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## Board structure of immigrant-founder firms

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### ABSTRACT

Using a sample consisting of 1212 firm-year observations made up of Fortune 500 firms and their matching firms from 1997 to 2013, we investigate both the corporate governance structures of firms with at least one founder who migrated to the United States and motivation for such migrants to set up businesses in the United States instead of their native countries. We find the boards of firms with at least one immigrant founder to have statistically meaningful differences from boards of firms without any immigrant founder. Such boards tend to be both smaller and more independent and are more likely to be headed by chairmen who are not Chief Executive Officers (CEOs). We also find strong evidence that migrants are more likely to establish businesses in the United States the lower their home countries score on political stability, rule of law, control of corruption and accountability public institutions as measured by the World Bank's World Governance Indicators (WGI).

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### 1. Introduction

Firms founded by first generation immigrants have been powerful creators of both wealth and jobs in the United States. According to [Wadhwa et al. \(2008\)](#) and [Tozzi \(2007\)](#), such firms founded between 1995 and 2005 had \$52 billion dollars in sales and 450,000 employees in 2005. [McQuaid et al. \(2010\)](#) show that companies with at least one immigrant founder had higher sales revenue and hire more employees than firms without any immigrant founders. In addition, [Wadhwa et al. \(2008\)](#) find that immigrant entrepreneurs are generally more educated than native ones.

[Mustafa and Chen \(2010\)](#) define a transnational entrepreneur as someone who is a "self-employed immigrant whose business activities require frequent travel abroad and who depends, for the success of their firm, on contacts and associates in another country, primarily one's country of origin." Cheap and reliable modern communications and transport systems allow migrant to stay in touch with their home countries and maintain close relations with their friends and families. So they are able to take advantage of opportunities offered by an open international trade system by capitalizing on their connections and networks both in their home and adopted countries.

The early literature on corporate board structure and leadership structure focused largely on US. firms. Board of directors can monitor and restrict the opportunistic behavior of management ([Anderson et al., 2009](#); [Bosse and Phillips, 2016](#); [Boivie et al., 2016](#)). Board size and composition depend on firm's unique information and contracting environment ([Adams and Ferreira, 2007](#); [Linck et al., 2008](#); [Coles et al., 2008](#); [Duchin et al., 2010](#); [Cicero et al., 2013](#); [Baldenius et al., 2014](#); [Minnick and Raman, 2017](#)). Compared to separate CEO and chairman leadership structure, dual leadership may reduce information producing and processing time at the cost of greater managerial entrenchment ([Core et al., 1999](#); [Goyal and Park, 2002](#); [Dey et al., 2016](#); [Durulyengar, and Zampelli, 2016](#)). To the best of our knowledge, extant literature on international migration has

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not examined board and leadership structures of firms founded by immigrants. To fill this up, we investigate the determinants of corporate board features, including board size and independence, and CEO/chair duality, for immigrant-founder firms in U.S.

Our sample consists of 70 immigrant founders of Fortune 500 firms and 70 US firms matched on industry, firm size (total assets), and profitability (return on assets) for fiscal years 1997–2013 and includes 1212 firm-year observations. We find that firms with immigrant founders are more likely to have smaller and more independent boards, and less likely to have dual CEO-chairman leadership. There are features long recognized by practitioners and researchers as more effective in monitoring the performance of top management officers and reducing interest misalignment between managers and shareholders. Further, migrants from countries with weaker corporate governance and/or political instability are more likely to launch businesses in United States.

The remainder of this paper is organized as follows. In Section 2, we provide the motivation for our research, review the literature, and develop our empirical hypotheses. An overview of our sample and the data follows in Section 3. In Sections 4 and 5, we present our empirical results and concluding remarks, respectively.

## 2. Literature review and hypothesis development

### 2.1. Board and leadership structures in immigrant-founder firms

Board structure is the focus of many attempts to improve corporate governance and academic studies have identified two important board functions. Grounded in the agency theory, the monitoring role requires directors to closely monitor managers' activities and reject inferior projects that benefit managers at the cost of shareholders, which in turn leads to a greater interest alignment between shareholders and managers (Fama, 1980; Hermalin and Weisbach, 1988; Gillan et al., 2003). The advising role requires directors to give managers valuable advice regarding the firms' investment opportunities (Williamson, 1975; Fama and Jensen, 1983; Baker and Gompers, 2003). Both theoretical and empirical studies propose board size and composition are determined by the trade-off between the costs and benefits associated with the monitoring and advising roles of directors (Raheja, 2005; Adams and Ferreira, 2007; Boone et al., 2007; Coles et al., 2008; Linck et al., 2008; Harris and Raviv, 2008; Duchin et al., 2010). Advocates of separating chairman and CEO positions argue that such independent leadership structure facilitates effective board monitoring and constraining managerial misconducts (Lipton and Lorsch, 1992; Fama and Jensen, 1983; Lipton and Lorsch, 1992). Conversely, proponents of combining CEO and chairman positions point out that such dual leadership structure leads to efficient decision-making and lower information asymmetry (Brickley et al., 1994; Adams et al., 2005; Dey et al., 2016). As a result, the optimal leadership structure depends on the trade-off between the benefits of reduced managerial entrenchment and costs of increased information asymmetry.

#### 2.1.1. Board size

Several scholars have found large boards suffer from coordination costs and free-rider problems (Lipton and Lorsch, 1992) and Jensen (1993) argues that smaller boards are more cohesive, productive and effective as monitors. Further support for this view is provided by Yermack (1996) who found that firm value and performance are inversely related to board size. Nguyen et al. (2016) provide evidence that firms with a large board exhibit lower operating performance and higher operating costs.

More recent studies show that optimal board size and composition are functions of the director and the firm characteristics. Raheja (2005) finds that smaller boards are likely to be more useful in highly competitive industries while Lehn et al. (2009) find that board size is positively related to firm size and inversely related to proxies for growth opportunities. By examining the impact of board size and female board representation on firm performance, Geiger and Marlin (2016) find that, for a given number of female directors, firms with smaller boards outperformed firms with larger boards

McQuaid et al. (2010) show that companies with at least one immigrant founder had higher sales revenue and hire more employees than firms without any immigrant founders. The different operational results between the immigrant-founder firms and non-immigrant-founder firms may suggest that immigrant-founder firms to have smaller boards in order to reduce coordination costs, enhance monitoring of management and ultimately, to improve firm performance. This leads to our first hypothesis,

**H1.** Board size is significantly smaller in firms with immigrant founders than in similar firms without immigrant founders.

#### 2.1.2. CEO–chairman duality

CEOs also serving as chairmen of the board or CEO–chairman duality is an indication of both strong CEO power and reduced board independence. CEO–chairman duality helps establish unity of command and clarifies decision-making authority (Baliga et al., 1996). However, Sanders and Carpenter (1998) find that firms are better able to manage the information-processing demands and agency issues arising from internationalization when CEOs do not double as board chairmen. Duru et al. (2016) provide evidence that CEO duality has statistically significant negative impacts on firm performance, and this effect is positively moderated by board independence.

CEOs and board chairmen may have access to different resources and networks. Board members may provide financial capital, access to outside marketing channels, advice, support, and feedback. Hillman and Dalziel (2003) develop the resource

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