The Hong Kong Polytechnic University

MGT6011 Qualitative Research & Consultancy

Individual Project:

Is Majority Shareholding by Founder the Optimal Ownership Structure for Corporate Governance in Asia?

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Research Proposal Topic

Is majority shareholding by founder the optimal ownership structure for corporate governance in Asia?

Literature Review

Since the seminal work of Coase (Coase 1937) on the nature of the firm, the majority of academic research work focused on firms which have diverse shareholder base and separation of ownership and management. Many firms accessed the capital markets for their financing requirements because their founders can no longer provide for all the firms' financing needs. Over time, the founders' shareholdings are diluted from increasing outside shareholders and through passing of ownership to heirs.

While diverse shareholding provides access to a large pool of capital and separation of ownership and management allows hiring of expert managers, it has an inherent conflict of interest issue. Jensen and Meckling (Jensen 1976) highlighted the agency problem that can arise from the separation of ownership and management. Stein (Stein 1988; Stein 1989) and Porter (Porter 1992) pointed out myopic behaviors of management and market / shareholders. Substantial research was also performed on the board of directors (Hermalin 1988; Weisbach 1988; Yermack 1996; Rosenstein 1997) and other control mechanisms on management behavior for corporate governance purposes (Franks 2001). These control mechanisms include performance evaluation (Core 1999), pay for performance schemes (Jensen 1990; Morgan 2001), stock option plans to reduce the agency problem (Core 2002; Richardson 2002), and control imposed by security authorities. Hence, diverse shareholding has both advantages and disadvantages.

Other than diverse shareholding, three other forms of ownership can be classified (La Porta 1999): majority shareholding by founder, majority holding by related firms, and ownership by state. Research work found that diverse shareholding ownership structure and separation of ownership and management are most relevant in the US and the UK; majority control by founder and ownership by state are the most prevalent in other countries (La Porta 1999). Other research points to the legal and shareholder protection system as the main determinants of the prevalent types of ownership structure (Shleifer 1997; La Porta 1998; La Porta 2000). Other research evaluated the importance of strategy on firm performance (Porter 1996; Bowman 2001), and the finding is that a congruence of firm characteristics and external environment result in better firm performance (Cockburn 2000). As a result, evidence has not been conclusive on the suitability of diverse shareholding ownership structure outside of the US and UK.

In Asia, the external environment has high uncertainty and firms majority owned and managed by founder is the prevalent form of corporate ownership. Is it possible that this type of ownership structure is necessary for firms to adapt quickly to its external environment? Can majority shareholding by founder firms the optimal ownership structure in Asia?

Objectives and Hypothesis

The objective of this research is to determine if majority shareholding by founder firm is the optimal form of ownership structure in Asia for corporate governance purpose. It is composed of two questions: is majority shareholding by founder firms the optimal form of ownership structure and is there a corporate governance issue?

To determine if majority shareholding by founder firm is the optimal form of ownership structure, we hypothesis the follow framework. Each firm faces a unique set of external environmental conditions, some controllable and some not. These External Critical Factors ("ECFs") falls under the political, legal, economical, cultural and other categories. Each firm also has a set of internal firm characteristics that reflect internally generated decisions, externally motivated events, and evolution based factors. These Internal Critical Factors ("ICFs") as a combination differentiate firms and their strategy. When there is high congruence between ICFs and ECFs, the firm is successful. For each firm, there are a set of combinations of Country-ICF-ECFs ("CIEs") that highlights a successful internal reaction to external environmental condition. For example, manufacturing firms in Hong Kong are facing shorter delivery cycles from overseas buyers (ECF). To compensate, these firms can backward integrate, increase computerization, or increase its scope of work (ICFs). This would result in 3 CIEs: Hong Kong – backward integrate – shorter delivery cycle; Hong Kong – increase computerization – shorter delivery cycle; Hong Kong – increase scope of work – shorter delivery cycle. Each CIE reflects the firm's internal or strategic reaction to an external change. Based on this framework, we propose that majority owner manager firm is the optimal ownership structure because it can adapt its ICFs quickly to accommodate changes in the ECFs.

We hypothesize that majority shareholding by founder firms is the optimal form of ownership structure in Asia because (a) the interest of the founder manager is fully aligned with the interest of the minority shareholder, (b) the firm can take advantage of market opportunities in a timely manner, (c) management can focus on long term value creation rather than short term performance, (d) connections and informal networks of the founder are beneficial for business development, (e) synergistic benefits and cost savings from the conglomerate structure, (f) transaction cost theory application where various functions are performed in-house to reduce risk and transaction costs, (g) founder's reputation for success will result in increased opportunity set and lower cost to operate and finance, (h) lower cost to expand into existing business or to new business because of existing infrastructure, and (h) market power that can be achieved from economies of scale and large firm size.

We also hypothesis that agency problem exist to varying extent, and the severity of this problem depends on (a) the political system of the country, (b) effectiveness of the legal system and legal protection for minority shareholders, (c) perceived role of social responsibility, (d) cultural differences between countries, and (e) the increase in cost of capital once agency problem behavior is discovered.

The table below outlines the inherent advantages of each ownership structure from the shareholders' perspective.

	Diverse ownership	Majority shareholding by founder	Majority shareholding by related companies	Ownership by state
Congruent goals between management / majority shareholder and minority shareholders		✓		
Speed of decision		✓		✓
Focus on long term value creation		✓		✓
Connections / Guanxi		✓		✓
Synergistic benefits and cost savings	✓	✓	✓	✓
Conglomerate structure to reduce risk and cost based on transaction cost theory	✓	✓	✓	✓
Reputation that brings new opportunities		✓		
Low marginal cost of expansion for existing and new businesses	✓	✓	✓	✓
Market power	✓	✓	✓	✓
Access to large pool of capital	✓			✓
Ability to hire expert managers	✓	✓	✓	✓

Significance of Study

The US corporate market gyrates between conglomerate structure and focus strategy. Synergistic benefits and cost savings are two of the most commonly described benefits for the conglomerate structure (Holmstrom 2001; Campa 2002); while management focus on the core business is cited as imperative for a firm's success (Daley 1997; Desai 1999). Based on empirical evidence and real life examples, it appears that conglomerates have been unable to abstract the synergistic benefits and cost savings expected of this structure (Servaes 1996; Gillian 2000; Lamont 2002). Contrary to these findings, most of the large firms in Asia are conglomerates. Are there some inherent, external, or structural differences that make the conglomerate structure more suitable in Asia? Are there market inefficiencies such that big conglomerates with market power can abstract better prices during acquisition negotiations? From the result of this study, we can identify factors that make the conglomerate the preferred structure in Asia.

The traditional valuation approach evaluates political, country and environmental risk at a country level with no explicit differentiation for ownership structure and agency problem issues. By identifying ICFs, ECFs, CIEs and their interactions, these factors can be appropriately applied as independent variables in asset pricing models for valuation purposes. This decomposition of risk allows more realistic asset valuation and project evaluation.

Many governments are privatizing state-owned or state-run operations. The result of this research study on ownership structure and agency problem can assist governments in determining the most appropriate and productive approach to privatize. The approach and framework can be adapted for application to other firm ICFs and local ECFs in other countries.

By identifying CIEs that inhibit and facilitate agency problem behaviors, stock exchanges and regulatory authorities can promote implementation of appropriate ICFs and discourage ICFs that facilitate agency problem behaviors. Minority shareholders can evaluate ICFs and ECFs of firms to estimate probabilities of agency problem behaviors and price the investments according to their evaluation.

Rival Theories

Rival theories, which are other feasible alternative explanation for the observed outcomes, are developed and evaluated within the construct of this research project (a) to confirm that the hypothesis proposed in this research project can most properly explain the observed outcomes, and (b) to increase the external validity of the research findings. We will discuss each of the rival theory and the testing process below.

Market Power Theory

Almost all of the successful firms in Asia are large and conglomerate in nature. The market power theory hypothesizes that market power is the dominant reason why these firms are successful, and the ownership structure is not as significant a factor as market power. As Asian countries are generally less developed and more homogenous within the country, large firms can exercise market power for the benefits of their shareholders.

While the market power theory accounts for success of many firms, it fails to account for some firms' failure despite their high market power positions. For example, many state owned natural resources and manufacturing firms have high market power due to their monopoly position or absolute size, but firm performance has been horrendous due to improper management or agency problem.

To test this rival theory, we will use explanation building and statistical analysis to determine the relative importance of market power and founder manager specific ICFs.

Market Transition Theory

Most of the Asian firms have been in existence for a relatively short period of time when compared to firms in the US and UK. These Asian firms are still run by the founder or by the founder's immediate family members. Since these firms are young in their corporate existence, they have not reached a stage where the financing needs outstripped the founders' ability to provide. On the other hand, firms in the US and UK have outgrew their founders' financial capacities and have turned to the public market for funds resulting in substantial dilution of the founders' shareholdings. Passing ownership down generations of heirs also dilutes each family member's shareholdings.

The market transition theory hypothesizes that majority shareholding by founder firms is only an evolving stage towards diverse ownership. The founder managers do not bring any significant value to the firm. Over time, the founders' shareholding will be diluted and the firm will be managed by hired managers.

To verify this rival theory, we will test for the significance of founder-specific firm characteristics using statistical analysis and nominal group discussions.

Shareholder Indifference Theory

The shareholders indifference theory hypothesizes that the ownership structure has no relationship with the agency problem observed; agency problem exists in firms of all ownership structure, but minority shareholders are not aware of their rights and have not object to abusive behavior of management.

By showing incidences where minority shareholders opposed management's decision, we can show that minority shareholders are aware of their rights and this theory does not effectively explain observed behaviors.

Methodology

A case study methodology is used for this research project. The project is explanatory in nature in that we aim (a) to explain why majority shareholding by founder is the optimal ownership structure in Asia, (b) to determine if agency problem exists, (c) to explain why majority shareholding by founder firm is still the optimal ownership structure despite the existence of agency problem, and (d) to identify factors that inhibit or facilitate agency problem behaviors. Each firm under study is considered a separate case of its own.

Within the confine of the case study methodology, we will utilize the following data collection methods: (a) Documentation of secondary data is used to construct a preliminary list of ICFs and ECFs to identify specific firm and environmental factors. (b) Interviews with participants are used to identify CIEs that are pertinent for the firms' success. (c) Delphi panel is used to rank the importance of the CIEs. (d) Statistical analysis is used to find relationships, correlations, and significance of CIEs with ownership structure and agency problem. (e) Nominal group discussions of participants are used to triangulate evidence from statistical analysis on causal relationship between independent variables and to uncover relationships not found by statistical analysis.

A case study database using Microsoft Access will be designed and utilized to manage data and observation results. The interviews and nominal group discussions will be recorded for analytical purposes.

Data Collection

Data are collected through several sources.

Secondary Data

Secondary data like economic data is collected from public and private resources. Company information is collected from annual and financial reports. Other country and industry related information is collected from third party reports issued by investment banks, governmental agencies and academic sources. A combination of the above-mentioned resources, together with periodic publications and journals, are used to derive a preliminary list of ICFs and ECFs.

Project Participants

Participants of the research project are involved (a) in the compilation of the ICFs and ECFs through interviews, (b) in the identification of CIEs, (c) in the ranking of CIEs using Delphi method, (d) in the agency problem analysis through nominal group discussions.

A case study database using Microsoft Access will be designed and utilized to manage data and observation results.

Quantitative Statistical Analysis

Results of quantitative statistical analysis are used as input for subsequent quantitative analysis and nominal group discussions.

Selection Criteria of Research Parameters

Country Selection

We tried to select countries that offer diverse political, legal, economical, geographical and cultural environments. Ease of obtaining information, and informational and structural transparency are also taken into account. Firms are selected from eight locales: Hong Kong, Taiwan, Singapore, Korea, Malaysia, Thailand, Indonesia and the Philippines.

Firm Selection

A total of 96 firms, each representing an individual case, are selected for this research project to ensure representativeness of the information and to improve external validity.

For each locale, we will select 3 firms from each of the ownership structure resulting in 12 firms for each locale. For each ownership structure, we will select the 3 firms with the largest market capitalization or revenue. Subsequent to the Asia financial crisis, some firms have lost a considerable amount of their market capitalization because of their high level of foreign currency denominated debt. As a result, we will also use revenue as a supporting criteria for firm selection.

If less than 3 firms are available in the ownership structure category, we will use the available firms.

Participant Selection

Participants are individuals that have intimate knowledge of the selected firms or the environmental conditions in order to provide us with their knowledge and expert opinions. Participants will come from management of our selected firms, academic scholars of the selected countries, and analysts from private institutions. The participants will be considered as our experts for the Delphi panel.

We will enlist two managers from each major line of business for each firm. One should be middle level management and the other should be at the divisional level for more diverse views. We will also enlist two executives from each firm at the head office level to provide more strategic views of the businesses.

We will contact the top three universities in each country to enlist two scholars from each institution. The scholar should have a business / commerce oriented research focus.

We will also enlist analysts from financial and other institutions to provide a comprehensive view of the overall environment. Financial institutions include global investment banks, private risk rating firms, and local financial institutions. We will also contact institutions like Asian Development Bank or World Bank for analysts or researchers who are willing to participate.

While the plan is to contact a large number of potential participants, We anticipate that the final number of participants might be limited due to the time and efforts required.

Internal Critical Factors

Internal critical factors ("ICFs") are firm characteristics that as a combination, differentiate firms and their strategic positions. These characteristics reflect internally generated decisions, externally motivated actions, and evolution based factors. Examples of ICFs include management style, organizational structure, firm cultural, operating and financial conditions, lines of business and extend of diversification. A preliminary list of ICFs provided in Appendix II.

We will generate a preliminary list of ICFs using secondary data sources like research papers, analyst reports, and external public information like journals and periodicals. Participants will review the preliminary ICFs and will be asked to complete the list. In addition, participants will identify ICFs that are unique features of majority shareholding by founder firms.

External Critical Factors

External critical factors ("ECFs") are external environmental conditions that firms face. The ECFs fall under the categories of (a) political, (b) legal, (c) economical, (d) cultural, and (e) other. A preliminary list of ECFs is provided in Appendix III.

Similar to the ICFs, we will generate a preliminary list of ECFs and participants will be asked to complete the list.

Logic Model / Research Framework

The goal of this research paper is to determine if majority shareholding by founder is the optimal ownership structure for corporate governance in Asia. To arrive at a conclusion, we need to answer a series of questions:

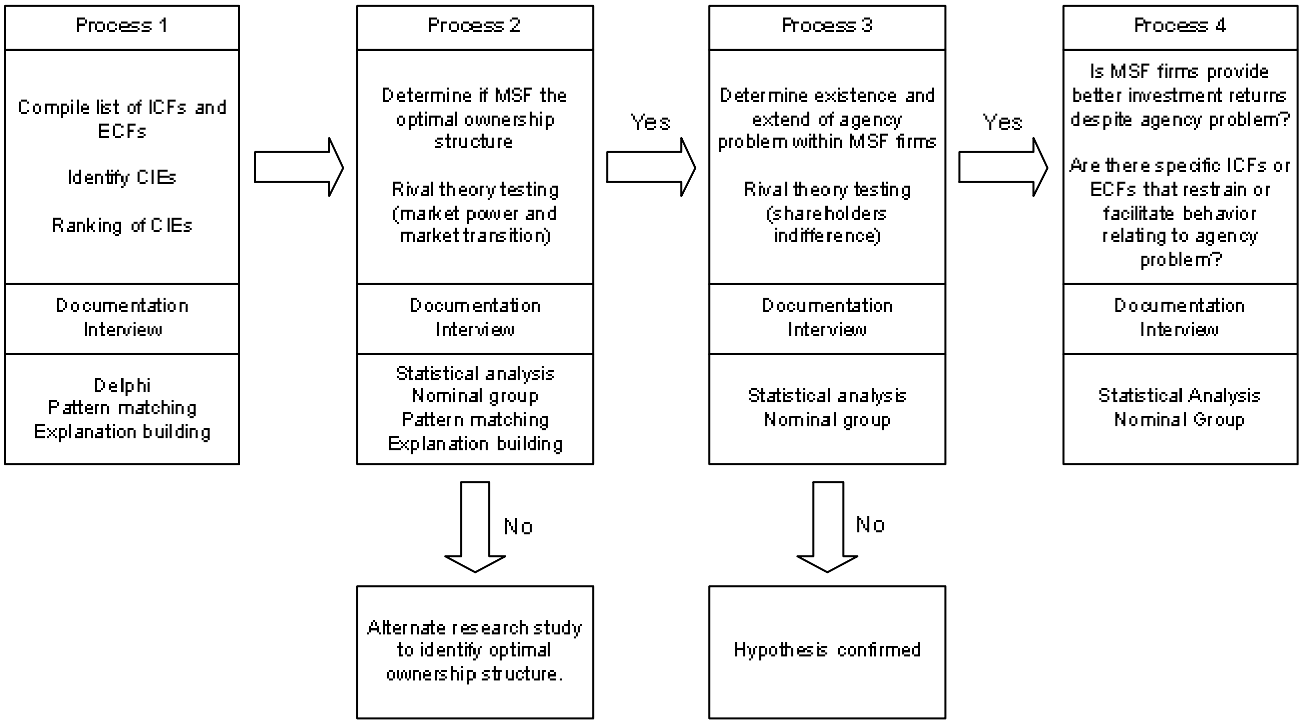
(a) Is majority shareholding by founder the optimal ownership structure? We will compare majority shareholding by founder firms with firms of other ownership structure to determine which type is optimal. Within this context, optimal can be defined as having (i) the highest stock return, (ii) the highest risk adjusted stock return, (iii) an efficiently run firm, (iv) a highly adoptive management and internal structure that can effective manage the external environment. We have chosen a highly adoptive management and internal structure as the definition of optimal because it is a basic prerequisite for the long term attainment of the other three choices.

(b) Does agency problem exist? Statistical analysis is performed to determine if agency problem exist. It includes examining stock price reaction to changes in ownership percentage or financing decisions.

(c) Even if agency problem does exist, is majority shareholding by founder firm still optimal in terms of stock returns when compared to other types of ownership structures?

(d) Are there ICFs or ECFs that inhibit agency problem behavior? Are there ICFs or ECFs that facilitate or are indicative of agency behavior behavior?

The flow chart below depicts the logic model for this research proposal.



Process 1(a) Compile list of internal critical factors ("ICFs") and external critical factors ("ECFs")

A preliminary list of ICFs and ECFs are compiled based on secondary data. Participants will review our preliminary list and add in missing factors that they think are important. There is a significant number of factors to include, and the preparation of a preliminary list will allow the participants to focus on adding significant and meaningful factors to our study. The review will be performed under an interview environment in which unusual factors or reasons are recorded.

Process 1(b) Identify relevant Country-ICF-ECF combinations ("CIEs")

Participants are asked to provide combinations of Country-ICF-ECF factors ("CIEs") that they consider critical for successful firms. Participants will identify CIEs based on firms and industries of which they are knowledgeable about. For example, firm executives will identify CIEs that are crucial for their firms or their competitors' success, and scholars and analysts will provide CIEs for entities, industries and countries of which they are familiar with. Data and observations are input into the case study database and updated on a continuous basis.

Process 1(c) Ranking of CIEs using Delphi

Participants are asked to rank the importance of the CIEs using an online real time interactive Delphi panel system. Participants can select to rank countries for which they have expertise in. The ranking will be done for each country; hence we should have a ranking of the most important sets of CIEs for each country. By segregating the CIEs by country, we can better differentiate the relationship between ICFs and ECFs combinations among countries. For clarification purposes, each CIE in the Delphi will have an explanation of its importance.

The Delphi panel will have three rounds of ranking for each country, and a rating scale of seven is used. CIEs with negative score in the first round are eliminated to reduce the number of possible combinations.

Process 2(a) Determine if majority shareholding by founder is the optimal ownership structure

Univariate and regression analysis are performed to determine if the importance of the CIEs as provided by the Delphi results indicate the majority shareholding by founder ownership structure is significant at the importance ranking and it is correlated with ECFs.

Nominal group discussion will be held with participants to evaluate the results of the statistical analysis and Delphi panel to determine if majority shareholding by founder ownership structure has inherit internal characteristics that allow firms to adapt better to ECFs that they face. Participants are encouraged to provide insights from their own experience or observations on interactions between ICFs and ECFs. During this process, pattern matching and explanation building are used to determine the relationship and causal effects of the factors.

Process 2(b) Rival theory testing

Rival theory testing will occur here for the market power theory and the market transition theory.

If the result of this process shows that majority shareholding by founder is not the optimal ownership structure, the next step will be more research work at a slight different direction to find out what is the optimal or alternative feasible ownership structures. In this case, another research should be planned to pursue this topic further.

If the result of this step shows that majority shareholding by founder is the optimal ownership structure, then the next step would be to ascertain the existence and extend of agency problem within this type of firms. This procedure is described in the next step.

Process 3(a) Confirm existence and extend of agency problem

If majority shareholding by founder is determined to be the optimal ownership structure in the previous step, then we will evaluate the existence and extend of the agency problem in this step. We will use statistical analysis and nominal group discussion to determine if agency problem behavior is an issue with majority shareholding by founder firms.

We will test for the existence of agency problem using commonly used statistical test of agency problem in prior research papers. For example, We will evaluate stock price reactions to unexpected announcements like shareholding change, dividends change, or investment decision change.

Nominal group discussions will also be used to evaluate agency problem incidences for details, insights, and outcomes.

Process 3(b) Rival theory testing

Rival theory testing will occur here for the shareholder indifference theory.

If data collected does not indicate existence of agency problem, then this research can be concluded as we have found that majority shareholding by founder is the optimal ownership structure and there is no agency problem.

If data collected indicates that agency problem do exist, then the next step would be to evaluate the following two issues. First, are there better investment alternatives despite the agency problem? If no alternative investment provides the same level of risk adjusted return than majority shareholding by founder firms, then this ownership structure can still be the optimal ownership structure despite existence of agency problem behavior. Second, are there specific ICFs or ECFs that inhibit or facilitate behavior relating to agency problem?

Answer to the first question provides evidence to our research question of whether majority shareholding by founder firms are optimal ownership structure from a corporate governance perspective. In this case, we have found that this type of ownership structure is optimal from the minority shareholder perspective despite potential or existing agency problem behavior. The second question provides significant insights into factors that inhibit or facilitate behavior relating to agency problem. These factors can be (a) used as input to various asset pricing models for valuation purposes, (b) used to promote, encourage or enforce corporate governance, (c) used as yardsticks and indications for privatization and valuation purposes for governments or firms.

Quality of Results

For quality results, we tried to ensure that there is an acceptable level of construct validity, external validity (generalizability), internal validity and reliability.

Construct Validity

To increase construct validity, we have (a) obtained multiple sources of evidence by retaining participants with different backgrounds from different disciplines, (b) key participants review of draft case study report during the write-up stage, and (c) establish chain of evidence through our data collection process and logic model design.

External Validity

To increase external validity, we have (a) used multiple cases in our research study, (b) devised and evaluated rival theories, (c) used typical cases in that the firms in our study are widely held public companies, and (d) used replication logic in multiple case studies.

Internal Validity

To increase internal validity, we have (a) developed a logic model for our research study, (b) performed pattern matching and explanation building as part of our nominal group discussion, and (c) key participants review. Time series analysis is not used because CIEs are examined as general conditions at specific time rather than as trends that change over time.

Reliability

To increase reliability, we have (a) used multiple cases in our research study, (b) obtained multiple sources of evidence by retaining participants with different backgrounds from different disciplines, (c) designed and implemented case study protocol, and (d) created and utilized a case study database that are actively updated during our research process.

Expected Conclusions

We expect the research to yield the following conclusions:

(a) Each firm faces its own set of ECFs, and how the firm adapts to these ECFs will determine its success. Firms has its own set of ICFs from historical and strategic development and they can change its ICFs over time through change in strategy.

(b) Given the ECFs in each country under study, majority shareholding by founder is the optimal ownership structure in terms of adapting ICFs to match requirements of ECFs.

(c) Agency problem does exist, but the risk adjusted return to minority shareholders are still superior to other alternative forms of investments.

(d) There are specific ICFs and ECFs that inhibit and facilitate behaviors relating to agency problem.

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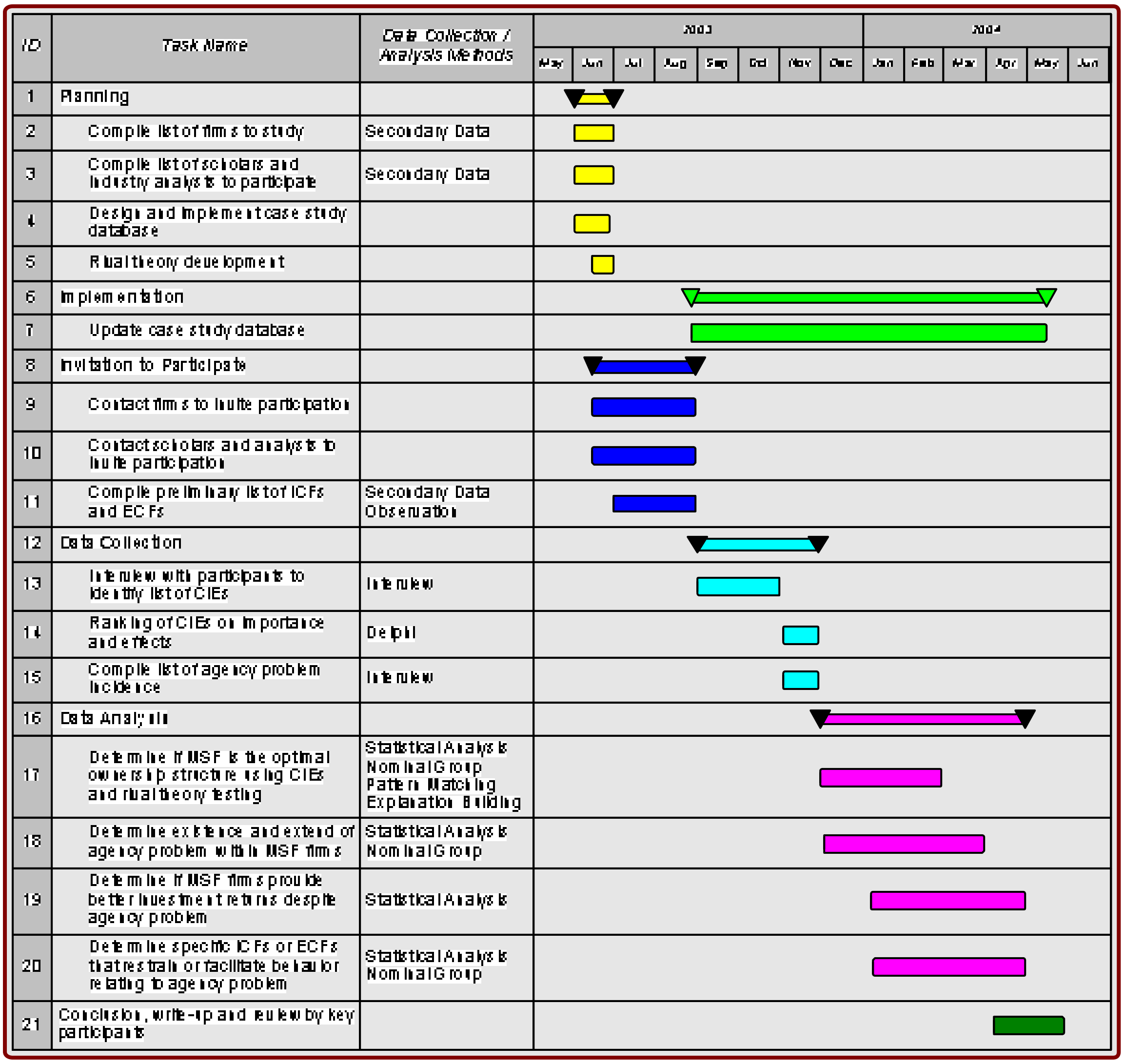
Time Table

The research project will take 12 months to complete. Enrolment and interview of participants, compilation of ICFs, ECFs and CIEs, and Delphi ranking of CIEs are the main focus for the first six months. Nominal group discussions with participants and statistical analysis to determine optimal ownership structure and agency problem are the main focus of the subsequent five months. Write-up of the project will occur in the last three months of the project. The chart below outlines the progression of each process for this research study.



Limitations of the Research Project

This research project has several limitations.

Sample Selection Bias

The top three firms for each ownership structure are selected in each country for inclusion in this research project. There are several limitations for this sample selection design. First, there is a bias towards large capitalization firms. The results might indicate that market power provide larger firms with an advantage. Second, there might be insufficient number of firms for selection under some of the ownership structure. For example, there might be an insufficient number of firms under governmental ownership that are publicly listed in certain countries. Third, we do not include smaller size firms in our sample based on the assumption that our sample is representative of all firm size. Fourth, we have only included publicly listed firms and private firms are not included in our sample. Fifth, there is an inherent risk of sample selection error as we do not account for firms that are no longer listed or in business. Hence, we can imply factors that successful firms have but are unable to identify factors that caused the failure of other firms.

Reliability of Data Source

We are relying on company executives, scholars and analysts to determine specific relationships between countries, ICFs and ECFs. They might provide biased views of the relationship due to the nature of their work. In some cases, there might be a possibility of inaccurate reporting due to fear of reprimand from government or other authority. To lessen potential limitations from this bias, participants will be assured of the confidentiality of their input.

Generalizability

Ability to generalize the findings to other situations (external validity) is another limitation of this project. As the intra-country political, economical, and cultural environments are relatively less heterogeneous within the Asia Pacific region, the findings can be generalized to countries within the region. However, the generalizability of the findings to other regions should be verified before application.

Timeliness

The research project will take 12 months to complete. External critical factors might change during this period that reduces the internal validity of the variables. For example, ICFs that relate to former ECFs that no longer exist might be examined.

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Appendix

Appendix I Secondary Data and Sources

General

- Economic data like GNP
- Population
- Government regime
- Tax system
- Country risk rating
- Country corruption rating
- Legal system stability and enforceability rating

Firm specific

- Firm history
- Firm financial information
- Financial performance (return on assets, return on equity, stock returns)

Third party information

- Analyst report on specific companies (selected ones)
- Analyst report on industry (in which the selected company belongs)
- Analyst report on country (country risk rating reports)
- Government publications on statistics
- Third party ranking of country reports

Appendix II Preliminary Internal Critical Factors

Management

- Management style – participation level and degree of delegation
- Degree of reliance on guanxi for existing and new businesses
- Decision making style – centralized or participative style
- Founder has vision? Leadership qualities? Self-made opportunities? Luck?
- Risk adversiveness towards new investments and expansion
- Overall firm strategy for marketing, production, and cost

Organization structure

- Nature of organization structure – flat and participative versus tall and bureaucratic
- History and evolution of company development

Products and business lines

- Nature of business – manufacturing base, production methodology, historical and planned development, technology, nature of value added services, trading
- Size of business lines for economies of scale possibilities
- Synergistic benefits and cost savings from diversification
- Breath of diversification at the product level
- Level of geographical diversification
- Degree of diversification across products and industries (related or unrelated products)

Other internal characteristics

- Level of financial leverage
- Level of operating leverage
- Own production or outsourcing
- Founder's ownership percentage
- Founder's political "connectedness" or if founder holds governmental post
- Extend of market power / market share in each business line
- Corporate culture

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Appendix III Preliminary External Critical Factors

Political system
- Nature of political system
- Political stability of government

Legal system
- Origination of legal system
- Level of stability and independence of legal system
- Transparency of legal system

Economic System
- Growth rate of the economic system of home country and client countries
- Population level and growth
- Natural resources availability
- Development of financial markets and availability of financing sources from debt and equity markets
- Efficiency and transparency of financial market
- The acceptance and extend of the practice of bribery
- Overall efficiency of the goods and services markets

Cultural
- Group or individual oriented culture
- Importance of reputation and standing in society
- Hofstede – power distance, uncertainty avoidance, individualistic / collectivism, femininity

Other - Shareholder protection
- Level of protection under legal system
- Level of protection under stock exchange rules
- History of agency problem behaviors
- Efficiency of information flow and transparency of corporate decision making process

Appendix IV Interview Questions

We will use open ended questions at the beginning of the interview to elicit from general to specific responses. The general line of discussion should follow the flow below.

Why is this firm / industry / country successful?

What are the main factors that contribute to its success?

How does this firm react and adapt to changes in the environment?

How does the founder contribute to the firm's success?

What do you think the firm would be like or where it is now if not for the founder?

What are several characteristics that typify this firm?

How does firm management react to and how are they effective at countering adversity in the environment?

Appendix V Nominal Group Discussion Guidelines

The purpose of the nominal group discussion is to identify relationships between countries, ICFs and ECFs.

The nominal group should try to find out the causal relationships between internal and external critical factors. Statistical analysis will highlight correlative relationships, and nominal group discussions are used to discover the causal relationships between these factors.

There are relationships in which results of operations will be affected if the independent factor is not present. For example, if the firm's new businesses are brought in by the firm's founder through his personal connections, the resultant relationship will not be apparent in the statistical analysis. In this case, the nominal group discussion should bring out these significant factors.