Confucian values and family businesses: effects on firm performance and capital structure

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Confucian Values and Family Businesses:
Effects on Firm Performance and Capital Structure

GUERRA Archimedes David

A thesis submitted in partial fulfillment of the requirements
for the degree of
Doctor of Philosophy

Principal Supervisor: Prof. Gordon Y. N. TANG

Hong Kong Baptist University
August 2014
DECLARATION

I hereby declare that this thesis represents my own work which has been done after registration for the degree of Ph.D. at Hong Kong Baptist University, and has not been previously included in a thesis, dissertation submitted to this or another institution for a degree, diploma or other qualification.

Signature:

Date: August 2014
ABSTRACT

Despite important advances in family business research over the past decade, the effects of family ownership and control on firm performance and strategy remain equivocal. First, is family involvement beneficial or costly to the firm? Leading management and family business research theories proffer compelling arguments, but none have been able to present unassailable theoretical support for any one particular side. Second, how do family firms make capital structure decisions? Although there are widely-accepted theories of capital structure policy in the corporate finance literature, they have limited power in explaining financial decision making in family firms. Furthermore, empirical studies on both the performance and capital structure policy of family firms have generated mixed results. This divergence in theory and empirical evidence suggests that earlier studies have not been able to consider other critical factors that drive value creation and strategy formulation in family businesses.

This dissertation addresses these gaps in the literature with two studies that are derived from the question of how the performance and behavior of “Overseas Chinese” family firms are influenced by Confucian values and practices. In the first study, I developed a theoretical framework based on social capital theory which posits that long-term orientation (LTO) acts as a mediator in the relationship between family ownership and control (FOC) and firm performance. In addition, I hypothesized that Confucian characteristics, such as filial piety (FIL), traditionalism (TRA), and guanxi (GUA), act as moderators in the model. In the second study, I built a framework using the
theory of planned behavior, which explains how FOC and Confucian values jointly affect the firm’s capital structure decisions by influencing the decision maker’s beliefs and attitude toward debt, by fostering societal pressures regarding the use of debt, and by creating perceived behavioral controls in terms of risk exposure, family control, and the cost of debt. According to this framework, Confucian values moderate the relationship between FOC and financial leverage by reinforcing the family firm’s intention not to borrow. Using data from a sample of small- and medium-sized firms in the Philippines and the partial least squares structural equation modeling methodology (PLS-SEM), analysis reveals that LTO partly explains the positive influence of FOC on firm performance, and that TRA enhances the positive relationship between FOC and LTO. In the second study, the results suggest that firms which have a high degree of FOC borrow less. In addition, at high degrees of FIL, firms with a lower FOC have a lower financial leverage while firms with a higher level of FOC have a higher financial leverage.

This dissertation contributes significantly to the family business management and family firm finance literature and the management literature in general. First, the social capital framework developed in the first study identifies specific circumstances in which family ownership and control can enhance firm value. Specifically, family firms are able to achieve better performance by promoting LTO in the organization, and cultural traits such as traditionalism enable the family business to achieve a higher degree of LTO. Second, the analytical framework based on the theory of planned behavior that was developed in the second study provides an alternative explanation for capital structure policy for small- and medium-sized private firms. The results
of the study demonstrate that a high degree of family ownership and control results in use of less debt, and that Confucian values such as filial piety can moderate the firm’s bias against borrowing contingent on the degree of family ownership and control.
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# TABLE OF CONTENTS

DECLARATION ........................................................................................................... I

ABSTRACT ............................................................................................................... II

ACKNOWLEDGEMENTS ......................................................................................... V

TABLE OF CONTENTS ........................................................................................... VII

LIST OF TABLES .................................................................................................... X

LIST OF FIGURES .................................................................................................. XII

CHAPTER 1: INTRODUCTION .............................................................................. 1

1.1 Research Background ...................................................................................... 1

1.2 Research Questions and Contributions ........................................................... 8

1.3 Organization of the Thesis ............................................................................. 10

CHAPTER 2: CONFUCIAN VALUES AND VALUE CREATION IN FAMILY BUSINESSES .......................... 12

2.1 Introduction ................................................................................................... 12

2.2 Literature Review ........................................................................................ 14

  2.2.1 Family firm performance ......................................................................... 14

    2.2.1.1 Agency Theory ................................................................................... 15

    2.2.1.2 Resource-based View of the Firm ....................................................... 17

    2.2.1.3 Socioemotional Wealth Theory ......................................................... 18

    2.2.2 “Confucian values” and Overseas Chinese family business ................... 20

    2.2.2.1 Family firm performance ................................................................ 24

2.3 Theoretical Framework and Hypotheses ....................................................... 27

  2.3.1 Social capital as a source of competitive advantage ................................. 27

  2.3.2 Social capital and family firms ............................................................... 30

  2.3.3 Confucian values and the creation of social capital ................................. 34

     2.3.3.1 Filial Piety ...................................................................................... 35

     2.3.3.2 Traditionalism ............................................................................... 36

     2.3.3.3 Guanxi ......................................................................................... 37

  2.3.4 Hypotheses ............................................................................................. 39

     2.3.4.1 Long-term Orientation in Family Businesses ................................. 40

     2.3.4.2 Confucian Values and Family Businesses ..................................... 43

2.4 Methodology ................................................................................................ 47

  2.4.1 Variables and scale development for “Confucian values” ......................... 47

  2.4.2 Sample .................................................................................................... 51

  2.4.3 Analysis ................................................................................................. 55
LIST OF TABLES

Study 1

Table 1. Effects of Confucian values on the three dimensions of social capital ..........39
Table 2. Demographic statistics of pilot study sample.................................................49
Table 3. Rotated scores and Cronbach’s alpha of four factors from pilot study EFA 50
Table 4. Profile of survey respondents ........................................................................53
Table 5. Rotated scores of Confucian values and LTO from main survey EFA .............54
Table 6. Descriptive statistics of Confucian values, LTO, FOC, and performance indicators ..........................................................55
Table 7. Outer model loadings and cross loadings.........................................................66
Table 8. Inter-construct correlations, composite reliability, and average variance extracted........................................................................66
Table 9. Differences in means of endogenous variables between low FOC and high FOC groups (Data split based on 100% family ownership).................................67
Table 10. Differences in means of LTO between low FIL and high FIL groups (Data split based on median FIL) ..........................................................67
Table 11. Differences in means of LTO between low TRA and high TRA groups (Data split based on median TRA) ..........................................................67
Table 12. Differences in means of endogenous variables between low GUA and high GUA groups (Data split based on median GUA)........................................67
Table 13. Collinearity assessment using VIF .................................................................68
Table 14. Path coefficients, t-statistics, and standard errors (n.s. = not significant).....69
Table 15. Significance of the coefficient of the interaction variable using the two-stage approach (n.s. = not significant).................................................................71
Table 16. Coefficient of determination and predictive relevance of endogenous constructs .........................................................................................72
Table 17. $f^2$ effect sizes of predictor variables on endogenous variables .................72
Table 18. $q^2$ effect sizes of predictor variables on endogenous variables .................73

Study 2

Table 19. Summary of empirical studies on family business and capital structure ....106
Table 20. Effects of family ownership and control and Confucian values on the three predictors of the theory of planned behavior ...........................................119
Table 21. Descriptive statistics of Confucian values, FOC, and financial leverage indicators .................................................................................................124
Table 22. Differences in means of financial leverage between low FOC and high FOC groups (Data split based on 100% family ownership).................................126
Table 23. Differences in means of financial leverage between low FIL and high FIL groups (Data split based on median FIL) ..........................................................127
Table 24. Differences in means of financial leverage between low TRA and high TRA groups (Data split based on median TRA) ..........................................................127
Table 25. Differences in means of endogenous variables between low GUA and high GUA groups (Data split based on median GUA)........................................127
Table 26. Path coefficients, t-statistics, and standard error (n.s. = not significant).....128
Table 27. Significance of the coefficient of the interaction variable using the two-stage approach (n.s. = not significant).................................................................129
Table 28. $f^2$ effect sizes of predictor variables on financial leverage .......................130
Table 29. $q^2$ effect sizes of predictor variables on financial leverage .......................131
Table 30. Summary statistics of two-way ANOVA for FOC, FIL, and financial leverage
........................................................................................................................................135
Table 31. ANOVA table for two-way ANOVA for FOC, FIL, and financial leverage135
LIST OF FIGURES

Study 1

Figure 1. Moderated mediation model of family ownership and control and firm performance .................................................................46
Figure 2. Structural equation model of Study 1 showing measurement and structural relationships and interaction terms ........................................56
Figure 3. Structural model assessment procedure by Hair et al., (2014) ..................59
Figure 4. Mediation model consisting of antecedent X, dependent variable Y, and mediator Z .............................................................................60
Figure 5. The product indicator approach to modeling interaction effects ..........61
Figure 6. The two-stage approach to modeling interaction effects ......................62
Figure 7. The linear relationship between FOC and LTO for Low TRA and High TRA groups .................................................................................77

Study 2

Figure 8. The trade off theory of capital structure .................................................99
Figure 9. Comparative performance of Chinese vs. non-Chinese commercial firms in the Philippines ........................................................................109
Figure 10. The Chinese family business framework, adapted from Redding (1990), pp. 144 to 145) .........................................................................................110
Figure 11. Capital structure policy in family firms using the theory of planned behavior .................................................................................115
Figure 12. Theory of planned behavior model for capital structure policy in family firms ......................................................................................122
Figure 13. Structural equation model of Study 2 showing measurement and structural relationships and interaction terms ........................................125
Figure 14. The linear relationship between FOC and financial leverage for Low FIL and High FIL groups ........................................................................136
CHAPTER 1: INTRODUCTION

1.1 Research Background

Chua, Chrisman, and Sharma (1999) define the family firm as “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.” Family businesses represent the most prevalent form of business organization in the world (Colli, 2002). They range from small businesses to large conglomerates that operate in multiple nations and across industries. More than 85% of businesses in the U.S. and Europe are family businesses, and they are responsible for 78% of new jobs in these regions (Upton & Petty, 2000). Economic performance and strategy are two of the most widely researched outcomes in the field (Yu et al., 2012), underscoring the importance of better understanding the drivers of family firm decision making and economic performance. Despite recent efforts, however, there have been no conclusive answers to the following questions: How does family ownership and involvement in the business affect firm value, and how does it influence financial decisions such as capital structure? The leading theories that support family business research—agency theory, the resource-based view of the firm, and the socioemotional wealth theory—offer insights that are not perfectly reconcilable, particularly regarding the costs and benefits of family ownership and its effect on the firm’s risk capacity and
attitude toward risk. For example, the agency theory suggests that concentrated ownership of the family in the family business leads to lower agency costs through the owner-manager (Anderson & Reeb, 2003a), but at the same time this theory recognizes the possibility of expropriation of wealth from minority shareholders to the family (Jensen & Meckling, 1976). Empirical evidence has reflected disagreements in theory, and thus far there has been no indisputable finding as to whether family ownership and control are good or bad for the firm (Jiang & Peng, 2011).

In terms of financial decisions, some family business scholars (e.g., Allouche et al., 2008; Casson, 1999; Gallo & Vilaseca, 1996; Lyagoubi, 2006; Menendez-Requejo, 2006) argue that family firms tend to have less debt than nonfamily firms because of the high concentration of the family’s wealth in the business, which reflects under-diversification and a lower tolerance for additional risk. Socioemotional wealth (SEW) theory, however, posits that the family business’s proclivity to take on risk, as reflected by its decision to borrow, depends substantially on how a possible loss of “socioemotional wealth” is framed (Gómez-Mejía et al., 2007). Specifically, since family firms are also motivated by non-financial goals such as the perpetuation of family control across generations, family managers are inclined to prefer debt over equity, because the latter results in a possible loss of SEW. These disagreements in theory emphasize the need to explore other factors that may influence capital structure decisions in family firms.

Family business and management scholars have attempted to reconcile contradictions in theory and empirical evidence by studying family firm behavior in different contexts (e.g., Jiang & Peng, 2011; Peng & Jiang, 2010).
Some groups of researchers, taking cues from early cross-cultural research that linked national culture with economic performance (e.g., Hofstede & Bond, 1988), have turned to the “east” for clues that might help resolve inconsistencies in family business literature. The family firm has long been the prevalent ownership structure in Asia, even among large, publicly listed firms (La Porta et al., 1998; Weidenbaum & Hughes, 1996). One group of Asian family businesses in particular—those owned and managed by “Overseas Chinese”—exemplify how specific cultural traits may affect the decision making and performance of family firms.

Overseas Chinese family businesses—those founded by migrant Chinese families and their descendants—have been documented to consistently outperform their local counterparts and have been widely acknowledged to dominate their host markets, particularly in many parts of Southeast Asia (Hodder, 2006; Rae & Witzel, 2008). These observations highlight the critical role that the Overseas Chinese play in the region. After China, Southeast Asia¹ is seen as the next important destination for the world’s capital. Observers note how the region features much of the same advantages as China (e.g., relatively low cost of inputs) without some of the disadvantages (e.g., tight government control in certain industries; Weidenbaum & Hughes, 1996). The Southeast Asian region as a whole has gone through a series of economic ups and downs over the past two decades, starting with a period of aggressive growth through much of the 1990s, which ended with the Asian financial crisis in 1997. The region’s economy started to recover at the turn of the new millennium, and

¹ Southeast Asia, based on ASEAN (Association of Southeast Asian Nations) membership, consists of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.
growth continued until the sub-prime crisis of 2008. Since Overseas Chinese businesses account for at least 50% of the economies of their host countries, even though they comprise just 5% of the total population of Southeast Asia (Hodder, 2006; Rae & Witzel, 2008), they are believed to have played a significant role in the region’s economic ups and downs in recent history (Jomo & Folk, 2003).

“Confucian values” have been cited as the primary driver of the behavior and economic performance of Overseas Chinese family firms (Redding, 1990). “Confucian” is a term that is associated with traditional Eastern traits, beliefs, and practices which include, but are not limited to: filial piety, the importance of face, and guanxi—the traditional Chinese concept of establishing and nourishing long-term personal and business relationships by exchanging favors and gifts (Dunning & Kim, 2007). Guanxi and face have been argued to have the ability to strengthen the firm’s business network and, as a result, reduce transaction costs associated with monitoring transactions between the firm and other members of the network and give the firm access to network resources (Liu, 2000; Redding, 1990; Weidenbaum & Hughes, 1996). The effects of face and guanxi on the creation of competitive advantages are best captured by the two “golden rules” of Confucianism (Tu, 1998): “Do not do unto others what we would not want others to do to us;” and “In order to establish ourselves, we must help others to establish themselves; in order to enlarge ourselves, we must help others to enlarge themselves.” These two rules reveal how Confucianism emphasizes that an individual’s actions should be governed not only by personal or selfish motives, but also by the interests of people surrounding the individual, and that cooperation based on trust and not
competition should rule social and economic activities. Tight family ownership and centralized control that result from Confucian practices have also been believed to result in lower agency costs for Asian family businesses compared with nonfamily enterprises (Weidenbaum & Hughes, 1996; Yan & Sorenson, 2006). Finally, Confucian values have been associated with specific financial decisions such as frugality and the preference for tangible investments (Kao, 1993; Redding, 1990).

Contrary to popular notion, Confucianism is not a religion, but “a worldview, a social ethic, a political ideology, a scholarly tradition, and a way of life” that is associated with various peoples of East Asia (Tu, 1998). Thus, a person who is a member of any organized religion—Christianity, Islam, Buddhism, and so on—may also be considered “Confucian.” Confucianism is manifested in different aspects of the lives of East Asians: society, government, the economy, and the family. Confucian values revolve around relationships and interactions between individuals, families, groups, organizations, and other entities, with rules and hierarchies that govern the behavior of actors toward each other (Redding, 1990; Slote, 1998).

For more than 2,000 years, Confucianism has been the cornerstone of Chinese society (Fukuyama, 1996; Kao, 1993). Around the 16th century, as droves of Chinese from the southern part of the mainland immigrated to various parts of Southeast Asia (Wu, 2009), Confucianism started to permeate into the region’s cultures (Weidenbaum & Hughes, 1996). The so-called Chinese diaspora, which began with increased private maritime trade between China and Southeast Asian countries, burgeoned into full-scale emigration by the 19th century (Wu, 2009). While some Chinese immigrants have been able
to find work as laborers or “coolies” (Rae & Witzel, 2008; Wu, 2009), many newly settled Overseas Chinese had to resort to trade and business in order to survive in their new homes (Weidenbaum & Hughes, 1996). Leveraging contacts still in their home towns, immigrant Chinese were able to set up import and export operations and simple enterprises. Others ventured into finance, opening banks, money-lending agencies, and pawnshops (Rae & Witzel, 2008; Weidenbaum & Hughes, 1996), all of which proved to be vital to the growth of early Overseas Chinese businesses. Eventually, these enterprises became the foundation of a vast network of traders and financiers that spanned various countries in the region, the key ports of Hong Kong and Singapore, and the places of origin of these immigrant Chinese on the mainland (Tan, 2004).

As migration and settlement continued, Confucian ideals were passed down from one generation of Overseas Chinese family business to the next, and they continue to persist and even thrive in modern times (Kuo, 1998).

The rise of “Asian dragons” in the late 1980s and the 1990s has prompted a search for explanations to the phenomenon described in the literature. One of the first studies that linked Confucian values to economic growth was the study by Bond and a group of scholars collectively referred to as the Chinese Culture Connection (1987). In this study, then-emerging East Asian economies such as Hong Kong, Taiwan, South Korea, and Japan were found to score very well on the “future-oriented” scale, which included Confucian characteristics such as perseverance, ordering relationships by status, thrift, and possessing a sense of shame. The following year, Bond and Hofstede (1988) revisited the Chinese Culture Connection study and explicitly used the term “Confucian” to describe values that were found to correlate
closely with economic growth. In addition, empirical studies during the period demonstrated that Overseas Chinese businesses outperform their local counterparts (Braadbaart, 1995; Hicks & Redding, 1982). Over the following decade, more thorough discussions of the Confucian explanation for the success of Overseas Chinese businesses have emerged in the literature (e.g., Redding, 1990; Weidenbaum & Hughes, 1996).

In the aftermath of the 1997 Asian financial crisis, Confucianism started to lose its allure (Thompson, 2001), and scholars have begun to articulate flaws in the “Confucian argument” for the earlier success of Asian economies. For example, Tan (2004) has argued that the success of the “four Asian dragons” cited by Bond and Hofstede (1988) has more to do with Chinese culture in general rather than Confucianism. In addition, according to Tan, these traditional Chinese values would only result in economic success in societies “whose economic and administrative systems are rationally organized for economic achievement and where there is room for economic expansion.” Finally, some sectors went further, suggesting that Confucian ideals were the root of the crisis. Scholars have argued that strong adherence to Confucian values leads to costly firm behaviors, such as nepotism and cronyism (Khatri et al., 2005).

Despite these criticisms, arguments that describe the role of Confucian values in firm behavior and performance have continued to receive support, especially as Overseas Chinese businesses have reestablished dominance of their host markets following the crisis. Since most Overseas Chinese firms are run as family businesses (Weidenbaum & Hughes, 1996), this dissertation recognizes the potential of Confucian values and practices in shedding more
light on those issues that have puzzled family firm researchers over the past two decades. To be clear, however, while this dissertation borrows heavily from the history and example of Overseas Chinese family business to build theories of family firm performance and capital structure policy, it does not perform empirical analysis along ethnic lines. Ethnicity is not used as a proxy for culture, but rather cultural traits are measured directly using psychometrically sound instruments.

1.2 Research Questions and Contributions

In this dissertation, I address the following research questions:

1. How do Confucian values and practices affect the performance of family businesses vis-à-vis nonfamily firms?
2. How do Confucian values affect capital structure decision making in family businesses vis-à-vis nonfamily firms?

In answering these questions, I make significant contributions to the family business management literature. First, I have developed a theoretical framework founded on social capital theory that uses cultural variables such as long-term orientation and Confucian values as key mediating and moderating variables. Second, I have demonstrated that apart from its direct positive influence on performance, family ownership and control also has an indirect effect on performance through long-term orientation. And third, I have shown
that the Confucian value of traditionalism is significantly associated with a high degree of long-term orientation in family businesses and thus helps the firm attain better performance. With these new insights, the results of this study help resolve disagreements in the leading theories regarding family firm performance.

The findings in this thesis contribute to the corporate finance literature as well. In the second part of the dissertation, I present an alternative framework for capital structure decision making in family firms that is based on the theory of planned behavior. This framework recognizes the moderating role of Confucian values in the relationship between family ownership and control and the decision to borrow. The results of the analysis reveal that family involvement leads to lower financial leverage. Furthermore, the data suggests that the Confucian value filial piety exacerbates the bias against debt in family firms, but specifically in firms with a low degree of family ownership and control, offering partial support to the argument that Confucian values influence the decision to borrow by strengthening the decision maker’s beliefs and attitudes against debt and reinforcing societal pressures against borrowing.

This dissertation provides significant contributions to the practice of family business management as well. By demonstrating how Confucian values contribute to the success of family businesses, this dissertation serves as a guide for entrepreneurs in improving the competitive position and profitability of their businesses. Specifically, the results assist both family and nonfamily firms in ascertaining the appropriate level of control over their enterprises and serve as a guide for Chinese and non-Chinese businesses in identifying practices and values that they should cultivate in the workplace and, for family-
run enterprises, pass on to future generations. Finally, with regard to capital structure policy, the results of the second study may serve as a guide for corporate finance practitioners in determining the appropriate level of debt for a family business while taking into consideration non-financial goals and the firm’s culture.

1.3 Organization of the Thesis

This dissertation consists of two studies. The first, entitled “Confucian Values and Value Creation in Family Businesses,” explores the role of Confucian values in value creation among family firms. In this study, I have developed a theoretical framework based on social capital theory, which argues that Confucian values enhance a family firm’s ability to create network-related competitive advantages. I then tested the resulting moderated mediation model using the partial least squares structural equation model (PLS-SEM) and data from a sample of small- and medium-sized Philippine firms. The results of the study demonstrate that the cultural trait of “long-term orientation” serves as a partial mediator to the relationship between family ownership and control and performance. Additionally, further analysis reveals that the Confucian value of traditionalism is a significant positive moderator to the relationship between family ownership and control and long-term orientation. This result supports the study’s thesis that Confucian values aid in social capital formation by helping build and maintain stronger and wider networks across generations of family owners and managers.
The second study, entitled “Confucian Values and the Capital Structure of Family Businesses,” examines the role of Confucian values in the capital structure decisions of family businesses. Using the theory of planned behavior as a foundation, I have developed a theoretical framework which argues that Confucian values and family ownership and control affect the intention and actual decision to borrow through beliefs and attitudes toward debt, subjective norms regarding the use of debt, and perceived behavioral controls such as exposure to risk, degree of familial control, and cost of capital. Next, I tested the resulting hypotheses using PLS-SEM and the data set from the first study. Results of the analysis demonstrate that family ownership and control has a negative effect on financial leverage, which suggests that the firm’s desire to manage its risk exposure through the use of less debt is stronger than the objective to perpetuate family control through the use of more debt. Finally, the results indicate that the Confucian value of filial piety is a significant positive moderator to the relationship between family ownership and control and financial leverage, lending credence to the argument that Confucian values amplify a family firm’s aversion to debt by placing a greater weight on the decision maker’s bias against debt and exposing the firm to more societal pressures against the use of debt.
CHAPTER 2: CONFUCIAN VALUES AND VALUE CREATION IN FAMILY BUSINESSES

2.1 Introduction

Researchers have theorized that concentrated family ownership reduces agency and free-rider costs (Demsetz & Lehn, 1985; Fama & Jensen, 1985; Shleifer & Vishny, 1986) and provides the firm with unique and exclusive resources that create competitive advantages (Sirmon & Hitt, 2003). Support for the positive effects of family influence on firm performance is, however, not unanimous. Misalignment between the goals of the family and those of other shareholders (Anderson & Reeb, 2003a; Menendez-Requejo, 2006); the tendency of younger generations to slack off and be content living off wealth accumulated by their forebears (Zellweger et al., 2006); managerial entrenchment (Gomez-Mejia et al., 2001); expropriation of wealth from the firm by the owning family (DeAngelo & DeAngelo, 2000; Zellweger et al., 2006); and the potential transfer of dysfunctional family characteristics to the firm (Arregle et al., 2007) are all considered potential costs or disadvantages associated with a high degree of family ownership and control.

Efforts to verify these theories with empirical evidence, however, have generated mixed results. Rutherford et al. (2008), in a review of 23 family business studies conducted from 1980 to 2007, found that only nine studies demonstrated a significant positive relationship between family influence and firm performance; four showed partial support for a positive relationship; one a significant negative relationship; and nine resulted in non-significant relationships. Furthermore, O'Boyle Jr. et al.'s (2012) meta-analysis of 78
family business articles revealed that the relationship between family involvement and performance remained insignificant despite accounting for potential moderators.

The mixed results of prior empirical research suggest that whether family ownership is beneficial or costly to the firm is contingent on factors that have not been accounted for in prior studies. Along this vein, Chrisman et al. (2005) have argued that family ownership and involvement are necessary but insufficient requirements of family influence, and that *essence*—a set of “behaviors that produce certain distinctiveness” (p. 557)—is also needed to fully capture the effect of the family on the firm. In this study, using the context of Overseas Chinese businesses in Southeast Asia, I argue that culture—particularly Confucian culture as represented by traditionalism, ancestor worship, and *guanxi*—embodies this essence. Consequentially, I posit that Confucian values and practices affect the nature and extent of the effect of family ownership and control on firm performance through the creation of social capital. The results of the study suggest that the cultural trait of long-term orientation mediates the relationship between family involvement and firm performance, and that traditionalism moderates the relationship between family involvement and long-term orientation in the mediation model.

The remainder of this study is organized as follows. In Section 2.2, I will present a review of prior studies on family business management that will reveal gaps in the explanations for value creation in family firms. In Section 2.3, I will develop a theoretical framework based on social capital theory and demonstrate how Confucian values such as filial piety, traditionalism, and *guanxi* affect value creation in family firms. In Section 2.4, I will discuss my
sample, the variables I have used to represent the constructs in the model, and the methodologies I have employed to analyze the data. In Section 2.5, I will present the results of the data analysis, and in Section 2.6, I will discuss the degree to which these results support my hypotheses, the implications of the results, and limitations of the study.

2.2 Literature Review

This literature review begins with a presentation of leading theories in family business literature which explain the performance of family enterprises. Next, I provide a brief account of Overseas Chinese family firms and how their practices provide insights that lead to the central thesis of this study. Finally, I present gaps in the literature that have been revealed by the preceding discussions.

2.2.1 Family firm performance

Agency theory, the resource-based view of the firm (RBV), and socioemotional wealth theory (SEW) have been used frequently in family business literature to explain behaviors and outcomes in family businesses. While agency theory and RBV are deeply rooted in mainstream economic and management theory, SEW is a “homegrown” concept in family business literature. All three schools of thought provide reasons as to why family ownership and control may increase firm value. At the same time, however,
they recognize potential costs that may arise from the family’s involvement in the business.

2.2.1.1 Agency Theory

Agency theory is based on how “agency costs” result from the misalignment of the goals of principals and agents, particularly when one party pursues its own ends at the expense of the other. Insofar as a family business is primarily owned by one family and managed by members of the same family, family ownership and management lead to lower agency costs with respect to the owner-manager relationship (Fama & Jensen, 1985; López-Gracia & Sánchez-Andújar, 2007; Menendez-Requejo, 2006). As a corollary, in nonfamily firms with predominantly diffused ownership, minority owners have a greater incentive to shirk and abdicate their responsibilities to the firm, creating a “free-rider” problem that is costly to the firm (Demsetz & Lehn, 1985). Some agency theory scholars also espouse the appointment of a family CEO, which makes it easier to monitor and discipline family members (Anderson & Reeb, 2003; Fama & Jensen, 1985). Finally, unlike nonfamily firms, family businesses have nonfinancial goals such as maintaining a good reputation and preserving family control, which provide incentives for the firm to maintain good relationships with suppliers and creditors, thereby reducing agency conflicts with these stakeholders (Menendez-Requejo, 2006).

Some agency theory scholars, however, recognize the potential drawbacks of the family business as an organizational form. They point out that conflicts of interest may arise in other principal-agent pairs in family businesses. For example, since family owners have a more sizable stake in the
business, they have the means to pursue their own interests at the expense of minority shareholders, resulting in “expropriation of wealth” (Fama & Jensen, 1983; Shleifer & Vishny, 1986). Since family members involved in the business also have nonfinancial motives in making decisions, they may realign resources away from wealth-creating projects and hurt the long-term value of the firm (Demsetz & Lehn, 1985). Non-economic goals such as the preservation of control may lead to nepotism and the recruitment of unqualified family members into the firm (Shleifer & Vishny, 1997). Additionally, when the founding family member passes away and bequeaths the business to his or her descendants, the resulting leadership vacuum may result in sibling rivalry and in-family squabbling that could prove costly to the firm (Gomez-Mejia et al., 2003; Gomez-Mejia et al., 2001; Peng & Jiang, 2010). Finally, when the agency relationship in question is between the family and the family CEO, resolving conflicts may be more problematic, since emotions and sentiments will likely be involved (Peng & Jiang, 2010). For example, a family CEO may be less effective in supervising and disciplining younger family members who are involved in the business because of personal factors that underlie relationships (Schulze et al., 2003).

In sum, while agency theory identifies some advantages of family businesses over nonfamily firms, it also recognizes that significant agency costs may exist between other principal-agent pairs, such as family and nonfamily owners and family owners and a family CEO. Since agency theory is not able to provide a definite explanation for value creation in family businesses, scholars in the field have turned to alternative management paradigms such as the RBV.
2.2.1.2 Resource-based View of the Firm

The resource-based view of the firm has emerged as another important pillar of the strategic management literature that is often used to explain why some enterprises outperform others. According to Barney (1991), firms are able to leverage unique and idiosyncratic resources for competitive advantage, but in order to enjoy a sustainable competitive advantage, a firm’s resources would have to meet the following criteria: a) they must be valuable, in the sense that they exploit opportunities and/or neutralize threats in a firm’s environment; b) they must be rare among a firm’s current and potential competition; c) they must be imperfectly imitable; and d) there cannot be strategically equivalent substitutes for these resources that are valuable but are neither rare or imperfectly imitable. “Familiness,” a term used to describe the unique combination of the family and the business, may be considered one such resource (Habbershon & Williams, 1999; Weidenbaum & Hughes, 1996). Familiness has the ability to generate other kinds of value-creating resources such as human capital, social capital, survivability capital, patient capital, and governance structure (Sirmon & Hitt, 2003).

Some proponents of the RBV, however, argue that owning or acquiring resources which fit Barney’s (1991) criteria is not enough for a sustainable competitive advantage, as these resources would also have to be managed well (Sirmon & Hitt, 2003). Peng and Jiang (2010) suggest that having a family CEO would be helpful in this regard, as he or she would be in a better position to gather and manage unique resources, particularly in weak institutional contexts.
2.2.1.3 Socioemotional Wealth Theory

Despite the contributions made by proponents of agency theory and the RBV in explaining how family businesses perform and make decisions, these theories have failed to consider that decision making in family firms is also driven by non-financial goals, such as succession and preservation of family reputation (Berrone et al., 2012). In recent years, the SEW approach has emerged to address this deficiency and has since evolved into a dominant paradigm in the family business literature. According to SEW theory, apart from profit maximization or the accumulation of economic wealth, family firms are also motivated by “socioemotional wealth” or “non-financial aspects of the firm that meet the family’s affective needs” (Gómez-Mejía et al., 2007). Proponents of the SEW approach argue that the preservation of socioeconomic wealth becomes the key driver of both the family business’ economic and non-economic actions. According to Gómez-Mejía et al.(2007), socioemotional attributes include, among others: the ability to exercise authority; the need for belonging, affect, and intimacy; the perpetuation of family values through the business; the preservation of family dynasty; the conservation of the family firm’s social capital; the fulfillment of family obligations based on blood ties rather than on strict criteria of competence; and the opportunity to be altruistic to family members.

The family firm’s focus on socioemotional endowments leads to behavior and outcomes that are distinct from those of nonfamily firms. For example, SEW theory contends that since family businesses would place more importance on maintaining control than achieving greater profitability, they would be unwilling to take on forms of risk that would threaten the family’s
hold on the firm (Gómez-Mejía et al., 2007). In other words, for family businesses, the risk to socioemotional wealth takes precedence over business and financial risks (Berrone et al., 2012). Furthermore, SEW theory considers how heuristics such as “framing” affect outcomes in family firms. Behavioral theory posits that framing biases occur when outcomes are negatively stated or “framed” (Kahneman & Tversky, 1979). For family firms, losing socioemotional wealth is taken as a “crucial loss” that outweighs any possible gain in value due to risk taking (Gómez-Mejía et al., 2007). The SEW approach thus offers an alternative but non-mutually exclusive explanation to the theory that family firms are more risk averse than their nonfamily counterparts.

Agency theory, the resource-based view of the firm, and socioemotional wealth theory have served as important foundations of research efforts that strive to shed more light on value creation in family business. These theories, however, do not account for possible behavioral and social factors that may have a significant effect on the relationship between family involvement and firm performance. Spurred by early cross-cultural research that linked national cultural traits to economic performance (e.g., Hofstede & Bond, 1988), some family business scholars have turned to the “east” for clues that might shed more light on value creation in family firms. In the next section, I first discuss the role of culture in family firm research, and I then present important findings in the literature regarding the role of Confucian values in the success of Overseas Chinese firms in Southeast Asia and the insights these values provide regarding how—and when—family ownership and control may be beneficial to the firm.
2.2.2 “Confucian values” and Overseas Chinese family business

One group of family firms has demonstrated that family involvement can have a persistently positive effect on performance. Overseas Chinese family businesses—those founded by migrant Chinese families and their descendants—have been documented to consistently outperform their local counterparts and have been widely acknowledged to dominate their host markets, particularly in many parts of Southeast Asia (Hodder, 2006; Rae & Witzel, 2008). Overseas Chinese enterprises are considered cornerstones of the Southeast Asian economy (Hodder, 2006; Weidenbaum & Hughes, 1996). They comprise a bulk of Southeast Asia’s aggregate economy today, while constituting only a small percentage of the total population: anywhere from 50% of the economy in the Philippines to close to 100% in Laos (Hodder, 2006). Furthermore, there is evidence that despite their minority status, Overseas Chinese businesses outperform indigenous firms in their host countries (Braadbaart, 1995; Limlingan, 1986).

Most Overseas Chinese businesses are founded and run as family firms (Weidenbaum & Hughes, 1996). For some pioneer Overseas Chinese firms, this choice of organizational form was borne from convenience, with family members serving as a free and ready source of labor, but for many, it was a matter of survival (Redding, 1990). Historically, Overseas Chinese immigrants have used the family business structure as a means to cope with the uncertainties and challenges that they encountered in their new homes (Yao, 2003).
Involving family members in managing the business has become both a boon and a bane for Overseas Chinese enterprises. While a strong, paternal leader and less bureaucratic organizational structure promote flexibility, more timely decision making, and greater control, distrust of outsiders and limitations of the capabilities of family members curb the Overseas Chinese firm’s potential for growth (Fukuyama, 1996; Weidenbaum & Hughes, 1996). Successful Chinese entrepreneurs eventually reach a point where they must adapt to be able to compete with more established multinational competitors; for many, it is a choice between retaining control while remaining small, or being more open in terms of both ownership and management in order to secure a better position to compete internationally (Tan, 2004).

The transition from a closely held, family-owned and managed private enterprise to a big, modern, professionally run corporation is seen as a form of natural evolution for Overseas Chinese firms (Fukuyama, 1996). However, while many Overseas Chinese family businesses have managed to successfully grow and expand in global markets, those that decide to remain small are still able to compete and flourish. The literature provides two diverging explanations to the success of Overseas Chinese firms. One group of researchers has provided a cultural explanation for the success of Overseas Chinese businesses, primarily based on how Confucian influences directly lead to the creation of competitive advantages. For example, some scholars argue that tight family control and strong paternal authority result in lower agency costs compared with nonfamily enterprises (Weidenbaum & Hughes, 1996; Yan & Sorenson, 2006). Roles in such organizations are clear and well-defined, with every person understanding and accepting his or her place in the hierarchy.
(Redding, 2000). The absolute authority of the founding father also leads to smoother firm management, more efficient ownership and leadership transitions, and greater participation of family members in the business. To attain a proper balance between the goals of the business and the family interests, he makes sure that the family’s culture is satisfactorily integrated into the business (Sheh, 2001). Additionally, as the caretaker of the business, the founding father ensures that the family’s assets are handed down smoothly to the next generation (Wong, 1993). This is achieved by providing younger family members ample training and exposure to the business (Redding, 2000). Furthermore, the possible loss of social status dissuades family members from abandoning their roles in the family enterprise. By actively participating in running the family business and by ensuring continuity of ownership, family members are able to enhance and preserve the family’s reputation in the community (Redding 2000; Wong, 1993).

Other scholars who support the cultural explanation explicate how Confucianism cultivates relationships both within and outside the family’s inner circle and provides important benefits to the firm. Confucian norms and beliefs reinforce bonds among family members and within kinship circles, creating a pool of trustworthy managers and employees (Fukuyama, 1996; Tan, 2004). Outside the family, long-term relationships are created and nurtured using guanxi, the traditional Chinese concept of establishing and nourishing long-term personal, family, and business relationships by exchanging favors and gifts (Dunning & Kim, 2007; Yang, 1994). Guanxi and the accumulation of trust create mutually dependent networks that invoke a sense of obligation among members (Jomo, 2003). The prevalence of this practice among
Overseas Chinese in Southeast Asia is considered a response to the relative underdevelopment of political and social institutions and infrastructure in the region (Cheung, 2004). Social networks act as support groups that provide assistance in managing the business and also act as ready sources of funds (Rae & Witzel, 2008). In addition, networks provide market, pricing, and other useful information that can be transformed into an advantage by the member firm. The threat of tarnished reputations, loss of face, degradation of standing within the community, and possible expulsion from the network also encourage members to behave according to expectations and accepted practice (Redding, 2000). Ultimately, guanxi benefits Overseas Chinese businesses by reducing the transaction costs associated with monitoring agreements, managing transactions between the firm and other members of the network, and allowing the firm access to network-exclusive resources, capital, and information (Liu, 2000; Lovett et al., 1999; Redding, 1990; Standifird & Marshall, 2000; Weidenbaum & Hughes, 1996).

The Confucian explanation for the success of Overseas Chinese businesses in Southeast Asia has received some criticism from scholars in the field. One author argues that while Chinese culture contains attributes that may be associated with economic success, these characteristics are neither necessarily nor exclusively “Confucian” (Tan, 2004). The author adds that the degree to which traditional Chinese culture can espouse economic performance is contingent on the presence of “economic and administrative systems [that] are rationally organized for economic achievement.” According to another argument, Confucian practices and capitalist enterprises are generally incompatible. Confucianism, which emphasizes group welfare over the
individual, is contrary to capitalism, where decisions are driven primarily by self-benefit (e.g., maximizing utility or profit; Koning, 2007; Weber, 1951). In addition, others argue that recent social trends weaken the influence of traditional Confucian practices on industry and commerce. For example, rising geographical and social mobility among individuals threaten the stability of kinship ties, and the increasingly prominent roles women and youth play in the economy are seen as a direct contradiction to the centralized, patriarchal authority espoused by Confucianism (Kuo, 1998). Other researchers have argued that strong adherence to Confucian values could lead to potentially costly firm behavior. Nepotism and difficulties in cultivating capable managers from within the firm’s extended network are commonly cited negative effects of Confucian influence on the firm (Kuo, 1998; Redding, 1990). These issues stem from an inherent distrust of outsiders among ethnic Chinese (Fukuyama, 1996) and could result in more complicated problems of succession and continuity, particularly for Chinese family firms (Rae & Witzel, 2008). Finally, scholars have pointed out the disadvantages of relying on guanxi, such as how the significant time needed to build a guanxi-based network limits the system’s potential for growth (Lovett et al., 1999) and how excessive dependence on guanxi may lead to favoritism and cronyism (Khatri et al., 2005).

2.2.3 Research gaps

In this literature review, I have discussed the leading paradigms that explain the performance of family firms. Agency theory argues that family
businesses benefit from reduced agency costs due to the alignment of ownership and management goals. However, some agency theorists contend that agent-principal issues such as conflicts between the majority owners and minority shareholders persist, and are even more pronounced, in family firms. The resource-based view, meanwhile, posits that the idiosyncratic combination of the family and the business may lead to the creation of valuable, rare, imperfectly imitable, and irreplaceable resources that can provide the firm with a sustainable competitive advantage, but only if these resources can be managed properly. Finally, the socioemotional wealth approach recognizes that family firms place greater importance on non-financial goals such as maintaining control or preserving the family’s reputation, even at the expense of risky but value-adding ventures. These theories provide valuable insights about how family firms behave and perform, but they do not offer a definitive answer as to whether family ownership and control is ultimately good for the firm, or not.

Furthermore, the mixed findings of empirical studies regarding the relationship between family ownership and firm performance have added limited contributions to resolution of the issue. Miller et al. (2007) propose two explanations for the confounding empirical results: the varied sources of the data and the inconsistent definition of “family influence.” A closer look at the results of Rutherford et al.’s (2008) review suggests that the significance of the relationship between family influence and performance may depend on the sample being studied, and in particular, whether it consists of privately held firms or large public firms, as seven of the nine studies that showed a significant positive relationship examined publicly listed firms. Some
researchers also point out that the numerous ways in which previous studies have defined family influence—from a dichotomous classification of “family” versus “nonfamily” firms to a continuous measure based solely on equity ownership—contribute heavily to the persistence of conflicting results (Astrachan et al., 2002; Klein et al., 2005).

Amid these inconsistencies in theory and empirical data, we note a group of family businesses—Overseas Chinese family businesses—who are able to consistently outperform their competitors and dominate their local economies (Hodder, 2006). Despite criticisms of the cultural explanation for the success of Overseas Chinese firms, evidence suggests that Confucian characteristics do play an instrumental role in how Overseas Chinese family firms are able to consistently achieve success in their host markets. Scholars who support this side of the debate cite the deep sense of family, strong patriarchal leadership, and emphasis on cultivating relationships as the keys to the success of Overseas Chinese businesses.

But how exactly do these traits and practices lead to competitive advantages in family businesses? In the next section, I extend the aforementioned arguments and develop a theoretical framework based on social capital theory that maps out how Confucian values affect value creation in family firms. I discuss relevant features of social capital theory and how these relate to family business research. I then demonstrate how Confucian values such as traditionalism, filial piety, and guanxi may increase the family firm’s social capital and improve its capacity to create competitive advantages. Using this framework, I develop a set of hypotheses that reflect the primary research question of this study.
2.3 Theoretical Framework and Hypotheses

The theoretical framework of this study revolves around how Confucian values such as filial piety, traditionalism, and guanxi contribute to the spatial and temporal creation of social capital in the family firm, which in turn can be used in the creation of sustainable competitive advantage. In this section, I first present key features of social capital theory and how these have been applied in the family business literature. I then build the case for my arguments and develop hypotheses that articulate the main thesis of this study.

2.3.1 Social capital as a source of competitive advantage

As the term suggests, “social capital” may be regarded as a form of investment with associated returns. The creation of social capital involves the cultivation of relationships (the “investment”) that have the potential to provide economic benefits (“the returns”) to an individual or organization (Lin, 1999). A confluence of these relationships results in networks with embedded resources (Lin, 2002; Nahapiet & Ghoshal, 1997), which the firm may leverage for lower transaction and monitoring costs and a more efficient exchange of information, capital, goods, and services (Knack & Keefer, 1997; McKean, 1975; Tsai & Ghoshal, 1998). Ultimately, social capital may be interpreted as consisting of both the network and the resources that flow through this network (Nahapiet & Ghoshal, 1997).
Trust is regarded as a key ingredient in the development of business networks and the formation of social capital. Trust initiates network creation by enabling an entity (e.g., an individual or organization) to form and act on expectations about the behavior of other parties and engage in what researchers refer to as “social interaction” (Barber, 1983). At the macro level, as trust fills the gaps left by laws and rules that explicitly define the appropriate social behavior of individuals and organizations (McKean, 1975), social interaction evolves into cooperation among members of a community (Fukuyama, 1996) until it leads to the formation of social order (Barber, 1983). At the individual and firm level, trust facilitates the consummation of transactions between parties by mitigating the possible occurrence of issues that are not explicitly covered by contracts (Guiso et al., 2000). Continuous social interaction among individuals and organizations results in lasting bonds and relationships, which serve as the foundation for social networks.

The literature identifies two distinct kinds of network relationships that provide different types of benefits to the organization (Anderson et al., 2005): “strong” and “weak” ties. Granovetter (1973) describes strong ties as those which emanate from an intragroup of social interactions that facilitate social cohesion, while weak ties are those that come from intergroup social interactions. On the one hand, strong ties involve personal relationships and entities with which an individual or organization frequently interacts; on the other hand, weak ties involve more distant relationships and less frequent contact. Whereas strong ties more commonly describe relationships with family and friends, weak ties often involve relationships with business contacts and other unrelated parties (Anderson et al., 2005).
Strong and weak ties provide different kinds of benefits to the firm. Strong ties typically supply “high quality” and exclusive resources, such as information that caters to the specific needs of the enterprise (Anderson et al., 2005). Since the firm and the entities it has strong ties with typically belong to the same industry or engage in related businesses, these resources are often similar to resources the firm already possesses and therefore merely enhance the firm’s existing strengths (Wu & Choi, 2004). Conversely, weak ties provide the firm with heterogeneous assets that lead to more diverse benefits (Lin, 2002).

Nahapiet and Ghoshal (1997) have described how the exchange of resources and information among network members could be analyzed in terms of three distinct but interrelated dimensions of social capital—the structural, relational, and cognitive elements. Structural social capital includes connections among network members and structural characteristics of the network, such as configuration, density, and hierarchy. In addition, the structural dimension affects a party’s level of access to a shared resource. Meanwhile, relational social capital includes benefits that arise from specific attributes, such as trust, norms, obligations, and expectations. Finally, cognitive social capital pertains to resources that are created with more efficient communication among network members through shared language, codes, and narratives.

Nahapiet and Ghoshal (1997) further identify three factors that are essential to the creation of social capital: time, interaction, and interdependence. Granovetter (1990) underscores the importance of time and warns against “temporal reductionism,” which occurs when network structures and
relationships are viewed as static or lacking in a temporal aspect. Furthermore, the creation and transmission of social capital greatly depends on the stability and continuity of social structures, which are achieved only over time. With regard to the second factor, the frequency and degree of interaction determine the amount of social capital that relationships and networks can produce. Finally, Nahapiet and Ghoshal argue that social capital is a “moral resource,” and as such, its usefulness is dependent on the degree to which actors depend on one another. Interdependence is crucial in the creation of social capital, since it gives rise to obligations and expectations, which in turn define how parties behave toward one another.

Social capital theory is a powerful tool that has also figured prominently in the family business literature in recent years. Apart from understanding the salient features of social capital theory, it is also important to note how it has been used in prior family business research, since these earlier findings will become an important part of the theoretical framework of this study.

2.3.2 Social capital and family firms

The application of social capital theories in family firm literature centers on the development of trust and the strengthening of ties among family members, the transfer of these bonds to the family firm, and the manner in which this leads to the creation of social capital in the family firm. The family unit is responsible for creating an environment that instills a sense of trust in
children and establishes principles of reciprocity and exchange among members of the household (Arregle et al., 2007; Bubolz, 2001). Because of the high frequency and intensity of interactions among family members, linkages developed within the family are believed to be stronger than those created outside the family structure (Granovetter, 1973). When a family chooses to go into business, these strong ties are able to provide the firm with high quality, low-cost, and exclusive access to valuable resources such as information and financial capital (Anderson et al., 2005), in which case, social capital created in the family will have been successfully transferred to the firm. The high level of trust that is transferred from the family to the firm may also eventually lead to strong relationships with and among key managers and personnel (Arregle et al., 2007).

Family ownership and control are believed to contribute positively to the expansion of the firm’s network as well. Family members who are involved in the family business are able to transfer a portion of their personal networks to the firm and contribute positively to the size of the network (Arregle et al., 2007). Additionally, in the transfer process, family members may introduce entities to the business network with whom the firm would not typically interact (e.g., religious organizations, school contacts, professional organizations, and community groups), creating “weak” ties that provide unrelated benefits to the firm.

One of the critical factors that Nahapiet and Ghoshal (1997) have identified—time—plays a key role in the creation of social capital in family firms, since the network expands and network ties become stronger over time. *Ceteris paribus*, as network members have more opportunities to interact and
enter into transactions, network trust should improve and lead to stronger network bonds. Similarly, the continuous cycle of network participants sharing their newly developed contacts with other members of the network should drive network expansion over time and across generations of ownership.

Two factors are believed to have the potential to enhance the positive development of business networks across time in family businesses: succession planning and long-term orientation. Succession planning, in the context of family firms, refers to the process that facilitates the smooth transfer of ownership and/or management from one family member to another (Sharma et al., 2001; Sharma et al., 2003). Early family business studies emphasize that succession planning is a critical determinant of the continuity and future profitability of the business (Christensen, 1953; Trow, 1961). Additionally, the factor that Arregle et al. (2007) refer to as “stability” contributes to the successful implementation of succession plans and to the smooth transfer of business control from one generation to another. Succession planning and stability, then, work hand-in-hand to ensure that the enterprise’s resources are maintained across ownership and management regimes in firms. Since stability is believed to be more pronounced in family firms than in nonfamily firms (Arregle et al., 2007), family firms would benefit from less interruptions in network development across time—both in terms of network bonds and size. The result is that gains made by the previous generation in terms of network development are likely to be carried over to the next generation. This implies that family businesses accumulate more social capital in the long run than nonfamily firms, but only insofar as the family firm is able to successfully
implement succession plans and facilitate smoother management and/or ownership transitions.

Family businesses are believed to emphasize long-term thinking and continuity, and this long-term orientation can be an important source of competitive advantage (Anderson & Reeb, 2003a). Since family owners treat the business as an asset that must be passed on from generation to generation, family firms tend to have longer-term investment horizons than nonfamily enterprises (Casson, 1999; James, 1999; Zellweger, 2007). Family firm CEOs also tend to serve the firm longer and undertake riskier activities to achieve long-term competitive advantage more so than nonfamily CEOs (Zahra, 2005). In the context of business network development, and taken hand-in-hand with succession planning, long-term orientation may thus be considered another factor that enhances the family firm’s ability to build and maintain social capital over time.

However, some scholars have identified issues that could eventually weaken the family firm’s business network. While family firms often start out with a higher level of trust compared to nonfamily businesses, this tends to diminish as the firm expands and experiences intergenerational changes, resulting in weaker network ties (Sundaramurthy, 2008). Weaker trust can easily turn to distrust as the firm ages and matures and experiences the natural evolutionary process that family firms go through (Steier, 2001). Additionally, when the founding generation passes, and if succession planning is not successful, the remaining family members may enter into a power struggle to determine who will inherit control of the firm (Peng & Jiang, 2010). In terms of network size, Fukuyama (1996) asserts that once the firm grows to a
particular size, too much reliance on the family could limit the growth of the firm and the network that surrounds it. Finally, according to Lumpkin and Brigham (2011), some family firms might find it challenging to maintain a long-term orientation and thus may have difficulties in maintaining and growing their business networks in the long term. These arguments imply that while family firms in general are able to establish better developed business networks that enable them to outperform their nonfamily counterparts, these networks run the risk of deteriorating over time. A weaker business network, then, hinders the family business’s ability to create and leverage social capital and may eventually cause the firm to cede competitive advantage to nonfamily industry players. These arguments help explain why prior studies about the effect of family influence on firm performance have yielded inconclusive or mixed results.

According to Fukuyama (1996), social capital is not distributed evenly among societies and cultures. From our discussion in the previous section about Overseas Chinese businesses, we have seen how some groups have a greater inclination toward building relationships and forming and using networks to their advantage. In the next section, I discuss how Confucian beliefs and practices may affect the creation of social capital over time.

2.3.3 Confucian values and the creation of social capital

In this study, I argue that Confucian values—particularly filial piety, traditionalism, and guanxi—help develop business networks and create social
capital in family businesses, as exhibited by Overseas Chinese firms in Southeast Asia. Subsequently, having a greater amount of social capital aids the family firm in value creation and in outperforming its nonfamily counterparts.

2.3.3.1 Filial Piety

Filial piety generally refers to the high emphasis placed on a child’s duties to his or her parents, particularly the father (Baker, 1979); it is characterized by a high degree of devotion, affection, respect, and obedience (Yan & Sorenson, 2006). In a broader context, filial piety may also be used to describe a subordinate’s strict obedience to his or her superiors (Weber, 1951). In families and organizations, filial piety sets forth strict rules of obedience based on a top-down hierarchy, starting with the father (or boss), down to the mother, elder children, and younger children (or entry-level employees), in that order (Rae & Witzel, 2008). For Overseas Chinese, filial piety is seen as the main source of stability for the family (Redding, 1990) and is considered an important cornerstone of society (Rae & Witzel, 2008).

For Overseas Chinese family businesses in particular, filial piety plays a crucial role in social capital creation. Filial piety contributes to the formation of structural social capital in family firms by strengthening intergenerational ties (i.e., between parent and child), preserving intergenerational trust, and ensuring the smooth flow of intergenerational exchanges. Consequently, when the relationship between the family firm’s principal and the family member who is next in line is strong, as is the case in “high filial piety” organizations, networks and social capital cultivated by the current generation may more
easily be passed on to the next generation (Yan & Sorenson, 2006). Filial piety also facilitates the creation of *cognitive social capital* through the preservation of the family’s culture across generations. Finally, with respect to *relational social capital*, filial piety establishes implicit but strict rules that guide the behavior and decision making of family members. It serves as the mechanism by which conflicts within the family and the organization may be prevented and resolved (Yan & Sorenson, 2006). Because filial piety is manifested as strong leadership in the family firm, there is a lower incidence of agency conflicts between the head of the firm and other employees, and even among family members who are involved in the business. By fostering trust among family members, filial piety also reduces monitoring costs and enables the firm to make quick decisions and better adapt to changing situations (Wong, 1991).

### 2.3.3.2 Traditionalism

Traditionalism is a value that reflects respect for the traditions, customs, and norms of a particular society (Schwartz, 1992). In Confucian culture, one of the ways traditionalism is manifested is through ancestor worship, a practice in which children continue to respect and begin to worship their parents when they die (Baker, 1979; Kuo, 1998). Traditionalism is also displayed in Chinese society as “familism,” or the value of placing family interests before and above everything else (Redding, 1990; Wong, 1993).

Traditionalism contributes to the formation of structural social capital by helping preserve family and business networks over time. Highly traditional families encourage younger generations to maintain and continually nourish relationships fostered by past generations (Arregle et al., 2007; Kuo, 1998).
Similar to filial piety, traditionalism contributes to building cognitive social capital by espousing the preservation of the family’s shared language and codes through greater interdependence and interaction among family members. Specifically, traditionalism in the form of ancestor worship provides a window for younger generations to share in the narratives of previous generations; filial piety then ensures that the communication of knowledge between generations is successful (Arregle et al., 2007; Yan & Sorenson, 2006). Finally, traditionalism espouses the importance of face, which maintains harmony and order among network members, since loss of face may lead to expulsion from the network (Standifird & Marshall, 2000; Yeung & Olds, 2000). Placing the family in high regard also dissuades family members from taking actions that have the potential to sully the reputation of the family. This mechanism spurs the creation of relational social capital through stronger network relationships.

2.3.3.3 Guanxi

In section 1.2, I introduced guanxi as the practice of using gifts and favors to develop long-term relationships; indeed, it is a major feature of Confucian societies, which emphasize the importance of interpersonal social ties (Dunning & Kim, 2007). Family and business connections forged in Overseas Chinese communities with guanxi are believed to be stronger than relationships among indigenous parties (Koning, 2007). Guanxi plays a major role in Confucian economies by serving as the mechanism that facilitates the execution of economic transactions (Rae & Witzel, 2008) as it fosters and preserves trust between parties (Liu, 2000). In such transactions, trust between
new contacts is instantly created through the recommendation of a common network member (Rae & Witzel, 2008).

Whereas filial piety and traditionalism primarily promote network development and social capital formation temporally (i.e., between or across generations), guanxi works both across time and social space. Guanxi enables the family firm to expand its network through the introduction of new contacts and forge stronger ties with network members, thereby helping to develop structural social capital. In addition, by helping cultivate relationships with partners from unrelated industries or entities outside the firm’s immediate circles, guanxi facilitates the creation of weak ties, which in turn provide the firm with heterogeneous network resources (Anderson et al., 2005). Furthermore, while relationships created with guanxi may be passed on among family members of one generation, guanxi also enables bonds that are developed in one generation to be transferred to the next (Dunning & Kim, 2007; Standifird & Marshall, 2000). The practice of guanxi contributes to cognitive social capital formation as well by leveraging common characteristics among potential business partners, such as home town, dialect, surname, school, or place of work, in building long-term relationships (Rae & Witzel, 2008). Through constant communication and exchanges that highlight the shared identity of network members, guanxi is able to strengthen the group’s cultural identity. Finally, guanxi is able to generate more relational social capital for the firm by creating avenues for predictable and efficient exchanges based on trust (Dunning & Kim, 2007; Zhou et al., 2007). It also creates reciprocal obligations when gift-giving is initiated and continued in a
series of exchanges (Standifird & Marshall, 2000), resulting in greater interdependence and more opportunities for interactions over time.

The ways in which filial piety, traditionalism, and guanxi influence the creation of social capital are summarized in Table 1 below.

<table>
<thead>
<tr>
<th>Confucian value</th>
<th>Structural</th>
<th>Cognitive</th>
<th>Relational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filial piety</td>
<td>Stronger intergenerational ties; Easier transfer of social capital between generations</td>
<td>Preservation of shared codes and narratives across generations</td>
<td>Greater expectation for obedience; Implicit rules for decision making; Increased trust</td>
</tr>
<tr>
<td>Traditionalism</td>
<td>Relationships created by past generations nourished by future generations</td>
<td></td>
<td>Preservation of norms such as the importance of face</td>
</tr>
<tr>
<td>Guanxi</td>
<td>Network expansion; Stronger and longer lasting network ties; Transfer of relationships from one generation to the next</td>
<td>Stronger cultural identity</td>
<td>Increased trust; Reciprocal obligations</td>
</tr>
</tbody>
</table>

Table 1. Effects of Confucian values on the three dimensions of social capital

2.3.4 Hypotheses

Heeding Granovetter’s (1990) advice to avoid temporal reductionism, and recognizing that Confucian values affect social capital creation both spatially and temporally, I begin this section by establishing the role of long-term orientation in the social capital formation of family firms. I then
demonstrate that Confucian values and practices contribute to value creation by enhancing the long-term orientation of the family business.

2.3.4.1 Long-term Orientation in Family Businesses

Long-term orientation (LTO) has been operationalized as a measure of temporal orientation at the national level (Hofstede, 2001) and has been used to explain differences in economic performance between countries (Hofstede & Bond, 1988). LTO has also been defined as an informal guideline for how individuals and organizations make decisions with respect to the past, the present, and the future (Bearden et al., 2006). In this thesis, I adopt the firm-level operationalization of LTO as the “tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period” (Lumpkin et al., 2010, p. 241). With this definition, it can be amply demonstrated that family businesses tend to exhibit high degrees of LTO through characteristics that are indicative of a long-term perspective (Brigham et al., 2013). By definition, family business ownership and management encompass multiple family generations and thus involve longer family control regimes than in nonfamily firms (Casson, 1999; James, 1999; Zellweger, 2007). In addition, family firm CEOs tend to retire at a later age than nonfamily CEOs (Lansberg, 1999) and undertake riskier activities for long-term competitive advantage (Zahra, 2005). Finally, family businesses are said to possess “patient capital,” which enables them to pursue investments with longer-term horizons and avoid short-term profitability, which many nonfamily firms pursue (Simon & Hitt, 2003).
The high degree of LTO in family firms is also reflected by how the organization’s goals and objectives tend to be articulated with a long-term view (Le Breton-Miller & Miller, 2006). For example, family owners treat the business as a precious asset that must be preserved and handed down to future generations (Zellweger, 2007). Additionally, non-financial goals, such as the preservation of socioemotional wealth (Gomez-Mejia et al., 2007) and the successful transfer of ownership and management within the family (Sharma et al., 2003), are associated with long-term horizons.

These arguments serve as the basis for the first hypothesis of this study.

Hypothesis 1.1-A (H1.1-A): A high degree of family ownership and control is related to a higher degree of LTO in the organization.

LTO is also considered an important source of competitive advantage for family firms. High-LTO firms place a greater importance on the past and make decisions for the longer term (Hofstede, 2001), and thus, they tend to invest more in long-term assets (Allouche et al., 2008; Anderson & Reeb, 2003a; Astrachan & Zellweger, 2008), projects that are perceived as too risky by their nonfamily competitors (Sciascia & Mazzola, 2008), and other ventures that may provide greater value in the long run (James, 1999). Furthermore, high-LTO family firms emphasize the well-being of subsequent generations more than low-LTO family firms (Le Breton-Miller & Miller, 2006), so the likelihood of successful family ownership and management transitions is higher for the former than for the latter (Yan & Sorenson, 2006). Since ownership and management transitions are smoother for high-LTO firms, the
next generation of family members have an opportunity to form ties with network members—family friends and business partners—even before they take over the business. These relationships are nourished continually until they become independent of the involvement of the current or past generation. In this way, network benefits cultivated in one generation are also enjoyed by succeeding generations—an effect referred to herein as “intergenerational network benefits.”

LTO also has the potential to arrest costs of family ownership that have been identified in the literature. In Section 2.2.1.1, I discussed how conflicts of interest between the dominant family owner and minority shareholders may result in agency costs. Additionally, according to SEW theory, family firms may choose to forego value-adding opportunities for the sake of preserving socioemotional endowments and avoiding risk. The lack of or ineffective succession plans may also result in in-fighting among family members when the next generation takes over the business. A high degree of LTO, however, can minimize these costs by facilitating the convergence of conflicting goals in the long run and by improving the likelihood of success when ownership and management are transferred from one generation to the next (Lumpkin & Brigham, 2011).

Since LTO leads to the creation of competitive advantages and the mitigation of costs associated with family ownership and control, I posit that:

Hypothesis 1.1-B (H1.1-B): A high degree of LTO is related to better organizational performance.
Taken together, hypotheses H1.1-A and H1.1-B imply that family ownership and control has an indirect positive effect on performance through long-term orientation. In other words, family ownership and control, LTO, and firm performance comprise a mediation model (James & Brett, 1984), with family ownership and control (FOC) as the antecedent, performance as the consequence, and LTO as the mediator.

Hypothesis 1.1 (H1.1): LTO mediates the effect of FOC on performance.

2.3.4.2 Confucian Values and Family Businesses

Confucian values are strongly associated with greater continuity and long-term orientation. A cultural survey by the Chinese Cultural Connection (1987) revealed a set of measures derived from Confucian ideas (Hofstede & Bond, 1988) that have subsequently associated with future orientation. As I previously explained, filial piety and traditionalism both emphasize forward-thinking and promote the preservation of family identity. Filial piety and traditionalism serve as the foundation of family values and relationships in Confucian societies, as they lead to conformity and stability both within the family and society at large (Baker, 1979; Kuo, 1998; Rae & Witzel, 2008). In the context of the family business, I argue that by facilitating a smoother transfer of the firm’s values and resources from one generation to another, filial piety and traditionalism preserve long-term orientation and enhance its benefits to the family firm. Specifically, these constructs strengthen intergenerational
ties and make it easier to maintain and grow the firm’s network over time and across management and ownership regimes. These Confucian ideals also positively contribute to the successful transfer of ownership and management between family members, as they make it easier for key personalities and entities—the founder, the successor, other family members, and nonfamily firm personnel—to accept the succession process (Yan & Sorenson, 2006). In high filial piety family firms specifically, the current family owners and managers act as the caretakers of the business and prepare to pass on the business to the next generation (Casson, 1999; James, 1999). When business decisions are independent of specific family personalities or generations who are involved in the business, the firm can pursue opportunities with payoffs that occur beyond the average lifespan of a management regime. Traditionalism, meanwhile, helps preserve the family’s value system and narrative for future generations, helping future family business leaders better identify with the family as a whole and the family’s forebears in particular. The preservation of the family business’s long-term orientation and the facilitation of smoother leadership transitions help spur the further growth and development of the firm’s business network and the creation of social capital over time. These arguments indicate that a high degree of filial piety and traditionalism enhance the family firm’s LTO and suggest that both filial piety and traditionalism positively moderate the relationship between family involvement and LTO. I therefore hypothesize that:
Hypothesis 1.2 (H1.2): LTO is higher in high filial piety than in low filial piety family firms. In other words, filial piety positively moderates the relationship between FOC and LTO.

Hypothesis 1.3 (H1.3): LTO is higher in family firms with high traditionalism than those with low traditionalism. In other words, traditionalism positively moderates the relationship between FOC and LTO.

It has been demonstrated earlier that guanxi contributes to social capital development both temporally and spatially. Guanxi improves the family firm’s long-term orientation by creating long-lasting network relationships (Yeung & Tung, 1996) and maintaining a high level of trust within the family, the business, and the network (Liu, 2000). And since guanxi relationships may be treated as assets that can be transferred from person to person and across generations (Dunning & Kim, 2007; Standifird & Marshall, 2000), the current generation of family owners and managers is also able to enjoy intergenerational network benefits. Furthermore, by forging weak ties with business partners and other nonfamily contacts with guanxi (Liu, 2000), family firms build up more social capital with diverse heterogeneous resources. Guanxi is therefore able to improve the family firm’s capacity to create competitive advantages through the creation of social capital, both directly by expanding the firm’s network, and indirectly through LTO. These arguments imply that guanxi acts as a positive moderator for both the relationship between FOC and LTO and FOC and firm performance. This leads to the final two hypotheses of this study:
Hypothesis 1.4 (H1.4): Performance is greater in high guanxi family firms than in low guanxi family firms. In other words, guanxi positively moderates the relationship between FOC and firm performance.

Hypothesis 1.5 (H1.5): LTO is higher in high guanxi family firms than in low guanxi family firms. In other words, guanxi positively moderates the relationship between FOC and LTO.

The structural equation model which illustrates these hypotheses is shown in Figure 1 below.

Figure 1. Moderated mediation model of family ownership and control and firm performance
In the next section, I discuss the process of developing the “Confucian values” scale that was used in the study and the research methodologies used to test the empirical model.

2.4 Methodology

In the previous section, I developed an empirical model for the performance of family firms which involves relationships among Confucian values, family ownership and control, and firm performance. In this section, I discuss the definition and operationalization of these variables, and the development of a “Confucian values” scale through a pilot study. I then describe the parameters of the sample used in this study and the process of collecting data from the sample. Finally, I present the statistical methodologies that were adopted in analyzing the data.

2.4.1 Variables and scale development for “Confucian values”

Defining the “family firm” has become a major methodological issue in family business research that has contributed to the inconsistent findings in family firm performance studies (Astrachan et al., 2002). To address the issue, scholars have begun to move away from traditional family vs. nonfamily classifications and one-dimensional measures such as family ownership. While efforts to address these concerns have recently emerged in the family business
literature (e.g., Astrachan et al., 2002), empirical results remain mixed (Rutherford et al., 2008). In this study, I have adopted an operational definition of “family ownership and control” (FOC) that reflects multiple aspects of the concept and allows for continuous measurement. Specifically, in measuring FOC, I considered the following indicators: the percentage of family ownership, the presence of a family CEO, the presence of a family chairman, and participation of the family on the board of directors. Values for these indicators were derived through a survey, which I will discuss in more detail in succeeding sections of this chapter.

For performance, I used the widely used measure of “return on assets” (ROA), which represents the ratio of a firm’s net income (or loss) to total assets. All of the financial data that were used in this dissertation were derived directly from financial statements submitted to government regulators.

An early attempt to measure Confucian or Chinese cultural values was undertaken by the Chinese Cultural Connection (1987). The scale was eventually redefined by Hofstede (2001) as a national-level scale of long-term orientation. Since there is no available established scale for “Confucian values” at the firm or individual level, I developed my own scale with a pilot study.

In the pilot study, I gathered potential indicators for filial piety, traditionalism, guanxi, and long-term orientation from related cultural scales developed by Bearden et al. (2006), Brockner et al. (2001), Chen (1997), Dunning and Kim (2007), Singelis et al. (1995), and Triandis and Gelfand (1998). The pilot study questionnaire consisted of 59 items and was distributed to 562 students from Ateneo de Manila University in the Philippines and 185 parents of these students, for a total of 747 respondents (a copy of the Pilot
Study Questionnaire is provided in Appendix A). Respondents were asked to indicate their attitude toward the items using a 5-point Likert scale, with “1” representing “Strongly Disagree,” and “5” representing “Strongly Agree.” The respondents were also asked to provide some demographic information, such as age and gender (please see Table 2 below). After removing incomplete submissions, the sample size was reduced to 498 student responses and 148 adult responses, for a total of 646 responses.

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Ave. age</th>
<th>Age SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students</td>
<td>247</td>
<td>251</td>
<td>18.98</td>
<td>1.04</td>
</tr>
<tr>
<td>Adults</td>
<td>47</td>
<td>101</td>
<td>49.27</td>
<td>6.57</td>
</tr>
<tr>
<td>Total</td>
<td>294</td>
<td>352</td>
<td>25.92</td>
<td>13.15</td>
</tr>
</tbody>
</table>

Table 2. Demographic statistics of pilot study sample

I first computed for item correlations and performed the initial screening process described by Field (2009) to check for singularity, then removing items that correlate too poorly or too well with other items. Eliminating 10 out of 59 items that fit the prescribed heuristics improved the determinant of the correlation matrix to 0.00000848, which is close to the 0.00001 benchmark suggested in the text.

I then subjected the data to Exploratory Factor Analysis (EFA) for item reduction using SPSS 18. The analysis was run using principal component analysis and varimax rotation (Field, 2009). In testing for sampling adequacy, the Kaiser-Meyer-Olkin (KMO) value was 0.903, well within the “superb” range suggested by Hutcheson & Sofroniou (1999). Finally, in applying Bartlett’s test for sphericity, the result was significant, meaning the correlation
matrix was not an identity matrix and the data was fit for factor analysis (Field, 2009).

<table>
<thead>
<tr>
<th>Item code</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GUA</td>
<td>FIL</td>
<td>LTO</td>
<td>TRA</td>
</tr>
<tr>
<td>C33</td>
<td>0.694</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C15</td>
<td>0.600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C12</td>
<td>0.571</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2</td>
<td>0.545</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C26</td>
<td>0.527</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C35</td>
<td></td>
<td>0.703</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C21</td>
<td></td>
<td>0.694</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C17</td>
<td></td>
<td>0.611</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C18</td>
<td></td>
<td>0.589</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C37</td>
<td></td>
<td>0.543</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C38</td>
<td></td>
<td>0.429</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C23</td>
<td></td>
<td></td>
<td>0.628</td>
<td></td>
</tr>
<tr>
<td>C24</td>
<td></td>
<td></td>
<td>0.577</td>
<td></td>
</tr>
<tr>
<td>C64</td>
<td></td>
<td></td>
<td>0.549</td>
<td></td>
</tr>
<tr>
<td>C9</td>
<td></td>
<td></td>
<td>0.538</td>
<td></td>
</tr>
<tr>
<td>C22</td>
<td></td>
<td></td>
<td>0.522</td>
<td></td>
</tr>
<tr>
<td>C25</td>
<td></td>
<td></td>
<td>0.484</td>
<td></td>
</tr>
<tr>
<td>C43</td>
<td></td>
<td></td>
<td></td>
<td>0.673</td>
</tr>
<tr>
<td>C39</td>
<td></td>
<td></td>
<td></td>
<td>0.609</td>
</tr>
<tr>
<td>C40</td>
<td></td>
<td></td>
<td></td>
<td>0.518</td>
</tr>
<tr>
<td>C41</td>
<td></td>
<td></td>
<td></td>
<td>0.479</td>
</tr>
<tr>
<td>C5</td>
<td></td>
<td></td>
<td></td>
<td>0.457</td>
</tr>
<tr>
<td>Cronbach's Alpha</td>
<td>0.802</td>
<td>0.779</td>
<td>0.711</td>
<td>0.662</td>
</tr>
</tbody>
</table>

Table 3. Rotated scores and Cronbach’s alpha of four factors from pilot study

EFA

The EFA procedure revealed four distinct factors that consist of 23 items, taking factor loadings and face validity into consideration. The rotated factor scores of the 23 items are shown in Table 3. Based on the item contents, the individual factors refer to the following constructs: Factor 1 is *guanxi* (GUA); Factor 2 is filial piety (FIL); Factor 3 is LTO; and Factor 4 is
traditionalism (TRA). The reliability of the constructs was determined using Cronbach’s alpha. GUA ($\alpha = 0.802$), FIL ($\alpha = 0.779$), and LTO ($\alpha = 0.711$) all met the benchmark of 0.7 suggested by Kline (2000), with TRA on the borderline ($\alpha = 0.662$). The 22 items were then recoded based on the EFA results using the following prefixes: “f” = FIL; “t” = TRA; “g” = GUA; and “l” = LTO.

2.4.2 Sample

The model that was developed in the previous section was tested using primary and secondary data from a sample of small- and medium-sized firms in the Philippines. The sample was drawn from the records of the Securities and Exchange Commission (SEC) in the Philippines in 2011. The decision to use Philippine firms to validate the hypotheses is justified by the following arguments: first, Overseas Chinese in the Philippines have had as much impact on the economic development of the country as have other Overseas Chinese in the rest of the region (Hodder, 2006); second, family businesses in the Philippines have been shown to exhibit the same Confucian characteristics that the Overseas Chinese, as a whole, are believed to possess (Sison, 1999); finally, a previous study showing significant differences in financial and operating characteristics between Chinese and non-Chinese Filipino businesses (Hicks &

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2 The Philippines defines “Small and Medium Enterprises” as those having total assets from 3 million to 100 million Philippine pesos (US$ 75,000 to US$ 2.5 million) as stated in Executive Order No. 176. To improve the number of usable responses, I have expanded the range of the definition to 1 million to 200 million (US$ 25,000 to US$ 5 million) Philippine pesos.
Redding, 1982) serves as a precedent in using data from Philippine firms in
determining the effects of Confucian values on the behavior and performance
of family businesses. The sampling choice is also based on the
“epidemiological approach” to cross-cultural research (Fernandez, 2008),
where the required variance in the data derives from differences between native
and immigrant members of the population and their descendants.

Nineteen owners and managers of small- and medium-sized Philippine
businesses that were associated with Ateneo de Manila University were invited
to participate in a pre-test with the aim of improving the questionnaire. I used
the 22 items from the pilot study to measure the cultural variables of filial piety,
traditionalism, guanxi, and LTO. I also included questions about the ownership
structure of a respondent’s business, whether the firm’s CEO is a family
member or not, the composition of the board of directors, and questions about
the firm’s other characteristics (please refer to Appendix B for a copy of the
pre-test questionnaire). I then asked the pre-test respondents to answer the
questionnaire and provide feedback regarding the length of the questionnaire
and the understandability of the items. I also invited five university professors
from Manila to comment on the face validity of the items in the questionnaire.
Based on the results of the pre-test and the feedback of the respondents and
university professors, I rephrased three items in the questionnaire.

The final questionnaire included questions about the percentage
ownership of the family in the firm, if any (FAMO), a dummy variable for
family CEO (FAMCEO; 0 = nonfamily, 1 = family), the percentage of family
members on the board of directors (FAMBOARD), and a dummy variable for
family chairman of the board of directors (FAMCHAIR; 0 = nonfamily, 1 =
family)—the indicators of the FOC construct. I also included the 23 items for FIL, TRA, GUA, and LTO from the pre-test. Finally, I added questions about the role of the respondent in the firm and the age of the firm (please refer to Appendix C for the final version of the dissertation questionnaire).

<table>
<thead>
<tr>
<th>Sample size (n)</th>
<th>144</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms with zero family ownership</td>
<td>27</td>
</tr>
<tr>
<td>Firms with 100% family ownership</td>
<td>77</td>
</tr>
<tr>
<td>Firms with Chinese ethnicity</td>
<td>70</td>
</tr>
<tr>
<td>Number of owner respondents</td>
<td>83</td>
</tr>
<tr>
<td>Number of President or CEO respondents</td>
<td>43</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets (PHP)</td>
<td>1,133,716</td>
<td>177,155,819</td>
<td>36,091,810</td>
<td>39,156,783</td>
</tr>
<tr>
<td>Firm age (years)</td>
<td>1</td>
<td>67</td>
<td>18.66</td>
<td>14.59</td>
</tr>
</tbody>
</table>

Table 4. Profile of survey respondents

The final questionnaire was distributed to representatives of 1,382 small- and medium-sized corporations in the Philippines whose contact information was available either from the SEC or through personal contacts. Representatives of respondent firms were required to have at least a supervisory or administrative position in the firms they represented. The questionnaires were distributed in June 2012. All responses were collected at the end of September 2012 and compiled and transcribed in a spreadsheet by a
research assistant in Manila. Some 144 complete responses were collected for an effective response rate of 10.42%. This sample size meets the criteria for partial least squares structural equation modeling analysis as proposed by (Barclay et al., 1995). Profiles of the respondents are summarized in Table 4 above.

Using the collected data, the scales for Confucian values and LTO were subjected to a second round of EFA using principal components analysis and varimax rotation. After accounting for rotated factor loading scores, the following scales consisting of the 12 items listed in Table 5 were derived.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>FIL</th>
<th>TRA</th>
<th>GUA</th>
<th>LTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>f19</td>
<td>.745</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f14</td>
<td>.733</td>
<td></td>
<td></td>
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<tr>
<td>f16</td>
<td>.671</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t3</td>
<td></td>
<td>.808</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t5</td>
<td></td>
<td>.633</td>
<td></td>
<td></td>
</tr>
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<td>t11</td>
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<td></td>
<td>.576</td>
<td></td>
</tr>
<tr>
<td>g15</td>
<td></td>
<td></td>
<td>.661</td>
<td></td>
</tr>
<tr>
<td>g18</td>
<td></td>
<td></td>
<td></td>
<td>.554</td>
</tr>
<tr>
<td>l10</td>
<td></td>
<td></td>
<td></td>
<td>.846</td>
</tr>
<tr>
<td>l6</td>
<td></td>
<td></td>
<td></td>
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<td>.782</td>
</tr>
<tr>
<td>l20</td>
<td></td>
<td></td>
<td></td>
<td>.760</td>
</tr>
</tbody>
</table>

*Table 5. Rotated scores of Confucian values and LTO from main survey EFA*

The financial data of the 144 respondent firms were obtained from 2011 financial statements filed with the Securities and Exchange Commission. The respondent firms had a mean age of 18.66 years and average total assets of PHP 36 million (around US$ 900,000 as of April 2013). Data from these financial statements were used to compute for ROA. Descriptive statistics of
the indicators for Confucian values, LTO, FOC, and ROA are found in Table 6. Correlation coefficients of the indicators are compiled in Appendix D.

<table>
<thead>
<tr>
<th>N = 144</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>.045</td>
<td>.072</td>
<td>.314</td>
<td>2.110</td>
</tr>
<tr>
<td>FAMO</td>
<td>.688</td>
<td>.399</td>
<td>-.791</td>
<td>-1.023</td>
</tr>
<tr>
<td>FAMBOARD</td>
<td>.659</td>
<td>.405</td>
<td>-.654</td>
<td>-1.280</td>
</tr>
<tr>
<td>FAMCEO</td>
<td>-</td>
<td>-</td>
<td>-1.211</td>
<td>-.542</td>
</tr>
<tr>
<td>FAMCHAIR</td>
<td>-</td>
<td>-</td>
<td>-1.124</td>
<td>-.747</td>
</tr>
<tr>
<td>f14</td>
<td>2.69</td>
<td>1.041</td>
<td>.054</td>
<td>-.581</td>
</tr>
<tr>
<td>f16</td>
<td>3.31</td>
<td>.948</td>
<td>-.499</td>
<td>-.375</td>
</tr>
<tr>
<td>f19</td>
<td>3.28</td>
<td>1.014</td>
<td>-.296</td>
<td>-.538</td>
</tr>
<tr>
<td>t3</td>
<td>4.17</td>
<td>.839</td>
<td>-1.203</td>
<td>2.061</td>
</tr>
<tr>
<td>t5</td>
<td>3.84</td>
<td>.799</td>
<td>-.787</td>
<td>.954</td>
</tr>
<tr>
<td>t11</td>
<td>3.98</td>
<td>.789</td>
<td>-.917</td>
<td>1.451</td>
</tr>
<tr>
<td>g15</td>
<td>4.36</td>
<td>.621</td>
<td>-.786</td>
<td>1.375</td>
</tr>
<tr>
<td>g18</td>
<td>4.47</td>
<td>.578</td>
<td>-.523</td>
<td>-.673</td>
</tr>
<tr>
<td>l6</td>
<td>4.38</td>
<td>.757</td>
<td>-1.257</td>
<td>1.500</td>
</tr>
<tr>
<td>l10</td>
<td>4.09</td>
<td>.960</td>
<td>-1.144</td>
<td>.936</td>
</tr>
<tr>
<td>l20</td>
<td>4.38</td>
<td>.719</td>
<td>-1.063</td>
<td>.979</td>
</tr>
<tr>
<td>l22</td>
<td>4.58</td>
<td>.621</td>
<td>-1.183</td>
<td>.331</td>
</tr>
</tbody>
</table>

*Table 6. Descriptive statistics of Confucian values, LTO, FOC, and performance indicators*

2.4.3 Analysis

Based on the hypotheses formulated in the previous section, I developed the structural equation model illustrated in Figure 2. The moderation effects are represented by the interaction constructs “FOC*FIL,” “FOC*TRA,” and “FOC*GUA” based on the product indicator approach of Kenny and Judd (1984).
The partial least squares structural equation modeling (PLS-SEM) method was used for data analysis using the SmartPLS 2.0 (Beta) software. PLS-SEM was chosen over alternative methods such as covariance-based structural equation modeling or CB-SEM because the former accommodated the study’s sample size given the complexity of the structural model (Hair et al., 2011; Hair et al., 2012).
To assess the outer or measurement model in terms of the reliability and validity of the constructs, I first evaluated the loadings and cross loadings of the indicators using the rules proposed by Chin (1998), Grégoire and Fisher (2006), and Hulland (1999). To measure the internal consistency of the constructs, I used composite reliability, $\rho_c$, (Werts et al., 1974) and the minimum values prescribed by Bagozzi and Yi (1988). Composite reliability is given by the formula:

\begin{equation}
\rho_c = \frac{(\sum \lambda_i)^2}{(\sum \lambda_i)^2 + \sum var(\varepsilon_i)}
\end{equation}

Where $\lambda_i$ is the loading of indicator $i$ on a construct, $\varepsilon_i$ is the standard error of indicator $i$. Finally, I employed average variance extracted ($AVE$) for convergent validity and the procedure proposed by Fornell and Larcker (1981) for discriminant validity. $AVE$ is given by the formula in Equation 2.

\begin{equation}
\rho_c = \frac{\sum \lambda_i^2}{\sum \lambda_i^2 + \sum var(\varepsilon_i)}
\end{equation}

After establishing the reliability and validity of the research instrument, I performed a preliminary analysis of the data by comparing means of different groups of endogenous variables using the $t$-test.

To evaluate the inner or structural model, I followed the procedure outlined by Hair et al. (2014) in Figure 3. In Step 1, I examined the model for
possible collinearity issues using the prescribed criteria variance inflation factor. Collinearity refers to the degree of correlation among predictor constructs. A high degree of collinearity can result in biased and incorrect estimates in running the PLS algorithm (Hair et al., 2014). To assess the degree of collinearity in the model, predictor constructs for each endogenous variable were first grouped into blocks. In particular, for LTO, the predictor block consists of FOC, FIL, TRA, GUA, FOC*FIL, FOC*TRA, and FOC*GUA; for performance, the block is made up of FOC, LTO, GUA, and FOC*GUA. In each block, one construct is regressed in terms of all the other constructs in the block using the latent value scores (LVS) from the PLS analysis. The PLS algorithm was run using the structural equation model in Figure 2 and the following parameters: a starting value of 1 for each of the outer weights (Henseler, 2010), the path weighting scheme (Henseler et al., 2009; Henseler, 2010), a stop criterion of $10^{-5}$ (Wold, 1982), and a maximum number of iterations of 300 (Ringle et al., 2005). I repeated the regression process for all of the remaining predictor constructs in the block and listed the $R^2$ of each run. The $R^2$ values for each block were then used to compute for the variance inflation factor ($VIF$) of each predictor construct using Equation 3. Hair et al.’s (2011) benchmark 5 or more for $VIF$ to indicate excessive collinearity was applied to the results.

(Equation 3)

$$VIF = \frac{1}{1 - R^2}$$
In Step 2, the significance of the path weights produced by the PLS algorithm was determined using the bootstrapping procedure (Efron, 1981) with the following parameters: no sign changes (Henseler et al., 2009), 5,000 bootstrap samples, and bootstrap cases equal to the sample size of 144 (Hair et al., 2011).

![Figure 3. Structural model assessment procedure by Hair et al., (2014)](image)

One of the objectives of this study is to confirm the hypothesized effects of Confucian values and long-term orientation on firm performance. The proposed model reflects two effects: a mediating effect and a moderating effect. To confirm mediation, I applied Sobel's (1982) procedure using the path coefficients from the PLS algorithm and the standard errors from bootstrapping. Given the mediation model in Figure 4, the path coefficients $a$, $b$ and $c$ and their respective standard errors $s_a$, $s_b$, and $s_c$, construct $Z$ is a full mediator of the relationship between $X$ and $Y$ if $a \times b$ is significant (using the test statistic $z$
in Equation 4) and path $c$ is not significant. If $a \times b$ is significant and $c$ is also significant, then $Z$ is a partial mediator of $X$ and $Y$.

(Equation 4)

$$z = \frac{a \times b}{\sqrt{b^2 \times s_a^2 + a^2 \times s_b^2 + s_a^2 \times s_b^2}}$$

Figure 4. Mediation model consisting of antecedent $X$, dependent variable $Y$, and mediator $Z$

To test the moderating effects in the model, I used both the product indicator approach of Kenny and Judd (1984), which was subsequently applied to PLS-SEM by Chin et al. (2003), and the two-stage approach of Henseler and Fassott (2010). While the product indicator approach is the more commonly used method both in CB-SEM and PLS-SEM, according to Henseler and Chin (2010), this method is not appropriate for models with few indicators that involve small sample sizes. In such cases, the authors recommend the two-stage approach, especially for detecting the significance of interaction effects.
Despite this recommendation, I also ran the product indicator approach to see if there was any agreement in the findings.

Figure 5. The product indicator approach to modeling interaction effects

In the product indicator approach, indicators for the interaction construct $X \times M$ are formed by cross-multiplying the indicators of antecedent $X$ with the indicators of moderator $M$, as seen in Figure 5 above. The significance of paths $a$, $b$, and $c$ are determined using the PLS algorithm and bootstrapping. If path $b$ is significant, then the interaction effect is also significant.
Figure 6. The two-stage approach to modeling interaction effects

In stage 1 of the two-stage approach, the PLS algorithm is run on a main effects model consisting of antecedent X, moderator M, and dependent variable Y (Figure 6a). The resulting latent value scores (LVS) for X and M are then multiplied to produce values for the interaction term $X \times M$ (Figure 6b). In stage 2, the LVS of X, M, $X \times M$, and Y are used to estimate the coefficients of the multiple regression model in Equation 5. If $\beta_3$, the coefficient of the interaction term, is significant, then the moderating effect exists.

(Equation 5)

$$Y = \beta_0 + \beta_1X + \beta_2M + \beta_3(X \times M)$$
For Step 3, I used the coefficient of determination $R^2$ to measure the proportion of the variance in the dependent variables that is explained by the model. I also used the $R^2$ values to compute for the effect sizes $f^2$ in Step 4. $f^2$ measures the impact of each predictor variable on the variance of an endogenous construct (Cohen, 1988). Mathematically, it is the change in the coefficient of determination due to the exclusion of a predictor variable from the model. The formula in Equation 6 is used to compute for effect size, where $R^2_{incl}$ is an endogenous variable’s determination coefficient in the full model and $R^2_{excl}$ is the determination coefficient after the exogenous variable is removed from the model. The strength of the effect of a predictor construct to the variance of the endogenous construct was determined using Cohen’s $f^2$ criteria of 0.02 for weak effect, 0.15 for moderate effect, and 0.35 for strong effect.

(Equation 6)

$$f^2 = \frac{R^2_{incl} - R^2_{excl}}{1 - R^2_{incl}}$$

Finally, in Step 5, I used $Q^2$ and the $q^2$ effect sizes to assess the predictive accuracy of the model and the exogenous constructs. Stone-Geisser’s $Q^2$ value (Geisser, 1974; Stone, 1974) measures a model’s predictive relevance—the degree to which it accurately predicts values of the reflective indicators of an endogenous construct (Hair et al., 2014). $Q^2$ values are determined using the blindfolding procedure in PLS-SEM given a certain omission distance, $d$. Blindfolding is a sample reuse methodology where every $d$th data point in the endogenous variable’s indicators is taken out, and path
estimates are determined using the remaining data points (Chin, 1998; Henseler et al., 2009). The results are then used to estimate the omitted data point. The difference between the actual omitted data point and the estimated omitted data point is used to compute for the $Q^2$ values. A positive $Q^2$ is an indication of predictive relevance (Hair et al., 2012).

Using the $Q^2$ values and Equation 7, I then computed for the $q^2$ effect sizes of the predictor constructs. In Equation 7, $Q^2_{incl}$ refers to the original $Q^2$ value of an endogenous construct, whereas $Q^2_{excl}$ is the $Q^2$ value of the endogenous construct when the predictor construct in question is taken out. To evaluate the predictive relevance of the predictor constructs, I used the benchmarks suggested by Chin (1998) and Henseler et al., (2009): 0.02, 0.15, and 0.35 for weak, moderate, and strong effects, respectively.

(Equation 7)

$$q^2 = \frac{Q^2_{incl} - Q^2_{excl}}{Q^2_{incl}}$$

In the next section, I will present the results of the data analysis and the implication of the results on the hypotheses of the study.
2.5 Results

In this section, I will present the results of the data analysis using the methodologies discussed in the previous section. This section is divided into two main parts. The first part presents the results of the outer or measurement model evaluation using measures for reliability and validity. The second part presents an assessment of the inner or structural model, and in particular, tests that verify the hypotheses formulated in Section 1.3.

2.5.1 Assessment of the measurement (outer) model

I began the assessment of the outer or measurement model with the standardized indicator loadings in Table 7. The highest loadings come from indicators of each construct (Chin, 1998; Grégoire & Fisher, 2006), and all meet the prescribed minimum of 0.70, except for “f19” and “g18,” which meet the minimum of 0.40 for exploratory studies (Hulland, 1999). Overall, these loadings indicate the reliability of the indicators in reflecting the constructs. Internal consistency was determined with composite reliability (Werts et al., 1974), and all values exceed the prescribed minimum of 0.70 (Bagozzi & Yi, 1988). For convergent validity, the average variance extracted (AVE; Fornell & Larcker, 1981) was computed for each construct, and all values meet the proposed minimum of 0.50 (Bagozzi & Yi, 1988). This means that the indicators of each construct account for the majority of the variation in the construct and are therefore valid measures of the construct. Finally, Fornell-Larcker’s (1981) criterion was used to assess discriminant validity. Since the
AVE of each construct is greater than the squared correlations of the construct, each construct is sufficiently distinct from all others, and sufficient discriminant validity is present in the data. The composite reliability, AVE, and correlation coefficients of the latent constructs are listed in Table 8.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Composite reliability</th>
<th>AVE</th>
<th>FIL</th>
<th>FOC</th>
<th>GUA</th>
<th>LTO</th>
<th>TRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIL</td>
<td>0.751</td>
<td>0.516</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FOC</td>
<td>0.965</td>
<td>0.875</td>
<td>0.079</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GUA</td>
<td>0.768</td>
<td>0.635</td>
<td>0.139</td>
<td>0.047</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTO</td>
<td>0.895</td>
<td>0.681</td>
<td>0.086</td>
<td>0.400</td>
<td>0.202</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>TRA</td>
<td>0.827</td>
<td>0.614</td>
<td>0.299</td>
<td>0.223</td>
<td>0.313</td>
<td>0.266</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 7. Outer model loadings and cross loadings

<table>
<thead>
<tr>
<th>Construct</th>
<th>Composite reliability</th>
<th>AVE</th>
<th>FIL</th>
<th>FOC</th>
<th>GUA</th>
<th>LTO</th>
<th>TRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOC</td>
<td>0.922</td>
<td>0.045</td>
<td>0.041</td>
<td>0.359</td>
<td>0.213</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAMCEO</td>
<td>0.933</td>
<td>0.072</td>
<td>0.048</td>
<td>0.347</td>
<td>0.192</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAMCHAIR</td>
<td>0.937</td>
<td>0.073</td>
<td>0.050</td>
<td>0.388</td>
<td>0.194</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAMO</td>
<td>0.949</td>
<td>0.104</td>
<td>0.039</td>
<td>0.401</td>
<td>0.234</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f14</td>
<td>0.013</td>
<td>0.770</td>
<td>-0.019</td>
<td>0.047</td>
<td>0.241</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f16</td>
<td>0.067</td>
<td>0.867</td>
<td>0.249</td>
<td>0.069</td>
<td>0.290</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f19</td>
<td>-0.075</td>
<td>0.453</td>
<td>0.204</td>
<td>-0.021</td>
<td>0.258</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g15</td>
<td>0.042</td>
<td>0.127</td>
<td>0.950</td>
<td>0.204</td>
<td>0.243</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g18</td>
<td>0.035</td>
<td>0.098</td>
<td>0.605</td>
<td>0.090</td>
<td>0.327</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l10</td>
<td>0.384</td>
<td>0.128</td>
<td>0.130</td>
<td>0.840</td>
<td>0.184</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l20</td>
<td>0.288</td>
<td>0.085</td>
<td>0.153</td>
<td>0.785</td>
<td>0.209</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l22</td>
<td>0.354</td>
<td>0.013</td>
<td>0.163</td>
<td>0.826</td>
<td>0.231</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l6</td>
<td>0.293</td>
<td>0.063</td>
<td>0.218</td>
<td>0.849</td>
<td>0.252</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t11</td>
<td>0.078</td>
<td>0.253</td>
<td>0.245</td>
<td>0.243</td>
<td>0.807</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t3</td>
<td>0.258</td>
<td>0.125</td>
<td>0.272</td>
<td>0.186</td>
<td>0.789</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t5</td>
<td>0.219</td>
<td>0.321</td>
<td>0.219</td>
<td>0.186</td>
<td>0.755</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8. Inter-construct correlations, composite reliability, and average variance extracted
2.5.2 Preliminary analysis

Before evaluating the structural model, a preliminary analysis of the data was performed to detect general trends in the data. Values for each endogenous variable were grouped according to 100% family ownership and “low” and “high” levels of the Confucian constructs that are related to it according to the empirical model in Figure 1. The results of the analysis are as follows.

<table>
<thead>
<tr>
<th></th>
<th>Mean for &lt; 100% Family Owned Group (n = 67)</th>
<th>Mean for 100% Family Owned Group (n = 77)</th>
<th>T-statistic</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>1.71%</td>
<td>6.89%</td>
<td>-4.57</td>
<td>p &lt; 0.001</td>
</tr>
<tr>
<td>LTO*</td>
<td>13.64</td>
<td>15.02</td>
<td>-4.16</td>
<td>p &lt; 0.001</td>
</tr>
</tbody>
</table>

*Composite score using PLS path coefficients

Table 9. Differences in means of endogenous variables between low FOC and high FOC groups (Data split based on 100% family ownership)

<table>
<thead>
<tr>
<th></th>
<th>Mean for Low FIL Group (n = 72)</th>
<th>Mean for High FIL Group (n = 72)</th>
<th>T-statistic</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTO*</td>
<td>14.18</td>
<td>14.57</td>
<td>-1.11</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

*Composite score using PLS path coefficients

Table 10. Differences in means of LTO between low FIL and high FIL groups (Data split based on median FIL)

<table>
<thead>
<tr>
<th></th>
<th>Mean for Low TRA Group (n = 72)</th>
<th>Mean for High TRA Group (n = 72)</th>
<th>T-statistic</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTO*</td>
<td>13.97</td>
<td>14.78</td>
<td>-2.35</td>
<td>p &lt; 0.05</td>
</tr>
</tbody>
</table>

*Composite score using PLS path coefficients

Table 11. Differences in means of LTO between low TRA and high TRA groups (Data split based on median TRA)

<table>
<thead>
<tr>
<th></th>
<th>Mean for Low GUA Group (n = 72)</th>
<th>Mean for High GUA Group (n = 72)</th>
<th>T-statistic</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>5.25%</td>
<td>3.70%</td>
<td>1.29</td>
<td>n.s.</td>
</tr>
<tr>
<td>LTO*</td>
<td>14.22</td>
<td>14.54</td>
<td>-0.92</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

*Composite score using PLS path coefficients

Table 12. Differences in means of endogenous variables between low GUA and high GUA groups (Data split based on median GUA)
The results of the preliminary analysis suggest that both LTO and performance are significantly influenced by family ownership and control, consistent to Hypothesis 1.1 of this study. The tests also show that LTO is significantly higher in high traditionalism firms than in low traditionalism firms. Given these promising preliminary findings, I proceeded to perform a formal evaluation of the hypotheses in the next section.

2.5.3 Assessment of the structural (inner) model

In Step 1 of the structural model assessment approach outlined by Hair et al. (2014), I investigated potential issues regarding collinearity in the model using the $VIF$ statistic. With the method that was described in the previous section, I computed for the $VIF$ of each predictor construct in each block and summarized the results in Table 13. Since the $VIF$ values of all of the predictor constructs in each endogenous block are all less than the prescribed maximum of 5 (Hair et al., 2011), there is no collinearity issue in the structural model.

<table>
<thead>
<tr>
<th>Predictor variables for LTO</th>
<th>$VIF$</th>
<th>Predictor variables for Performance</th>
<th>$VIF$</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOC</td>
<td>1.150</td>
<td>FOC</td>
<td>1.196</td>
</tr>
<tr>
<td>FIL</td>
<td>1.130</td>
<td>LTO</td>
<td>1.267</td>
</tr>
<tr>
<td>TRA</td>
<td>1.310</td>
<td>GUA</td>
<td>1.051</td>
</tr>
<tr>
<td>GUA</td>
<td>1.136</td>
<td>FOC * GUA</td>
<td>1.024</td>
</tr>
<tr>
<td>FOC * FIL</td>
<td>1.077</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FOC * TRA</td>
<td>1.153</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FOC * GUA</td>
<td>1.107</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

_Table 13. Collinearity assessment using VIF_
I then proceeded to Step 2, where I evaluated the significance of the path weights in the model and tested the hypothesized mediation and moderation relationships. The PLS algorithm was applied to the data to derive path coefficients and latent value scores. Bootstrapping was then performed to determine the statistical significance of the structural relationships. Path coefficients, t-statistics, standard errors, and p-values are summarized in Table 14.

<table>
<thead>
<tr>
<th>Path</th>
<th>Path coefficient</th>
<th>T-statistic</th>
<th>Standard error</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIL -&gt; LTO</td>
<td>-0.032</td>
<td>0.293</td>
<td>0.109</td>
<td>n.s.</td>
</tr>
<tr>
<td>FOC -&gt; LTO</td>
<td>0.421</td>
<td>4.366</td>
<td>0.096</td>
<td>p &lt; 0.001</td>
</tr>
<tr>
<td>FOC -&gt; Performance</td>
<td>0.247</td>
<td>3.596</td>
<td>0.069</td>
<td>p &lt; 0.001</td>
</tr>
<tr>
<td>FOC * FIL -&gt; LTO</td>
<td>-0.060</td>
<td>0.433</td>
<td>0.139</td>
<td>n.s.</td>
</tr>
<tr>
<td>FOC * GUA -&gt; LTO</td>
<td>0.068</td>
<td>0.455</td>
<td>0.150</td>
<td>n.s.</td>
</tr>
<tr>
<td>FOC * GUA -&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>0.082</td>
<td>0.640</td>
<td>0.128</td>
<td>n.s.</td>
</tr>
<tr>
<td>FOC * TRA -&gt; LTO</td>
<td>0.287</td>
<td>1.445</td>
<td>0.199</td>
<td>n.s.</td>
</tr>
<tr>
<td>GUA -&gt; LTO</td>
<td>0.119</td>
<td>1.394</td>
<td>0.086</td>
<td>n.s.</td>
</tr>
<tr>
<td>GUA -&gt; Performance</td>
<td>-0.135</td>
<td>1.481</td>
<td>0.091</td>
<td>n.s.</td>
</tr>
<tr>
<td>LTO -&gt; Performance</td>
<td>0.411</td>
<td>5.790</td>
<td>0.071</td>
<td>p &lt; 0.001</td>
</tr>
<tr>
<td>TRA -&gt; LTO</td>
<td>0.161</td>
<td>1.861</td>
<td>0.086</td>
<td>p &lt; 0.010</td>
</tr>
</tbody>
</table>

*Table 14. Path coefficients, t-statistics, and standard errors (n.s. = not significant)*

The mediating effect of LTO on the relationship between FOC and performance from Hypothesis 1.1 was evaluated using the using the Sobel (1982) procedure, which was described in the previous section. If $a$ is the path between FOC and LTO ($a = 0.421$, $t = 4.366$, $p < 0.001$), $b$ is the path between LTO and performance ($b = 0.411$, $t = 5.790$, $p < 0.001$), and $s_a$ and $s_b$ are standard errors of $a$ and $b$, respectively, then computing for the test statistic $z$ in
Equation 1 results in $z = 3.454$, which means $a \times b$ is significant at the 0.001 level. These results demonstrate that family ownership and control have a direct effect on performance, as well as an indirect effect via long-term orientation. However, since the direct relationship between FOC and performance is also significant ($c = 0.247, t = 3.596, p < 0.001$), LTO is merely a partial mediator of the relationship between FOC and performance.

The moderating effects of Confucian values posited in Hypotheses 1.2 to 1.5 were tested using the product indicator approach of Kenny and Judd (1984). Paths from the interaction terms in the model refer to the following Hypotheses: “FOC*FIL -> LTO” for H1.2; “FOC*TRA -> LTO” for H1.3; FOC*GUA -> performance” for H1.4; and “FOC*GUA -> LTO” for H1.5. From Table 14, we see that the coefficients for these four paths are not all significant. These results show that the data does not support the moderating roles of filial piety, traditionalism, and guanxi in the model.

Henseler and Chin (2010), however, suggest that the product indicator approach may be weak for small sample sizes or models with only a few indicators. As an alternative method to evaluate the moderating roles of the Confucian value constructs, I also employed Henseler and Fassot’s (2010) two-stage approach, which Henseler and Chin (2010) recommend for the confirmation of moderating effects in small sample size models with few indicators.

In Stage 1 of the two-stage approach, a “main effects” model was first run to determine latent value scores without the interaction constructs. The LVS were then used to compute for values of the interaction terms in the second stage. Next, multiple regression analysis was run to estimate the
regression parameters $\beta_0$, $\beta_1$, $\beta_2$, and $\beta_3$ from Equation 5. Results for the two-stage analysis for the four hypothesized interaction effects are summarized in Table 15.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Interaction variable</th>
<th>Dependent variable</th>
<th>$\beta_3$</th>
<th>T-stat.</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1.2</td>
<td>FOC*FIL</td>
<td>LTO</td>
<td>-0.105</td>
<td>0.951</td>
<td>n.s.</td>
</tr>
<tr>
<td>H1.3</td>
<td>FOC*TRA</td>
<td>LTO</td>
<td>0.187</td>
<td>2.033</td>
<td>p &lt; 0.05</td>
</tr>
<tr>
<td>H1.4</td>
<td>FOC*GUA</td>
<td>Performance</td>
<td>0.022</td>
<td>0.305</td>
<td>n.s.</td>
</tr>
<tr>
<td>H1.5</td>
<td>FOC*GUA</td>
<td>LTO</td>
<td>0.067</td>
<td>0.631</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

*Table 15. Significance of the coefficient of the interaction variable using the two-stage approach (n.s. = not significant)*

The significance of the moderating effect is indicated by the significance of the coefficient $\beta_3$. In Table 15, we see that the coefficient for the interaction term FOC*TRA ($\beta_3 = 0.187$, $p < 0.05$) is significant, indicating that there is some empirical support for Hypothesis 1.3, and that there is evidence that traditionalism moderates the relationship between family ownership and control and LTO. This provides evidence for the moderating role of TRA more so than the product indicator approach which was shown earlier. Hypotheses 1.2, 1.4, and 1.5, however, remain unsupported by the data. This means that even with an alternative methodology, there is not enough statistical evidence to support the moderating roles of filial piety and guanxi in the model.

In Step 3 of the structural model assessment, I used the coefficient of determination $R^2$, which measures the portion of the variance of a construct that is explained by the model. The $R^2$ of the endogenous constructs LTO and performance are shown in Table 16. These values reveal that the structural equation model accounts for 30.4% of the variance in LTO and 32.1% in
performance, both of which exceed the benchmark of 20% that is considered “high” for consumer behavior studies (Hair et al., 2014).

<table>
<thead>
<tr>
<th></th>
<th>$R^2$</th>
<th>$Q^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTO</td>
<td>0.304</td>
<td>0.195</td>
</tr>
<tr>
<td>Performance</td>
<td>0.321</td>
<td>0.316</td>
</tr>
</tbody>
</table>

*Table 16. Coefficient of determination and predictive relevance of endogenous constructs*

Next, I determined the relative impact of each predictor construct on the endogenous variables using the effect size $f^2$ in Step 4 of the structural model evaluation. The computed $f^2$ values are listed in Table 17, as well as the corresponding evaluation of the influence of the predictor constructs based on Cohen’s (1988) benchmarks of weak effect for 0.02, moderate effect for 0.15, and strong effect for 0.35. The results of the effect size analysis show that FOC has a moderate effect and TRA and GUA have a weak effect on LTO. For performance, we note that GUA and FOC have a weak effect, whereas LTO has a moderate effect. Based on the results of the evaluation of $R^2$ and $f^2$, we can conclude that the structural model which was presented in this study and the predictor constructs of the model adequately explain the variation in the endogenous variables.

<table>
<thead>
<tr>
<th>Exogenous</th>
<th>Endogenous</th>
<th>$f^2$</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIL</td>
<td>LTO</td>
<td>0.007</td>
<td>None</td>
</tr>
<tr>
<td>TRA</td>
<td>LTO</td>
<td>0.117</td>
<td>Weak</td>
</tr>
<tr>
<td>GUA</td>
<td>LTO</td>
<td>0.022</td>
<td>Weak</td>
</tr>
<tr>
<td>FOC</td>
<td>LTO</td>
<td>0.310</td>
<td>Moderate</td>
</tr>
<tr>
<td>GUA</td>
<td>Performance</td>
<td>0.038</td>
<td>Weak</td>
</tr>
<tr>
<td>FOC</td>
<td>Performance</td>
<td>0.079</td>
<td>Weak</td>
</tr>
<tr>
<td>LTO</td>
<td>Performance</td>
<td>0.194</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

*Table 17. $f^2$ effect sizes of predictor variables on endogenous variables*
Finally, in Step 5 I assessed the predictive accuracy of the model and the predictor constructs using Stone-Geisser’s $Q^2$ value and the $q^2$ effect size. Computed $Q^2$ values for LTO and performance are listed in Table 16; since both are positive, we can conclude that the model has predictive relevance for both constructs. In Table 18, the effect sizes $q^2$ for the predictor constructs of each endogenous variable are summarized. Using Chin (1998) and Henseler et al.’s (2009) benchmarks, FIL and TRA have a weak degree and FOC has a moderate degree of predictive relevance on LTO. For performance, both GUA and FOC have a weak degree, while LTO has a moderate degree of predictive relevance. Overall, these results indicate that the model and the predictor constructs have a sufficient degree of predictive relevance.

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Endogenous</th>
<th>$q^2$</th>
<th>Degree of predictive relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIL</td>
<td>LTO</td>
<td>0.023</td>
<td>Weak</td>
</tr>
<tr>
<td>TRA</td>
<td>LTO</td>
<td>0.043</td>
<td>Weak</td>
</tr>
<tr>
<td>GUA</td>
<td>LTO</td>
<td>-0.007</td>
<td>None</td>
</tr>
<tr>
<td>FOC</td>
<td>LTO</td>
<td>0.171</td>
<td>Moderate</td>
</tr>
<tr>
<td>GUA</td>
<td>Performance</td>
<td>0.053</td>
<td>Weak</td>
</tr>
<tr>
<td>FOC</td>
<td>Performance</td>
<td>0.106</td>
<td>Weak</td>
</tr>
<tr>
<td>LTO</td>
<td>Performance</td>
<td>0.193</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

*Table 18. $q^2$ effect sizes of predictor variables on endogenous variables*

In the next section, I will discuss the implications of the results of the data analysis, their implications for theory and practice, the limitations of the study, and avenues for future research.
2.6 Discussion

Scholars consider Confucian values as the primary explanation for the success of Overseas Chinese family businesses in Southeast Asia. In this study, I have developed a framework that takes these prior propositions further by showing that Confucian ideas such as filial piety, traditionalism, and guanxi contribute to the temporal and spatial development of business networks, which subsequently lead to the creation of social capital and sustainable competitive advantages in family firms. I have then endeavored to verify my hypotheses with primary and secondary data from small- and medium-sized enterprises in the Philippines using the partial least squares structural equation model methodology. In this section, I will discuss the empirical results of this study, the implications of the results in theory and in practice, the limitations of the study, and ways in which future research may leverage the findings of this study.

2.6.1 Discussion of empirical results

The relationships between LTO, FOC, and performance are the centerpiece of the empirical model of this study. In previous sections, I have discussed why LTO is believed to be one of the reasons that family firms outperform nonfamily businesses. The LTO of family firms is reflected in their propensity to invest in longer-term assets and the longer tenure of the family CEO. LTO leads to competitive advantage as the firm invests in value-adding ventures that nonfamily firms find too risky. In addition, high-LTO family businesses become more stable through the successful implementation of succession plans.
These arguments demonstrate that family ownership and control affect performance indirectly by cultivating a culture of long-term orientation in the firm, which in turn results in better firm performance. The indirect effect of FOC on performance through LTO suggests a mediating role for LTO in the relationship between FOC and performance, as is stated in Hypothesis 1.1.

In the previous section, I found that FOC has a significant positive effect on LTO and that LTO has a significant positive effect on performance. Sobel’s (1982) method has confirmed the mediating effect by showing the significance of the product of the path coefficients, $a \times b$ ($z = 3.454, p < 0.001$). Since the direct effect of FOC on performance is also significant, LTO is more appropriately a partial mediator in the model ($c = 0.247, t = 3.596, p < 0.001$). These results indicate that the data lends significant support to Hypothesis 1.1: apart from its direct effect, FOC also has an indirect effect on performance through LTO. The significance of the direct relationship between FOC and performance suggests that family ownership and control provides benefits to the firm other than those that are related to long-term orientation. These benefits may include lower agency costs and valuable resources such as social capital.

With regard to Confucian values, I have posited that Confucian values enhance the ability of the firm to create social capital by contributing to the temporal and spatial development of business networks. Filial piety represents the high degree of authority vested in the family firm’s father figure or leader. In high filial piety family firms, the family leader acts as the facilitator of the transfer of the business from the current generation to the next. Filial piety also enables the firm to make decisions that benefit the firm in the long run.
Meanwhile, traditionalism allows for the preservation of the family’s identity by encouraging younger family members to embrace what their ancestors have achieved and to work hard for the sustainability of the family business. Overall, filial piety and traditionalism enhance the family firm’s long-term orientation, as delineated in Hypotheses 1.2 and 1.3, respectively.

Guanxi, on the other hand, promotes both the expansion of the firm’s network and its development over time. By improving the family firm’s capacity to accumulate social capital, guanxi contributes positively to the business’s ability to create competitive advantage. This implies that GUA moderates the relationship between FOC and performance, as put forward in Hypothesis 1.4. Finally, like filial piety and traditionalism, guanxi contributes to the maintenance of the family firm’s long-term orientation by fostering long-term ties with other members of the business network. Since such relationships are transferable to the next generation of family owners and managers, the firm’s ability to create social capital is enhanced in the long-term. GUA thus moderates the relationship between FOC and LTO, as per Hypothesis 1.5.

Using the two-stage approach to modeling moderator effects, I was able to demonstrate that traditionalism is a significant positive moderator ($\beta_3 = 0.185$, p < 0.05) to the relationship between FOC and LTO, implying that high traditionalism firms have a higher degree of LTO and that traditionalism contributes positively to social capital formation along the temporal dimension. To illustrate this effect, I used the median split approach (Hair Jr. et al., 2014) to dichotomize the moderator construct TRA and plot the regression lines of the resulting data groups. In Figure 7 below, the slope of the linear relationship between FOC and LTO is higher for the High TRA group than for the Low
TRA group, indicating that traditionalism enhances the positive relationship between family ownership and control and long-term orientation.

![Figure 7. The linear relationship between FOC and LTO for Low TRA and High TRA groups](image)

Filial piety and guanxi have non-significant effects on the model, however, and this may be due to the potential costs that are associated with these ideas. For example, taken to the extreme, filial piety can result in “utilitarianistic familism,” where family members place the family interests above all else, including the interests of society in general (Wong, 1991). In such a case, material interests take precedence over non-material interests; in the context of family firms, this could translate into managerial myopia (Stein, 1988) and the expropriation of wealth by family owners (DeAngelo & DeAngelo, 2000). Furthermore, the unquestioning obedience that results from filial piety can lead to conformity (Redding, 1990) and prevent risk-taking.
behavior that can provide opportunities for long-term gains. Meanwhile, *guanxi* has been associated with nepotism and cronyism (Khatri et al., 2005). While reciprocal obligations created through *guanxi* may contribute to the creation of relational social capital, they can also lead the family firm to make decisions that are not in its best interests. For example, if the firm’s manager feels obliged to hire an unqualified employee who was recommended by a *guanxi* contact, the relationship becomes costly to the firm. Despite these potential costs, the results of this study demonstrate that Confucian values as represented by traditionalism may enhance the firm’s long-term orientation and, consequently, the ability to create competitive advantages with social capital.

I then used the coefficient of determination $R^2$ and the effect size $f^2$ of each exogenous construct on the endogenous constructs to evaluate the inner model as a whole. The results reveal that a substantial portion of the variation in both LTO ($R^2 = 0.304$) and performance ($R^2 = 0.304$) are explained by the model, values that are considered high in disciplines such as consumer behavior (Hair Jr. et al., 2014). Furthermore, using Cohen’s (1988) criteria, the results reveal that traditionalism and *guanxi* have a weak effect on LTO and that traditionalism has a moderate effect on LTO. For the other endogenous construct, performance, family ownership and control and *guanxi* both show weak effects. Overall, these results demonstrate the adequacy of the overall model as a substantial portion of the variation in the endogenous constructs is explained by the model and by the individual exogenous variables.

Finally, for predictive relevance, I used Stone-Geisser’s $Q^2$ value and the $q^2$ effect sizes. Results of the analysis show that the $Q^2$ values for LTO (0.195) and performance (0.316) are both substantially positive, indicating the
predictive relevance of the model. In terms of the predictor constructs, the $q^2$ effect sizes indicate that FIL and TRA have a weak degree of predictive relevance for LTO, while FOC has a moderate degree. On the other hand, GUA and FOC both have a weak degree and LTO has a moderate degree of predictive relevance on performance. Overall, these results reflect a substantial degree of predictive relevance for the model and the individual predictor constructs.

2.6.2 Additional evidence from case studies

While the empirical analysis from the previous section provides helpful insights in understanding value creation in family firms, additional qualitative data from cases can strengthen the theories that were developed in this thesis and paint a richer picture of the phenomena under study (Eisenhardt, 1989). In this regard, I have collected additional data about family and business values by interviewing a subset of my original sample. I have narrowed down the sample into firms that are 100% family owned and have been operating for at least 10 years. I sent an interview questionnaire (see Appendix E) to the 36 firms that fit these criteria. Of these, three firms responded to the interview request. Below is an overview of these three firms and their representatives (for the purposes of this thesis, the names of the firms and their respective representatives were changed for anonymity).
Case 1: Kevin and Manuel Poultry

Manuel Poultry’s primary businesses are the production and marketing of poultry, livestock, and related products. The company started exclusively with broiler operations, but over the years it evolved into a fully integrated business as it expanded into breeder, hatchery, feed mill, and dressed chicken operations. Only recently, Manuel aggressively ventured into the “B2C” aspect of the business by opening four quick service chicken restaurants in a span of 18 months.

Kevin, the son of Manuel’s founder, is currently the Sales and Marketing Manager for the firm’s Dressed Chicken department where he directly deals with restaurant-customers. On top of this role, Kevin doubles as the Marketing and Business Development Manager for Manuel’s fast food brand, Chef’s Roasters. Kevin has been involved in the family business for four years, and personally feels that he was not given proper exposure to the business prior to his involvement. This, however, turned out to be an advantage since he was able to use the freedom to find his niche in the company.

Case 2: Ernie and Beta Builders

Ernie is the founder, President, and CEO of Beta Builders—a 25 year-old construction firm whose primary business is building houses, restaurants, and offices for private customers. At the very start, Ernie has been involved in all aspects of operations—from actual hands-on involvement to staff training to office administration.
Case 3: Owen and Cinco Footwear

Cinco Footwear started as a manufacturer of rubber shoes in Hong Kong in the 1960s. At that time, Cinco was already exporting shoes to foreign markets such as Australia, Europe, and the United States. In 1977, the founder decided to move to the Philippines and open a shoe sole manufacturing business, which soon dominated the local market. In 1984, Cinco decided to re-enter the rubber shoe manufacturing industry due to increasing competition in the shoe sole market. In the following years, the firm faced numerous challenges such as continuously intensifying competition and labor problems. Cinco responded by expanding the capacity of its shoe sole production and by expanding into rubber sandals. The Asian financial crisis of 1997, however led to the closing of this new product line.

As Cinco’s market for both shoe soles and rubber shoes declined in the subsequent years, the firm decided to diversify into the production of a rubber compound used in the automobile industry. Currently, Cinco has plans of expanding into the ethylene vinyl acetate (EVA) foam and EVA midsole business for the footwear industry. To this day, the manufacture and sale of shoe soles remains Cinco’s primary revenue source.

Owen, the son of the founder, has been involved with the family firm since he finished college 13 years ago, and is now fully in charge of operations. Owen’s father now acts as mentor to his son, providing advice in both operations and strategy.

Kevin, Ernie, and Owen provided insights about the values of their respective families and businesses, and how these values relate to firm success,
social capital formation, long-term orientation, and attitudes toward debt (for Chapter 3). The complete interview transcripts may be found in Appendix F.

In relation to the results of this study, the experiences of the three family firm respondents provide interesting new insights that supplement empirical findings presented earlier. When asked to list values their family businesses hold in very high regard and contribute to the success of the business, the predominant value that was common to the three interviewed firms was “truthfulness,” as was reflected by responses such as “integrity”, “honesty”, “sincerity”, and “commitment.” The respondents described this value as particularly referring to how the firm behaves toward other stakeholders such as business partners and customers. Cinco Footwear, for example, finds value in meeting the expectations of its customers by dealing only in authentic merchandise.

Honesty in dealing with the business’s stakeholders helps create trust among parties (Fukuyama, 1997). As mentioned in an earlier section, trust is an essential ingredient for creating social capital. Thus, when asked which values contribute to social capital formation in their respective firms, the respondents unsurprisingly cited the values that are related to truthfulness that were mentioned earlier. Beta Builders goes so far as saying that deception and dishonesty are detrimental to the creation of social capital.

Owen of Cinco Footwear provides an additional dimension to the discussion about honesty and integrity. He described these virtues as being important requirements of building and maintaining the good reputation of the family firm, which in itself is held by Cinco as a very important value. The importance of having a good reputation is related to the Confucian ideal of the
importance of face, which I have described earlier as one of the facets of Confucian traditionalism. As an Overseas Chinese family business, Cinco recognizes the importance of preserving reputation or face in building relationships and creating social capital, and how “losing face” may eliminate these benefits.

In addition, Beta Builders and Manuel Poultry cite integrity as an important ingredient in cultivating a culture of long-term orientation in the family business. According to Kevin of Manuel, being honest with business dealings help cultivate long-term relationships. Ernie of Beta further stresses that integrity towards employees and customers results in having a passion for excellence that ultimately benefit these stakeholders.

Cinco shares a different experience with respect to long-term orientation in the family business. For Owen, long-term orientation is the result of virtues such as frugality, simplicity, foregoing short-term gratification, and setting a good example for the entire company and the succeeding generations. Since, by and large, these values reflect traditionalism as described in this thesis, Cinco recognizes the role of this Confucian trait in promoting long-term orientation in the family business.

So far, we have seen how the interviewed enterprises cite integrity as a crucial ingredient for the success of the family firm, in general, and the formation of social capital and long-term orientation, in particular. The Overseas Chinese family business Cinco, however, offers insights that were not mentioned by the other two respondents. On top of honesty, Cinco cites the importance of reputation or face as a value that helps the firm succeed and create social capital. Furthermore, the firm mentions values associated with
traditionalism as being essential ingredients in cultivating long-term orientation in the family business, providing additional support to the empirical findings of this study.

2.6.3 Research contributions

The findings in this study provide significant contributions to family business and management literature. First, by introducing Confucian culture into the traditional one-way family influence and performance model, I have provided a more definitive explanation to the issue of whether family ownership and control are beneficial or costly to businesses. Based on the results of this study, family ownership and control—taken as a composite measure of family ownership, family governance, family leadership, and family management—leads to better performance, in part indirectly by fostering a culture of long-term orientation in the family firm. Furthermore, I have found that traditionalism—or placing great importance on tradition, traditional values, and family heritage—contributes to the performance of the firm by enhancing its capacity for long-term orientation. This theoretical framework and empirical model may then be applied to samples in other contexts and provide both a more nuanced and a broader picture of value creation in family businesses. And second, this study makes contributions to the family firm literature by developing a moderated-mediation model for Confucian values, LTO, and performance in family firms. This model recognizes: 1) that LTO mediates the relationship between FOC and performance, and it serves to reflect the temporal aspect of value creation in
family firms; and 2) that Confucian values such as filial piety, traditionalism, and *guanxi* have the potential to contribute to social capital formation in family firms both spatially and across time.

These insights represent significant contributions to cross-cultural management research as well. First, the “Confucian values” scale developed in this study may be applied in other contexts to investigate whether such characteristics are exclusive to East Asian cultures or if other groups exhibit similar traits in varying degrees. And second, the role of Confucian values as antecedents to LTO may be used in investigating socio-economic phenomena outside family business management.

Apart from these aforementioned contributions to the literature, the results of this study also have important practical implications. First and foremost, this study has demonstrated that small- and medium-sized enterprises with high levels of family ownership, high levels of family participation in governance, and a family chairman and family CEO perform relatively better than their counterparts. In practice, the significant and positive effect of FOC on performance—both directly and indirectly through LTO—suggests that the family business is a viable form of organizational structure for small- and medium-sized businesses, particularly in developing institutional contexts such as the Philippines. These results are a sign that there are economic benefits to “keeping the business within the family” and even “keeping the firm’s leadership and management within the family.” Furthermore, the results suggest that the benefits of family ownership and control outweigh the potential costs, such as the expropriation of wealth by the family owners from minority shareholders and the misalignment between the family’s nonfinancial
goals and economic goals, such as profit maximization, as was articulated by some agency theorists.

Second, this study has shown that while FOC does provide direct benefits to the firm, a significant proportion of these benefits have a temporal aspect as represented by the LTO construct. This finding behooves family business management practitioners to focus not just on the degree of influence that the family has on the business, but also on preserving and enhancing the family firm’s long-term orientation—for example, by considering long-term consequences in making business decisions and by ensuring the continuity of family ownership through succession planning.

Finally, the results of the empirical study show that traditionalism is a significant moderator in the relationship between FOC and LTO. In the context of Confucian values, traditionalism is manifested in a number of ways, and some of these are directly translatable into specific actions. One such aspect is ancestor worship, which involves displaying deep respect and high regard for one’s forebears. Keeping traditionalism and ancestor worship as an integral part of the family and the firm’s culture will reinforce the family firm’s ability to maintain long-term orientation and thus improve its capacity for sustainable competitive advantage in the long run.

2.6.4 Limitations and directions for future research

This study has demonstrated a novel way of investigating the performance of family businesses by using a framework based on social capital
theory that features cultural variables such as long-term orientation and
Confucian values and practices as key mediating and moderating constructs. 
Despite its important contributions to the theory and the practice of family firm 
management, a few limitations regarding scope and methodology must be 
identified and discussed.

This study has focused on the effects of firm-level cultural variables on 
the performance of small- and medium-sized enterprises in the Philippines. As 
such, the applicability of the findings of this study may be limited to privately held firms and exclude large, publicly listed firms. Additionally, since the sample comes from a developing institutional context, the results of the study may be limited to businesses in similar contexts. Because the dynamics of family firms have been argued to be institution-dependent (Jiang & Peng, 2011), replicating the study in other contexts may provide richer results and more robust conclusions. Apart from evaluating performance using firm-level cultural measures such as Confucian values, future studies may also simultaneously investigate country-level measures of institutional context. In addition, while there are precedents to the epidemiological approach to cross-cultural research, variations in the data may be limited to respondents that come from one country. Since there is evidence that “Confucian values” are not exclusive to Chinese societies, and that concepts such as guanxi exist in one form or another in other cultures (Casson, 1999; Hodder, 2006), future research may be undertaken to include firms from other countries in order to expand the reach of the theories that were developed in this study.

In terms of methodology, while PLS-SEM methodology was the appropriate research tool to use in this study given the limitations of sample
size, the method features a number of potential methodological disadvantages that are not present in alternative approaches, such as covariance-based structural equation modeling (CB-SEM). First, PLS-SEM features no global measures for goodness-of-fit to test for misspecification but, rather, merely relies on heuristic criteria, such as the coefficient of determination and effect size (Hair Jr. et al., 2014). Furthermore, PLS-SEM has been criticized for not being optimal in terms of bias and consistency despite evidence that differences between PLS-SEM and CB-SEM are very small (Reinartz et al., 2009). Even though the reasons for using PLS-SEM for this study are valid and justified, future studies that meet the requirements of CB-SEM may be undertaken using the same theoretical framework to improve the confirmatory power of the results and reduce the likelihood of bias in the estimates.

Finally, the procedures and framework that have been developed in this study may also be applied to a sample of publicly listed firms in future studies: first to confirm or dispute the uniqueness of the results to a particular type of organization; and second, to utilize better quality financial data in the analysis. By their nature, publicly listed firms are subjected to more stringent requirements of transparency; the use of publicly available financial data should therefore lend to the usability of the findings. Furthermore, public firms provide a richer source of data, both in terms of quality (e.g., market-based measures of performance) and quantity (e.g., longitudinal data). One of the limitations of this study is that the analysis is constrained to cross-sectional data, an issue that the use of publicly listed corporations addresses. It is worth noting, however, that using a sample of listed companies presents its own
challenges in terms of cost and the availability of primary data, such as those used to measure cultural variables in this study.
CHAPTER 3: CONFUCIAN VALUES AND THE CAPITAL STRUCTURE OF FAMILY BUSINESSES

3.1 Introduction

The literature suggests that any investigation of financial decision making should focus exclusively on economic factors (Li et al., 2011). Contemporary corporate financial decision making theories such as the trade-off theory (Harris & Raviv, 1990; Jensen, 1986) and the pecking order hypothesis (Myers, 1977; Myers, 1984) for capital structure and the agency theory (Easterbrook, 1984; Jensen, 1986) and the signaling effect theory (Bhattacharya, 1979; Ofer & Siegel, 1987) for dividend policy all rely heavily on economic forces such as agency costs, information asymmetry, and the tradeoff between risk and return. Proponents of the trade-off theory of capital structure have argued that conflicts of interest between principals and agents (e.g., shareholders and managers, shareholders and creditors) may be mitigated by the use of more debt. Jensen (1986) has pointed out that higher financial leverage commits a greater portion of the firm’s cash flows to debt service, thereby reducing the capacity of managers for empire building and the selfish pursuit of perquisites. Building on this theory, Harris and Raviv (1990) have shown that debt—particularly the threat of bankruptcy at excessive levels of debt—may be used as a disciplining instrument for managers who do not act in the interest of shareholders. Other researchers have reasoned that since managers know more about the profitability and prospects of the firm, their actions send signals that affect the firm’s stock price. In the pecking order
hypothesis, Myers & Majluf (1984) demonstrated that this information asymmetry leads to the mispricing of the firm’s stock. Consequently, Myers (1984) contended that this leads to a preference for securities that do not misprice the stock price, resulting in a “pecking order” of long-term financing sources. With regard to the firm’s dividend policy, Bhattacharya (1979) demonstrated that since investors only have imperfect information about the firm, they interpret dividends as signals for future cash flows. Ofer & Siegel (1987) have confirmed this theory with an empirical investigation that shows that changes in dividends significantly affect stock market performance.

While these theories have served as cornerstones of corporate finance both in the industry and inside the classroom, they are also a product of studying large, publicly traded firms, and they have limited power in explaining the financial behavior of smaller, privately held businesses. In addition, smaller, closely held firms, in all likelihood, may not sufficiently meet the behavioral assumptions that are assumed in traditional financial models (Barton & Gordon, 1988). Finally, whereas decisions made by stakeholder groups such as creditors and stockholders may be presumed to be homogeneous and unanimous for large, listed firms, the same decisions are more prone to the personal biases and attitudes of individual personalities, such as the founding leader or CEO (Matthews et al., 1994).

In seeking a better explanation for the financial behavior of privately held firms, some scholars have looked at social and behavioral factors that may affect financial decisions (DeAngelo & DeAngelo, 2000; Romano et al., 2001). “Cultural finance” researchers have argued that culture can affect financial decisions at the firm level through national- or group-level value systems that
directly affect institutions and resource allocation within economies (Williamson, 2010). Additionally, cultural values may influence how firms evaluate the trade-offs involved in financial decision making as costs and benefits associated with a particular financial alternative may be weighted differently by decision makers from different cultural backgrounds (Li et al., 2011). However, while there has been a dramatic increase in research interest in the specialized area of “culture and finance” since the early 2000s, the effects of culture on corporate finance decisions have only received limited attention (Reuter, 2010). Prior studies in the multidisciplinary field have been limited to investigating how country-level cultural measures influence financial decision making, and thus have limited use in explaining the effects of group-level cultural variables. Still, the significant findings on the role of culture in capital structure decisions (e.g., Chui et al., 2002; Li et al., 2011) and dividend policy (e.g., Fidrmuc & Jacob, 2008; Shao et al., 2009) may serve as the foundation for more comprehensive future research in this specialized field.

In the area of family firm finance, scholars have focused on the effects of family ownership, management, and control of the firm’s business and financial risk. Since family owners have concentrated holdings in family businesses (Casson, 1999), they forego the risk-minimizing benefits of diversification and tend to pursue actions that result in lower risk. For example, family business scholars have proposed that family firms hold less debt to reduce their exposure to financial risk (Anderson & Reeb, 2003b) and to avoid “personal and social bankruptcy costs” (Gallo & Vilaseca, 1996). Family firms may also seek to reduce risk by investing in an adequately diversified portfolio of projects (Anderson & Reeb, 2003b). Socioemotional wealth (SEW) theory,
however, argues that while a family firm can indeed be risk averse as a result of the concentration of the economic wealth of a family in one enterprise, it may also be “risk willing,” particularly in situations where the firm faces a loss of socioemotional endowment.

As in Study 1, Overseas Chinese businesses have provided clues as to how the interaction of culture and family may influence corporate decision making, and Confucian values have been key to understanding the behavior of this group of firms. Redding (1990) has presented an Overseas Chinese family business model where Confucian values influence the firm’s managerial ideology, which then interacts with the firm’s societal, political, and economic context to produce distinct organizational outcomes. Meanwhile, other scholars have noted how traditional Chinese values such as flexibility, cooperation, frugality, and hard work may lead to lower costs, greater operational and production efficiencies, and higher profitability (Sheh, 2001; Yan & Sorenson, 2006). Additionally, while non-Chinese businesses tend to use short-term earnings for personal or family consumption, Overseas Chinese entrepreneurs have been found to prefer reinvestment of earnings (Koning, 2007; Sheh, 2001; Weidenbaum & Hughes, 1996). This preference for internally generated financing for investments is related to the ethnic Chinese’s bias against debt (Bruton et al., 2003; Koning, 2007), although there are indications that Overseas Chinese businessmen turn to external financing sources such as bank loans if the situation is favorable (Wong, 1993). This apparent financial conservatism of Overseas Chinese may be a result of strategies to reduce the possibility of external interference and takeovers (Wong, 1993).
Despite these important strides in the study of how culture may affect the financial behavior of family firms, there remain critical gaps in the corporate finance literature for privately held family businesses. First, empirical studies that investigate the interaction between culture and family influence have been limited to comparisons between ethnic Chinese and non-Chinese firms. A richer understanding of cross-cultural financial behavior should go beyond ethnicity and instead focus on the effects of actual cultural traits. Second, even while the potential effects of non-economic factors on financial decision making have been acknowledged in the mainstream family business literature, there have been no recent empirical investigations of these propositions. And finally, even as Confucian influences have been observed to lead to specific financial behaviors, the issue has not received any formal theoretical or empirical treatment.

In this study, I address these two knowledge gaps in the literature by using the “theory of planned behavior” perspective in studying the capital structure decisions of family firms. Using this approach, I hypothesize that Confucian values such as filial piety, traditionalism, and guanxi moderate the relationship between family ownership and control and the firm’s financial leverage. Using the same data set and methods in Study 1, I demonstrate that family ownership and control has a negative effect on financial leverage, providing support to the argument that family firms tend to borrow less in order to avoid additional risk exposure. In addition, I demonstrate that Confucian values such as filial piety foster societal pressures against excessive borrowing and reinforce the family firm’s aversion toward debt.
The remainder of this study is organized as follows. In Section 3.2, I will submit a review of the relevant literature in capital structure policy, including a discussion of family firm finance. Then, in the following section, Section 3.3, I will present a theoretical framework of capital structure decision making which incorporates Confucian values based on the theory of planned behavior approach, after which I will present the hypotheses that represent the objectives of the study. In Section 3.4, I will discuss the sample, data, and methodologies that I have used in the analysis. I will present the results of the data analysis in Section 3.5 and a discussion of the results in Section 3.6.

3.2 Literature Review

I start this literature review with a discussion of traditional corporate finance theories of capital structure and their limitations in explaining the financial behavior of small- and medium-sized businesses. I then present non-economic explanations for financial decision making, including those that were derived from the family business and cross-cultural finance literature. Next, I perform a review of empirical studies of capital structure in family businesses. Finally, I discuss the gaps that have been revealed in the literature review and how this study addresses these gaps.
3.2.1 Capital structure theories

Contemporary capital structure theories are based on the idea that firms make economic decisions which maximize the wealth of shareholders. In their seminal work on corporate finance, Modigliani and Miller (1958) argued that in perfect capital markets with perfect competition, capital structure does not matter, since the firm’s debt level does not affect value creation in the firm one way or another. Modigliani and Miller’s “debt irrelevance” theory is based on the assumption that there are no taxes, no transaction costs, all relevant information is freely available to everyone concerned, and firms and individual investors can borrow and lend at the same rate of return. Under these conditions, Modigliani and Miller have demonstrated that an investor would be equally well off if he or she buys X dollars worth of stock of a firm whose assets are Y% financed by debt—a “levered” firm—or if he or she invests X dollars in an “unlevered” firm by borrowing Y% of X. The result is that the value of the levered firm is the same as the value of the unlevered firm, which implies that the capital structure decision is independent of firm value, as all it does is allocate the firm’s cash flows to different stakeholders of the firm. This argument additionally implies that firm value is independent of the risk appetite of the investor. Finally, in the debt irrelevance theory, firm or shareholder value is determined solely by investment decisions and not financing decisions such as capital structure policy.

Just as in studies of family firm performance, agency theory plays a crucial role in capital structure theory. Agency theory is founded on the premise that there are natural conflicts of interest between the firm’s various
stakeholders—owners, creditors, managers, employees, suppliers, etc.—and that these conflicts may result in costs that erode firm value (Jensen & Meckling, 1976). Some agency theorists have argued that the use of debt can mitigate conflicts between principal-agent pairs such as shareholders and managers and shareholders and creditors. Borrowing involves entering into a formal commitment to allocate a portion of cash flows to creditors, which reduces the capacity of managers for empire building and the selfish pursuit of perquisites (Jensen, 1986). The excessive use of debt may also result in agency costs between equity and debt holders, however. Limited liability provides the firm’s stockholders with an incentive to pursue very risky projects: if these projects fail, losses will be borne mostly by creditors; if they succeed, equity holders stand to gain the most. This transfer of value from debt holders to stockholders results in an overall loss of value for the firm (Jensen, 1986). Finally, Jensen and Meckling (1976) posited that trading off the benefits of debt with the agency costs of debt results in an optimal capital structure—one that results in the greatest firm value.

The agency theory of debt has given rise to a more refined and widely accepted theory of capital structure: the trade-off theory. The trade-off theory recognizes that the use of debt provides the firm with interest tax shields that result from the tax deductibility of debt interest payments (Modigliani & Miller, 1958; Modigliani & Miller, 1963) and that the excessive use of debt results in “financial distress” costs which stem from the firm’s inability or difficulty in meeting its obligations to creditors (Brealey et al., 2011). Financial distress may come in the form of the threat of bankruptcy, which is experienced by firms at excessive levels of debt. Bankruptcy costs are those that are incurred
when the firm’s owners exercise their right to default, including legal, accounting, consultancy, and other incident fees. Bankruptcy costs may also be indirect, such as when firms are permitted by the courts to engage in negative-NPV ventures in the process of debt restructuring.

The trade-off theory of capital structure states that the value of a levered firm is equal to the value of an unlevered firm plus the present value of interest tax shields minus the present value of the costs of financial distress (see Equation 8). As the firm borrows more, its value increases by an amount equal to the present value of interest tax shields; as the firm uses more and more debt, it incurs more and more financial distress costs, which pull firm value down. The trade-off between interest tax shields and costs of financial distress results in an optimal debt ratio, at which the value of the firm is at its maximum (see Figure 7).

(Equation 8)

\[
\text{Value of levered firm} = \text{Value of unlevered firm} + \text{PV of interest tax shields} - \text{PV of financial distress costs}
\]
Other corporate finance scholars have proposed an alternative model which is based on the concept of “information asymmetry,” a situation where one party has better or less costly access to information than another party. When asymmetric information is taken in the context of a principal-agent pair such as non-insider stockholders and managers, it is presumed that the latter knows more about the profitability and prospects of the firm (Brealey et al., 2011). When a manager discloses a financial decision to the public, outsider investors take the announcement as a sign of the manager’s confidence in the prospects of the firm. When stock investors make buy-or-sell decisions based on the signal implied in the manager’s decision to issue debt or equity, then the firm’s capital structure decision will have affected firm value.

In an environment of asymmetric information, an announcement by the manager that the firm will raise money by borrowing is taken by investors as a sign of the firm’s capability to pay off the debt, which in turn implies the firm’s
financial health (Myers & Majluf, 1984). Investors then choose to act on the signal by buying the firm’s stock and pushing the price upward. On the other hand, if the manager announces that it will issue new equity to raise funds, investors will think that the manager is not confident about the firm’s financial prospects. Furthermore, in the case of an equity issue, investors may view the action as a sign that the manager believes the stock is currently overpriced. Both of these signals will cause investors to sell or short sell the firm’s stock and drive the price downward. Information asymmetry thus results in a bias for debt over new equity, and ultimately in a “pecking order” of long-term financing sources (Myers, 1984). Unlike the trade-off theory, however, the pecking order hypothesis does not result in a single optimal debt ratio. This is because profitable firms first resort to internally generated funds, a form of equity, to finance value-creating projects. Only when external funds are needed do firms turn to debt, and then finally, new equity issues.

An empirical study by Rajan and Zingales (1995) provided support for both the trade-off theory and the pecking order hypothesis. Using accounting and stock price data from approximately 8,000 companies in 31 countries, the researchers found that: large firms tend to have higher debt ratios; firms with high fixed-to-total asset rations tend to have higher debt ratios; more profitable firms tend to have lower debt ratios; and firms with higher market-to-book ratios have lower debt ratios. The trade-off theory predicts that since large firms with more tangible assets are less prone to financial distress, they benefit more from using more debt (Brealey et al., 2011). In addition, a high market-to-book ratio is an indication that the firm has ample growth opportunities; according to the trade-off theory, growth firms are more susceptible to
financial distress and thus tend to have lower debt ratios. On the other hand, the low debt ratio of profitable firms agrees with the pecking order hypothesis, which predicts that such firms turn to internal equity before debt.

The results of Rajan and Zingales’s (1995) empirical analysis suggest that the trade-off theory and the pecking order hypothesis do not provide a complete picture of capital structure policy even in large, publicly listed firms. Furthermore, by making unrealistic assumptions, such as perfect capital markets and rational decision making driven by profit maximization, these contemporary capital structure theories may have limited value in explaining how firms make capital structure decisions (Myers, 1984). It has been shown that financial decisions of small, privately held businesses, in particular, are driven by a host of non-financial and behavioral factors, such as culture, entrepreneurial attitudes toward debt financing, issues relating to independence and control, and perceived risk attitudes toward personal risk (Romano et al., 2001). Furthermore, the results of a study by Walker and Petty (1978) that show how large and small firms significantly differ financially highlight the need for further research about the financial decision making of small- and medium-sized enterprises.

3.2.2 Family firm finance

Since the business decisions of family firms are driven by nonfinancial goals such as the preservation of the family dynasty and the perpetuation of family values (Gómez-Mejía et al., 2007), the traditional finance paradigm has
limited ability in explaining these decisions. Studies about the financial behavior of family businesses have focused on how family ownership, management, and control affect the firm’s exposure to risk. While the attitude of family owners toward risk may be affected by several factors, in general they are risk averse because of their concentrated holdings in the business and low wealth diversification (Lyagoubi, 2006). As a result, family businesses tend to make strategic decisions that mitigate their exposure to risk, such as: pursuing projects whose cash flows have low correlation with cash flows of existing projects, i.e., to diversify internally; and prioritizing sources of capital that bear lower financial risk, such as equity (Anderson & Reeb, 2003b). The high concentration of family ownership in the business, therefore, tends to result in lower financial leverage.

According to SEW theory, however, the desire of family owners to preserve their socioemotional endowment—that is, to create family identity, to exercise family influence, and to perpetuate the family dynasty—may also result in risky behavior (Gómez-Mejía et al., 2007). The use of debt, in particular, can serve as a means for family owners to retain control of the business, even at the expense of increasing the firm’s exposure to risk (Harijono et al., 2004). Since control of the firm through the board of directors may become diluted if the family firm turns to external equity for additional funds, they would be motivated to seek debt financing instead. Indeed, the family firm’s desire to mitigate the risk created by underdiversification and its motivation to preserve socioemotional wealth send conflicting signals regarding the use of debt: whereas the underdiversification of the wealth of
family owners may lead management to avoid debt, the desire to preserve control would cause it to prefer debt over equity.

Conflicts in family business capital structure theories are reflected by the empirical literature. Table 19 presents a summary of empirical studies in family business capital structure since 1990. These studies were derived from Google Scholar using the search phrases “family business debt,” “family leverage,” and “family capital structure.” Out of the 17 studies in the sample, seven have resulted in a significantly positive relationship between family ownership or involvement and financial leverage, seven had significantly negative results, and three had insignificant findings. These conflicting results are consistent with the disagreement in the literature regarding capital structure policy in family businesses. One possible explanation for this is methodological: five out of the seven studies with significantly positive results featured publicly listed companies, which seems to indicate that listed family firms tend to be more open to using debt than privately listed firms.

Another possible explanation for the confounding empirical results is that these studies have failed to account for other factors that may affect the financial behavior of family firms; apart from one (i.e., Setia-Atmaja, 2010), all studies in the sample do not feature moderators or mediators in their empirical models. This suggests that typical measures of family ownership and involvement are not enough to characterize the financial decision making of family firms, and other non-economic factors should also be considered. For example, institutional context may play a key role in investigating the financial behavior of family businesses, since some laws in certain legal environments make it easier for families to perpetuate control of the business across
generations and make debt a less important means for retaining control (Harijono et al., 2004).

3.2.3 Financial decision making in Overseas Chinese firms

Culture is another discriminating factor that prior empirical studies of family firm finances may have overlooked. It has been demonstrated in the cross-cultural finance literature that culture influences financial decisions at the firm level through national- or group-level value systems that directly affect resource allocation within institutions (Williamson, 2010). In addition, culture may influence how firms evaluate the trade-offs involved in financial decision making, as costs and benefits associated with financial alternatives may be weighted differently by decision makers from different cultural backgrounds (Li et al., 2011). However, while there has been a dramatic increase in research interest in the specialized area of “culture and finance” since the early 2000s, many of these only use previously collected national culture measurements and thus have limited use in explaining firm-level decision making (Reuter, 2010).
<table>
<thead>
<tr>
<th>Author (Year)</th>
<th>Sample country</th>
<th>Sample type</th>
<th>Sample Size</th>
<th>Family ownership/influence measure</th>
<th>Financial leverage measure</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abor (2008)</td>
<td>Ghana</td>
<td>Small and medium, private</td>
<td>120 firms</td>
<td>&gt;50% family ownership (dummy)</td>
<td>Debt ratio (total debt/(total equity + total debt)</td>
<td>Not significant</td>
</tr>
<tr>
<td>Agrawal &amp; Nagarajan (1990)</td>
<td>USA</td>
<td>Listed</td>
<td>71 firm pairs</td>
<td>Family involvement (dummy)</td>
<td>Multiple</td>
<td>Negative, significant</td>
</tr>
<tr>
<td>Ampenberger et al. (2012)</td>
<td>Germany</td>
<td>Listed</td>
<td>5,135 firm years</td>
<td>Multiple criteria (dummy)</td>
<td>Multiple</td>
<td>Negative, significant</td>
</tr>
<tr>
<td>Anderson &amp; Reeb (2003b)</td>
<td>USA</td>
<td>Listed</td>
<td>2,108 firm years</td>
<td>Multiple: Founding family ownership (dummy); founding family ownership (%)</td>
<td>Long-term debt to total assets</td>
<td>Not significant</td>
</tr>
<tr>
<td>Chua et al. (2011)</td>
<td>USA</td>
<td>Start-ups, private</td>
<td>1267 firms</td>
<td>Multiple: Family ownership (%); number of family members on board; number of family managers</td>
<td>Log of dollar debt obtained</td>
<td>Positive, significant</td>
</tr>
<tr>
<td>Coleman &amp; Carsky (1999)</td>
<td>USA</td>
<td>Small, private</td>
<td>2,808 firms</td>
<td>Family ownership (dummy)</td>
<td>Total debt</td>
<td>Significant, negative</td>
</tr>
<tr>
<td>Driffield et al. (2007)</td>
<td>Indonesia, Korea, Malaysia, Thailand</td>
<td>Listed</td>
<td>1264 firm years</td>
<td>Multiple criteria (dummy)</td>
<td>Debt to total assets</td>
<td>Positive, significant</td>
</tr>
<tr>
<td>Gallo et al. (2004)</td>
<td>Spain</td>
<td>Private</td>
<td>305 firms</td>
<td>Self-report (dummy)</td>
<td>Total liabilities to total equity</td>
<td>Negative, significant</td>
</tr>
<tr>
<td>González et al. (2012)</td>
<td>Columbia</td>
<td>Private</td>
<td>523 firms</td>
<td>Multiple: Direct family ownership (dummy); indirect family ownership (dummy); family ownership (dummy); family directors (%)</td>
<td>Multiple</td>
<td>Negative, significant</td>
</tr>
<tr>
<td>Harijono et al. (2004)</td>
<td>Australia</td>
<td>Listed</td>
<td>996 firms</td>
<td>Multiple criteria (dummy)</td>
<td>Multiple</td>
<td>Positive, significant</td>
</tr>
<tr>
<td>Author (Year)</td>
<td>Sample country</td>
<td>Sample type</td>
<td>Sample Size</td>
<td>Family ownership/influence measure</td>
<td>Financial leverage measure</td>
<td>Results</td>
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<tr>
<td>King &amp; Santor (2008)</td>
<td>Canada</td>
<td>Listed</td>
<td>2.768 firm years</td>
<td>Family ownership (dummy)</td>
<td>Debt to total assets</td>
<td>Positive, significant</td>
</tr>
<tr>
<td>López-Gracia &amp; Sánchez-Andújar (2007)</td>
<td>Spain</td>
<td>Medium, private</td>
<td>6,864 firm years</td>
<td>&gt;50% family ownership (dummy)</td>
<td>Lagged debt to total assets</td>
<td>Not significant</td>
</tr>
<tr>
<td>Lyagoubi (2006)</td>
<td>France</td>
<td>Mixed</td>
<td>713 firms</td>
<td>Multiple: family ownership (dummy); family management (dummy)</td>
<td>Debt to equity</td>
<td>Negative, significant</td>
</tr>
<tr>
<td>McConaughy et al. (2001)</td>
<td>USA</td>
<td>Listed</td>
<td>219 firm pairs</td>
<td>Family CEO (dummy)</td>
<td>Multiple</td>
<td>Negative, significant</td>
</tr>
<tr>
<td>Romano et al. (2001)</td>
<td>Australia</td>
<td>Private</td>
<td>1,059 firms</td>
<td>Family control (multi-item scale)</td>
<td>Debt and equity (simultaneous equations)</td>
<td>Positive, significant</td>
</tr>
<tr>
<td>Setia-Atmaja (2010)</td>
<td>Australia</td>
<td>Listed</td>
<td>1,530 firm years</td>
<td>Multiple criteria (dummy)</td>
<td>Debt to total assets</td>
<td>Positive, significant</td>
</tr>
<tr>
<td>Wiwattanakantang (1999)</td>
<td>Thailand</td>
<td>Listed</td>
<td>270 firms</td>
<td>Family ownership (dummy)</td>
<td>Multiple</td>
<td>Positive, significant</td>
</tr>
</tbody>
</table>

Table 19. Summary of empirical studies on family business and capital structure
A subset of cross-cultural management literature has examined the financial behavior of Overseas Chinese firms, specifically focusing on how traditional Chinese culture may affect firm behavior. Early Chinese immigrants were observed to exhibit distinct financial behavior (Roman et al., 1996). They were known to be hard workers who promoted a frugal, prosaic lifestyle. Family business owners tended to reinvest earnings back into the business instead of issuing dividends. Furthermore, early Overseas Chinese relied more on friends and family than banks for financing. Consequently, access to credit was based more on personal relationships than formal requirements such as credit scores and collateral.

More recent studies have shown that these observations of early immigrant Chinese have persisted. Whereas non-Chinese businesses tend to use short-term earnings for personal or family consumption, there is evidence that contemporary Overseas Chinese entrepreneurs continue to prefer reinvesting earnings (Koning, 2007; Sheh, 2001; Weidenbaum & Hughes, 1996). This partiality for internally generated financing for investments reflects the traditional Chinese bias against debt (Bruton et al., 2003; Koning, 2007), although there are indications that Chinese business leaders turn to external financing sources such as bank loans under favorable terms (Wong, 1993). The apparent financial conservatism of the Overseas Chinese is a result of strategies to reduce the possibility of external interference and takeovers by creditors (Wong, 1993).

A more formal empirical investigation of how Overseas Chinese businesses perform and make financial decisions compared to non-Chinese businesses was undertaken by Hicks and Redding (1982). The study, which
was based on a sample of Philippine firms, demonstrated that Overseas Chinese firms tend to perform better, have more liabilities relative to assets, generate more sales relative to assets, and are more efficient in collecting receivables and in selling inventory (see Figure 8). Based on the results of this study, Redding (1990, p. 170) summarized the financial strategy of Overseas Chinese firms as follows:

- Low margin and high volume as a means of penetrating markets and of guaranteeing a steady flow of profit.
- Rigorous control of inventory to achieve low capital investment and high rates of stockturn.
- The reduction of transaction costs by use of networking within the Chinese community.
- The use, where possible, of capital available from sources outside the firm, to improve gearing potential.
In an effort to develop a theoretical explanation for the financial behavior of Overseas Chinese businesses, Redding (1990) presented a Chinese family business model where Confucian values play a central role in business decision making. The author proposed that Confucian influences first affect managerial ideology at the level of the self, then at the level of relationships and kin, and finally, at the level of the organization (see Figure 9). As managerial ideology interacts with societal, political, and economic influences outside the family and the firm, distinct organizational outcomes are produced.
While the empirical study by Hicks and Redding (1982) has provided some very helpful insights about the effects of culture on financial behavior, there remains a need for a more recent investigation of the issue. Koning (2007) has observed that younger generations of Overseas Chinese, who have been able to more successfully integrate into the host culture than older generations, show less affinity for traditional Chinese values and practices. This implies that a study of Chinese managerial decisions almost 30 years ago may not accurately depict current business practices. In addition, further attempts to study the effects of culture on financial decision making in the context of Overseas Chinese firms should be grounded on sound theory similar to the one developed by Redding (1990).
3.2.4 Research gaps

Modigliani and Miller’s capital structure irrelevance proposition laid the groundwork for contemporary corporate finance theories. Over the next few decades, the trade-off theory and the pecking order hypothesis have emerged as the dominant paradigms in explaining capital structure policy in firms. Since these theories are based on the behavior of large, publicly listed firms and make idealistic assumptions about markets and decision makers, however, their effectiveness in explaining financial decisions of privately held firms may be limited.

Family firms, in particular, have been shown to possess unique characteristics as well as non-financial motivations that affect their financial behavior. Family owners tend to have concentrated ownership in the business, and this low degree of diversification gives the family firm low tolerance for the additional risk that is associated with the use of debt. At the same time, family owners are motivated to perpetuate the family’s influence in the business across generations by avoiding the issuance of equity, which may significantly dilute control. Recent empirical studies regarding the use of debt in family businesses reflect the conflicts in the family firm finance literature, as out of the 17 studies reviewed in this chapter, seven show a significantly positive relationship between family involvement and financial leverage, and seven show a significantly negative relationship.

Conflicting theories and mixed empirical results suggest that family firms favor debt in certain circumstances and equity in others. Some scholars have argued that environmental factors, such as institutional development and
culture, may further affect the financial decision making of firms. Overseas Chinese family firms, in particular, exemplify how culture and family involvement may interactively affect financial behavior. However, recent empirical studies on capital structure policy in family firms, such as the ones sampled in the review above, have not used possible moderators or mediators that may provide richer results. Furthermore, cross-cultural studies about family firms, such as those that feature Overseas Chinese businesses, have been limited to descriptive efforts or simple Chinese versus non-Chinese comparisons that were based on dated data.

In the next section, I attempt to address the gaps presented in this literature review by developing a framework of capital structure founded on the theory of planned behavior. In this theoretical framework, I investigate the interactive effects of Confucian values and family involvement on capital structure policy in small- and medium-sized firms. Using this framework, I formulate hypotheses that embody the objectives of this study.

### 3.3 Theoretical Framework and Hypotheses

In this chapter, I first discuss the theory of planned behavior and how it applies to financial decision making in small, privately held firms. I then develop a framework of capital structure based on this theory by demonstrating how Confucian values and family involvement may affect the beliefs and attitudes of decision makers toward debt, subjective norms that affect the decision to use debt, and perceived behavioral controls that constrain the
borrowing decision. I then proceed to state the hypotheses that derive from the framework and the accompanying structural equation model.

3.3.1 A framework for capital structure policy in family firms: Confucian values, family involvement, and the theory of planned behavior

The theory of reasoned action (Fishbein & Ajzen, 1975) is a decision-making model which argues that behavior is an immediate and direct consequence of the decision maker’s intention to make a particular decision or perform a specific action. Intention, in turn, is influenced by the beliefs, attitudes, and subjective norms of the decision maker (Southey, 2011). Beliefs and attitudes toward a particular behavior pertain to the degree to which the decision maker believes that a behavior is favorable or unfavorable, whereas subjective norms refer to social dictates regarding the acceptability of the behavior (Ajzen, 1991). The theory of planned behavior extends the theory of reasoned action by accounting for non-motivational factors that influence behavior but are beyond the conscious control of the decision maker (Ajzen, 1991). These factors are collectively referred to as “behavioral control.”

Ajzen (1991) distinguishes perceived behavioral control from actual behavioral control. Perceived behavioral control is the decision maker’s subjective perception of the degree to which actual behavioral control factors, such as resources and opportunities, exist. As such, perceived behavioral control may vary from the actual depending on the accuracy of the perception.
of the decision maker. In predicting decision making from a theory of planned behavioral perspective, perceived behavioral control is what is relevant.

While the theories of reasoned action and planned behavior were initially developed to explain the behavior of individuals, they have also been applied to model business decisions, particularly in small enterprises where owner-managers are presumed to be the predominant decision makers (Southey, 2011). In the family firm finance literature, the theory of reasoned action has been used by Matthews et al. (2004) to explain the capital structure decision of family firms.

Following the theory of planned behavior, I devise a framework of capital structure which recognizes the effects of Confucian values and family involvement on beliefs and attitudes toward debt, societal norms that influence the intention to borrow, and perceived effects on risk, firm control, and cost of capital. In addition, by recognizing how effects are manifested through business networks, this framework borrows from the family firm performance framework based on the social capital theory that was developed in Section 2.3. In Figure 10, we see how Confucian values and family ownership and control affect capital structure policy indirectly through beliefs and attitudes toward debt, subjective norms toward borrowing, and perceived effects on risk, firm control, and the cost of capital.
Family ownership and control affects all three aspects of the framework: beliefs and attitudes of the decision maker, subjective norms in the organization, and perceived behavioral control. First, when the family has greater involvement in the business—such as higher ownership, greater presence on the board, and a family CEO—the beliefs and attitudes of the family toward debt have a greater influence on the intention of the firm to borrow than if the firm is run professionally. Conversely, the business decisions of firms with less family involvement—such as family firms with less family representation on the board of directors or those which are run by professional managers—are influenced less by traits that are idiosyncratic to the family. Thus, the subjective norm regarding the use of debt depends both on how the family views borrowing and the degree of family involvement in
the firm. Second, greater family ownership and control affects the firm’s attitude toward risk, its capacity to take on risk, and its desire to maintain family control—all of which contribute to the creation of actual and perceived behavioral controls regarding the use of debt. As discussed in the previous chapter, the family is presumed to have a high concentration of wealth in family businesses, and this low degree of diversification results in risk avoidance through less debt. The desire to preserve family control across multiple generations, however, results in the opposite effect—a preference for debt over new equity issues to achieve this end. As these effects vary between family and nonfamily firms—or between firms with high and low family ownership and control—the level of family involvement influences the degree to which these behavioral controls affect both the intention to borrow and the actual decision to borrow.

Business networks also play a key role in the theory of planned behavior as it pertains to the capital structure policy of family firms. The degree to which networks influence a firm’s financial decision making tends to be greater in smaller firms and those from developing countries, since these businesses have more constrained access to capital markets (Booth et al., 2001; Hamilton & Fox, 1998) and thus tend to rely more on business networks for support, either for information that is unavailable to the general public or for direct access to capital (Nguyen & Ramachandran, 2007). Well-developed relationships with banks and other financial institutions can afford greater access to financing at a lower cost (Uzzi, 1999). In addition, network allies can vouch for the reputation of the firm and improve the latter’s creditworthiness (Nguyen & Ramachandran, 2007). These allies can also provide the firm with
other sources of capital, such as trade credit. These environmental effects, which are created through business networks, directly influence both the perceived and actual behavioral controls for the use of debt. Furthermore, behavioral expectations espoused by social circles in a particular culture bestow an additional societal burden on firms to act in a particular way regarding the use of debt.

Trust also plays an important role in investigating how networks affect financial decision making in firms. A high level of trust allows for a more efficient and less costly exchange of information and resources among network participants. Additionally, high-trust networks provide member firms with better access to information and cheaper capital from other members. Finally, better access to capital and network-exclusive information can provide the firm with the means and opportunity to invest in more value-adding projects, increasing the need for both internal and external financing.

Confucian values affect the intention to borrow as well as the actual decision to borrow by directly influencing beliefs and attitudes toward debt, and indirectly by spurring network development and influencing the nature of network relationships. High-Confucian groups such as the Overseas Chinese have been observed to have a general bias against debt (Bruton et al., 2003). Additionally, the practice of guanxi enables the firm to expand its network by creating long-term relationships with important members of the community, whereas filial piety and traditionalism help preserve these relationships across multiple generations (Arregle et al., 2007; Kuo, 1998). Finally, these Confucian values allow norms and expectations regarding the use of debt to persist in social networks over time by the systematic handing down of family
and community narratives to younger generations (Arregle et al., 2007; Yan & Sorenson, 2006). In particular, the high importance placed on face and trust in traditional Chinese communities acts as a passive control mechanism that compels network members to avoid defaulting on loans made (Liu, 2000).

I have so far discussed how family ownership and control and Confucian values affect the firm’s capital structure decisions using the theory of the planned behavior paradigm. Family involvement affects the degree to which the family’s peculiar attitude toward debt is manifested in the firm’s intention and ultimate decision to borrow. Furthermore, the desire of the family to control its exposure to risk prompts it to avoid debt, but at the same time the family’s intention to preserve family control leads to the preference of debt over equity. At the same time, Confucian values affect financial leverage, primarily through the firm’s business and social networks. As Confucian values and practices help spur the creation of relationships and trust with the firm’s partners, networks facilitate the sharing of market information and provide better access to capital among network members. These effects are summarized in Table 20.
Antecedents

<table>
<thead>
<tr>
<th>Beliefs and attitudes</th>
<th>Family ownership and control</th>
<th>Confucian values</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Higher family involvement increases the influence of the owner-manager’s beliefs and attitudes toward debt</td>
<td>- Confucian culture is associated with an aversion to debt - Closely knit networks in Confucian societies propagate beliefs and attitudes toward debt among members - Beliefs and attitudes toward debt persist</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subjective norms</th>
<th>Family ownership and control</th>
<th>Confucian values</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The personal views of family members about debt influence the decision maker’s attitude toward debt. - The greater the family involvement, the more intense the influence is</td>
<td>- The great importance placed on face and family reputation in Confucian communities result in social pressures against borrowing. The failure to repay debt leads to loss of face and possible expulsion from the network</td>
<td></td>
</tr>
</tbody>
</table>

| Perceived behavioral control | Family ownership results in poor diversification, which lowers the firm’s capacity for financial risk - Family’s desire to perpetuate control leads to the preference of equity over debt | Well-developed networks in high-Confucian environments provide better access to market information and alternative sources of capital |

Table 20. Effects of family ownership and control and Confucian values on the three predictors of the theory of planned behavior

3.3.2 Hypotheses

Family ownership and control have divergent potential effects on capital structure, as the desire to minimize risk in under-diversified family firms leads to the avoidance of debt and, simultaneously, the family’s objective to maintain control results in the preference for debt. In addition, a literature review reveals that the mixed empirical results support the aforementioned
conflict in theory. A closer inspection of the review, however, demonstrates that out of the seven studies which showed a positive relationship between family involvement and financial leverage, five used samples of publicly listed firms (see Table 19). This indicates that for public corporations, family owners are willing to take on more financial risk in order to preserve control through the use of debt. At the same time, this observation suggests that for privately held family firms, it is more important to manage the firm’s risk position by opting for a more conservative capital structure. Thus, I hypothesize that in small- and medium-sized private enterprises, a higher degree of family ownership and control (FOC) leads to lower financial leverage.

Hypothesis 2.1 (H2.1): A high degree of family ownership and control leads to a lower financial leverage.

I demonstrated earlier that Confucian values such as filial piety, traditionalism, and guanxi help develop business and social networks over time and across social space. More developed networks and stronger relationships, in turn, provide better access to market information and debt capital, which results in a lower cost of debt. At the same time, however, the family business’s network can provide access to more inexpensive non-debt sources of financing, such as trade credit, which may lead to the use of less debt. Confucian values and practices, by contributing to network development, thus shape perceived behavioral controls with respect to the borrowing decision.

Confucian values also affect two other predictors of the theory of planned behavior framework—beliefs and attitudes toward debt and subjective
norms. As mentioned in the previous section, traditional Confucian culture is strongly associated with debt avoidance. High-Confucian family firms, therefore, have a higher aversion to debt than low-Confucian family firms. Taken another way, a high degree of family presence in a Confucian business means that the negative attitude of the decision maker toward debt would have a greater effect on the intention to borrow. Either way, in terms of beliefs and attitudes toward debt, Confucian values supplement the family firm’s reasons to avoid debt. In addition, Confucian values affect the family firm’s intention to borrow by imposing societal constraints on the decision. The excessive use of debt and the accompanying risk of default raise the possibility of the firm losing its standing in the community and its social circles. In this sense, Confucian values create a subjective norm that prevents the family business from resorting to debt.

Overall, even if Confucian values and practices may provide incentives for the firm to borrow more, I argue that the effects that lead to biases against the use of debt are stronger, particularly in family firms. In other words, Confucian values and practices amplify the negative attitude toward debt that results from a high degree of family ownership and control.

Hypothesis 2.2 (H2.2): *Financial leverage is lower in high filial piety than in low filial piety family firms. In other words, filial piety positively moderates the relationship between FOC and financial leverage.*
Hypothesis 2.3 (H2.3): Financial leverage is lower in high traditionalism than in low traditionalism family firms. In other words, filial piety positively moderates the relationship between FOC and financial leverage.

Hypothesis 2.4 (H2.4): Financial leverage is lower in high guanxi than in low guanxi family firms. In other words, filial piety positively moderates the relationship between FOC and financial leverage.

Hypotheses 2.1, 2.2, 2.3, and 2.4 are represented in Figure 11 below.

![Diagram](figure12.png)

**Figure 12. Theory of planned behavior model for capital structure policy in family firms**

In Section 2.4, I will discuss the methodologies that were used to analyze the data and test the above hypotheses.
3.4 Methodology

The empirical model that I presented in the previous chapter involves the relationship between family ownership and financial leverage and the moderating roles of filial piety, traditionalism, and guanxi. In this section, I will describe the data that were used in the study and define the constructs that were used in the model. Next, I will discuss the methodological procedures that were used in testing the hypotheses that were formulated in the previous chapter.

3.4.1 Data and variables

The antecedent and moderators that I have used in this study are the same as the ones used in Study 1. Family ownership and control (FOC) consists of the following reflective indicators: family ownership (FAMO), the presence of a family CEO (FAMCEO), the presence of a family chairman (FAMCHAIR), and participation of the family on the board of directors (FAMBOARD). The Confucian values of filial piety (FIL), traditionalism (TRA), and guanxi (GUA) were measured using reflective scales that were developed in a pilot study which was described in Study 1 (please see Section 1.4.1). Values for the indicators of FOC, FIL, TRA, and GUA were derived from a survey of 144 small- and medium-sized firms in the Philippines; Section 1.4.1 presents a detailed description of the sampling procedure and a profile of the survey respondents.
The total debt to total assets ratio or debt ratio (DTA) was used to measure the degree of financial leverage of the sampled firms. Financial data were derived from the sample firms’ official financial statements, which were submitted to the Securities and Exchange Commission for the year 2011. Descriptive statistics of the variable indicators are summarized in Table 21, and correlations of the indicators are compiled in Appendix D.

<table>
<thead>
<tr>
<th></th>
<th>N = 144</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>DTA</td>
<td>.110</td>
<td>.207</td>
<td>2.654</td>
<td>8.093</td>
<td></td>
</tr>
<tr>
<td>FAMO</td>
<td>.688</td>
<td>.399</td>
<td>-.791</td>
<td>-1.023</td>
<td></td>
</tr>
<tr>
<td>FAMBOARD</td>
<td>.659</td>
<td>.405</td>
<td>-.654</td>
<td>-1.280</td>
<td></td>
</tr>
<tr>
<td>FAMCEO</td>
<td>.76</td>
<td>.430</td>
<td>-1.211</td>
<td>-.542</td>
<td></td>
</tr>
<tr>
<td>FAMCHAIR</td>
<td>.74</td>
<td>.438</td>
<td>-1.124</td>
<td>-.747</td>
<td></td>
</tr>
<tr>
<td>f14</td>
<td>2.69</td>
<td>1.041</td>
<td>.054</td>
<td>-.581</td>
<td></td>
</tr>
<tr>
<td>f16</td>
<td>3.31</td>
<td>.948</td>
<td>-.499</td>
<td>-.375</td>
<td></td>
</tr>
<tr>
<td>f19</td>
<td>3.28</td>
<td>1.014</td>
<td>-.296</td>
<td>-.538</td>
<td></td>
</tr>
<tr>
<td>t3</td>
<td>4.17</td>
<td>.839</td>
<td>-1.203</td>
<td>2.061</td>
<td></td>
</tr>
<tr>
<td>t5</td>
<td>3.84</td>
<td>.799</td>
<td>-.787</td>
<td>.954</td>
<td></td>
</tr>
<tr>
<td>t11</td>
<td>3.98</td>
<td>.789</td>
<td>-.917</td>
<td>1.451</td>
<td></td>
</tr>
<tr>
<td>g15</td>
<td>4.36</td>
<td>.621</td>
<td>-.786</td>
<td>1.375</td>
<td></td>
</tr>
<tr>
<td>g18</td>
<td>4.47</td>
<td>.578</td>
<td>-.523</td>
<td>-.673</td>
<td></td>
</tr>
</tbody>
</table>

Table 21. Descriptive statistics of Confucian values, FOC, and financial leverage indicators

3.4.2 Analysis

In Figure 12, I have represented the relationships implied by the hypotheses from the previous chapter in a structural equation model. The path between FOC and financial leverage represents Hypothesis 2.1, while the paths
between the interaction terms “FOC*FIL,” “FOC*TRA,” and “FOC*GUA” and financial leverage stand for Hypotheses 2.2, 2.3, and 2.4, respectively. PLS-SEM using the SmartPLS 2.0 (Beta) software was again used to analyze the data and test the hypotheses.

Figure 13. Structural equation model of Study 2 showing measurement and structural relationships and interaction terms

Since I have already determined the reliability and validity of the latent constructs in the model in Study 1 (see Section 1.5.1), I will not repeat the concepts, procedures, and results in this study. Just as in Study 1, I performed a preliminary statistical analysis of the dependent variable according to low and
high levels of the independent variables. For inner model assessment, I then used the same procedure prescribed by Hair et al. (2014) in Figure 3 in the previous chapter.

In the subsequent section, I will discuss the results of the data analysis and what these results mean for the hypotheses developed in the previous chapter.

3.5 Results

In this section, I will discuss the results of the data analysis procedures that I applied to the data using PLS-SEM and the model defined in the previous chapter. Since outer model evaluation has already been performed in Study 1, I shall proceed to the evaluation of the inner model and the testing of the study’s hypotheses.

3.5.1. Preliminary analysis

Performing the difference of means t-test for the dependent variable financial leverage grouped according to 100% family ownership and low and high levels of the Confucian variables resulted in the following:

<table>
<thead>
<tr>
<th>Financial leverage</th>
<th>Mean for &lt; 100% Family Owned Group (n = 67)</th>
<th>Mean for 100% Family Owned Group (n = 77)</th>
<th>T-statistic</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial leverage</td>
<td>13.52%</td>
<td>8.76%</td>
<td>1.38</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

Table 22. Differences in means of financial leverage between low FOC and high FOC groups (Data split based on 100% family ownership)
The results of the preliminary analysis showed no significant difference in the group means. I then proceeded to perform a more formal assessment of the empirical model in the next section.

3.5.2 Assessment of the structural (inner) model

Step 1 of Hair et al.’s (2014) procedure involves an examination of potential issues in collinearity that may lead to biased and incorrect results. However, since this study involves the same set of predictor constructs as
Study 1, and it has already been established that the set of constructs do not exhibit excessive collinearity, I shall proceed to the next step of the procedure.

Step 2 involves testing the significance of the relationships that were hypothesized in the previous chapter. The PLS algorithm was first applied to the data to determine the path coefficients. Bootstrapping was then performed to determine the significance of the relationships. A summary of the results of the analysis is presented in Table 26. The path “FOC -> Financial leverage” represents Hypothesis 2.1, the relationship between family ownership and control and financial leverage. Since the path coefficient is both negative and significant (-0.301, p < 0.01), we can conclude that there is sufficient empirical evidence to support the hypothesis that family ownership and control result in less use of debt in firms.

<table>
<thead>
<tr>
<th></th>
<th>Path coefficient</th>
<th>Standard error</th>
<th>T-statistic</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIL -&gt; Financial leverage</td>
<td>-0.046</td>
<td>0.121</td>
<td>0.382</td>
<td>n.s.</td>
</tr>
<tr>
<td>FOC -&gt; Financial leverage</td>
<td>-0.301</td>
<td>0.095</td>
<td>3.176</td>
<td>p &lt; 0.01</td>
</tr>
<tr>
<td>FOC * FIL -&gt; Financial leverage</td>
<td>0.311</td>
<td>0.098</td>
<td>3.162</td>
<td>p &lt; 0.01</td>
</tr>
<tr>
<td>FOC * GUA -&gt; Financial leverage</td>
<td>0.018</td>
<td>0.101</td>
<td>0.177</td>
<td>n.s.</td>
</tr>
<tr>
<td>FOC * TRA -&gt; Financial leverage</td>
<td>-0.028</td>
<td>0.094</td>
<td>0.296</td>
<td>n.s.</td>
</tr>
<tr>
<td>GUA -&gt; Financial leverage</td>
<td>0.110</td>
<td>0.118</td>
<td>0.930</td>
<td>n.s.</td>
</tr>
<tr>
<td>TRA -&gt; Financial leverage</td>
<td>0.035</td>
<td>0.094</td>
<td>0.370</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

*Table 26. Path coefficients, t-statistics, and standard error (n.s. = not significant)*

The PLS analysis results above also allow us to determine the significance of the moderating relationships that were defined in Hypotheses 2.2, 2.3, and 2.4, which are represented by the paths “FOC * FIL -> Financial leverage,” “FOC * TRA -> Financial leverage,” and “FOC * GUA -> Financial
leverage,” respectively. The interaction terms were derived using the product indicator approach of Kenny and Judd (1984). In the previous chapter, I have posited that filial piety, traditionalism, and guanxi all positively moderate the relationship between family ownership and control and financial leverage. The results of the analysis show that FIL has a significant moderating effect on the relationship between FOC and financial leverage (0.311, p < 0.01).

As an alternative test for moderation, the two-stage approach was also applied to the data. In Stage 1 of the procedure, the main effects model was subjected to the PLS algorithm to derive latent variable scores (LVS). In Stage 2, these LVS were then used to run the multiple regression equation in Equation 5 for each of the hypothesized moderating effects. The value and significance of the interaction coefficient $\beta_3$ for each run are presented in Table 27 below.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Interaction variable</th>
<th>Dependent variable</th>
<th>$\beta_3$</th>
<th>T-stat.</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>H2.2</td>
<td>FOC*FIL</td>
<td>Financial leverage</td>
<td>0.227</td>
<td>2.148</td>
<td>p &lt; 0.05</td>
</tr>
<tr>
<td>H2.3</td>
<td>FOC*TRA</td>
<td>Financial leverage</td>
<td>0.003</td>
<td>0.035</td>
<td>n.s.</td>
</tr>
<tr>
<td>H2.4</td>
<td>FOC*GUA</td>
<td>Financial leverage</td>
<td>-0.012</td>
<td>0.122</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

*Table 27. Significance of the coefficient of the interaction variable using the two-stage approach (n.s. = not significant)*

The results of the two-stage approach to testing the moderating effects confirm the results of the product indicator procedure. In Table 27, we see that the interaction coefficient for Hypothesis 2.2 is positive and significant ($\beta_3 = 0.227, p < 0.05$), which is consistent with the earlier result using the product indicator approach. This is further evidence that filial piety is a moderator of the relationship between family ownership and control and financial leverage.
In Step 3 of the structural model assessment procedure, I evaluated the inner model as a whole using the coefficient of determination $R^2$. The $R^2$ of the full model is 0.198, which means that around 20% of the variation in the financial leverage construct is explained by the model.

For Step 4, the effect size $f^2$ shows the impact of each predictor variable on the variability of the dependent variable. Table 28 reveals the effect sizes of the Confucian moderators FIL, TRA, and GUA and the antecedent FOC. Using Cohen’s (1998) criteria of 0.02 for a weak effect, 0.15 for a moderate effect, and 0.35 for a strong effect, we see that FIL has a weak effect on financial leverage, FOC has a moderate effect, and TRA and GUA have no effect.

<table>
<thead>
<tr>
<th>Predictor</th>
<th>$f^2$</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIL</td>
<td>0.108</td>
<td>Weak</td>
</tr>
<tr>
<td>TRA</td>
<td>0.002</td>
<td>None</td>
</tr>
<tr>
<td>GUA</td>
<td>0.015</td>
<td>None</td>
</tr>
<tr>
<td>FOC</td>
<td>0.222</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

*Table 28. $f^2$ effect sizes of predictor variables on financial leverage*

Finally, in Step 5, the predictive relevance of the model and the predictor variables were evaluated using Stone-Geisser’s $Q^2$ value and the $q^2$ effect sizes. Running the blindfolding procedure on the data resulted in a $Q^2$ value of 0.063 for the endogenous variable financial leverage. Since the $Q^2$ value is marginally above zero, there is some evidence of the predictive relevance of the model.

Again using the blinding procedure, $Q^2_{ excl}$ values were derived for each predictor construct to compute for $q^2$ effect sizes. The results, which are summarized in Table 29, reveal that FIL and FOC have a weak and moderate
predictive relevance, respectively. Overall, the results for both $Q^2$ and the $q^2$ effect sizes indicate that the model and the predictor constructs exhibit predictive relevance, albeit to a lower degree than in Study 1.

<table>
<thead>
<tr>
<th>Predictor</th>
<th>$q^2$</th>
<th>Degree of predictive relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIL</td>
<td>0.066</td>
<td>Weak</td>
</tr>
<tr>
<td>TRA</td>
<td>-0.075</td>
<td>None</td>
</tr>
<tr>
<td>GUA</td>
<td>-0.007</td>
<td>None</td>
</tr>
<tr>
<td>FOC</td>
<td>0.198</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

*Table 29. $q^2$ effect sizes of predictor variables on financial leverage*

In the next section, I will discuss the implications of these results on the literature and the practice of financial decision making in family firms. In addition, I will discuss the limitations of the study and possible directions for future research.

### 3.6 Discussion

The field of family business research has experienced a tremendous degree of growth over the past decade or so. One research area that has received considerable attention in the field is strategy, which includes capital structure policy (Yu et al., 2012). Research efforts in this field have been spurred by the limitations of traditional corporate finance theories in explaining the financial behavior of family firms. Despite significant strides in recent years to address the issue, leading theories of capital structure policy in family firms have predicted divergent outcomes. In particular, whereas one side
argues that the low level of diversification of wealth of family owners compels such firms to avoid further risk exposure and use less debt, the other side posits that family firms tend to use more debt in order to preserve the family’s control of the firm. Furthermore, a review of empirical studies performed in this study has revealed that a substantial proportion of the sampled papers show either a significant positive or a significant negative relationship between family involvement and financial leverage.

The main objective of this study is to provide a better explanation of capital structure policy in family firms by using Confucian values as key moderators in the model. Using the theory of planned behavior as the foundation of my framework, I have formulated hypotheses which defined the relationship between family ownership and control and financial leverage, as well as how Confucian value constructs moderate this relationship. I then tested these hypotheses using data from Philippine small- and medium-sized firms and the partial least squares structural equation model methodology. In this section, I discuss the results of the analysis, the implications of the results for family firm finance theory and the practice of family business financial management, the limitations of the study, and, finally, directions for future research.

3.6.1 Discussion of empirical results

While theories suggest that family ownership and control may have conflicting effects on the firm’s decision to borrow, the review of empirical studies on family business capital structure policy that I performed in this study indicates that the desire to manage risk by avoiding debt may have a more
dominant effect in privately held firms than the objective to preserve family control through the use of more debt. Applying the PLS-SEM methodology to a sample data from Philippine small- and medium-sized firms, I have demonstrated that family ownership and control has a significant negative relationship with financial leverage (-0.301, p < 0.01), a result which supports the aforementioned hypothesis.

With the theoretical framework that I have developed in this study, I have shown that Confucian values reinforce the effects of family ownership and control on financial leverage by influencing beliefs and attitudes toward debt, subjective norms regarding the use of debt, and perceived behavioral controls, such as the cost and availability of debt financing. In Study 1, Confucian values such as filial piety, traditionalism, and guanxi have been demonstrated to contribute to the development of the firm’s business network by facilitating the creation of long-term relationships, strengthening existing relationships, and aiding the successful transfer of these relationships from one generation to the next. Better developed networks and stronger relationships provide the family firm with greater access to market information and alternative sources of debt, which may create a form of behavioral control that supports borrowing by lowering the firm’s cost of debt. However, the firm’s network may also provide access to cheaper non-debt financing, such as trade credit, which can in turn reduce the firm’s debt ratio.

Confucian values also affect the firm’s intention and actual decision to borrow by influencing the beliefs and attitudes of decision makers. Confucian values have been associated with a deep aversion to borrowing, and this bias would presumably have a greater presence in high-Confucian family firms,
where the personal attitude of the decision maker bears greater weight in the
intention to borrow. Furthermore, as Confucian values lead to more tightly knit
social networks where the preservation of face is highly valued, by taking on
more debt, the family firm increases not only its exposure to financial risk, but
also the threat of staining the family reputation and even the possibility of
getting expelled from the network if the firm is unable to meet its financial
obligations. Taken together, these effects suggest that Confucian values
contribute to the family firm’s avoidance of debt, particularly in small- and
medium-sized enterprises. This argument has led to the formulation of the
study’s next three hypotheses: that the Confucian values of filial piety,
traditionalism, and *guanxi*, respectively, positively moderate the negative
relationship between family ownership and control and financial leverage.

The hypothesized moderating roles of filial piety, traditionalism, and
*guanxi* in the model were tested using the product indicator approach and the
two-stage approach, and both procedures have shown that filial piety is a
significant moderator of the relationship between family ownership and control
and financial leverage. In the product indicator method, the path coefficient
from FOC*FIL to financial leverage was 0.311 and was significant at the 0.01
level; in the two-stage approach, the coefficient of the interaction term
FOC*FIL in the second stage was 0.227 and significant at the 0.05 level. The
other two Confucian moderators, TRA and GUA, did not exhibit any
significant moderating effects.

To determine the nature of the moderating role of filial piety in the
model, I performed a two-way analysis of variance (ANOVA) with FOC and
FIL as the independent variables and financial leverage as the dependent
variable. Financial leverage values were classified into four groups—low FOC, low FIL; low FOC, high FIL; high FOC, low FIL; high FOC, high FIL—based on rank order according to the two independent variables. The results of the analysis are as follows.

<table>
<thead>
<tr>
<th>COUNT</th>
<th>L FIL</th>
<th>H FIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>L FOC</td>
<td>37</td>
<td>30</td>
</tr>
<tr>
<td>H FOC</td>
<td>35</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>72</td>
<td>72</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MEAN</th>
<th>L FIL</th>
<th>H FIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>L FOC</td>
<td>16.42%</td>
<td>9.96%</td>
</tr>
<tr>
<td></td>
<td>13.19%</td>
<td></td>
</tr>
<tr>
<td>H FOC</td>
<td>4.66%</td>
<td>12.18%</td>
</tr>
<tr>
<td></td>
<td>8.42%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10.54%</td>
<td>11.07%</td>
</tr>
<tr>
<td></td>
<td>10.80%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VARIANCE</th>
<th>L FIL</th>
<th>H FIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>L FOC</td>
<td>6.65%</td>
<td>2.70%</td>
</tr>
<tr>
<td></td>
<td>4.92%</td>
<td></td>
</tr>
<tr>
<td>H FOC</td>
<td>1.01%</td>
<td>5.78%</td>
</tr>
<tr>
<td></td>
<td>3.71%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.20%</td>
<td>4.46%</td>
</tr>
<tr>
<td></td>
<td>4.30%</td>
<td></td>
</tr>
</tbody>
</table>

Table 30. Summary statistics of two-way ANOVA for FOC, FIL, and financial leverage

<table>
<thead>
<tr>
<th></th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rows</td>
<td>0.081</td>
<td>1</td>
<td>0.081</td>
<td>1.918</td>
<td>n.s.</td>
</tr>
<tr>
<td>Columns</td>
<td>0.001</td>
<td>1</td>
<td>0.001</td>
<td>0.024</td>
<td>n.s.</td>
</tr>
<tr>
<td>Interaction</td>
<td>0.173</td>
<td>1</td>
<td>0.173</td>
<td>4.119</td>
<td>p &lt; 0.05</td>
</tr>
<tr>
<td>Within</td>
<td>5.891</td>
<td>140</td>
<td>0.042</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.149</td>
<td>143</td>
<td>0.043</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 31. ANOVA table for two-way ANOVA for FOC, FIL, and financial leverage

The result that there is significant interaction between FOC and FIL is consistent with the earlier finding that FIL is a moderator for the relationship
between FOC and financial leverage. In Table 30, for the low FOC group, financial leverage is lower when FIL is high; however, in the high FOC group, financial leverage is higher when FIL is high.

Another illustration of the moderating role of filial piety may be seen in Figure 14 where the linear relationship between FOC and financial leverage for both the Low FIL and High FIL groups is plotted. Here, we see that the relationship between FOC and financial leverage is negative for both groups. However, the firm’s rate of aversion to debt is higher for the high filial piety group than the low filial piety group.

![Figure 14. The linear relationship between FOC and financial leverage for Low FIL and High FIL groups](image)

Hypothesis 2.2 states that “Financial leverage is lower in high filial piety than in low filial piety family firms.” Table 30 and Figure 14 show that financial leverage is indeed lower in high filial piety firms, but specifically in
firms with a lower degree of family ownership and control. This result provides partial and qualified support to the argument that Confucian values intensify the family firm’s dislike for debt through beliefs and attitudes and subjective societal norms, as described by the theory of planned behavior framework for capital structure policy. Filial piety, the value of regarding the head of the family or the business with the highest esteem, contributes to temporal and spatial network development by ensuring that network relationships and the family culture are passed on smoothly to the next generation. Additionally, apart from providing network-related and culture-idiosyncratic effects to the family firm’s capital structure decision, filial piety helps ensure that the family or business head’s personal attitude toward debt permeates the entire organization and is manifested in behaviors such as the decision to borrow.

As FOC increases and moves closer to a state of 100% family ownership and control, however, high filial piety firms exhibit higher degrees of financial leverage. This trend indicates that at higher levels of family ownership and control, incentives for the firm to borrow take over. As a higher FOC and FIL result in stronger ties and more established networks, the firm develops better access to cheaper and more readily available debt financing. At higher levels of FOC, the data suggests that the firm starts to borrow more despite any cultural bias against debt brought about by a high degree of filial piety.

That traditionalism and guanxi have insignificant moderating roles may be explained by how Confucian values indirectly provide better market information and sources of debt through network development. Guanxi, in particular, immensely contributes to the creation of long-term ties that become
the basis for business and social networks. Extensive practice of guanxi may provide the family firm with favorable borrowing terms that reinforce the attractiveness of turning to debt for financing needs in order to preserve control.

To assess the overall health of the structural equation model, I used the coefficient of determination $R^2$ and effect size $f^2$. The results show that the full model has an $R^2$ of 0.198, meaning that 19.8% of the variance in the endogenous variable financial leverage is explained by the model. The coefficient of determination of the model is very close to 20%, which in areas such as consumer behavior is considered high (Hair Jr. et al., 2014). In terms of the contribution of each exogenous construct to the variation in the dependent variable, based on Cohen’s (1998) benchmarks, FIL was found to have a weak effect and FOC a moderate effect on financial leverage, with effect sizes $f^2$ of 0.108 and 0.222, respectively. These results are consistent with the earlier analysis that FOC is a significant negative antecedent of financial leverage and FIL is a significant positive moderator of the relationship between FOC and financial leverage. TRA and GUA were found to have no effect on the variability of financial leverage.

Finally, in assessing the model’s predictive relevance, I computed for Stone-Geisser’s $Q^2$ value and the effect sizes $q^2$ of each predictor construct. The analysis resulted in a $Q^2$ value of 0.063 for the model, indicating a low degree of predictive relevance. Meanwhile, the $q^2$ effect sizes reflect a weak degree of predictive relevance for FIL and a moderate degree for FOC. In all, the results demonstrate that the model and the predictive constructs exhibit a lower degree of predictive relevance than the model in Study 1.
3.6.2 Additional evidence from case studies

To derive a richer understanding from the results of the empirical analysis, I once again turn to the cases that I have introduced in Section 2.6.2. In my interviews with the representatives of Manuel Poultry, Beta Builders, and Cinco Footwear, I also asked questions about the firms’ values in relation to the use of debt.

With regard to the family firms’ general attitude toward debt and borrowing, we see an interesting symmetry in the responses. On the one hand, Beta ultimately sees borrowing as beneficial to the firm, particularly as it serves to fill deficiencies in working capital. On the other hand, the Overseas Chinese firm Cinco has a generally negative opinion of debt. Owen’s parents have always stressed spending within one’s means and emphasized financial conservatism in running the business. And in the middle we find Manuel which sees debt as an important ingredient for the growth of the business. At the same time, however, family members have a personal aversion to borrowing and the additional costs that it entails. For Manuel’s capital intensive business, the key is in finding the right balance between reinvesting earnings and borrowing without sacrificing the expansion of the business.

Manuel Poultry and Beta Builders both cite integrity—a key value discussed in the previous chapter—as an important influence to how the firms view the use of debt. Both firms believe that integrity is key in using debt for the good of the business; a borrower must always be honest and repay any borrowed amount in full and on time.
In this regard, Cinco reiterates the importance of conservatism in dealing with debt, specifically in terms of operating within the business’ existing resources. This emphasis on conservatism may be interpreted as another manifestation of Cinco’s Confucian roots as an Overseas Chinese business, much like the importance of reputation and the value of frugality that were discussed in the previous chapter. Consistent with the formulated theories and the empirical results of this study, Cinco’s aversion toward borrowing seems to be affected by the family firm’s traditional Chinese culture.

3.6.3 Research contributions

This study makes important contributions to the research on financial decision making in family firms. Traditional finance theories are primarily based on assumptions of perfect markets and investor rationality, disregarding the roles of the decision maker’s personal attributes and other environmental factors such as culture. The analytical framework based on the theory of planned behavior which was developed in this study recognizes that factors such as family ownership and control and Confucian values contribute to the beliefs and attitudes of decision makers toward debt, the creation of environmental stimuli in the form of societal pressures to behave in a particular way in regard to debt, and perceived behavioral controls such as the effects of borrowing on risk, family control, and the cost of capital. This study thus provides an alternative approach to the widely accepted theories of capital structure—such as the trade-off theory and the pecking order hypothesis—
particularly with respect to small- and medium-sized family businesses. In addition, this study lends its voice to the resolution of the issue regarding the link between family involvement and financial leverage, an issue that has divided theoretical and empirical efforts into two divergent groups. The results of this study reveal that small- and medium-sized firms with a high degree of family ownership and control tend to borrow less, which suggests that in privately held firms, the objective of managing risk through the use of less debt takes precedence over the desire to maintain family control with debt. Furthermore, the results indicate that Confucian values such as filial piety can reinforce the family firm’s bias against debt.

This study also provides significant contributions to the practice of financial management in family firms. The practice of corporate finance has long been guided by traditional theories, such as the trade-off theory and the pecking order hypothesis of capital structure. These dominant paradigms, however, have limited usefulness in explaining and guiding financial behavior in privately held businesses, and even less in privately held family firms. The study at hand serves as a practical guide for how the family firm can have better access to cheaper capital. While the results of this study have shown that family firms with a high degree of filial piety tend to use less debt, the arguments set forth in this study also suggest that such firms can benefit from less expensive sources of financing by nourishing their network relationships and by expanding their network through Confucian beliefs and practices such as filial piety, traditionalism, and guanxi.
3.6.4 Limitations and directions for future research

Despite its significant contributions to the literature and the practice of corporate finance, the study at hand features the same methodological limitations that are associated with the use of the PLS-SEM methodology and the epidemiological approach to cross-cultural research in Study 1. As such, future research should endeavor to expand and apply the insights and findings of this study to a wider, multi-country sample to generate richer and more robust results. In addition, future similar undertakings should attempt to meet the stricter requirements of the CB-SEM methodology for sample size and distribution in order to generate more powerful confirmatory results.

The theory of planned behavior has proved useful in explaining how family ownership and control may influence capital structure policy in firms. However, the theory was originally developed to explain decision making in individuals. The applicability of the framework may thus be limited to smaller, privately held firms or family businesses where the peculiarities of individuals or homogeneous groups have greater weight.
CHAPTER 4. CONCLUSION

I began this dissertation with the following questions:

1. How do Confucian values affect the performance of family businesses vis-à-vis nonfamily firms?
2. How do Confucian values affect capital structure decision making in family businesses vis-à-vis nonfamily firms?

In trying to find definitive answers to these questions, I have undertaken two studies. In Study 1, “Confucian Values and Value Creation in Family Businesses,” I developed a theoretical framework for value creation in family firms that was founded on social capital theory. Using this framework, I argued that Confucian values such as filial piety (FIL), traditionalism (TRA), and guanxi (GUA) interact with the degree of family ownership and control (FOC) to create network-related mechanisms for the firm and enable it to achieve sustainable competitive advantages. In addition, I have posited that Confucian values spur social capital formation both spatially and temporally. In order to account for this temporal aspect, I have included the cultural of measure long-term orientation (LTO) in the model. Long-term orientation has widely been regarded as an important source of competitive advantage for family firms. In developing my empirical model, I have hypothesized that FOC affects firm performance both directly and indirectly through LTO, with LTO serving as a mediator in the relationship between FOC and performance. Finally, in the context of these relationships, Confucian values act as moderators, specifically FIL and TRA for the relationship between FOC and
LTO, and GUA for the relationships between FOC and LTO and FOC and performance.

I began the process of verifying my hypotheses with empirical data by developing reflective scales for the Confucian value constructs with a pilot study. Once the scales had been demonstrated to be reliable and valid, I then proceeded to collect primary and secondary data from small- and medium-sized enterprises from the Philippines. Applying the partial least squares structural equation model (PLS-SEM) methodology to the data and the empirical model, the analysis has shown that LTO is a partial mediator between FOC and performance, and that TRA is a moderator for the relationship between FOC and LTO. These findings support the argument that traditionalism contributes to the creation of social capital in family firms, as it helps strengthen relationships between family members between generations, and because it preserves the family’s identity and culture from one generation to the next. In general, these results uphold the argument that Confucian values contribute to social capital and value creation across generations of family firms.

In Study 2, “Confucian Values and the Capital Structure of Family Businesses,” I used the theory of planned behavior as a foundation for a framework for analyzing capital structure decisions in small- and medium-sized firms. Using this theoretical framework, I have reasoned that Confucian values and family ownership and control affect both the intention and actual decision to borrow through three aspects: the beliefs and attitudes of the decision maker toward debt; the existence of subjective norms that create societal pressures regarding the use of debt; and finally, perceived behavioral
controls that are manifested as effects on risk, family control, and the cost of capital. Specifically, I have argued that a high degree of family ownership and control in the business increases the weight of the decision maker’s personal bias for or against debt and creates environmental constraints for and against the use of debt, as family firms tend to avoid debt to manage the firm’s risk exposure and at the same time prefer debt over equity if it facilitates the preservation of the family’s control of the firm. Confucian values, meanwhile, help create an atmosphere of bias against debt in the firm, as traditional Confucian culture has been strongly associated with debt avoidance. In addition, Confucian values lead to societal pressures against borrowing, as high levels of debt threaten the standing and reputation of the firm in the network. Finally, Confucian values provide the firm with incentives to borrow through the greater availability of market information and sources of capital, although these funding sources may also be non-debt in nature.

Overall, the two studies in this dissertation have been successful in answering the research questions to a sufficient degree. First, Confucian values such as traditionalism have a positive influence on value creation in firms by promoting the family firm’s capacity for long-term orientation. Second, Confucian values such as filial piety amplify the family business’ bias against debt and contribute to lower financial leverage, particularly at lower degrees of family ownership and control. Future studies in family business management and corporate financial decision making in family firms should build on the findings and contributions made by this dissertation, particularly with regard to the role of Confucian values, in order to attain an even deeper understanding of the performance and financial behavior of family firms.
REFERENCES


148


APPENDICES

Appendix A. Pilot Study Questionnaire

June 13, 2011

Dear Participant,

My name is Archimedes D. Guerra and I am a PhD student in Finance and Decision Sciences at Hong Kong Baptist University’s School of Business. I am also a permanent faculty member at Ateneo de Manila University’s John Gokongwei School of Management, from which I am on leave while I am pursuing my studies.

I hope that you can help me by completing the attached questionnaire, which includes various items about culture and attitudes towards personal financial decisions like borrowing and saving. The results of this survey will serve as preliminary data for my dissertation. There are no solicitations associated with this study and it will be used solely for education and research. All of your answers in this questionnaire will be strictly anonymous and confidential.

Thank you very much for your time.

Sincerely yours,

Archimedes D. Guerra
PhD Candidate
Phone: +63 928 2768359, +852 6935 1580
Email: archie.guerra@gmail.com, 10466053@hkbu.edu.hk

***

Part A. Please indicate your attitude towards each of the following statements using a scale of 1 to 5, where:

1 = Strongly disagree (SD)
2 = Disagree (D)
3 = Neither disagree nor agree (N)
4 = Agree (A)
5 = Strongly agree (SA)
There are no "right" or "wrong" answers, so please rate the items as honestly as you can. Encircle only one number rating for each item.

### Group 1: On Finances and Spending

<table>
<thead>
<tr>
<th>Item</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I believe in putting some money aside for a rainy day.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2. I save as much as I can.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>3. I spend as little as possible.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>4. It is good to have something now and pay for it later.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>5. It is important to save.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>6. I tend to spend money as soon as I get it.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>7. Once in a while, I like to go on a big spending spree.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>8. Owing money is wrong.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>9. I love shopping.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>10. People should avoid borrowing money.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>11. Once you are in debt it is very difficult to get out.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>12. You should always save up first before buying something.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>13. People should be discouraged from using credit cards.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>14. Debt is an integral part of today's lifestyle.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>15. Money is for spending, not for holding on to.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>16. I am interested in looking at different ways of saving money.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>17. I budget my money carefully.</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>

### Group 2: On Your Personal Beliefs

<table>
<thead>
<tr>
<th>Item</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>18. I am a unique individual.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>19. I prefer to be direct and forthright when discussing with people.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>20. I don't mind giving up today's fun for success in the future.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>21. I like my privacy.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>22. Some people emphasize winning; I'm not one of them.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>23. What happens to me is my own doing.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>24. Children should obey their parents even if they exceed their parents in terms of achievement or stature.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>25. I value a strong link to my past.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>26. My personal identity, independent of others, is very important to me.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td></td>
<td>Statement</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>27.</td>
<td>I rely on myself most of the time; I rarely rely on others.</td>
</tr>
<tr>
<td>28.</td>
<td>When I succeed, it is usually because of my abilities.</td>
</tr>
<tr>
<td>29.</td>
<td>Respect for tradition is important to me.</td>
</tr>
<tr>
<td>30.</td>
<td>Without competition, it is not possible to have a good society.</td>
</tr>
<tr>
<td>31.</td>
<td>One should live one's life independently of others.</td>
</tr>
<tr>
<td>32.</td>
<td>I enjoy being unique and different from others in many ways.</td>
</tr>
<tr>
<td>33.</td>
<td>I work hard for success in the future.</td>
</tr>
<tr>
<td>34.</td>
<td>Winning is everything.</td>
</tr>
<tr>
<td>35.</td>
<td>The best way to avoid mistakes is to follow the instructions of those who are more senior.</td>
</tr>
<tr>
<td>36.</td>
<td>It annoys me when other people perform better than I do.</td>
</tr>
<tr>
<td>37.</td>
<td>Children should follow the requirements of their parents even if they believe that these requirements are unreasonable.</td>
</tr>
<tr>
<td>38.</td>
<td>Persistence is important to me.</td>
</tr>
<tr>
<td>39.</td>
<td>Children should respect those who are respected by their parents.</td>
</tr>
<tr>
<td>40.</td>
<td>Competition is the law of nature.</td>
</tr>
<tr>
<td>41.</td>
<td>It is important that I do my job better than others.</td>
</tr>
<tr>
<td>42.</td>
<td>Family heritage is important to me.</td>
</tr>
<tr>
<td>43.</td>
<td>I'd rather depend on myself than others.</td>
</tr>
<tr>
<td>44.</td>
<td>The biggest sin a child can make is to disobey his or her parents.</td>
</tr>
<tr>
<td>45.</td>
<td>I often do &quot;my own thing.&quot;</td>
</tr>
<tr>
<td>46.</td>
<td>I enjoy working in situations involving competition with others.</td>
</tr>
<tr>
<td>47.</td>
<td>Traditional values are important to me.</td>
</tr>
<tr>
<td>48.</td>
<td>When people are in disagreement, they should ask the most senior person to decide who is right.</td>
</tr>
<tr>
<td>49.</td>
<td>I plan for the long term.</td>
</tr>
<tr>
<td>50.</td>
<td>When another person does better than I do, I get tense.</td>
</tr>
</tbody>
</table>
### Group 3: On Your Relationship with Others

<table>
<thead>
<tr>
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<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>51.</td>
<td>If followers trust their leaders wholeheartedly, the group will be most successful.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>52.</td>
<td>Parents and children must stay together as much as possible.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>53.</td>
<td>My limited contacts do not matter, for my contacts are able to introduce me to their network of contacts.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>54.</td>
<td>I like sharing things with people around me.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>55.</td>
<td>I would sacrifice an activity that I enjoy very much if my family did not approve of it.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>56.</td>
<td>A personal relationship with others is part and parcel of daily life.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>57.</td>
<td>There should be established ranks in society with everyone occupying their rightful place regardless of whether that place is high or low in the ranking.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>58.</td>
<td>It is my duty to take care of my family, even when I have to sacrifice what I want.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>59.</td>
<td>If a relative were in financial difficulty, I would help within my means.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>60.</td>
<td>We should keep our aging parents with us at home.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>61.</td>
<td>People should help one another at all times; you never know when you might need their help.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>62.</td>
<td>It is best for our society to let our leaders decide what is good for us.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>63.</td>
<td>It is important to me that I respect the decisions made by my groups.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>64.</td>
<td>I can make use of my contacts' contacts as long as I have a good relationship with my contacts.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>65.</td>
<td>I feel good when I cooperate with others.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>66.</td>
<td>My network of contacts does not consist of only who I know but also includes those that my contacts know.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>67.</td>
<td>A personal connection is developed and reinforced through personal care and commitment.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>68.</td>
<td>Children should be taught to place duty before pleasure.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>69.</td>
<td>I would do what would please my family, even if I detested that activity.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>70.</td>
<td>It is fair that people can gain favors/benefits by depending on their network of contacts.</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<td>5</td>
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<td></td>
</tr>
<tr>
<td>71.</td>
<td>It is natural that I give favors to and receive favors from my network of contacts.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>72.</td>
<td>In my network of contacts, people depend on one another.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>73.</td>
<td>My happiness depends very much on the happiness of those around me.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>74.</td>
<td>If a classmate (coworker) gets a prize, I would feel proud.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>75.</td>
<td>Family members should stick together, no matter what sacrifices are required.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>76.</td>
<td>People are better off not questioning the decisions of those in authority.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>77.</td>
<td>When someone helps me, I will want to repay it by all means.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>78.</td>
<td>The well-being of my classmates (coworkers) is important to me.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>79.</td>
<td>Before making a major decision, I consult with most members of my family and many friends.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>80.</td>
<td>Children should feel honored if their parents receive a distinguished award.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>81.</td>
<td>An organization is most effective if it is clear who the leader is and who the followers are.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>82.</td>
<td>To me, pleasure is spending time with others.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>83.</td>
<td>It is important to maintain harmony within my group.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>84.</td>
<td>I usually sacrifice my self-interest for the benefit of my group.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>85.</td>
<td>I hate to disagree with others in my group.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

**Part B. Please answer the following questions. Your responses will be kept strictly confidential.**

**B1.** What is your sex?

__ Female    __ Male

**B2.** What is your age as of August 31, 2011? _____ years

**B3.** Do you consider yourself to be Chinese or Filipino Chinese?

__ Yes (Jump to B4)  __ No (Jump to B5)
B4. (Answer only if your answer in B3 is "Yes")
Which of the following best describes your Chinese ancestry?
_____ Both of your parents are pure Chinese
_____ One of your parents is pure Chinese
_____ None of your parents are pure Chinese, but some of your ancestors are.

B5. Did you attend a Chinese or Filipino Chinese elementary school?
__ Yes (Jump to B6)  __ No (Jump to B7)

B6. (Answer only if your answer in B5 is "Yes")
How many years did you spend in a Chinese elementary school? _____ years

B7. Did you attend a Chinese or Filipino Chinese high school?
__ Yes  (Jump to B8)  __ No (Jump to B9)

B8. (Answer only if your answer in B7 is "Yes")
How many years did you spend in a Chinese high school? _____ years

B9. Does your family own and manage a business?
__ Yes  __ No

B10. In your opinion, what is the ideal retirement age (i.e., age at which one should stop working and just enjoy the fruits of his or her labor)? _____ years old

B11. What is your religious affiliation? Please choose one:
__ Catholic
__ Born-again Christian/Protestant
__ Iglesia ni Cristo
__ Muslim
__ Taoist
__ Buddhist
__ Other. Please indicate: __________

*** END OF QUESTIONNAIRE ***

Please remember that your information is confidential and will not be revealed to anyone.
Thank you very much for your participation!
Appendix B. Pre-test Questionnaire

March 19, 2012

Dear Participant,

My name is Archimedes D. Guerra and I am a PhD student in Finance and Decision Sciences at the School of Business of Hong Kong Baptist University. I am also a permanent faculty member at Ateneo de Manila University’s John Gokongwei School of Management, from which I am on leave while I am completing my studies.

I hope that you can help me by completing this questionnaire. Findings from this PRETEST will serve as the basis for the actual questionnaire that I will use in my dissertation. At the end of this survey, you will be asked to comment on the questionnaire's length, how easily the items can be understood, and other attributes.

Thank you very much for your time and participation.

Sincerely yours,

Archimedes D. Guerra
PhD Candidate
Phone: +63 928 2768359, +852 6935 1580
Email: archie.guerra@gmail.com, 10466053@hkbu.edu.hk

***

M1 Please write the name of the CORPORATION that you are currently working for on the space provided below. Henceforth, this corporation will be referred to as "THE FIRM"
M2 How would you describe your POSITION or ROLE in the firm? Please check all that apply

- Part-owner/stockholder
- Member of the Board of Directors
- Chairman of the Board of Directors
- President and/or CEO
- Senior Executive (e.g., COO, CFO, CIO, etc.)
- Vice President or Senior Vice President
- Business Unit Head
- Senior Manager
- Manager
- Supervisor/Administrator
- Regular Employee

M3 How many years have you been working for the firm?
_______________________________________________________

M4 How long has the firm been in business?
_______________________________________________________

M5 In the latest fiscal year, what portion of net profit has the firm distributed as cash dividends?

- Up to 10% (choose this option if the firm HAS NOT distributed any cash dividends in the last fiscal year)
- More than 10% up to 20%
- More than 20% up to 30%
- More than 30% up to 40%
- More than 40% up to 50%
- More than 50% up to 60%
- More than 60% up to 70%
- More than 70% up to 80%
- More than 80% up to 90%
- More than 90% up to 100%
M6 In the last five years, ON AVERAGE, what portion of net profit has the firm distributed as cash dividends?

- Up to 10% (choose this option if the firm DOES NOT usually distribute cash dividends in any given year)
- More than 10% up to 20%
- More than 20% up to 30%
- More than 30% up to 40%
- More than 40% up to 50%
- More than 50% up to 60%
- More than 60% up to 70%
- More than 70% up to 80%
- More than 80% up to 90%
- More than 90% up to 100%

M7 Which of the following statements would best describe the firm's revenues on any given year?

- The firm's revenues generally come from ONE product group or industry
- The firm's revenues come from TWO or MORE distinct product groups or industries

M8 How many employees does the firm currently have?

In answering the questions in this section, please take note of the following definition of the term family:

**FAMILY** is defined as a social group which consists of parents and their children (natural or legally adopted), as well as individuals who are related by blood (e.g., siblings, cousins, etc.) or marriage (i.e., in-laws).

F1 Think about a FAMILY whose members own, in total, the largest portion of the firm's stock. What percentage of the firm does this family own, in total (please enter a number between 1 and 100)?

F2 Are you a member of the FAMILY in QUESTION F1?

- Yes
- No

F3 How many directors does the firm have?
**F4** How many of the firm's directors are members of the FAMILY in QUESTION F1?

**F5** Is the firm's CEO and/or President a member of the FAMILY in QUESTION F1?
- Yes
- No

**F6** Is the Chairman of the Board of Directors of the firm a member of the FAMILY in QUESTION F1?
- Yes
- No

**F7** To your knowledge, is the firm PREDOMINANTLY OWNED (i.e., is at least 50% owned) by Filipinos of Chinese descent/ancestry?
- Yes
- No

**F8** To your knowledge, are the firm's MANAGERS mostly Filipinos of Chinese descent/ancestry?
- Yes
- No
Please rate the following items AS A REPRESENTATIVE OF THE FIRM using the provided scale.

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neither Agree nor Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>When people are in disagreement, they should ask the most senior person to decide who is right.</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>When someone helps me, I will want to repay it by all means.</td>
<td>○</td>
<td>○</td>
<td>○</td>
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</tr>
<tr>
<td>Family heritage is important to me.</td>
<td>○</td>
<td>○</td>
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</tr>
<tr>
<td>Before making a major decision, I consult with members of my family and close friends.</td>
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<td>○</td>
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<tr>
<td>Respect for tradition is important to me.</td>
<td>○</td>
<td>○</td>
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</tr>
<tr>
<td>Persistence is important to me.</td>
<td>○</td>
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</tr>
<tr>
<td>I can approach the friends of my friends for help if I need it.</td>
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<td>○</td>
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<tr>
<td>It is my duty to take care of my family.</td>
<td>○</td>
<td>○</td>
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</tr>
<tr>
<td>There should be established ranks in society with everyone occupying their rightful place.</td>
<td>○</td>
<td>○</td>
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<tr>
<td>I don't mind giving up today's fun for success in the future.</td>
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<tr>
<td>Traditional values are important to me.</td>
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<tr>
<td>I respect the decisions made by my groups.</td>
<td>○</td>
<td>○</td>
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<tr>
<td>People are better off not questioning the decisions of those</td>
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173
<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neither Agree nor Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Children should follow the requirements of their parents even</strong></td>
<td>○</td>
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<td><strong>if they believe that these requirements are unreasonable.</strong></td>
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<tr>
<td><strong>People should help one another at all times; you never know</strong></td>
<td>○</td>
<td>○</td>
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<td><strong>when you might need other people's help.</strong></td>
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<tr>
<td><strong>Children should obey their parents at all times.</strong></td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>It is best for our society to let our leaders decide what</strong></td>
<td>○</td>
<td>○</td>
<td>○</td>
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<td>○</td>
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<tr>
<td><strong>is good for us.</strong></td>
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</tr>
<tr>
<td><strong>It is important to maintain harmony within my group.</strong></td>
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</tr>
<tr>
<td><strong>One of the biggest mistakes a child can make is to disobey</strong></td>
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</tr>
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<td><strong>his or her parents.</strong></td>
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</tr>
<tr>
<td><strong>I plan for the long term.</strong></td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>Children should be taught to place duty before pleasure.</strong></td>
<td>○</td>
<td></td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>I work hard for success in the future.</strong></td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>I value a strong link to my past.</strong></td>
<td>○</td>
<td></td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

**Z1** Do you think the questionnaire (comprised of all items above) is TOO LONG?  
○ Yes (1)  
○ No (2)
**Z2** Please indicate which item(s) you found difficult to understand, if any.

__________________________

_____

**Z3** Please indicate which item(s) you believe ask for information that is too sensitive to be freely provided, if any.

__________________________

_____

**Z4** What comments or suggestions can you make to improve this questionnaire?

__________________________

_____

**Z5** If you’re interested in getting a copy of the research results, please leave your email address on the space provided.

__________________________

_____

*******

You have reached the end of the survey.
Thank you very much for participating.
Appendix C. Final Dissertation Questionnaire

June 4, 2012

Dear Sir or Madame:

Greetings!

My name is Archimedes D. Guerra and I am a second year PhD student of Finance and Decision Sciences at Hong Kong Baptist University (HKBU), where I was admitted through the Hong Kong PhD Fellowship Scheme. I am also a permanent faculty member at Ateneo de Manila University’s John Gokongwei School of Management, from which I am on leave while I am completing my studies, and a member of the Ateneo Family Business Development Center.

My PhD dissertation is about the effects of socio-cultural factors on managerial decision making in small and medium corporations in the Philippines, including but not exclusive to family businesses. In undertaking this study, I would need the participation of managers, corporate officers, and business owners like you in answering this short survey questionnaire. I hope that you can help me by completing this questionnaire which will take approximately 15 minutes to finish. I must emphasize that there are no right or wrong answers in this survey; I would therefore like to request you to please answer all questions as candidly and honestly as possible. I reassure you that I will keep your responses confidential and that I will only use the data from this survey for academic purposes.

As a small token of my gratitude, I will give you a copy of the final version of my dissertation which I aim to complete in August 2013. Hopefully, you'll find the results of this study helpful in formulating strategies that will improve the competitive position of your business. If you have any questions or comments about this survey, please do not hesitate to contact me. Thank you very much for your time and participation.

Most sincerely,

Archimedes D. Guerra
PhD Candidate
Department of Finance and Decision Sciences, Hong Kong Baptist University
Phone (Hong Kong): +852 6935 1580
Email: archie.guerra@gmail.com, 10466053@hkbu.edu
SECTION I

M1 Please write the name of the CORPORATION that you are currently working for on the space provided below. Henceforth, this corporation will be referred to as “THE FIRM”

_______________________________________________________________

M2 How would you describe your POSITION or ROLE in the firm? Please check all that apply.

- Part-owner/stockholder
- Director
- Chairman
- President and/or CEO
- Senior Executive (e.g., COO, CFO, CIO, etc.)
- Vice President or Senior Vice President
- Business Unit Head
- Senior Manager
- Manager
- Supervisor/Administrator

The following two questions are about the way the firm distributes dividends. While I understand that you might regard this kind of information as sensitive, I humbly request you to please answer these questions since this topic is a very important part of my study. I assure you that I will keep your answers confidential and that there are no right or wrong answers for these and other questions in this survey.

M3 In the last fiscal year, what portion of net profit has the firm distributed as cash dividends? Please choose one.

- Up to 10% (choose this option if the firm HAS NOT distributed any cash dividends in the last fiscal year)
- More than 10% up to 20%
- More than 20% up to 30%
- More than 30% up to 40%
- More than 40% up to 50%
- More than 50% up to 60%
- More than 60% up to 70%
- More than 70% up to 80%
- More than 80% up to 90%
- More than 90% up to 100%
M4 In the last five years, ON AVERAGE, what portion of net profit has the firm distributed as cash dividends? Please choose one.
- Up to 10% (choose this option if the firm DOES NOT usually distribute cash dividends in any given year)
- More than 10% up to 20%
- More than 20% up to 30%
- More than 30% up to 40%
- More than 40% up to 50%
- More than 50% up to 60%
- More than 60% up to 70%
- More than 70% up to 80%
- More than 80% up to 90%
- More than 90% up to 100%

M5 Which of the following industry classifications would best describe the firm's business? Please choose one.
- Agriculture, Hunting and Forestry
- Fishing
- Mining and Quarrying
- Manufacturing
- Electricity, Gas and Water
- Construction
- Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods
- Hotels and Restaurants
- Transport, Storage and Communications
- Financial Intermediation
- Real Estate, Renting and Business Activities
- Education
- Health and Social Work
- Community, Social, and Personal Services
- Other ____________________________

M6 How many years have you been working for the firm?
___________________________________________

M7 How many years has the firm been in business?
___________________________________________

SECTION II

In answering the questions in this section, please take note of the following definition of the term family: FAMILY is defined as a social group which consists of parents and their children (natural or legally adopted), as well as
individuals who are related by blood (e.g., siblings, cousins, etc.) or marriage (i.e., in-laws).

**F1** Is there a group of owners of the firm who belong to ONE FAMILY and whose TOTAL OWNERSHIP is more than 20%?
- Yes, please answer questions **F2** to **F8**
- No, please proceed to question **F9**

The following questions pertain to the FAMILY from the previous question, whose members in total own more than 20% of the firm.

**F2** What percentage of the firm does the FAMILY own, in total (please enter a number between 1 and 100)?

______________________________

**F3** Are you a member of the FAMILY?
- Yes
- No

**F4** How many directors does the firm have?

______________________________

**F5** How many of the firm's directors are members of the FAMILY?

______________________________

**F6** Is the firm's CEO and/or President a member of the FAMILY?
- Yes
- No

**F7** Is the Chairman of the Board of Directors of the firm a member of the FAMILY?
- Yes
- No

**F8** How many members of the FAMILY are involved in the business (as rank and file employees, supervisors/administrators, managers, officers, and/or directors)?

______________________________
**F9** In order to isolate the effects of socio-cultural factors from other factors that may affect the firm’s decision making, it is important to account for the ethnicity of the firm’s ownership. To your knowledge, is the firm PREDOMINANTLY OWNED (i.e., is at least 50% owned) by Filipinos of Chinese descent/ancestry?

- Yes
- No

**SECTION III**

The following statements reflect socio-cultural attitudes that may or may not be present in the firm. I emphasize that there are no right or wrong answers/choices for these items, so please rate them as candidly and honestly as you can. Please rate the following items AS A REPRESENTATIVE OF THE FIRM using the provided scale.

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<th>Neither Agree nor Disagree</th>
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<td>When people are in disagreement, they should ask the most senior person to decide who is right. (1)</td>
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<td>When someone helps me, I will want to repay it by all means. (2)</td>
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<td>Family heritage is important to me. (3)</td>
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<td>Before making a major decision, I consult with members of my family and close friends. (4)</td>
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<tr>
<td>Respect for tradition is important to me. (5)</td>
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<tr>
<td>Persistence is important to me. (6)</td>
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<td>I can approach the friends of my friends for help if I need it. (7)</td>
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<td>It is my duty to take care of my family. (8)</td>
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<td>There should be established ranks in society with everyone occupying their rightful place. (9)</td>
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<td>I don't mind giving up today's fun for success in the future. (10)</td>
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<td>Traditional values are important to me. (11)</td>
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<td>I respect the decisions made by my groups. (12)</td>
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<td>People are better off not questioning the decisions of those in authority. (13)</td>
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<td>Children should follow the requirements of their parents even if they believe that these requirements are unreasonable. (14)</td>
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<td>Children should obey their parents at all times. (16)</td>
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<td>It is best for our society to let our leaders decide what is good for us. (17)</td>
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<td>I plan for the long term. (20)</td>
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<td>Children should be taught to place duty before pleasure. (21)</td>
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<td>I work hard for success in the future. (22)</td>
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<td>I value a strong link to my past. (23)</td>
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You have reached the end of the survey! Thank you very much for your participation. Please leave your email address on the space provided below if you want to receive a copy of the final version of my dissertation.

_________________________
Appendix D. Correlation Coefficients of Indicators

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<th>FAMCHAIR</th>
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Appendix E. Case Study Interview Questionnaire

July 22, 2014

Dear Participant,

My name is Archimedes D. Guerra and I am a PhD student in Finance and Decision Sciences at the School of Business of Hong Kong Baptist University.

I hope that you can help me by completing this open-ended interview questionnaire that I will use to complete my dissertation. All your answers, including the details of your business, shall be kept anonymous and will be used only for my dissertation.

Thank you very much for your time and participation.

Sincerely yours,

Archimedes D. Guerra
PhD Candidate
Phone: +852 6935 1580
Email: archie.guerra@gmail.com, 10466053@hkbu.edu.hk
Instructions: Below you will find open-ended questions related to central ideas in my thesis: family business values, long-term thinking in family businesses, social networks, and the use of debt. Please answer the questions as thoroughly as you can. There is no required length or structure for your answers; you can use as much space as you need and use bullet points if you prefer. If you have any questions about any of the items below, please feel free to ask me via email.

About your family business

1. Please describe the nature of your family business. What is/are your main revenue sources?

2. What generation of the family business are you a part of (the founder of the family business is considered part of the first generation)? Founder

3. Please describe the nature of your current involvement in the business. How long have you been working for the family enterprise? How were you initially involved in the business (includes on-the-job training, mentorship, internship, and similar activities)?

Family values

“VALUES” are defined as principles, ideals, or customs that a group of people consider to be important, worthwhile, or desirable.

4. As a part of your family enterprise, in your opinion which VALUES do your family and your business hold in a very high regard? Please state these values (one word or phrase each) and then provide your own description or definition for each.

5. What VALUES do you think are essential for a family business to be successful? Please explain. You can include values you have already mentioned and also additional values you have not mentioned yet. Commitment or everyone should be sincere for whatever task we have to deliver in terms of time, quality and cost.

Social capital

The creation of SOCIAL CAPITAL involves building relationships and networks that have the potential to provide economic benefits to an individual or organization.

6. In your opinion, which VALUES can contribute to the creation of social capital in your family business? Please explain how.

7. In your opinion, which VALUES can be detrimental to the creation of social capital in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.
**Long-term orientation**

Long-term orientation or LTO has been defined as the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period. It is considered an important source of competitive advantage for family firms.

8. In your opinion, which VALUES can contribute to attaining and preserving a culture of long-term orientation in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

9. In your opinion, which VALUES can be detrimental to attaining and preserving a culture of long-term orientation in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

**Use of debt**

10. What is your family business’ general attitude toward debt and borrowing money? Is there a generally positive or generally negative attitude toward debt and borrowing? Please explain why.

11. Which of the VALUES you listed in Item #3 above influence your family business’ general attitude toward debt and borrowing? Please explain how.

***** END OF INTERVIEW *****
THANK YOU VERY MUCH!
Please save this document and send it back to me via email
Case 1: Kevin and Manuel Poultry

About your family business

1. Please describe the nature of your family business. What is/are your main revenue sources?

- Our family business is involved in producing and marketing poultry and livestock. We're a fully-integrated company with multiple business units. In a sense, we integrated both ways --- backward and forward. Manuel started with Broiler operations before growing its Breeder, Hatchery, and Feedmill departments (backward). Realizing the opportunity to eliminate the "middle men", maximize margins, and the room towards selling to the end consumers, our company then acquired an automated dressing plant where we slaughter chickens that come from the broiler department. These slaughtered chickens, in turn, are being sold by our Dressed Chicken department to wet markets and especially to leading fast food chains in the country. To really get to the end consumers, we developed a fast food chain brand that's currently growing (4 stores in a year and a half).

2. What generation of the family business are you a part of (the founder of the family business is considered part of the first generation)?

- 2nd Generation

3. Please describe the nature of your current involvement in the business. How long have you been working for the family enterprise? How were you initially involved in the business (includes on-the-job training, mentorship, internship, and similar activities)?

- I am the Sales and Marketing Manager for our Dressed Chicken department. So I'm the one who deals with restaurants like [redacted], [redacted], and the like. On top of this, I double as the Marketing and Business Development Manager for our fast food brand, Chef’s Roasters.
- I've been in the family business for 4 years now.
- I've always felt that I wasn't ramped up properly to the company or to the position I currently hold. Yes, I visited and studied every department, but it felt like I was thrown in the middle of the ocean ---- I was free to swim around and find my niche in the company. In many ways, that eventually worked out well considering how I and my parents are satisfied with my performance.
Family values

“VALUES” are defined as principles, ideals, or customs that a group of people consider to be important, worthwhile, or desirable.

4. As a part of your family enterprise, in your opinion which VALUES do your family and your business hold in a very high regard? Please state these values (one word or phrase each) and then provide your own description or definition for each.

- **INTEGRITY**
  - Being totally honest with the people you're dealing with. Integrity for us, is also being fair and always going for the win-win situation for both parties involved.
  - I remember my Dad telling me, *Kahit anong mangyari, huwag ka manglalamang sa kapwa mo.* (No matter what happens, do not take advantage of other people.)

- **HUMILITY AND RESPECT**
  - Being humble. We think that having a not-so-high view of one's importance to other people is crucial. We as a family, always try our damned hardest to give someone the respect he's due. This takes root from the fact that my Dad started from the bottom. From buying and selling 100 chickens in a day, my Dad grew the business enough to be recognized as one of the biggest in the country.

- **GENEROSITY.**
  - We feel that each member of the company should share in its success. We also believe in "paying it forward" through our CSR programs because as Haley Joel Osment taught us, it will come full circle.

5. What VALUES do you think are essential for a family business to be successful? Please explain. You can include values you have already mentioned and also additional values you have not mentioned yet.

   a. Integritiy, humility and respect. I think my answers above also tackle this question.

Social capital

The creation of SOCIAL CAPITAL involves building relationships and networks that have the potential to provide economic benefits to an individual or organization.

6. In your opinion, which VALUES can contribute to the creation of social capital in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.
I think integrity, humility, and respect are the three most integral values that can contribute to the creation of social capital. I mean, wow I was never aware of the term social capital, but taking its definition above, how I defined the aforementioned family values really focus on building relationships and networks that have the potential to provide economic benefits. We believe that two companies in honest business and that respect each other grow together.

7. In your opinion, which VALUES can be detrimental to the creation of social capital in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

- I can't think of any particular value but being shrewd destroys social capital.

**Long-term orientation**

Long-term orientation or LTO has been defined as the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period. It is considered an important source of competitive advantage for family firms.

8. In your opinion, which VALUES can contribute to attaining and preserving a culture of long-term orientation in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

- I think all of the values I mentioned in #3 contribute to attaining and preserving a culture of LTO. But I think, integrity is directly tied to it. I described integrity as being honest with our business dealings and always going for the win-win situation. Well, win-win situations, cultivate long-term relationships.
- In addition, I think patience is a great value that cultivates LTO. Being patient with growth. We think that slow but sure growth is the best type.

9. In your opinion, which VALUES can be detrimental to attaining and preserving a culture of long-term orientation in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

- I can't think of any particular value, but going for big earnings in the short-term instead of choosing smaller earnings spread throughout a very long period of time can be detrimental to LTO. Because most often that not, if you go for the big earnings in a short-term basis, one party loses out. For example, if you go cheapskate on your suppliers to cut down on costs, you not only get inferior raw materials, but you also will push your suppliers away.
Use of debt

10. What is your family business’ general attitude toward debt and borrowing money? Is there a generally positive or generally negative attitude toward debt and borrowing? Please explain why.

- We think that the right management and use of debt is very important to the growth of our company. Although individually we hate borrowing money and the extra costs that it brings, we recognize that in some situations, acquiring loan to accelerate the company's growth is a must.
- Our business is capital intensive and we think that getting the right balance between borrowing money and reinvesting earnings for the purpose of expansion is very important.

11. Which of the VALUES you listed in Item #3 above influence your family business’ general attitude toward debt and borrowing? Please explain how.

Integrity. We always try to pay debts and payables on time. NEVER, RUN AWAY, FROM, ANY, DEBT. If you pay well and on time, you'll be able to borrow more in the future, with even better rates.

Case 2: Ernie and Beta Builders

About your family business

1. Please describe the nature of your family business. What is/are your main revenue sources?

- We are in the Construction family business. We cater on the construction of bank, restaurant, houses, and telecommunication structures.

2. What generation of the family business are you a part of (the founder of the family business is considered part of the first generation)?

- First Generation

3. Please describe the nature of your current involvement in the business. How long have you been working for the family enterprise? How were you initially involved in the business (includes on-the-job training, mentorship, internship, and similar activities)?

- I sat as the President and CEO for the last 25 years since I initiated it in 1988. As a start I was involved in the whole operation from the field operation to the office administration, training of staff and hands on operation.

Family values
“VALUES” are defined as principles, ideals, or customs that a group of people consider to be important, worthwhile, or desirable.

4. As a part of your family enterprise, in your opinion which VALUES do your family and your business hold in a very high regard? Please state these values (one word or phrase each) and then provide your own description or definition for each.

- **Honesty**: Value of doing the right things and doing the things right.

5. What VALUES do you think are essential for a family business to be successful? Please explain. You can include values you have already mentioned and also additional values you have not mentioned yet.

- **Commitment**: Everyone should be sincere for whatever task we have to deliver in terms of time, quality, and cost.

**Social capital**

The creation of SOCIAL CAPITAL involves building relationships and networks that have the potential to provide economic benefits to an individual or organization.

6. In your opinion, which VALUES can contribute to the creation of social capital in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

- **Trust**: Is the essence for the creation of social capital. In every way, all of us is interrelated which is founded by trust. A team of workers is develop to complete the task should bond together and without trust it would be impossible.

7. In your opinion, which VALUES can be detrimental to the creation of social capital in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

- **Deceit or dishonest**: Will be detrimental to the creation of social capital.

**Long-term orientation**

Long-term orientation or LTO has been defined as the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period. It is considered an important source of competitive advantage for family firms.
8. In your opinion, which **VALUES** can **contribute** to attaining and preserving a culture of **long-term orientation** in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

- A Value of integrity and loyalty. Everything we do, have a passion of excellence to serve our clients and people. To ensure an end product that will strike a balance of affordability and quality.

9. In your opinion, which **VALUES** can be **detrimental** to attaining and preserving a culture of **long-term orientation** in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

- Dishonest and very poor productivity will be detrimental to the long term orientation for our clients and people.

**Use of debt**

10. What is your family business’ general attitude toward debt and borrowing money? Is there a **generally positive** or **generally negative** attitude toward debt and borrowing? Please explain why.

- Borrowing money is helpful to the company’s working capital especially if the terms of payment from clients is longer for what is the expectation. Bridge financing is essential.

11. Which of the **VALUES** you listed in Item #3 above influence your family business’ general attitude toward debt and borrowing? Please explain how.

A money borrowed shall be paid on the time of its maturity. Everything shall be deal with honesty and frugality.

**Case 3: Owen and Cinco Footwear**

**About your family business**

1. Please describe the nature of your family business. What is/are your main revenue sources?

- Our nature of business is mainly the manufacturing of rubber sole, supplying local factories that manufactures shoes and sandals.
- The business first started in 1960’s by my father in Hong Kong as a rubber shoe manufacturer that exports shoes to Europe, Australia and the United States.
- In 1977, my father decided to move to the Philippines because both of my grandparents (father and mother side) are already in the country.
• The factory officially in 1977 as a first shoe sole manufacturer in Marikina. Monopolized the industry in the early 80’s.
• In 1984, with increasing competition in shoe soles industry the company started to manufacture of rubber shoes
• During the mid 80’s with the rising of competition, the company had labor problems that seized the operation of both the shoe sole and rubber shoes manufacturing plant that resulted in the loss of key customers. In 1987, the company builds a new plant to resume its shoe sole operation while awaiting the settlement of the labor dispute.
• During the late 80s and early 90’s, there was a decline in sales of shoe soles and rubber shoes. The company eventually loaned from the bank and build a rubber sandals plant but was struck by the increasing interest rates during the Asian financial crisis in 1997. The rubber sandals factory was eventually closed down in 1999.
• Present – with the sales decline of shoe soles in the late 90’s, the company went into the manufacturing of rubber compound, specifically for retread purposes and OEM for the automobile industry. On the other hand, the company also plans to revive its shoe sole line by targeting the growing market of sandals and safety shoe soles.
• 2014 – Aside from the current rubber sole, the company is expanding into EVA foam and EVA phylon (midsole) business to cater for the footwear industry. Currently with rising cost in China, the company saw an opportunity to expand to this line.

• Revenue Sources:
  o Sale of Shoe soles
  o Rental Income from various properties

2. What generation of the family business are you a part of (the founder of the family business is considered part of the first generation)?

• I am part of the Second Generation since my father is the founder of the family business.

3. Please describe the nature of your current involvement in the business. How long have you been working for the family enterprise? How were you initially involved in the business (includes on-the-job training, mentorship, internship, and similar activities)?

• Basically, I am in charge of the whole family business. Since all of my siblings are either married, lives abroad, and has other business or profession.
• I have been working with the family since I graduated from College back in 2001.
• Ever since I was in grade school, we were trained to help out in business especially during summer days or when there is no school. I was trained to help out in delivering the goods, working inside the factory, going to clients and developing ideas using new technologies by going to trade shows or exhibition internationally.
• My dad is my mentor in business, rubber formulation and in visioning.

**Family values**

“VALUES” are defined as principles, ideals, or customs that a group of people consider to be important, worthwhile, or desirable.

4. As a part of your family enterprise, in your opinion which VALUES do your family and your business hold in a very high regard? Please state these values (one word or phrase each) and then provide your own description or definition for each.

• Our Reputation:
  o On time payment to our suppliers and on time delivery of goods that are satisfactory or exceeding the expectation of customers.
  o Products will be delivered as per the sample shown initially.
  o Integrity – usually our products have brands engraved on the sole, some of competitor sells them as fake. We make sure we don’t sell counterfeit brands.
  o Frugality/Humility: our family always taught us to be simple and not to “show off”. And even taught us to delay our gratification.

5. What VALUES do you think are essential for a family business to be successful? Please explain. You can include values you have already mentioned and also additional values you have not mentioned yet.

• Reputation: this is always been taught by our parents. That reputation in business matters a lot, once lost, it’s very hard or difficult to recover.
• Hard Work: we were trained to get our hands dirty in work and not relying on others to do the job whenever possible.

**Social capital**

The creation of SOCIAL CAPITAL involves building relationships and networks that have the potential to provide economic benefits to an individual or organization.

6. In your opinion, which VALUES can contribute to the creation of social capital in your family business? Please explain how. You can include values you have already mentioned and also additional values you have not mentioned yet.

• Reputation and Integrity: in our view, reputation and integrity plays a critical role on how to build lasting relationship in business. This was always being taught by our parents.
7. In your opinion, which values can be detrimental to the creation of social capital in your family business? Please explain how. You can include values you have already mentioned and additional values you have not mentioned yet.

**Long-term orientation**

Long-term orientation or LTO has been defined as the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period. It is considered an important source of competitive advantage for family firms.

8. In your opinion, which values can contribute to attaining and preserving a culture of long-term orientation in your family business? Please explain how. You can include values you have already mentioned and additional values you have not mentioned yet.

- Leading by example: we practice what we talk and as much as possible, we set a good example to the younger generation and to the whole company.
- Being Frugal or not to show off everything – practice delayed gratification and be simple in life.

9. In your opinion, which values can be detrimental to attaining and preserving a culture of long-term orientation in your family business? Please explain how. You can include values you have already mentioned and additional values you have not mentioned yet.

- By being very conservative, opportunities will be gone if rely on own resources and not acquire bank loans for additional capital expenditures.

**Use of debt**

10. What is your family business’ general attitude toward debt and borrowing money? Is there a generally positive or generally negative attitude toward debt and borrowing? Please explain why.

- Generally Negative: our family has a general negative attitude towards borrowing capital. Our parents always taught us to use what we have and be conservative in running the business.

11. Which of the values you listed in Item #3 above influence your family business’ general attitude toward debt and borrowing? Please explain how.
By being conservative, we were taught to use the existing resources before going for loan from bank.
CURRICULUM VITAE

GUERRA Archimedes David

PROFESSIONAL EXPERIENCE

- **Lecturer (Part-time),** September 2013 to May 2014  
  *School of Business, Hong Kong Baptist University*  
  o Taught International Business in Semester 1, School Year 2013-2014  
  o Taught Financial Management in Semester 2, School Year 2013-2014

- **Lecturer (Full-time),** April 2007 to August 2010  
  *John Gokongwei School of Management, Ateneo de Manila University*  
  o Director, Management of Applied Chemistry Program, 2009 to 2010  
  o Taught Financial Management, Corporate Finance, Business Statistics, and Production and Operations Management (consistently high teaching evaluation ratings)

EDUCATIONAL BACKGROUND

- **PhD in Finance and Decision Sciences**  
  *Hong Kong Baptist University*  
  September 2010 to August 2014  
  o 2010 Hong Kong PhD Fellowship Awardee

- **Master of Business Administration**  
  *University of the Philippines, Diliman*  
  Date of Graduation: April 2006  
  o Ranked 1st in Full-time Program and 2nd in Graduating Batch  
  o 2004 UP MBA Scholarship Recipient

- **Bachelor of Science in Geodetic Engineering**  
  *University of the Philippines, Diliman*  
  Date of Graduation: April 2002  
  o 1994 Oblation Scholarship Recipient  
  o 1994 DOST-SEI Scholar

ACADEMIC RESEARCH, PUBLICATIONS, AND AWARDS

- “Confucian Values, Long-term Orientation, and Social Capital Formation in Family Businesses”  
  *International Family Enterprise Research Academy (IFERA) 2014 Annual Conference, June 2014*  
  *Lappeenranta University of Technology, Lappeenranta, Finland*
“Some Family Businesses Are Better Than Others: Are Confucian Values the Missing Piece of the Family Firm Performance Puzzle?”
8th Family Enterprise Research Conference, May 2012
Concordia University, Montreal, Canada
- Doctoral Student Best Poster for Governance

2011 FBNPA-IFERA Pacific Asian Research Grant
- Award given to promising PhD dissertation proposals in the field of family business management with an emphasis on Asia