We combine two key theoretical perspectives in international business research: agency theory and institutional theory. Agency theory signifies a challenge to the traditional Chandlerian notion of the firm and recasts it as primarily a vehicle for releasing value to the

owners. Hence, it favors external and internal corporate governance arrangements that support owner primacy and mechanisms for aligning managerial decision-making that maximizes short-term returns (Jensen & Meckling, 1976). In line with agency theory, it may be argued that board composition is a major factor in the strategic planning process of MNEs, by affecting their risk perception and approach towards internationalization (Filatotchev & Wright, 2011). Consequently, board composition is likely to be a crucial precursor of managerial skill to engage in internationalization strategies (Carpenter & Fredrickson, 2001; Filatotchev et al., 2007; Filatotchev et al., 2008). However, how boards are composed is likely to be closely bound up with the institutional setting.

Agency theory and institutional theory have appeared as important approaches to explain foreign entry strategies of MNEs. Gaur and Delios (2015) argue that institutional arrangements impact both on external and internal corporate governance arrangements. Building on the tradition of North (1987), Gaur and Delios (2015) cast institutions as providers of incentives or disincentives for rational actors, encouraging optimal or sub-optimal paths of decision making, which can be understood in agency terms. They conclude that both ownership concentration and ownership identity mold performance. Those strands of institutional theory that see private property rights as the most important regulatory feature share the basic concerns of agency theory surrounding the need to reign in managers and prioritize the release of shareholder value (La Porta et al., 2000a), enabling syntheses between these two traditions (Gaur & Delios, 2015). From an integrated perspective, it can be assumed that risk preferences and other interests of decision-makers, such as board members, are shaped by institutional distinctions between home and host countries. Consequently, the predicted effects of board composition on the entry mode choices of MNEs are determined somewhat by institutional distance. Apart from the separate effects of board composition and institutional distance on entry strategies, we also investigate whether the institutional distance between home and host countries has a moderator effect on the relationship between board composition and MNE entry strategy. However, it could be argued that the relationship between institutions and structures is a two way one, and that actors will undertake actions that not only respond to, but in many instances bypass or seek to remold those institutional

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arrangements not to their liking (Lane & Wood, 2009). The latter forms a central concern of this paper.

We focus on an EM setting, given that in such contexts institutions are less closely coupled or aligned, which might provide more opportunities for norm entrepreneurs to challenge and reform existing ways of doing things (Dore, 2008). At the same time, institutional shortfalls may make agency issues much more visible (La Porta et al., 2000a). In many EMs, the legal system is less predictable and/or effective and the market for corporate control less developed, with family owned and controlled firms the dominant ownership form (Amsden & Hikino, 1994; Claessens et al., 1999; Guillén, 2000; Demirbag & Yaprak, 2015). Boards of directors that contain family members, rather than independent members, may have a greater effect on the firm's strategic decisions (Demirbag et al., 1995; Selekler-Goksen & Yıldırım-Oktem, 2009). In the absence of other external mechanisms to protect minority shareholders (Kula & Tatoglu, 2006), owner families have viewed the board of directors simply as a vehicle to maintain control over their firms (Selekler-Goksen & Yıldırım-Oktem, 2009). As Gaur et al. (2014) note, firms rely on networks to overcome the consequences of institutional voids, in other words, relying on informal ties to get things done when formal modes of regulation are unsupportive or capricious. Internal corporate governance represents not only a mechanism for building on systemic strengths but also for compensating for weaknesses (Singh et al., 2013; Lane & Wood, 2012). This may make family ownership a relatively efficient mode of control (Fainschmidt et al., 2016), irrespective of the problems it might open up for minority investors.

A burgeoning body of literature deploys institutional theory to understand the strategic choices of EM MNEs (Peng, 2003; Wright et al., 2005; Demirbag et al., 2010a; Surdu & Mellahi, 2016; Peng et al., 2008; Wood & Demirbag, 2012). North (1990, p. 3) states that institutions are normally described as the "rules of the game in a society" which consist of formal rules and informal constraints. Institutional theory suggests that the success and survival of an MNE hinges on its compliance with the rules and belief systems prevailing in business environments (Deephouse, 1996; Xu & Shenkar, 2002; Dacin et al., 2007). The

decisions of MNEs may be influenced in very diverse ways by the institutional distance between home and host countries (Campbell et al., 2012).

The remainder of the study is organized as follows. The next section reviews the relevant literature and sets out the study's hypotheses. We then present the research methods, followed by data analysis and results. The final section contains a discussion and conclusions.

2. Context, theory and hypotheses

2.1. MNEs in context

What firms do, depends on both the formal and informal regulations specific to the context in which they operate (Brewster et al., 2008). As MNEs straddle national institutional domains, they are only partially rooted in each of the countries in which they operate (Morgan & Kristensen, 2006). Hence, we argue that MNEs will be more sensitive to internal corporate governance mechanisms than their domestic counterparts will, and hence, they form the primary focus of this study.

2.2. Board composition: Varieties of director

In considering the composition of boards, a key distinction is between "outside" directors and "inside" ones (Johnson et al., 1996, p. 417). The latter represent board members who are employees of the firm (Hermalin & Weisbach, 1988; Peng, 2004). Some scholars claim that inside directors tend to exhibit risk aversion behavior in entry strategy selection (Judge, 2012) because they face losing their jobs in the event of an unsuccessful strategy. This discourages the firm from adopting internationalization strategies at all and may hamper the extent of the firm's internationalization (Filatotchev et al., 2001).

From an agency perspective, inside directors who want to protect their relationship with the firm cannot objectively monitor the family members' activities (Anderson & Reeb, 2004). To maintain their position in the firm, they will choose to take sides with the founding family members who control the firm. Agency approaches further suggest that the desire of family members to protect their interests results in other investors being left worse off (Morck & Yeung, 2003; Bugra, 2007). However, the importance of family – and the strategic extension

of family ties - may increase pressures to invest in or support the business interests of other members of the extended family (Morck & Yeung, 2003), which may focus the firm on local investments, rather than taking substantial stakes in foreign affiliates. Zahra (2003) argues that a focus on family orientated concerns will mitigate against investments abroad. Family firms may become conservative over time and be unwilling to enter new or unfamiliar environments and prefer to operate within zones family members are familiar with (Zahra, 2005). This may entail foregoing significant business opportunities abroad. If inside directors lack independence from the family, then they will be likely to share their expected aversion to high levels of equity ownership abroad. Hence:

Hypothesis 1a. *The ratio of inside directors (that is directors who are employed by the firm, but not family members), will be negatively associated with the extent of equity ownership of EM MNE affiliates.*

Independent directors are those who have no material relation with the firm except for board membership, this would include outside directors who have no family relationship (Anderson & Reeb, 2004; Peng, 2004; Usdiken & Yildirim-Oktem, 2008). Beneficial investor business opportunities, including internationalization, may be missed because of the above-mentioned local bias by family members and their proxies. Hence, agency theory would hold that they serve a vital role in protecting the interests of minority shareholders against families and their managerial placemen (Rhoades & Rechner, 2001; Peng, 2004; Morck & Yeung, 2003). When independent directors dominate the board, they may dilute such pressures.

Nonetheless, Bugra (2007, p. 286) found that independent directors lacked the ability to question the founding family members' decisions. Hence, independent directors' role on the board may not go much beyond enhancing the prestige of the company (Selekler-Goksen & Karatas, 2008). It is unlikely that family members would authorize the independent directors to promote the minority shareholders' interests, which are not congruent with their own (Bugra, 2007). Consequently, it is not the presence of independent directors that matters, but whether they are actually able to genuinely have an impact. If family members are confident

in their ability to reign in independent directors and ensure that they promote family interests, then they will not so much seek to insist on a fixed number of independent directors, but rather will be guided by whether or not they can impose effective control on them. Indeed, a large number of compliant independent directors subject to influences of members of the owning family may amplify the latter's concerns rather than those of other shareholders. In addition, such family members are likely to prefer that investment is directed towards other businesses in which the family has an interest, rather than new ventures abroad. Hence, in EM contexts, where family ownership is widespread, even among MNEs, we hypothesize that:

Hypothesis 1b. *The ratio of independent directors (that is, neither family members nor employed by the firm) will be negatively associated with the extent of equity ownership of EM MNE affiliates.*

In the case of family owned businesses, there is a tendency for management to be transferred from generation to generation. In EMs, marriage alliances (as frequently observed in Turkey [Bugra, 2007]) represent a mechanism for extending the influence of business families. Applications of agency theory to family businesses hold that a common agency failing arises from divergences of interests between family members and minority shareholders (Anderson & Reeb, 2004). Family members may be reluctant to invest abroad both on account of the need to provide investment capital for relatives and/or because of a preference for conducting business within the comfort zone afforded by family-based networks. If family members are well represented on boards, they may use their position to force the firm to concentrate investments on the home market, potentially leaving minority shareholders worse off. Conversely, if families are in a weaker position on boards, then other shareholders may be able to drive greater internationalization when opportunities emerge (Fernandez & Nieto, 2006).

Hypothesis 1c. *The ratio of family directors will be negatively associated with the extent of equity ownership of EM MNE affiliates.*

2.3. Size of family stake vs. overseas equity ownership

In family owned businesses, there may be pressures to concentrate investments favorable to other businesses owned by extended family members, making firms more reluctant to channel resources to more remote destinations (Morck & Yeung, 2003). Zahra (2005) argues that a tendency for family businesses to become inward looking and focused towards family-based networks may mitigate against a willingness to invest in unfamiliar contexts. Cerrato and Piva (2012) found that when family influence is diluted by outside – and foreign – shareholders such firms were more likely to take larger stakes abroad. Similarly, Sciascia et al. (2012) note that family dominated firms may be internationally entrepreneurial when levels of family equity ownership is moderate. The reason for this is that the ratio of the family's own funds invested abroad is less and the costs (and uncertainties) are shared with other investors. There may be a further agency issue: family members may be under pressure to invest in businesses held by family members in the diaspora (Stewart, 2003), and this can be rendered more palatable if outsiders bear some of the costs. Hence:

Hypothesis 2. *The ratio of equity stake held by family directors will be negatively associated with the extent of equity ownership of EM MNE affiliates.*

2.4. The moderating impact of institutional distance on the relationship between board composition, family ownership and foreign equity ownership strategy

Based on Scott's (2001) classification of institutions, institutional distance is defined as the extent of dissimilarities between the institutional settings of home and host countries (Kostova, 1999; Xu & Shenkar, 2002; Gaur & Lu, 2007). The institutional differences between the home and host countries significantly affect the MNE's strategic decisions (Ando, 2012). Many studies report that the institutional dissimilarities between home and host countries impact directly, or moderate, various facets of entry mode strategies of MNEs (e.g. Davis et al., 2000; Yiu & Makino, 2002; Eden & Miller, 2004; Xu et al., 2004; Gaur & Lu,

2007; Meyer et al., 2009; Demirbag et al., 2010a; 2010b). In new and unfamiliar institutional environments, MNEs encounter added costs of doing business abroad and competitive disadvantage (Eden & Miller, 2004). The institutional distance increases external uncertainty as perceived by MNEs (Gaur & Lu, 2007); causes difficulty in transferring organizational practices, knowledge and strategic resources abroad (Kostova, 1999); intensifies the liability of foreignness (Ando, 2012); causes difficulty in managing the local environment (Xu & Shenkar, 2002); and increases transaction and coordination costs of production (Demirbag et al., 2007; Arslan & Larimo, 2011). Gaur and Lu (2007) classified these costs as unfamiliarity hazards and relational hazards.

There is an extensive body of work evaluating the effects of institutional distance on entry and subsequent strategic choices of MNEs (Campbell et al., 2012; Schwens et al., 2011; Tihanyi et al., 2005). However, recent strands of institutional thinking suggest that the relationship between formal structures and action is neither direct nor deterministic (Wood & Lane, 2012). Specific patterns of close inter-personal and familial ties may coalesce to constitute an informal regulatory structure, especially when formal institutional arrangements are poorly coupled or fluid (Goodwin et al., 1993). Hence, Johansen and Schoar (2006) found that, even when controlling for institutions, family ties had a direct impact on organizational outcomes. Indeed, embedded family ties may provide the primary framework for decision making, with variations in home and host country formal institutional arrangements failing to even exert a moderating effect (Goodwin et al., 1993). Consequently, in this study, we emphasize the role of formal institutions in moderating embedded family ties and associated informal regulatory mechanisms.

The superior knowledge and links of local partners can assist MNEs to overcome alien environments and institutional distance, thereby increasing recognition. Nevertheless, the problems of working with indigenous partners should not be ignored. In these environments, the selection of an indigenous partner is itself a challenge (Anderson & Gatignon, 1986; Demirbag et al., 1995). A greater institutional distance between the home and host countries makes interacting with local agents more challenging (Ferreira et al., 2009). It becomes increasingly harder to find reliable local partners the more the institutional distance increases

(Gaur & Lu, 2007). Local partners are likely to act opportunistically, therefore, higher levels of coordination and monitoring is needed (Gomes-Casseres, 1990), and the distance increases the costs of overall governance (Demirbag & Mirza, 2000; Xu & Shenkar, 2002; Eden & Miller, 2004; Chao & Kumar, 2010). In this context, the relational hazard costs may exceed the costs stemming from unfamiliarity hazard.

It has commonly been held that a lower level of equity ownership mitigates risk: The stakes are much lower should something go wrong, with risk being shared between investors (Folta & Ferrier, 2000). Local partners may also possess superior intelligence as to country of domicile dynamics, and reduce risk (Rugman, 2003). Consequently, firms may work to ensure greater centralization in ownership and control to mitigate risk (Hoskisson & Hitt 1988; Killing, 1983; Gomes-Casseres, 1990; Demirbag & Weir, 2005; Beamish & Lupton, 2009). This enables greater internal coherence and alleviates the risks of falling foul of a powerful local partner (Gaur & Lu, 2007). Hence, John et al. (2008) argue that when investor rights are weak or uncertain, outright control may be a preferred option. It can be argued that EM investors may be better equipped to understand the uncertainties and challenges of doing business in other similar contexts than their peers from developed economies. When they enter less familiar countries, they may prefer more direct and closer control, as relational costs escalate. Accordingly, it may be argued that institutional distance moderates the effect of the board composition on the equity ownership level.

Faced with substantial dissimilarity in institutions, EM firms will attempt to overcome these costs and external uncertainty by raising the degree of control over foreign affiliates (Ando, 2012). Even if the board size is large, or there are more independent and inside directors, the management board will still reflect the expectations of founding family members and/or majority shareholders. Indeed, if outsider directors are drawn from family members' networks, they may amplify them. Hence:

Hypothesis 3a. *Institutional distance positively moderates the relationship between the ratio of inside directors and the extent of equity ownership of EM MNEs in their affiliates.*

Hypothesis 3b. *Institutional distance positively moderates the relationship between the ratio of independent directors and the extent of equity ownership of EM MNEs in their affiliates.*

It is likely that family members will exhibit risk-averse preferences, given their desire to protect their own and their families' interests. In turn, this would reflect an interest in guarding their socio-economic wealth and status. Gómez-Mejía et al. (2007) found that even if the resultant strategic choices made might reduce returns, families would persist with them if they were seen as effective in mitigating risk. Fattoum-Guedri et al. (2017) suggested that this risk aversion would feed into a desire to ensure a high degree of control, even if, again, this might be bad for returns. This does not mean that all family businesses are closed, inward looking or wedded to a specific locale. Indeed, Kraus et al. (2018) found that many family owned businesses were open minded about seeking out new opportunities, even if this went hand in hand with risk aversion. In looking abroad, such firms may seek to decrease relational hazard costs and ensure close control of affiliates in environments about which they are likely to know little (c.f. Bugra, 2007; Wood et al., 2014b). If there is a large representation of family directors on the board, and/or if the equity stake by family directors is relatively high, then they are more likely to be able impose a risk mitigation agenda. Hence:

Hypothesis 3c. *Institutional distance positively moderates the relationship between the ratio of family directors and the extent of equity ownership of EM MNEs in their affiliates.*

Hypothesis 3d. *Institutional distance positively moderates the relationship between the ratio of equity stake held by family directors and the extent of equity ownership of EM MNEs in their affiliates.*

3. Research methods

3.1. Context

Our study is conducted in an EM context, and we adopt Turkey as the site of the study. There are several reasons for adopting Turkey as the context of this study. Turkey's

institutional environment has much in common with other EMs (Cavusgil et al., 2002). For instance, in addition to a high degree of family ownership and the traditional family-based model of the firm, Turkey evinces many of the pronounced characteristics of a weak corporate governance regime, with poor law enforcement and protection for owner rights, recent reforms notwithstanding (Yurtoglu, 2003; Demirag & Serter, 2003; Ararat, 2011). Yurtoglu (2000) classifies Turkey as having an "insider system". Such countries typically lack external mechanisms for managerial control, which means that internal controls, such as board of directors, become more significant for corporate governance (Mak & Li, 2001; Guillen & Capron, 2016).

The primary concern confronting large business groups in many EMs, such as Turkey, is board professionalization (Amsden & Hikino, 1994; Guillén, 2000; Demirag & Serter, 2003; Bugra, 2007; Yildirim-Oktem & Usdiken, 2010). Founding family board members often wish to maintain control over the company (Bugra, 2007) and undertake a more active role in the strategic decision-making of affiliated firms (Selekler-Goksen & Yildirim-Oktem, 2009). In Turkish firms, on average more than one-third of all board members are large shareholders (Yurtoglu, 2000). Firms have a "one-tier board system" where managing executives are also represented on the board (Yurtoglu, 2000). The link between management boards and the internationalization process has become a strategic concern for EM-based firms following liberalization (Toulan, 2002). Existing evidence from Turkey suggests that board member features have a major influence on the internationalization performance of affiliates (Selekler-Goksen & Yildirim-Oktem, 2009).

3.2. Sample

The unit of analysis in this study is the affiliate. The sample consists of a total 374 foreign affiliates of 71 publicly listed Turkish MNEs on the Istanbul Stock Exchange (BIST). The firms were chosen through a judgmental sampling procedure with respect to the following selection criteria: (1) We excluded parent firms in the banking and finance sectors because generally they do not adopt FDI strategies and have board compositions that differ from other firms. (2) We selected parent firms with at least 10 per cent ownership of affiliates,

as this range is consistent with the related literature (Tatoglu & Glaister, 1998; Larimo, 2003) and appropriate for the overall aims of this study; FDIs with less than 10 per cent foreign shareholdings are denoted as portfolio investments (Tatoglu & Glaister, 1998). (3) We selected parent firms with at least one foreign affiliate at the minority joint venture level. The affiliates in the sample operate in a total of 61 countries, around half of which are EMs and the other half are developed country markets.

3.3. Measures

The following subsections include the definitions and measurements of the variables used in the study.

3.3.1. Dependent variable

The level of foreign equity stake adopted by Turkish MNEs to enter foreign countries was treated as the dependent variable. This variable was measured by the ratio of equity stake held by the Turkish MNE in its affiliate based in the host country. The foreign equity ownership level was drawn from the Public Disclosure Platform and the firm's yearly reports.

3.3.2. Predictor variables

With reference to previous research (e.g. Rhoades & Rechner, 2001; Filatotchev et al., 2001, 2008; Lien et al., 2005; Kaymak & Bektas, 2008; Selekler-Goksen & Karatas, 2008; Lu et al., 2009; Yildirim-Oktem & Usdiken, 2010; Filatotchev & Wright, 2011), board composition was measured as the ratio of independent directors, the ratio of inside directors and the ratio of family members. The equity stake held by family board members was measured by the ratio of the equity stake held by family board members. Details of measurement of these variables are provided in Appendix A.

3.3.3. Moderator variable

We used the institutional distance between home and host countries as the moderator variable. Firstly, consistent with prior literature (e.g. Gaur et al., 2007; Arslan & Larimo,

2010; Chao & Kumar, 2010; Hernández & Nieto, 2015), we evaluated the institutional distance at regulative and normative levels. While there are several reports and databases published by different institutions to measure the dimensions of institutional aspects, they all vary in terms of the publication year, the countries analyzed, scales and constructs used. The data for these institutional dimensions were taken from the *Global Competitiveness Report 2015-2016* published annually by World Economic Forum (2015) (see Appendix A for detailed information of their measurement). It is one of the most commonly used databases in the literature where the various editions of this database have been utilized to measure the differential effects of institutional distance (e.g. Xu et al., 2004; Gaur et al., 2007; Kaynak et al., 2007; Chao & Kumar, 2010). Secondly, the structural validity of the regulative and normative institutional distances was tested by exploratory factor analysis. Principal component analysis with varimax rotation method was conducted for examining the factor structure of these variables. The results of the factor analysis reveal that all sub-dimensions of these institutional distance variables are loaded in one factor. This factor explained 78 per cent of the total variance in the data (Kaiser-Meyer-Olkin measure of sampling adequacy = 0.921; Barlett's test of sphericity = 926.662; $p < 0.01$). The internal consistency of this factor was high (Cronbach's alpha = 0.967)[1]. In light of these analyses, all sub-dimensions of the two institutional distance variables are loaded in only one dimension. This one dimension, labeled 'institutional distance', was used in this study[2].

3.3.4. Control variables

Three categories of control variables are included. Parent company level controls comprise board size, unrelated product diversification and international diversification. Host country level controls include minority shareholder protection, cultural distance, geographic

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[1]The details of the results of the structural validity and internal consistency of the variables are not reported here because of page limitations. However, they are available on request.
[2]We examine the moderating effects of regulative and normative institutional distances between a MNE's home and host countries separately on the relationship between board composition, family ownership and foreign equity ownership level. There are no differences between the results of the one dimension as the institutional distance and two dimensions as regulative and normative institutional distances separately. The results of both institutional distances analyzed separately are available on request.

distance, linguistic distance, corruption distance, country risk and emerging market. Affiliate level controls are affiliate size and industry.

Parent company level controls

In Turkey, as in many EMs, boards of directors are expected to promote the founding family shareholders' interests over those of minority shareholders. A large board does not mean that outsider and non-executive directors, who are assumed to protect minority shareholders' rights, can effectively represent their interests (Selekler-Goksen & Yıldırım-Oktem, 2009). Regardless of size, the ratio of outside members, independent members and non-executive members, whose functions are controversial in the Turkish context, may be modest (Usdiken & Yıldırım-Oktem, 2008). Given that different parts of an extended family are more likely to be represented in a larger board, and that each will have an interest in protecting their own commercial interests, it may be harder to forge agreement around a major new commitment to an overseas market. Hence, it can be expected that an increase in board size leads a firm to choose a low proportion of equity stake in the foreign affiliate.

International diversification denotes the extent to which Turkish MNEs operate in dissimilar host markets or regions (Hitt et al., 1997). International diversification may increase MNEs' risks because of augmented administrative uncertainties and complexities associated with operating in new host country environments (Tihanyi et al., 2005). Thus, we envisage Turkish MNEs to prefer equity shareholding in their affiliates in order to mitigate the potential risks arising from cultural and institutional dissimilarities between home and host country operations.

Unrelated product diversification can be defined as the degree to which firms extend their businesses by developing new product markets (Hitt et al., 1997). Consistent with previous studies (e.g. Demirbag et al., 2009), we expect that such diversified Turkish MNEs are more likely to choose a lower level of equity shareholding in their affiliates.

Host country level controls

Property rights centered approaches to corporate governance set great store by minority shareholder protection (La Porta et al., 2000b). It is argued that in the absence of this, a large shareholder(s) may collude with managers to serve their mutual interests, leaving other shareholders much worse off. Kim et al. (2007) conclude that strong minority shareholder protection leads to boards that are more independent. In other words, it is harder to sustain a board rigged in favor of managers and a majority shareholder.

While the findings of prior studies on the effect of cultural distance on MNEs' choice of a particular equity ownership mode in their affiliates show some mixed evidence (Brouthers & Brouthers, 2001), we adopt the viewpoint that when EM MNEs access foreign markets, that are culturally dissimilar from their home countries, they would be driven by a specific motive to learn how to do business in the host country market, thus encouraging them to opt for a lower equity shareholding in their affiliates (Demirbag et al., 2009).

The notion of geographic distance has been indicated to be a major factor influencing strategic decisions of MNEs related to the control and ownership of their foreign affiliates (Contractor et al., 2016). Turkish MNEs confront a growing level of information asymmetry as geographic distance increases, which makes it highly onerous when making an equity ownership decision. Thus, we assume that Turkish MNEs may prefer a lower equity stake in their affiliates to address the problems emanating from high level of information asymmetry in geographically distant locations (Malhotra & Gaur, 2014).

With the exception of a few studies (Dow & Karunaratna, 2006; Demirbag et al., 2007; Malhotra & Gaur, 2014; Contractor et al., 2016), a linguistic distance measure has not been operationalized in equity ownership strategies of MNEs. Particularly for EM MNEs, a linguistic distance measure may complement that of cultural distance owing to the regional orientations of their operations (Demirbag et al., 2007). A high level of linguistic distance between home and host countries will affect the equity ownership decisions of Turkish MNEs for their affiliates by influencing managers' attitudes towards risk.

Country risk is defined as the uncertainty resulting from the economic, social, political and legal contexts of the host country (Quer et al., 2007). A greater degree of country risk will lead Turkish MNEs to select a lower equity stake in their affiliates.

In line with prior studies (e.g. Demirbag et al., 2007), we assume that as the level of corruption distance grows, Turkish MNEs are likely to choose a lower equity shareholding in their affiliates.

It is widely acknowledged that institutional voids in host country markets exist in both developed countries and EMs, though the extent or threat of such voids may vary between the two groups. Hence, we control the nature of host country market (emerging vs. developed country) on ownership strategies of Turkish MNEs (Demirbag et al., 2009).

Affiliate level controls

Empirical evidence is somewhat equivocal with regard to the impact of affiliate size on equity ownership choice of MNEs. While some studies suggest that MNEs are more likely to prefer a lower equity stake in their affiliates when affiliate size is great (Gatignon & Anderson, 1988), others indicate that MNEs are likely to select full ownership or a higher equity stake in their affiliates as the size of operation increases (Zhao & Zhu, 1998; Demirbag et al., 2009). Given that the Turkish context still poses a great degree of risk and uncertainty, we assume that Turkish MNEs will select lower equity ownership in their affiliates as the affiliate size increases.

To control for industry variations, the sample of affiliates was assigned into the three categories of manufacturing, service and tertiary industries.

Details of measurement of these variables are provided in Appendix A.

4. Data analysis and results

Ordinary least squares regression (OLS) analysis was conducted to test the relationships between board composition, family ownership and foreign equity ownership strategy (Hypotheses 1a, 1b, 1c and 2) and the moderating effect of institutional distance (Hypotheses 3a, 3b, 3c and 3d). Both the independent variables and the moderator variable were centered according to the procedure proposed by Aiken and West (1991). A moderator is "a qualitative or quantitative variable that affects the direction and strength of the relationship between a dependent and an independent variable" (Baron & Kenny, 1986, p. 1174). To test

the sensitivity of the results, we also utilized the Tobit regression procedure, as this technique has been widely used in prior research concerning equity ownership decisions of MNEs in their affiliates, when the dependent variable is censored or truncated (Delios & Beamish, 1999a; Chadee & Qiu, 2001; Pan, 2002; Meyer et al., 2014)[3]. Table 1 displays the descriptive statistics and the correlation coefficients between the dependent, independent and moderator variables.

Insert Table 1 here

The pairwise correlations do not indicate severe collinearity problems for the regression analyses, being in the acceptable range (well below 0.80) (Gujarati, 1995; Kennedy, 1999). The variance inflation factors (VIFs) of all variables are far below the acceptable threshold point (equal to or below 10) (Freund et al., 2006). Thus, multicollinearity in models is not a serious concern in this study. There exist, however, high correlations between several control variables and institutional distances, which may produce multicollinearity problems. Consequently, we do not include the control variables of corruption distance, country risk and emerging market in the models containing the moderating variable.

4.1. Main effects of board composition and family ownership

Using both OLS and Tobit regression procedures, Table 2 shows the models containing the direct effects of board composition (Model 1 through Model 5) and the interaction effects of institutional distance and board composition (Model 6 through Model 9) on the foreign equity ownership strategy of Turkish MNEs. The results are strongly consistent across OLS and Tobit specifications. Model 4 shows the full model including all independent and control variables. Apart from the ratio of family members and the ratio of the equity stake held by family board members, the other board composition variables have significant coefficients on the equity ownership choice of their affiliates.

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[3]Although Tobit analysis is more suitable when the dependent variable is censored or truncated, in our sample there are only three FDIs with less than 10 per cent foreign shareholdings. Hence, OLS regression is far from yielding coefficient estimators that are biased. The results of the two estimating methodologies are found to be in close conformity in terms of the pattern of parameter significance.

H1a posits that the ratio of inside directors is negatively linked to the level of foreign equity ownership of MNEs. The coefficient on the ratio of inside directors is marginally significant and positive in Models 2 to 5 ($p < 0.05$), but not significant in Model 1, hence, no support is found for H1a. This implies that the higher the number of manager-directors, the more likely that there will be a higher level of equity ownership of affiliates. This could reflect the extent to which managers may seek to dilute family influence, through exposing the firm to different and potentially stronger institutional pressures. As the literature on institutions and the firm alerts us, the stronger and more developed formal institutions are, the harder it is to sustain the traditional model of the family dominated firm (Church, 1993).

The ratio of independent directors displays negative and significant coefficients in Model 1 ($p < 0.01$) and Model 2 ($p < 0.05$). These findings confirm H1b suggesting that the higher the ratio of independent directors the lower the level of equity stake held by MNEs. In other words, nominally independent directors have the effect of amplifying, rather than diluting the effects of family ownership.

According to Model 1 through Model 5, there is no support for either H1c or H2. The coefficients of the ratio of family members and the ratio of the equity stake held by family board members are not significant in all four models. This could reflect the ability of families to impose their influence by other means, for example, through the operation of informal family-based networks.

Table 2 shows that the coefficient of institutional distance is insignificant in Model 5 showing the main effects. This implies that the differences in institutional environment between the home and host countries do not have any direct effect on the ratio of equity stake held by MNEs.

As shown in Table 2, when the control variables are included (Models 2 to 5), two of the parent level controls, board size and unrelated product diversification have negative and significant coefficients. This confirms that MNEs that have a larger board size ($p < 0.05$) and characterized by high level of unrelated product diversification ($p < 0.01$) prefer a lower equity mode. Only one of the three affiliate level controls, affiliate size has a negative and

significant coefficient ($p < 0.05$) in Models 3 to 5. None of the host country related variables are statistically significant.

4.2. Moderating impact of institutional distance

The results of the moderating effect of institutional distance on the linkage between the corporate governance mechanism of board composition and equity ownership strategies of MNEs are shown in Model 6 to Model 9 of Table 2. If the interaction term is significant, this signifies that the effect of the board composition on the level of equity shareholding held by MNEs in their affiliates is identified somewhat by the institutional distance between home and host countries (Zeitner, 1998). In such circumstances, institutional distance significantly moderates the relationship between the board composition and equity-based ownership strategy.

In Table 2, there are four models (Models 6 through Model 9) that examine interactions between the institutional distance and board composition. Both *F* statistics and *LR* χ^2 in all four regression equations are significant ($p < 0.01$) and hence are useful for explanation purposes. It should be noted that there is not substantial augmentation of adjusted R^2 values in the models where the moderators are added. This is not surprising in empirical studies of this nature, when there are several common variables (board composition and control variables) used together (Agresti & Franklin, 2013; McClean et al., 2013). As shown in Models 6 to 9 of Table 2, the interaction effects between institutional distance and the board composition variables of the ratios of independent directors, family members and the equity stake held by family board members are positive and statistically significant ($p < 0.05$, $p < 0.05$, $p < 0.01$, respectively) providing support for H3b, H3c and H3d, respectively. The negative interaction effect between institutional distance and the ratio of inside directors is also statistically significant ($p < 0.05$) but contrary to our expectation in H3a, which is accordingly rejected. These results show that institutional distance positively moderates overall the relationship between board composition (except the ratio of inside directors) and MNEs' equity ownership

in their affiliates. However, the interactions between all the board composition variables and institutional distance reverse the signs of their main effects. We sought to clarify these effects further by comparing high and low institutional distance levels by plotting graphs (Figures 2A to 2D). These effects are interpreted in line with Aiken and West (1991).

The simple slope analysis (Aiken & West, 1991; Cohen et al., 2003), as shown in Figure 2A, indicates the effect of interaction between the ratio of inside directors and institutional distance on the extent of MNEs' equity stake in their affiliates. The ratio of inside directors has a positive effect on equity ownership at a low level of institutional distance ($\beta = 34.232$, $p < 0.01$), while it has no significant effect on equity ownership at a high level of institutional distance, which is contrary to our expectation in H3a. This means that when institutional distance is low, the greater the ratio of inside directors, the higher the level of the equity stake held by MNEs in their affiliates.

Figure 2B shows the interaction effect between the ratio of independent directors and institutional distance. As shown in Figure 2B, the ratio of independent directors has a negative effect on the equity ownership level of MNEs in their affiliates when institutional distance is at a low level ($\beta = -47.572$; $p < 0.01$) while it has no significant impact on equity ownership when institutional distance is at a high level. That is, when institutional distance is low, the greater the level of the ratio of independent directors the lower the level of equity stake held by MNEs in their affiliates. This finding supports H3b, suggesting that when institutional distance is low, the relationship between the ratio of independent directors and the level of equity shareholding of MNEs in their affiliates is negative.

Insert Figures 2A and 2B here

Figure 2C shows the interaction between the ratio of family directors and institutional distance. This plot indicates a positive relationship between the ratio of family directors and equity ownership level when institutional distance is high ($\beta = 7.576$, $p < 0.05$) and a negative relationship when institutional distance is low ($\beta = -20.542$, $p < 0.05$). This means that where institutional distance is high, the greater the ratio of family directors on the board the greater the MNE's equity ownership in its affiliates. When institutional distance is low, the greater

the ratio of family directors then the lower the foreign equity ownership level. This finding confirms our expectations for H3c, in that the link between the ratio of family directors and the extent of equity stake held by MNEs in their affiliates is positive when institutional distance is high.

In a similar vein, Figure 2D displays the plot of the interaction between the ratio of the equity stake held by family board directors and institutional distance on MNEs' equity ownership level in their affiliates. Simple slope analyses reveal that the proportion of the equity stake held by family board directors has a positive effect on the equity ownership when institutional distance is high ($\beta = 0.703$, $p < 0.01$), while there is not a significant effect on the ownership equity level when institutional distance is low. At a high level of institutional distance, the higher the proportion of the equity stake held by family board directors, the more likely that MNEs choose a high level of equity ownership in their affiliates. This finding supports H3d, that when institutional distance is large, the link between the ratio of the equity stake held by family board directors and the level of MNEs' equity stake in their affiliates is positive.

Insert Figures 2C and 2D here
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5. Discussion and conclusions

This study examines how the corporate governance mechanism of board composition and institutional distance impacts the foreign equity ownership strategies of MNEs, according particular attention to the consequences of family ownership. Recent work by Ilhan-Nas et al. (2018), focused exclusively on the effects of ownership concentration and institutional distance on the equity-based ownership strategies of Turkish MNEs. This study adds to the literature by examining both the direct effects of board composition and the interaction effects of board composition and institutional distance on foreign equity ownership strategies. Specifically, there is a much more finely grained focus on institutional effects, deploying recent advances in the literature on comparative capitalism. Furthermore, the study sheds light on the interplay between internal and external corporate governance. The findings highlight the limits of agency theory as a universally applicable explanatory tool, especially in the

context of EMs. From a broad historical and institutional perspective, there is a body of literature, which, whilst acknowledging that a number of Western family businesses retain the traditional characteristics of such firms, there are many that no longer do so (Jones & Rose, 1993). For example, Church (1993) argues that in the developed world, family ownership matters much less than institutional setting and internal corporate culture. Boltanski and Chiapallo (2000) argue that the disorganized and arbitrary nature of the traditional family enterprise has been supplanted through modern managerial methods and systems. In contrast, in the developing world, it has been argued that the family firm retains its traditional characteristics, which prioritize patriarchal control, and a focus on family decision-making rather than objective systems. Indeed, as part and parcel of neo-liberal reforms, privatizations have enabled influential families to acquire significant new assets. In Turkey, this is similarly the case (Gökarıksel & Secor, 2009), albeit that there has been a consolidation of wealth in the hands of a few such families with strong ties to the political elite and the military. Recent political developments have resulted in a certain dynamism to the system, with some families that were in official favor in the past now being less so, and vice versa. In practical terms, this implies that formal corporate governance mechanisms matter less than the informal solutions derived by families to solve particular corporate problems. This study confirms that whilst specific internal corporate governance structures matter, of equal or greater importance is the role of dominant families and the patterns of strategies they adopt to secure their interests.

A primary finding is that increasing the ratio of independent directors on the board leads to a reduced willingness to take larger stakes in overseas affiliates. This is not consistent with the predictions of agency theory, but it is consistent with our expectations. In Turkey, family dynamics and self-control problems combine and undermine the effectiveness of independent directors (Schulze et al., 2001) because they almost never acquire the status of large-block ownership. Independent directors accordingly behave like family members in favoring investments at home, given that they are appointed to directorship positions by owning families. Independent directors are included on the board in order to comply with external institutional pressures rather than to secure better internal corporate governance (Usdiken & Yildirim-Oktem, 2008). As Zattoni and Cuomo (2010) note, the incentives provided to, and

competencies of, independent directors have often been neglected as a governance issue. Yet, particularly in EMs, where the pool of suitably qualified individuals may be small, and the role of personal networks more extensive, relative independence may vary. Being an independent director may be accorded more prestige in society and the financial incentives provided may be proportionately much more attractive. This suggests that individuals will be more likely to become non-executive directors for the wrong reasons, less out of a sense of calling, and more because of the rents that accrue from the position. Hence, even if internal corporate governance matters much more in contexts where external corporate governance supports are weak, they may be much more difficult to secure (Klapper & Love, 2004). Consequently, independent directors may amplify, rather than dilute the effects of family ownership.

When we include the moderating impact of institutional distance, as expected, the greater the number of (nominally) independent (but quite probably family aligned) directors the more MNEs select a lesser equity ownership level in their affiliates at low institutional distance between home and host countries. This reflects the extent to which the desire to concentrate investment towards family-based businesses at home may be outweighed by the desire to closely scrutinize investments in unfamiliar environments. Such investments may be prompted by other factors, for example, wealthy families from politically uncertain environments may seek to invest significant amounts of their own funds in perceived safe havens in the developed world, and those with low tax regimes. In such instances, the immediate business case for such investment may be outweighed by the desire to hedge risk in the long term. Many countries, from the UK to Malta, grant preferential immigration status to those individuals (and their immediate families) who invest large amounts in them. If some investments perform better than others, access to a safe haven may be seen as priceless.

With respect to inside directors, a greater presence of insiders on the board is similarly positively linked to the extent of equity stake held by MNEs in their affiliates. In contexts where family ownership is relatively high, insiders may choose to take sides with the founding family members, in order to be able to maintain their position in the firm. Therefore, insiders prefer less risky entry strategies. However, and contrary to other evidence from EMs

(Kaymak & Bektas, 2008; Lu et al., 2009), the findings suggest that the presence of professional managers encourages the taking of majority stakes. This may be to dilute family power. The traditional model of the family firm is most easily sustained in the absence of fully developed institutions with advanced complementarities, and hence, it may make it easier for professional managers to secure their agendas and/or take the interests of other investors into account (Church, 1993; Wood & Lane, 2012).

This positive effect of insiders is observed when the moderated effect of institutional distance is added to the model. EM MNEs, in particular, confront environmental conditions, which are unfamiliar when operating in foreign markets (Yamak & Usdiken, 2006). Consequently, salaried managers may be better equipped to understand and implement sophisticated methods and structures as they have established skills and technical abilities. Furthermore, owner-families may lack the technical expertise and management abilities of their salaried managers, which might assist in the implementation of more sophisticated organizational and management systems. In this instance, insiders and managers may act as good stewards in managing company assets, and so stewardship theory (Donaldson, 1990) rather than agency theory is supported.

This study is conducted on data from an EM, so we cannot reach conclusions as to the wider applicability of agency theory. However, in the Turkish context, family owners will seek to enforce their rights through internal corporate governance mechanisms and informal ties, rather than reliance on the law. Does this leave minority shareholders worse off? Whatever its imperfections, the traditional family firm model represents an effective and long-standing solution for coping with limitations in regulation and in capital market development (Fainschmidt et al., 2016). The dominance of this model in Turkey suggests that it provides an effective way of coping with challenging circumstances. From a minority investor perspective, whilst investing in a family owned business might be problematic, it provides the opportunity to share the gains presented through the leveraging of extended family networks and patronage when formal institutional arrangements are uneven in their coverage and effectiveness. In other words, it may represent a relatively efficient device for maximizing returns in EM institutional settings, whatever the hypothetical agency problems that might

emerge. Hence, whilst agency theory may afford insights into the challenges in protecting minority investors in family-controlled firms, it has neglected the extent to which the family firm represents one of the most effective devices for securing returns when formal institutions are weak (c.f. Fainschmidt et al., 2016). Uneven or poor institutional arrangements lead to a lack of protection of minority investors in any case (La Porta et al., 2000a). However, the creative responses of the latter in building ties with systemically influential players may result in better outcomes for them than might at first seem. Although complementarity – that is, the generation of better outcomes than a scrutiny of formal institutions might suggest – is often seen as simply the sum of systemic strengths, in reality it often represents the outcome of attempts to overcome systemic weaknesses (Lane & Wood, 2012). In summary, the application of agency theory to EMs may be unduly pessimistic as to the relative efficiency of the family firm, and the possibilities for minority investors to optimize their returns.

This does not mean that the interests of families, minority investors, or professional managers, are perfectly aligned. Indeed, as the findings indicate, professional managers may have a shared interest with minority investors in the introduction of modern managerial systems and a more open attitude towards extending geographical scope. In turn, this could weaken the hold of extensive, but informal and geographically confined, family-based mechanisms of control. However, such measures may be to the long-term benefit of family members, even if unpalatable in the short term.

A further noteworthy finding is that there are no main effects with regard to the ratio of family directors and equity stake held by board members on entry strategies of MNEs. The reason for this insignificant effect may be that the average family member (n = 1.85) and equity stake held by board members (10.53%) is relatively low because of the pyramid ownership structure prevalent in Turkey (Yurtoglu, 2003; Demirag & Serter, 2003; Bugra, 2007).

Although in many areas of social and economic life, institutions serve an important role in shaping the choices made by firms, in this study, we found that even in a moderating role, institutional distance did not impose much variation in the approaches adopted by family board members (Johansen & Schoar, 2006; Goodwin et al., 1993), who, regardless of

circumstances, remained more risk averse than non-family members. We found that the determinants of equity ownership levels in overseas affiliates was primarily a function of board composition and family ownership albeit that institutional effects either moderated or intensified this relationship, rather than exerting direct effects. Prior research would suggest that the ratio of equity stake held by board members has a significant impact on the equity ownership level in affiliates (Demsetz & Villagonga, 2001; Booth et al., 2002), however, no strong support for this was found in this study. When the moderating impact of the institutional distance is considered, the ratio of equity stake held by board members is positively related to the level of equity stake held by MNEs in their affiliates at high institutional distance. This may reflect a desire to exert closer control in unfamiliar settings. A smaller equity stake held by board members at low institutional distance may reflect greater confidence that their interests will be protected. At low institutional distance, the board composition variable of the equity stake held by board members behaves like family board members. However, the interesting finding is that the ratio of equity stake held by board members is positively linked to the MNEs' equity ownership level in their affiliates, being more in favor of a majority ownership if the host country is a developed country. This could reflect the desire for closer control – and monitoring – of investments in unfamiliar environments. It could also reflect the extent to which families and other holders of equity may use their overseas investments to buy themselves a safe haven abroad, placing their assets in an institutionally more stable environment, and potentially securing for themselves and their relatives a preferential migration status. In contrast, managers without a significant equity stake would not be able to do this. This would reflect less agency or stewardship issues, but rather illustrate how diversity in institutional regimes may be exploited, not just to optimize the utilization of capital, but also as a way of coping with uncertainty.

The findings clearly illustrate that the key antecedent of MNEs' equity shareholding in their affiliates is not the direct effect of institutional distance. Rather, institutional distance has a moderating impact on the link between the corporate governance mechanism and equity ownership strategies. In confirming that institutional distance does not exert a direct effect on relative equity ownership, this study provides evidence that in contexts of institutional fluidity

and uncertainty, informal relationships and ways of doing things may trump formal regulatory effects. If what sets the traditional family firm apart is that patrimonial power is mediated by informal understandings, then internal corporate governance mechanisms and informal conventions may matter much more than external ones. In contexts where formal rules matter more – that is, in the most developed economies – then Turkish MNEs seem much more reluctant to commit significant amounts of their capital into a single enterprise. In developed economy settings, family investors are better able to enforce their ownership rights through conventional external legal mechanisms, as opposed to internal solutions.

The results relating to the control variables indicate that board size, unrelated product diversification and affiliate size are important antecedents of equity-based ownership strategies of MNEs. In other words, MNEs prefer the less risky equity ownership modes as the board size, the level of unrelated product diversification and affiliate size increase.

5.1. Implications

The study highlights the complex and mixed agendas different types of owners and managers may impose on the firm. Rather than seeing either grouping as internally coherent and sharing the same agenda, each is internally diverse. In contexts where the traditional family firm model dominates, family owners rather than relying on the external corporate governance regime, will resort to formal and informal internal governance mechanisms for imposing their agendas, in line with embedded norms of practice. What concerns predominate will, in turn, be closely bound up with the wider context, and the nature and efficacy of overall institutional configurations. This suggests that there is no optimal internal governance structure for EM MNEs, but those seeking to reform internal corporate governance need to take due heed of what has proven to be broadly functional and viable within a specific context, and to consider fully the implications for overseas affiliates, for example, the dilution of family influence may lead to a greater appetite for risk with uncertain consequences.

The existing literature on family capitalism holds that this is a relatively efficient device for managing the challenges posed by incomplete and fluid institutions. Extended family-based networks may impart a greater predictability to exchange relations than a scrutiny of

formal regulatory efficiency might suggest (c.f. Fainschmidt et al., 2016). They may also provide a basis for coopting local and national power holders. Whilst family-controlled firms may be associated with specific agency problems, minority investors may nonetheless persist with them owing to the advantages that they provide. Existing syntheses between institutional theory and agency theory have tended to focus on formal dimensions of the former (Gaur et al., 2014; La Porta et al., 2000a). However, as the literature on comparative institutional analysis alerts us (Lane & Wood, 2012), institutions encompass not only formal regulations, but embedded informal rules and understandings, such as that might underpin shared conventions of fair play in the operation of family networks, and informal understandings and accommodations between different categories of investor and other players. This study confirms the importance of the latter and provides insights into the bounded range of outward investment strategies of firms under family capitalism.

For policy makers, the findings suggest that reforms targeting corporate governance practices in general and the formation of management boards in particular, should take into account the role of board composition. For instance, focusing on reforming the functioning of boards by applying simple guidelines, such as limits on the composition of board membership (e.g. ratio of females, insiders and outsiders) and restrictions on the size of the board may be counterproductive or ineffectual, depending on the relative power of existing stakeholders and the strength of their ties with others. For example, there may be a need to recognize and accommodate the dominance of family ownership, and seek to promote mechanisms by which the interests of such families may be reconciled with the needs of other owners and stakeholders, in seeking to develop optimal strategies for investing abroad.

5.2. Limitations and future research

Notwithstanding the study's contributions, as is usual, this study has limitations that should be acknowledged when interpreting the results, but also provides avenues for further research. First, the study is confined to a sample of Turkish MNEs. Comparative work contrasting MNEs from emerging and developed markets may shed additional light on the different ways in which family ownership, board composition and institutions interact, and,

further, on when (i.e. which stage of institutional development) the traditional family firm model (as adverse to family ownership per se) becomes less sustainable. Another limitation is that the study only considers board composition and family ownership, so the nature of our data prevents us from investigating the performance implications of such choice. Moreover, due to data limitations, we were not able to control for the strategic motivations for equity ownership choice. Further, the relative representation of extended family interests versus willingness to venture abroad at all, and the impact of diasporas on the size of ownership stakes in overseas affiliates represents a fruitful area for future research. Finally, there is room for the development and extension of institutional theory to explore in more depth the effects of widespread family ownership, and to locate the choices of key actors within broader structural continuity and change, and vice versa. There are two dimensions to this. A shortfall of the literature on comparative institutional analysis is a tendency to focus on the relationship between formal institutions and macro-economic outcomes, with the firm as something of a transmission belt between the two (Wood et al., 2014a). This study provides insights into the relationship between wider contextual realities, internal corporate governance arrangements and outward investment decisions. The findings suggest that a closer focus on patterns and modes of internal corporate governance might enrich the basis under which different types of capitalism might be compared. This is especially the case given the growing interest in the family capitalism archetype (Fainschmidt et al., 2016). The second is that whilst there have been increasing syntheses between institutional and agency approaches, there has been a tendency to view EM institutions in terms of their negative consequences (c.f. La Porta et al., 2000a). However, whatever their shortfalls, creative actors may still optimize their outcomes than a scrutiny of formal institutional arrangements might suggest: Actors may reach informal compromises to mitigate the negative effects of weak minority investor protections. A closer evaluation of the latter would represent a fertile avenue for future research.

Acknowledgement

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Appendix A. Variable measurement

Variable	Measurement	Source	Related measurement previously used
Dependent variable: Foreign equity ownership	The proportion of equity shareholding of Turkish MNE on its affiliate operating in host country.	Public Disclosure Platform (http://www.kap.gov.tr) and the firms' annual reports	---
Predictor variables:			
The ratio of independent directors	The number of independent directors divided by the total number of board directors	MNEs' Corporate Governance Principles Compliance Reports (CGPC)	Rhoades and Rechner (2001); Filatotchev et al. (2001, 2008), Lien et al. (2005); Kaymak and Bektas
The ratio of inside directors	The number of inside directors divided by the total number of board directors	Firms' annual reports and audited financial tables	(2008); Selekler-Goksen and Karatas (2008); Lu et
The ratio of family directors	The number of family directors divided by the total number of board directors	Audit financial tables	al. (2009); Yildirim-Oktem and Usdiken (2010);
The equity stake held by family directors	The proportion of the equity stake held by family directors		Filatotchev and Wright (2011); Demsetz and Villagonga (2001).
Moderator variable: Institutional distance (Regulative distance and normative distance)	The institutional distance (by using eleven sub-items mentioned in regulative and normative distance below) were computed using the following procedure by Kogut and Singh (1988): $$D = \sqrt{\sum_i \frac{(I_{i,host} - I_{i,origin})^2}{V_i}}$$ where "Ii, host (Ii, origin) is the ith dimension (total 11 dimensions) of the index for the host country (country of origin- Turkey) and Vi is the variance of ith dimension" Standardized values for each sub-index were used since scales are not the same across dimensions. Regulative distance: six items (property rights, intellectual property rights protection, judicial independence, burden of government regulation, efficiency of legal framework and transparency of government policymaking) were used for measuring regulative score. Normative distance; five items (ethical behavior of firms, strength of auditing and reporting standards, efficacy of corporate boards, quality of management schools) were used for computing normative scores.	*The Global Competitiveness Report 2015-2016* (WEF, 2015) published annually by World Economic Forum (WEF)	Xu et al. (2004); Ionascu et al. (2004); Demirbag et al. (2007); Kaynak et al. (2007); Arslan and Larimo (2010). Chao and Kumar (2010); Ilhan-Nas (2012).
Control variables: Parent company level controls			
Board size	The total number of directors on the board	MNEs' CGPC reports and firms' annual reports	Lien et al. (2005); Kaymak and Bektas (2008)
International diversification	This variable was formulated as: $$\left[\frac{Subidiary\,(i)}{Subsidiary(Max)} + \frac{Country\,(i)}{Contry\,(Max)} \right]/2$$ where *affiliate (i)* is the MNE's total number of foreign affiliates, *affiliate (max)* is maximum number of foreign subsidiaries in all sample, *country (i)* is the numbers of countries in which the MNE invest, *country (max)* is the maximum number of FDI countries in all sample.	Public Disclosure Platform (http://www.kap.gov.tr) and the firms' annual reports.	Delios and Beamish (1999b); Lu and Beamish (2004); David et al. (2010).
Unrelated product diversification	This variable was formulated as: $$DU = \sum_{j=1}^{M} P^J \ln(1/P^J)$$ where P^J is the share of the *j*th group sales in the total sales of the firm and DU is unrelated diversification" (Palepu, 1985:252-253).	Public Disclosure Platform (http://www.kap.gov.tr), firm' financial statements, and SIC code: http://www.osha.gov/pls/imis/sicsearch.html	Palepu (1985); Hitt et al. (1997); Delios and Beamish (1999b); Carpenter and Fredrickson (2001); Hillman et al. (2007); Bouquet et al. (2009); David et al. (2010).

Variable	Measurement	Source	Related measurement previously used
Affiliate level controls			
The size of the affiliate	The contributed capital of the affiliate in Turkish Lira.	Annual reports, auditing financial statements and general information, and notifications released in PDP.	Luo (2004); Kaynak et al. (2007); Demirbag et al. (2009).
Industry	The subsidiaries were classified into following industries which include, agriculture, forestry and fishing, mining, construction, manufacturing, transportation, communication, electric, gas and sanitary services, wholesale and retail trade, finance, insurance and real estate and services. Then, three broad industry categories were created: manufacturing, service and tertiary industries.	SIC Divisions (www.osha.gov)	Demirbag et al. (2007); Demirbag et al. (2008); Demirbag et al. (2009); Ilhan-Nas (2012).
Host country level controls			
Protection of minority shareholder rights	The protection of minority shareholder rights is computed by the sum of the scores for each of the ten legal provisions (powers of the general meeting for de facto changes, agenda-setting power, anticipation of shareholder decision facilitated, prohibition of multiple voting rights, independent board members, feasibility of directors' dismissal, private enforcement of directors' duties, shareholder action against resolutions of the general meeting, mandatory bid, disclosure of major share ownership), and it ranges from 0 to 10.	Guillén – Capron Shareholder Protections Index https://whartonmgmt.wufoo.com/forms/guillencapron-shareholder-protections-index/	Lele and Siems (2007); Siems (2008); Guillén and Capron (2016).
Cultural distance	Using Hofstede's (1980) four cultural dimensions, the cultural distance was measured was measured based on the following formula (Kogut and Singh, 1988): $$CD = \sqrt{\sum_i \frac{(I_{i,host} - I_{i,origin})^2}{V_i}}$$ where "Ii host (Ii origin) is the ith dimension (Power distance, individualism, masculinity and uncertainty avoidance) of the index for the host country (country of origin-Turkey) and Vi is the variance of ith dimension.	Hofstede's cultural dimensions published by Hofstede Insights https://www.hofstede-insights.com/country-comparison/	Berry et al. (2010); Makino and Tsang (2011); Dellestrand and Kappen (2012); Campbell and Eden (2012).
Geographic distance	Geographic distance as the actual distance in kilometers between capital cities of the home and host countries.	http://www.harita.gen.tr/mesafe-hesaplama/	Wolf and Weinschrott (1973); Hamilton and Winters (1992); Fratianni and Oh (2009); Slangen and Beugelsdijk (2010); Malhotra and Gaur (2014); Contractor et al. (2016).
Linguistic distance	This study follows the same path in operationalizing the linguistic distance by adopting the dendrogram developed by Chen et al. (1995). They constructed this dendrogram by using the UPMGA method based on unequal branch length linguistic distances. The dendrogram's tree includes 130 localities around the world, which covers all languages used by investors in the database used for this study.	Chen et al. (1995)	Chen et al. (1995); Demirbag et al. (2009)
Corruption distance	This distance was measured through the following procedure developed by (Kogut and Singh, 1988): $$D = \sqrt{\sum_i \frac{(I_{i,host} - I_{i,origin})^2}{V_i}}$$ where "I$_{i, host}$ (I$_{i, origin}$) is the *i*th dimension of the index for the host country (country of origin- Turkey) and V_i is the variance of *i*th dimension". Standardized values for each sub-index were used since scales are not the same across dimensions.	Transparency International's Corruption Perception Index (CPI) scores (http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table)	Habib and Zurawicki (2001); Habib and Zurawicki (2002); Voyer and Beamish (2004); Demirbag et al. (2007).
Country risk	The country risk scores of the PRS group are based on a composite risk rating: *CPFER (country X) = 0.5 (PR + FR + ER)* where CPFER is the composite political, financial and economic risk ratings, PR is the total political risk indicators, FR is total financial risk indicators, ER is total economic risk indicators.	International Country Risk Guide (ICRG) published by The Political Risk Services (PRS) Group	Oetzel et al. (2001); Kolstad and Vilanger (2008).
Emerging market	The value of 0 denotes if the host country is an emerging market or 0 otherwise.	IMF country classification	Demirbag et al. (2007)

Figure 2A. Interaction between the proportion of inside directors and institutional distance
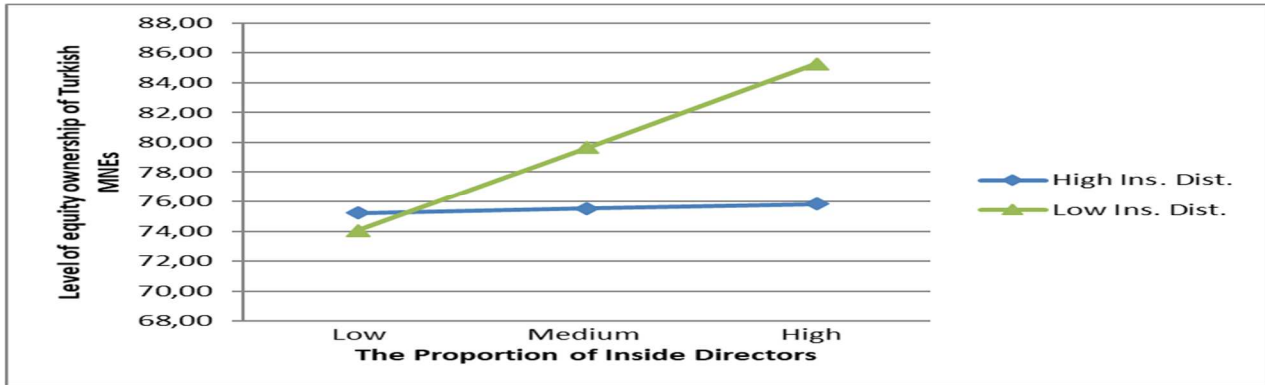

Figure 2B. Interaction between the proportion of independent directors and institutional distance
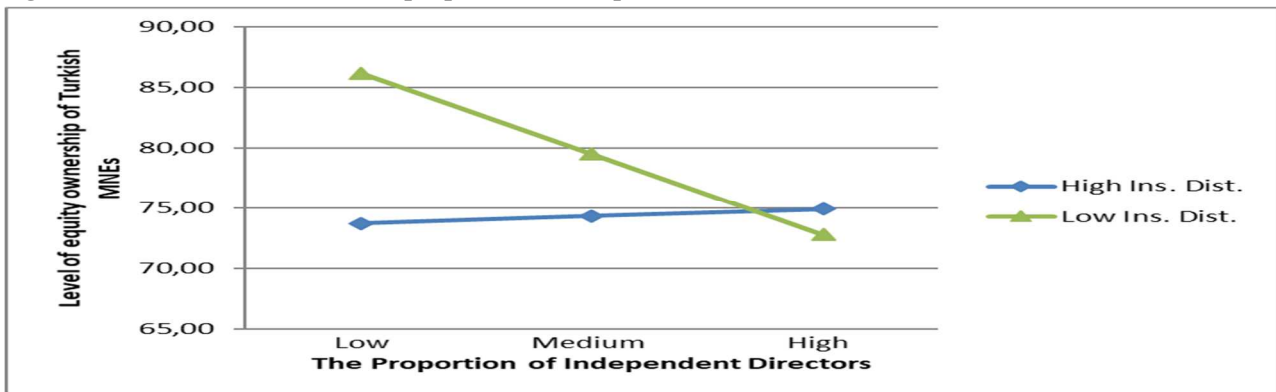

Figure 2C. Interaction between the proportion of family members and institutional distance
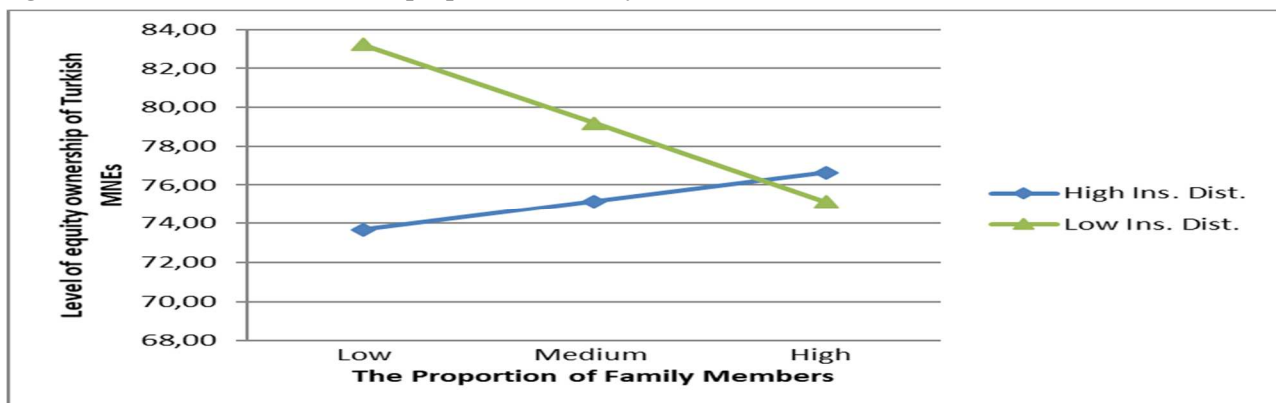

Figure 2D. Interaction between the proportion of equity stake held by family members and institutional distance
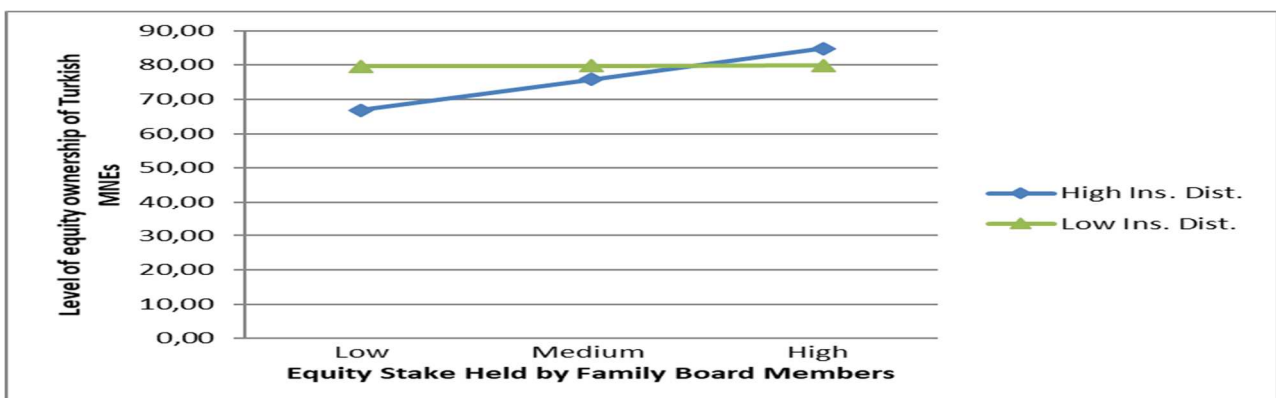
Table 1. Descriptive statistics and correlation matrix

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. Foreign equity ownership	78.33	27.64	1																		
2. Board size	8.71	2.41	-.37*	1																	
3. Ratio of inside directors	0.15	0.16	.11	-.18*	1																
4. Ratio of independent directors	0.11	0.14	-.18*	.15	-.03	1															
5. Ratio of family directors	0.21	0.20	-.07	.32*	-.05	-.05	1														
6. Ratio of equity stake held by family directors	10.53	12.76	-.05	.28*	.09	.31*	.49*	1													
7. International diversification	0.44	0.35	-.30*	.72*	-.28*	.06	.29*	.14	1												
8. Unrelated product diversification	0.32	0.47	-.38*	.51*	.13	.32*	.10	.35*	.39*	1											
9. Affiliate size (million)	40.99	120.81	-.09	-.03	-.05	.08	.00	-.09	-.05	-.09	1										
10. Manufacturing industry	0.32	0.47	.10	-.26*	.12	.09	-.31*	-.12	-.23*	-.17*	.00	1									
11. Tertiary industry	0.36	0.48	-.09	.12*	-.05	.10	.09	.14*	.02	.15	.19*	-.51*	1								
12. Minority shareholder protection index	6.39	1.13	.06	-.02	.03	-.12	-.05	.04	.01	-.01	-.08	.18*	-.25*	1							
13. Cultural distance	1.73	0.72	.03	-.04	.10	.14	-.02	.05	-.04	.07	.08	-.26*	.34*	-.09	1						
14. Geographical distance (thousand)	3.56	2.20	.03	-.08	.10	.27*	-.06	.06	-.08	-.02	-.02	.07	-.05	-.10	.21*	1					
15. Linguistic distance	17.19	8.36	-.03	.02	.10	.13	-.04	-.07	.07	-.01	-.04	.09	-.18*	-.10	-.12	.54*	1				
16. Corruption distance	1.13	0.55	-.01	-.02	.00	.03	-.03	-.03	-.04	.01	.1	-.26*	.44*	-.22*	.71*	-.08	-.25*	1			
17. Country risk	74.24	7.07	-.08	.14	.07	.14	.06	-.02	.13	.16*	.00	-.34*	.32*	-.30*	.67*	.02	.00	.68*	1		
18. Emerging market	0.41	0.49	.07	-.07	-.07	-.12	-.03	.01	-.06	-.14	-.02	.33*	-.30*	.24*	-.74*	.02	.25*	-.63*	-.80*	1	
19. Institutional distance	4.42	2.02	-.05	.04	.05	.14	.03	-.01	.02	.09	.06	-.34*	.40*	-.38*	.78*	.02	-.15	.86*	.89*	-.85*	1

*$p < 0.01$.

Table 2. The results of OLS and Tobit regression models

Variables[a]	Dependent variable: Foreign equity ownership (%)																	
	Main effects										Interactive effects							
	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		Model 9	
	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT
Independent variables																		
Ratio of inside directors	5.31	5.44	17.14*	17.43*	16.87*	17.21*	16.86*	17.25*	16.75*	17.08*	18.05*	18.39*	14.60	14.93	17.23*	17.57*	15.77	16.09
Ratio of independent directors	-31.59**	-31.49**	-20.68*	-20.51*	-17.35	-17.13	-16.61	-16.19	-16.80	-16.49	-15.14	-14.82	-21.68	-22.36	-15.66	-15.33	-15.11	-14.81
Ratio of family directors	-1.15	-1.30	-8.14	-8.40	-7.43	-7.80	-6.36	-6.69	-6.09	-6.42	-7.81	-8.16	-6.54	-6.86	-6.48	-6.82	-3.59	-3.91
Ratio of equity stake held by family directors	-0.23	-0.23	-0.38	-0.39	-0.35	-0.36	-0.31	-0.31	-0.32	-0.33	-0.34	-0.34	-0.35	-0.36	-0.35	-0.36	-0.36	-0.36
Parent company level controls																		
Board size			-3.01*	-3.04*	-2.91*	-2.94*	-2.78*	-2.81*	-2.77*	-2.81*	-2.63*	-2.67*	-2.77*	-2.80*	-2.76*	-2.79*	-3.00*	-3.04*
International diversification			2.64	2.82	2.18	2.36	2.14	2.33	2.13	2.31	2.02	2.19	2.64	2.81	1.60	1.77	2.54	2.71
Unrelated product diversification			-18.46**	-18.56**	-19.11**	-19.23**	-19.07**	-19.19**	-19.17**	-19.30**	-19.66**	-19.80**	-20.15**	-20.28**	-19.63**	-19.77**	-20.95**	-21.07**
Affiliate level controls																		
Affiliate size (million)					-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*	-0.02*
Manufacturing industry					-0.84	-0.99	-0.91	-1.12	-0.67	-0.83	-1.15	-1.32	-0.95	-1.11	-1.39	-1.56	-1.27	-1.43
Tertiary industry					-0.25	-0.25	-0.70	-0.73	-0.44	-0.44	-0.57	-0.56	-0.53	-0.53	0.04	0.05	0.15	0.16
Host country level controls																		
Minority shareholder protection index							0.26	0.28	0.16	0.18	0.30	0.33	-0.48	-0.46	0.38	0.41	0.20	0.22
Cultural distance							4.68	4.88	3.66	3.77	3.40	3.51	5.08	5.19	3.49	3.60	3.70	3.81
Geographical distance (thousand)							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Linguistic distance							-0.18	-0.18	-0.09	-0.09	-0.08	-0.08	-0.02	-0.02	-0.09	-0.09	-0.09	-0.09
Corruption distance							-2.42	-2.41										
Country risk							0.19	0.19										
Emerging market							6.51	6.90										
Moderator variable																		
Institutional distance									-1.01	-1.04	-1.02	-1.05	-1.28	-1.31	-1.00	-1.03	-0.98	-1.01
Interactive effects																		
Institutional distance X Ratio of inside directors											-8.01*	-8.09*						
Institutional distance X Ratio of independent directors													12.82*	12.82*				
Institutional distance X Ratio of family directors															6.96*	7.01*		
Institutional distance X Ratio of equity stake held by family directors																	0.17**	0.17**
Constant	78.33**	78.30**	81.92**	81.76**	83.77**	83.66**	63.15*	62.06*	77.71**	77.28**	77.59**	77.15**	76.90**	76.48**	77.17**	76.72**	77.80**	77.37**
F	10.44**		10.83**		7.88**		4.69**		5.29**		5.16**		5.27**		5.19**		5.57**	
Adjusted R²	0.15		0.20		0.20		0.19		0.19		0.20		0.20		0.20		0.21	
LR χ²		48.28**		68.33**		71.35**		74.08**		73.08**		75.95**		77.37**		76.42**		81.20**

*p < 0.05; **p < 0.01.