

CORPORATE OWNERSHIP AND INTERNATIONALIZATION: THE EFFECTS OF FAMILY, BANK AND INSTITUTIONAL INVESTOR OWNERSHIP IN THE UK AND IN CONTINENTAL EUROPE

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Abstract

While the role of corporate governance has been increasingly analysed during recent years, it is only very recently that the effects of corporate governance features on firm international strategies have been also considered. Using the Osiris database by Bureau van Dijk we consider the potential role played by different kind of shareholders among the determinants of firm international level, distinguishing between the firms quoted in the UK from those listed in countries of Continental Europe (France, Germany, Italy, Poland and Spain). Overall our results confirm that different kind of ownerships affect with different degree of intensity the overall level of firm's internationalization. First, we find that ownership matter. Second, our results show that the effects of ownership over firm's international strategies depend also on the context of analysis.

Keywords: Corporate Governance, Ownership, Investors, Europe, the UK

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1. INTRODUCTION

The role of corporate governance has been increasingly scrutinised in recent time. Corporate governance has been defined as the set of institutional and market rules that allow shareholders to monitor decision making in business firms (Shleifer and Vishny, 1997). Under the influence of classical financial theory and after the pioneering article of Jensen and Meckling (1976), corporate governance scholars have mainly focused their attention on the mechanisms that regulate the potential conflicts arising between managers and shareholders (Daily et al., 2003; Kochhar and David, 1996). Following this theoretical perspective some scholars have adopted the agency theory approach (Denis et al., 1997; 2002) in order to analyse the effects of corporate governance characteristics on firms strategy and on product diversification in particular. However, most of these studies have been focused on the analysis of the ownership structures investigating the potential effects of concentrate versus dispersed ownership. More specifically, these studies (Denis et al., 1999) explore under which conditions there will be leeway for management to exercise their discretion in order to pursue strategies that promote their own interests at the expense of shareholders. Since managers derive various private benefits from product diversification

they may have an incentive to diversify either because their compensation is linked to firm size (Baker et al., 1988), because they derive power and prestige from being associated with a larger firm (Jensen, 1986), because their job security is enhanced (Shleifer and Vishny, 1989), or because firm diversification reduces the risks attached to their undiversified personal portfolios (Amihud and Lev, 1981). It is only very recently, that this debate has also considered the relationship that corporate governance features, such as ownership have with firms' international strategies (Sanders and Carpenter, 1998; Tihanyi et al., 2000; Tihanyi et al., 2003; Lien et al., 2005; Filatotchev et al., 2007)

In the classical theory of internationalization (Dunning, 1988) there is no room for corporate governance variables since this theory assumes that firms are profit maximizing agents regardless the identity of the owners. In this view all shareholders are just concerned with maximizing the value of the firm and therefore the shareholders characteristics do not impact on the level of international diversification. Given these assumptions, the level of international diversification is determined only by internal factors such as firm resources, the level of intangibles, asset specificity, international experience, R&D intensity or by external factors such as country risk, barriers to trade or the level of local knowledge

(Hennart, 2007). In the words of transaction costs economics it is the kind of resources that the firm managed and the level of perceived risk who determines whether or not international transactions are internalized or not. However, different kind of shareholders will have different perceptions of the risk surrounding any transaction because different types of shareholders will typically have different decision-making time horizons and different risk attitudes (Thomsen and Pedersen, 2000). Moreover, the kind of ownership will also influence the investments and the strategies pursued thus influencing firms' resources endowment (Shrader and Simmon, 1997). Therefore, we believe that within the framework of internationalization theory there is room for further deeper analysis of the impact of the ownership characteristics and corporate governance on firm international strategy. Some recent papers have started to explore the relationship focusing on some specific aspects of corporate governance such as the ownership structure and type (Fernández and Nieto, 2006; Bhaumik *et al.*, 2010; Hautz *et al.*, 2013; Oesterle *et al.*, 2013) the role of foreign shareholders (Filatotchev *et al.*, 2008) and the independence of the Board of Directors (Korand Misangyi, 2008).

The present paper intend to contribute to this debate. The objective of the paper is twofold. First, using a European sample of listed firms, we intend to assess if and how different shareholders typologies affect the firms' degree of internationalization when we consider different facets of internationalization that allows us to provide a deeper understanding of the phenomenon. Second, distinguishing between the firms quoted in the UK from those listed in countries of Continental Europe (France, Germany, Italy, Poland and Spain) we intend to investigate if the different characteristics of the corporate governance systems in the two regions have a different impact on firms' internationalization levels. The structure of the paper is as follows. In the next section we review the extant literature on corporate governance and on its effects on international diversification and formulate our research hypotheses. In section 3, we explain how we have operationalized the variables in the model and we detail the data sources. Moreover, we present descriptive statistics on these variables and we outline the estimation methodology and the statistical tests used. We present and discuss the regression results in section 4 that partially confirm our hypotheses. The final section concludes and describes the main limitations of the paper suggesting avenues for further research.

2. THEORY AND HYPOTHESIS DEVELOPMENT

The relationship between owner identities and international diversification strategies appears an underdeveloped topic in the corporate governance literature. So far few studies have analyzed the

differences among various types of owners in pursuing the diversification strategies and more specifically the internationalization strategies (George *et al.*, 2005; Hautz *et al.*, 2012; Osterle *et al.*, 2013; Majocchi and Strange, 2012; Fernando and Nieto, 2006; Pedersen and Thomsen, 1997; Thomsen and Pedersen, 2000; Zahara, 2003). While the research on corporate governance characteristics and internationalization promises to enlarge our understanding of the firms and of their strategic decisions, very often this research has been conducted in empirical setting limited to one country. Thus it appears that previous literature has ignored that the firms' ownership structure and its impact depend also by the institutional context (Bhaumik *et al.*, 2010; Osterle *et al.*, 2013). In Europe two different models of capitalism coexist, the Anglo-Saxone mode and the German model, where not only the institutional setting is different but also where firms ownership types are unevenly distributed (La Porta *et al.*, 1999). We use a data set of European listed manufacturing firms to understand how different types of owners, families, banks, institutional investors will differ in the level of internationalization.

The study of the relationship between family ownership and internationalization is rapidly growing but until now it provided mixed evidences (Kontinen and Ojala, 2010; Sciascia *et al.*, 2012).

There are few studies, (Zahra, 2003) that, based on the assumption of altruism within the family context, hypothesize a positive relationship between family ownership and internationalization. According to this view, family loyalty and support lengthen the investments payoff time horizons. This owners long term view allows managers to realize those investments that are necessary in order to enter in the foreign markets assuming the higher risks associated with international expansion. However, the large majority of the studies on the topic show that family firms are reluctant to internationalize compared to non-family firms (Fernández and Nieto, 2006; Gomez-Mejia *et al.*, 2010). The main arguments behind this position stress the negative effects that the combination of ownership and control generate respect to the international growth of family firms. Family-owned firms are particularly averse to the risk of losing the control of their business. Owners of family firms tend to manage companies on behalf of family interest rather than for the benefit of the firm compromising the firm growth at the expense of other shareholders. This attitude is reinforced by the strong focus on wealth preservation with the goal of leaving the firm to descendants (James, 1999). These motivations negatively affect the level of international involvement (Hautz *et al.*, 2012) by family owned firms. Moreover, internationalization requires often to collect capital by taking on more debt, increasing the financial risk of the firm, or by enlarging the equity base of the firm. In both cases the leverage of capital dilutes the control of the family over their

business (Demsetz, 1983) with the result that family-owned firms are less prone to pursue internationalization strategies.

For the same reasons family owned firms are less likely to collect expertise and resources by third parties, a requirement practically inescapable to internationalize the firms. Family shareholders tend to appoint members of the family to the top management positions rather than experienced and qualified professionals to maintain the control of the firm (Carney, 1998). Following these arguments we also posit a negative relationship between family ownership and internationalization but, compare to previous studies we additionally consider possible different measures of internationalization such as the level of foreign sales, its distribution and foreign direct investment (Carrillo, 2007; Rogers et al., 2008). We refer our hypotheses to the all sample since family-owned firms seems to have similar characteristics regardless the institutional context. Therefore our first hypothesis is:

H1: Family-owned firms present a lower level of internationalization than non-family-owned firms.

Because of different national settings, corporate governance systems considerably vary across nations. The literature (La Porta et al. 1999) historically differentiates two opposite models of capitalism: (1) the Anglo-Saxon model, which is market-oriented and characterised by a strong influence of institutional investors with an emphasis on shareholder-value, and (2) the German model that is predominated by a logic of cooperation and partnership, resulting in close relationships between industrial firms, banks, and social partners (Eckert and Mayrhofer, 2002; Pedersen and Thomsen, 1997; Porter, 1992).

The first model is generally referred to as the Anglo-Saxon model, and is mainly identified with the United Kingdom and the United States. The second model is mainly identified with the countries of Continental Europe. Even if De Jong (1997) has established some distinctions between the German-speaking and the Latin countries (France, Spain and Italy) - with the latter system characterised by a higher degree of direct ownership concentration and with prominent shareholders that are mainly private, families or the State - Continental Europe shares some common characteristics that differentiate it from the UK and the US. The main feature that distinguishes all the corporate systems of Continental Europe from the Anglo-Saxon system is the very weak level of control from external capital markets. In Continental Europe the weakness of the financial market control leads firms to be less influenced in their decision making from direct market pressures. On the other side, indirect market pressures, such as those linked to interest rate policies adopted by banks, may significantly influence the decision making of firms.

In Germany and in the rest of Europe a monitoring role over firms' management is typically played by banks, which generally hold important stakes in their client capital. In this model, the banks not only supply short-term finance but also long-term capital, often in the form of equity, and typically contribute to shape the company policies and to select the top management team. Therefore, in the European context banks tend to consider their investments in firms as a portfolio of different debt and equity assets. Since equity is a riskier investment than debt bank tend to influence firms policies compensating the additional risk generated by the equity with more conservative policies that lead to lower internationalizations. Therefore, we posit that:

H2: Firms listed in Continental Europe with a bank as first shareholder have a lower level of internationalization than other kind of firms

On the contrary in the Anglo-Saxon model, financial markets play a crucial role in monitoring and disciplining managerial behaviour, whilst banks limit their role to the supply of short-term finance and do not have direct interest in the firm. In this system, firms have a broad shareholder base with both private and financial institutional owners such as pension funds or private equity institutions (De Jong, 1997) playing a leading role in financing the growth of the firms but a more limited direct role in the management of the firm. In this context institutional investors are likely to be particularly active investors in firms, as they will typically have the financial interest, the independence and the expertise to monitor the firm's management and policies. There is some evidence (Hoskisson et al, 1994; Young et al, 2008) that institutional shareholders promote good governance, with a resultant improvement in firm overall performance in general and in internationalization in particular (Tihanyi et al., 2003). Such firms have become in the Anglo-Saxon markets not only a significant player holding a large share of corporate equity listed in the markets but also gaining influence on corporate strategic decision through increased activism (David et al., 2001). These investors are likely to be those that are most actively seeking foreign expansion. The equity participation of such financial institutions may well provide the firms with access to the institutions' networks in overseas markets, and thus facilitate internationalization (Filatotchev et al, 2008). Moreover, in this context the top management team is typically made of autonomous and well trained figures. Control is exercised through the market and if managers do not perform well, a takeover bid for the firm is likely. This threat provides a strong incentive for managers to behave in the interests of the financial shareholders. In this context institutional investors such as professional investorst, pension funds and private equity firms – different from banks – have a strong

incentive to promote growth and internationalization in order to increase the market value of the investments.

So our last hypothesis is:

H3: Firms listed in the UK with institutional investors as first shareholder have a higher level of internationalization than other kind of firms

3. METHODOLOGY AND DEFINITION OF VARIABLES

3.1 The sample and the variables

The sample was chosen in order to provide a representative view of the listed firms in Europe. We include the UK as a significant market that represents the Anglo-Saxon corporate governance system and Germany, France, Italy, Spain and Poland to represent Continental Europe. We deliberately omitted small countries due to the natural orientation of their firms to internationalize and we concentrate on European countries with the larger domestic markets. All the data were collected from the Bureau Van Dijk Electronic Publishing's database "Osiris" with the exception of the geographical distribution of sales that was manually extracted by firms' annual reports. Since we were interested in measuring international diversification both through export and foreign sales and foreign investments we deliberately omit services firms. This is because for service firms production and consumption tend to coincide (Clark et al., 1996) affecting negatively the significance of exports as a measure of internationalization for these industries-

Adopting these criteria to the Osiris database we selected 1316 firms, 454 in the UK, 341 in Germany, 300 in France, 121 in Italy, 51 in Spain and 49 in Poland. After dropping firms with key missing data the first overall sample consisted of 880 firms. The descriptive statistics of the sample are reported in Table 1. We define three different measures of internationalization. The first two measures refer to the scale and scope of internationalization through foreign sales while the last one is a proxy of the scope of internationalization through foreign direct investments. In order to measure the dimension of sales in foreign markets we use the ratio of foreign sales to total sales (Katsikeas et al., 2000; Majocchi et al., 2005), a variable that we named "Forsal_int". This measure gauges the ability of firms to enter foreign markets, but does not consider the geographical distribution of sales. As Rugman & Verbeke (2004) point out, foreign sales intensity is not a fully satisfactory measure of geographical diversification since it does not take in account the distribution of sales and whether or not they are geographically well-balanced in the main world markets. For example, using the export-to-sales ratio, two firms can be considered identical in terms of

geographical diversification even if one is exporting only in one country while the other has significant sales in all the main world markets. Consequently, since the requirements of the IAAS/IFRS standards oblige listed firms to report detailed information on the geographical distribution of their sales we collect and elaborate this information from the firms' annual report as reported in the firms' web sites. We classify (export and overseas) sales into six areas: the domestic market and five additional regions that coincide with the main continents: Europe, Asia, Africa, America adding a residual region called the 'Rest of the World' that collect both Oceania and undefined data. Using this classification, our measure of international diversification is calculated using the Jacquemin and Berry (1979) entropy index. This measure was initially developed in order to quantify the degree of product diversification, but has also lately been adapted to measure international diversification (Kim, 1989; Kim et al. 1989; Hitt et al., 1997). The variable, that we named "Forsal_entropy", measure is defined in the following way:

$$\text{Entropy measure} = \sum_{j=1}^6 x_j \ln \left(\frac{1}{x_j} \right)$$

The subscript j defines one of the six geographical areas, and x_j is the percentage of sales realised in the market j . The natural logarithm of the inverse of the sales realised in every market is the weight given to each geographical segment. The entropy measure will equal 0 for firms that have all their sales concentrated in one area, and will theoretically reach a maximum value of 1.79 for firms with exactly the same share of sales in each of the six defined areas. In our sample the average value of the entropy measure is 0.73, with a minimum value of 0 and a maximum value of 1.64. The last measure, named "Country_subsid" is a proxy for the geographical scope of international activities. Following previous studies (Tallman & Li, 1996; Morck & Yeung, 1991), was measured as the number of foreign countries in which a company had subsidiaries. The average number of countries in the sample is 6.11 (s.d. is equal to 11.02) with minimum value of 0 and a maximum value of 126.

In order to test our hypotheses we define three ownership variables according to the nature of the first shareholder: first shareholder family (FirstSH_Fam), first shareholder bank (FirstSH_Bank) and first shareholder institutional investor (FirstSH_II). The three variables are dummy variables that take the value of one when the first shareholder is respectively a private, a bank or an institutional investor. Osiris defines sixteen different shareholders' types. While family and bank are considered a shareholders typology, we had to develop the construct of the variable shareholder institutional investor (FirstSH_II) aggregating five different types of shareholders considered in the database. The five categories included in the item *institutional investor*

were: financial company, insurance company, mutual & pension fund/nominee/trust/trustee, venture capital and hedge fund. In order to correctly specify the model we consider additional variables already tested in previous empirical works (Hittet *al.*, 2006).

The list of the control variables is the following: age (*Age*) (Delios and Henisz, 2003) measured as the number of years from foundation, size (*Size_log*) as measured by the natural logarithm of the firms' employees (Verwaaland Donkers, 2002), the debt/equity ratio (*Leverage*) (Kochhar, 1996) and, drawing on the classical theory of internationalization (Hennart, 1982 and Buckley and Casson, 1976), two measures of intangible intensity measured by the ratio of intangible assets over total assets (*Intang_intensity*) and by the ratio of R&D costs over total sales (*ReD_intensity*) (Nachum and Zaheer, 2005). Recent literature (Herrmann and Datta, 2005; Majocchi and Strange, 2012) has also highlighted the role and the importance of top executives and members of the board features in promoting internationalization. Therefore, we insert three variables specifying the board and the top managers characteristics: a dummy variable named (*Ceopresid*) that takes the value of one when a member of the controlling family is either the CEO or the President of the firm, a variable that measures the resources of the board that is the count of its members (*Boardsize*) (Sander and Carpenter, 1998) and a measure of the international vocation of the boards measured with the percentage of foreign directors over the total number of the members (*For_board*). Finally, we include a series of industry dummies to capture intra-industry differences and – just for the all sample – country dummies.

3.2 The model

Sullivan (1994) has clearly showed that the concept of internationalization is typically a multi-faced concept and that from the theoretical point of view, it is appropriate to measure internationalization with indexes that replicate that complexity of the concept. We decide to run our regressions using the three different measures of internationalization described above: the foreign sales intensity (*Forsal_int*), the foreign sales entropy (*Forsal_entropy*) and the foreign direct investment scope (*Country_subsid*). The

overall level of correlation between these three dependent variables is quite low with the only exception of the correlation between the entropy and the foreign sales intensity measures which is 0.6. However, the results of the regression run using these two variables are different in some key coefficients confirming that we are not just replicating regression model with slightly different dependent variables. Since all the three dependent variables are left-censored we adopted a Tobit methodology (Greene, 2000). It should be noted that Tobit regressions are nonlinear and therefore the coefficients should be interpreted with care and do not measure the real causal effect on the dependent variable. This effect is correctly measured only by the marginal effect. However, the coefficients maintain the significance and the sign of the marginal effects so that we can rely on the regression coefficients to test our hypotheses that are relative to the sign of the estimated coefficients (Bowen and Wiersema, 2004).

Using the procedures with the Intercooled-STATA 11 statistical package we run Tobit maximum likelihood estimates on the three different measures of internationalization that we included in our analysis for three different samples. The first sample, the overall one, comprises a total of 880 firms listed in Germany, France, Italy, Poland, Spain and the UK. Then we split this sample in two sub-samples one for Continental Europe, with 602 observations, and one for the UK, with 286 observations, in order to test our hypotheses concerning the different effects of corporate governance in the different contexts. It should be noted that, given the existence of missing data in our foreign sales variables, the size of the samples of the regressions with the foreign sales intensity and with the entropy measure as a dependent variable are smaller than the sample with the number of countries with a subsidiaries.

4. RESULTS

In Table 1 we report means, standard deviations and correlations for the variables used in our models. Correlation between the (continuous) variables is negligible suggesting that multicollinearity is not a concern in our case.

Table 1. Descriptive statistics and correlation between continuous variables

	Average	SD	Age	Size_log	Intang intensity	Leverage	R&D intensity	Boardsize	For_board
Age	55.89	58.11	1						
Size_log	6.44	2.218	0.326	1					
Intang_intensity	.157	.189	-0.130	0.070	1				
Leverage	.536	2.047	-0.009	0.072	0.066	1			
ReD_intensity	.198	.2864	-0.030	-0.086	-0.001	-0.003	1		
Boardsize	6.82	4.30	0.171	0.475	0.109	0.029	-0.006	1	
For_board	.0642	.157	-0.037	0.057	0.066	-0.018	0.033	0.078	1

Table 2 reports our results for the full sample of European firms. All the threeregressions show comforting values for the overall indexes of goodness of fit (χ^2 and Pseudo-R²), suggesting that the overall specification of the model is good. The first hypothesis predicts that family ownership present a lower level of internationalization compared to non-family-owned firms. The first hypothesis is partially

confirmed in two out of three definitions of internationalization. The coefficients are significant and negative in the models 1 and 2 suggesting that family ownership is a negative determinant of the scale and the scope of internationalization through foreign sales while it is not significant the result about family ownership and the scope of foreign direct investments.

Table 2. Tobit regressions results for the all sample†

VARIABLES	Forsal_int	Forsal_entropy	Country_subsid
Age	-0.0003* (0.0002)	-0.0002 (0.0003)	0.0105 (0.0070)
Size_log	0.0624*** (0.0067)	0.104*** (0.009)	4.251*** (0.224)
Germ	-0.0629* (0.0342)	-0.005 (0.045)	-1.555 (1.112)
Esp	-0.002 (0.051)	0.117* (0.071)	-3.268** (1.616)
UK	0.0348 (0.0327)	-0.144 (0.0460)	-5.124*** (1.083)
Italy	0.0683 (0.0412)	0.0952* (0.0577)	-2.639 ** (1.310)
Poland	-0.180*** (.0527)	-0.111 (.0735)	-13.947*** (1.977)
Intang_intensity	0.0824 (0.0644)	0.0752 (0.0915)	6.770*** (2.141)
Leverage	0.0123* (0.0066)	0.0002 (0.0108)	0.0212 (0.1624)
ReD_intensity	0.0112** (0.00545)	0.0114 (0.0111)	0.231 (0.176)
Ceopresid	0.0389 (0.0386)	0.0727 (0.0542)	3.454 *** (1.274)
Boardsize	0.0016 (0.003)	0.005 (0.004)	0.332*** (0.096)
For_board	0.387*** (0.0752)	-0.054 (0.107)	7.138*** (2.422)
FirstSH_Fam	-0.060* (0.0344)	-0.090** (0.0485)	-0.899 (1.157)
FirstSH_bank	-0.01355 (0.040)	-0.0290 (0.0573)	-1.224 (1.377)
FirstSH_II	-0.0399 (0.0283)	-0.0379 (0.0395)	1.0145 (0.926)
Constant	0.183*** (0.050)	0.2181*** (0.0694)	-24.546*** (1.668)
Uncensored Obs.	850	751	692
Left-censored obs	81	93	196
LR chi ² (38)	318.96	330.19	751.09
Pseudo R-squared	0.3959	0.2462	0.1243

†= industry dummies included but not reported in the table
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Our second hypothesis refers to firms listed in Continental Europe and predicts those with a bank as first shareholder have a lower level of internationalization compared to other firms. This hypothesis has just been tested with regard to firms listed in Continental Europe where bank ownership is a relevant phenomenon. The regression results for the subsample are reported in Table 3. The results show that H2 is confirmed only with regards to the foreign sales intensity dependent variable. Therefore, overall our second hypothesis is only partially confirmed. In

the European context bank ownership negatively affect the level of internationalization in term of foreign sales but we cannot state that bank ownership affects the distribution of foreign sales because the coefficient it is not significant. Contrary to our prediction the coefficient of the bank ownership dummy is positive and significant in the third model with the number of countries with a foreign subsidiary as a dependent variable. These contrasting results confirm our assumption that the definition of the concept of internationalization is critical for any

empirical analysis that intends to address the determinants of internationalization. The findings suggest that scholars should clearly specify which kind of aspect of the concept of internationalization is

under investigation and that any discussion about internationalization *per se* without further specification remains too general.

Table 3. Tobit regressions results for Continental Europe ° †
°(France, Germany, Italy, Poland and Spain)

VARIABLES	Forsal_int	Forsal_entropy	Country_subsid
Age	-0.0003 (0.0002)	-0.00006 (0.0003)	-0.0151* (0.008)
Size_log	0.0544 (0.0787)	0.0941*** (0.011)	4.776*** (0.278)
Intang_intensity	0.267*** (0.089)	0.319*** (0.127)	13.732*** (3.119)
Leverage	0.014** (0.006)	0.0017 (0.0109)	0.181 (0.235)
ReD_intensity	-0.024 (0.103)	0.189 (0.160)	-2.626 (1.912)
Ceopresid	0.029 (0.041)	0.098 (0.0587)	5.291*** (1.455)
Boardsize	-0.003 (0.002)	0.005 (0.004)	0.311*** (0.092)
For_board	0.189* (0.101)	-0.121 (0.143)	1.684 (3.625)
FirstSH_Fam	-0.010 (0.037)	-0.081 (0.052)	-1.194 (1.285)
FirstSH_bank	-0.109* (0.0563)	-0.0105 (0.079)	6.029*** (2.028)
FirstSH_FI	-0.066** (0.0323)	-0.059 (0.045)	-0.892 (1.118)
Constant	0.152*** (0.054)	0.226*** (0.075)	-29.986*** (1.951)
Uncensored Obs.	529	528	491
Left-censored obs	51	51	111
LR chi ² (36)	205.36	211.61	510.81
Pseudo R-squared	0.4551	0.2521	0.1200

†= industry dummies included but not reported in the table
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Finally we test our third hypothesis with regard to the UK subsample. Results are reported in Table 4.

Table 4. Tobit regressions results for the UK sample†

VARIABLES	Forsal_int	Forsal_entropy	Country_subsid
Age	-0.0003 (0.0004)	-0.001* (0.0006)	0.022* (0.012)
Size_log	0.055*** (0.0126)	0.0959*** (0.0181)	2.318*** (0.359)
Intang_intensity	0.038 (0.093)	-0.096 (0.139)	1.427 (2.793)
Leverage	0.011 (0.024)	-0.0431 (0.035)	0.042 (0.208)
Red_intensity	-0.008 (0.006)	-0.0179 (0.137)	-0.0459 (0.168)
Ceopresid	0.0834 (0.0845)	0.038 (0.120)	1.019 (2.563)
Boardsize	0.026** (0.010)	0.020 (0.015)	0.805*** (0.306)
For_board	0.326*** (0.117)	0.007 (0.176)	11.351*** (3.311)
FirstSH_Fam	-0.224*** (0.079)	-0.070 (0.113)	1.587 (1.420)
FirstSH_bank	-0.0120	-0.0467	1.463

	(0.0691)	(0.099)	(2.080)
FirstSH_II	-0.025	-0.070	3.493**
	(0.061)	(0.087)	(1.785)
Constant	0.203**	0.169	-22.246***
	(0.094)	(0.136)	(2.923)
Uncensored Obs.	240	223	201
Left-censored obs	30	42	85
LR chi ² (33)	176.27	148.48	242.25
Pseudo R-squared	0.5291	0.3098	0.171

†= industry dummies included but not reported in the table
Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

The regression results of the UK firms show some interesting differences with the results obtained for Continental Europe. Our third hypothesis states that in the UK market firms with the institutional investors as first shareholder have a higher level of internationalization than other kind of firms. The hypothesis is confirmed only with regards to the scope of foreign direct investments suggesting that the institutional investor's involvement in ownership in the UK context is relevant when firms realize growth plan through foreign direct investments. Contrary to our findings with regard to the European subsample the coefficient of the bank dummy is not significant confirming the different role played by these financial institutions in the Anglo-Saxon and in the Continental European context.

Concerning the other control variables size plays an important role – as measured by the log value of the number of firms' employees – which is consistently significant and positive confirming, once more, the positive relationship between resources and internationalization (Leonidou, 1998; Balabanis and Katsikea, 2003; Dhanaraj and Beamish, 2003). With regards to firms' resources our models identify four different measurements of intangibles resources that are typically considered in literature (Delgado-Gomez *et al.*, 2004) as factors which promote internationalization: the share of intangibles assets over total assets (*Intang-int*), the share of sales that is devoted to R&D (*ReD-int*), the dimension of board size (*Board size*) and the percentage of foreign board members (*For_board*). The share of intangible assets on total assets positively affects all three measures of internationalization in Continental Europe while for UK firms the relationships are not significant. The R&D intensity has been typically considered as a channel through which firms generate innovation that lead to better export performance (Ozcelik and Taymaz, 2004; Roper and Love, 2002; Cassiman and Golovko, 2011) and to higher internationalization through FDI (Buckley and Casson, 1976; Rugman, 1981; Hennart, 1982). However, our results do not fully confirm these conclusions. The size of the board and the share of foreign directors are additional resources that promote internationalization according to the most recent literature (Tihanyi *et al.*, 2000; Nielsen, 2010). For example directors can bring to the firm specific knowledge regarding foreign markets or relationships with overseas clients thus

promoting the firm overall internationalization. These variables have an effect also in our model suggesting that the role of board in promoting internationalization is a promising field of research that deserve further and deeper analysis.

Finally, the variable that catches the involvement of family members in the management of the firm (*Ceopresid*) is significant only in the sample representing Continental Europe for foreign direct investment scope. This result is surely interesting and deserves further analysis. The different results emerging from the two samples suggest once more that the factor affecting internationalization in the two contexts, the UK and Continental Europe, may be different and that conclusions drawn from one context cannot be easily generalised.

5. DISCUSSION AND CONCLUSIONS

In the traditional theory of internationalization firm ownership has been scarcely considered. In the classical view of transaction costs (TC) theory (Buckley and Casson, 1976; Rugman, 1981; Hennart, 1982) the level of internationalization is the result of a comparison between the costs and the benefits of coordinating international transactions internally rather than externally through market prices. If the hierarchical solution is a more convenient choice than the arms-length solution then the level of internationalization of the firm will increase. Thus the overall level of internationalization is determined by the factors influencing the choice between the alternative methods of governance such as the level of specificity of the asset, the frequency of the transactions or the overall risk surrounding the transactions. To the extent that the resources to be exploited involve tacit knowledge, buyer uncertainty or indeterminate bargaining situations then the chosen governance method is likely to be internal to the firm and therefore promote further FDI internationalization (Majocchi and Presutti, 2009; Presutti *et al.*, 2007). Alternative explanations of internationalization rely mainly on a resource-based view of the firm (Lippman and Rumelt, 1982; Wernerfelt, 1984; Barney, 1986, 1991; Peteraf, 1993; Teece *et al.*, 1997) where firm is considered as a heterogeneous bundle of valuable, rare and non-imitable resources. From the RBV perspective, international diversification is viewed as a means by which the firm can both exploit

and increase its resources (Luo, 2002). In this view, (Mahoney and Pandian, 1992) when excess capacity, of physical assets, knowledge and human expertise exists firm tend to exploit these underused resources by entering foreign markets. This view explains why firm with valuable resources will have higher level of international export and international involvement. On the other hand, the firm may choose to enter in foreign markets in order to have direct access to new resources (Barkema and Vermeulen, 1998). In this case firms will grow internationally mainly through FDI in order to gain control of these resources. Overall, neither TC economics nor the RBV consider the ownership type as a determinant of overall firm internationalization.

Following recent literature (see, for example, Fernandez and Nieto, 2006; Tihanyi et al., 2000; Tihanyi et al., 2003; Lien et al., 2005; Filatotchev et al., 2007; Bhaumik et al., 2010; Hautzet et al., 2013; Oesterle et al., 2013) which has incorporated different governance variables in their analysis we have challenged this view. Our research has considered the potential role played by different kind of shareholders among the determinants of firm international level. Overall our results seem to confirm our main assumptions. We believe that these findings do not contradict the existing theories of internationalization but suggest that internationalization theories should not consider firms just as a value maximizing tool regardless the owners of the firm. Different owners have different risk attitudes and bring to the firm different resources (Carrillo, 2007; Rogers et al., 2008). Therefore, it well may be that similar firms, in the same industry sector but with different owners will have different degree of internationalization. By this point of view, we believe that our main conclusion is that family ownership lead to lower international diversification levels can contribute to a refinement of both RBV theory and TC economics. Studies about family firms show that in these firms shareholders tend to appoint executives considering also family links rather than just on the basis of proven managerial experience and expertise (Carpenter and Westphal, 2001; Enriques and Volpin, 2007). Consequently the overall management contribution to the development of resources which are valuable, rare and non-imitable is constrained. This in turn explains why the general relationship between family ownership and foreign sales is negative. However, our results show that the effects of ownership over firms' international strategies depend also on the context. Our results highlighted the fact that the much-discussed distinction between the Anglo-Saxon and the European approach to corporate governance is relevant in this context. Our findings suggest that previous results on the role of shareholders should always be consider with caution and interpreted with reference to the specific institutional context of the firms analysed. Given these cautionary notes we show that the attitude

towards internationalization of financial institutions can differ sharply when the corporate governance rules and habits are different. Following our second hypothesis, partially confirmed by our data, we can state that, in the European context, firms with bank as first shareholder have lower level of internationalization compared to other firms even if we cannot state that bank ownership have any statistically significant impact on the distribution of export. Moreover bank ownership has a positive effect on foreign direct investments scope. On the contrary, confirming similar findings by Tihanyi et al. (2003), we found that, in an Anglo-Saxon context, institutional investors promote internationalization even if mainly through foreign direct investments.

Even if these findings add new light to the growing field of research that analyses the relationship between corporate governance, ownership and international diversification, we are aware that there is scope for further refinements and research. Our results should be interpreted with caution. First, we could not include in our analysis variables measuring the attractiveness of the different country, the relative weight and the overall, cultural, institutional and economic distance between the source and the target country. The importance of foreign activities for firms is probably also affected by these variables and future research should also control for them. Moreover, we did not consider in depth the role played by the corporate board in mediating between shareholders and managers. The role of the board directors in monitoring managers on behalf of shareholders vary accordingly to the characteristics of the board and surely this aspect should be considered in order to have a complete view of the effect of corporate governance on international diversification. Another important extension to the present work could be made by lagging dependent variables so to avoid potential problem of endogeneity. Given the lack of data we could not address this issue in the present version of the paper but we count to improve our analysis gathering new data in the near future. Finally, it could well be that our findings on the Anglo-Saxon corporate governance system depends on country specific factor. An inclusion of US data in the sample would surely improve the reliability of our analysis. However, we are confident that one clear result emerges from our analysis and it is that the institutional context is an important determinant of the relationship between ownership and internationalization.

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