

DOCTORAL THESIS

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

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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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