



Family business group-affiliated firms’ performance shortfalls and new markets entry: Social comparisons and governance structures

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Introduction: Performance shortfalls and new markets entry



- Behavioral theory of the firm (BTOF) suggests that firms engage in problem-seeking behaviors when performance feedback falls below their *aspiration level* (Cyert & March, 1963).
 - March (1994, p.28) noted: “failure increases search, and success reduces search.”
- Poor performance may indicate that the domestic market is declining or that the firm struggles to compete with other players, leading to the pursuit of new markets (Lim, 2019; Ref et al., 2021).



Introduction: Social reference points

- Firms adapt their aspirations based on historical comparisons with their own experience and social comparisons with others' experience.
 - Prior research regarding firms that use *social reference groups* as benchmarks is *still inconclusive* (Hu et al., 2017; Ma et al., 2024).
 - Most prior studies have taken firms' industry peers, with which firms interact in the external market, as a social reference group.
 - Other studies suggest that decision makers may benchmark more proximate referents, such as internal peers within a business group.
 - However, variations in organizational structures (e.g., multinational corporations or business groups), complex internal power dynamics, and differing strategic objectives may lead managers to choose different social reference groups.

Introduction: FBG affiliates and social comparison



- Due to economic and social ties among affiliated firms within a family business group (FBG), resource allocation and decision-making processes often require coordination and integration.
- However, fewer studies have investigated internal (within-group) social comparison among FBG affiliates, especially in contrast to external (industry-based) social comparison, when performance feedback falls below their aspiration level.
- Two research gaps:
 - Are FBG affiliates more responsive to external or internal social comparison?
 - What factors may influence this relative responsiveness?.

Social comparison and FBGs' governance structure



- Social identity theory posits that an individual is more likely to identify with a social group which exhibits high distinctiveness, prestige, and out-group salience (Festinger, 1954).
- This study argues that FBGs governance structure (e.g., *family ownership, outside directors' ratio and CEO origin*) can alter the strength of affiliate managers' organizational identification with their FBGs, which further influences their attention allocation to external versus internal social comparison.
- Using an unbalanced panel dataset of 1642 firm-year observations from 109 Taiwanese business groups, most of empirical results support our hypothesis.

Theoretical Background and Hypothesis Development



- Behavior theory and multiple social comparisons
 - The behavioral theory of the firm suggests that performance below an aspiration triggers problemistic search that can lead to organizational change, innovation, and new market entry (Ref & Shapira, 2017).
- External social comparison
 - By default, a firm takes its industry peers, with which it interacts in the external market, as a reference group (Posen et al., 2018).
 - Baseline hypothesis:

H1a: When a FBG affiliate's performance is below the external(industry) social aspiration level, the lower its performance relative to this aspiration level, the greater the probability of firms entering new foreign markets.



Internal social comparison

- In the FBG context
 - FBG affiliates interact with group peers in a centrally coordinated internal market (Granovetter, 1995).
 - FBG affiliates constitute a prominent reference group for social comparison, which demands the attention of affiliates' managers.
 - When under-performing internal peers on comparable performance metrics, an affiliate's social status relative to peers will decline, which can trigger managers to enter new markets.

H1b: When a FBG affiliate's performance is below the internal(industry) social aspiration level, the lower its performance relative to this aspiration level, the greater the probability of firms entering new foreign markets.

Internal vs external social comparison



- Leader appointment and compensation decisions within business groups are likely to increase managerial attentiveness to the intra-group performance of their affiliated firms.
- Strong group identity will focus the attention of group members on *within*-group comparison and *away from external* comparison (Peteraf & Shanley, 1997)

H1c: The relationship between negative performance and new market entry, FBG affiliates are more responsive to internal social comparison than to external social comparison.

Moderating effect: The governance attributes of FBC



- In family firms, family values and family control often take priority over other dimensions of the business and serve as a primary reference point for decision making.
- Three important governance attributes of FBG:
 - Family ownership
 - Family CEO
 - Outside directorship

Moderating effect: Family ownership



- Family owners through ownership can exert a grip on group firms' administration and can significantly manipulate the group firms' investment and remuneration.
- Higher levels of family ownership imply greater control, which in turn leads managers to pay closer attention to goals set by the FBG.
- *Hypothesis 2. The difference in a FBG affiliate's responsiveness to internal versus external social comparison is larger for FBGs that have higher family ownership.*

Moderating effect: Family CEO in management



- The FBG's affiliated firms are frequently owned by a family holding and managed by family members.
- Compared to non-family CEOs, family CEOs demonstrate a stronger sense of identification with the family firm and display heightened attention to cooperative dynamics within the group.
- *Hypothesis 3. The difference in a FBG affiliate's responsiveness to internal versus external social comparison is larger for FBGs that are managed by a family CEO.*

Moderating effect: Outside directors



- Outside directors are typically appointed to provide independent oversight, guidance, and expertise, ensuring that the interests of shareholders are represented without conflicts of interest.
- A higher proportion of outside directors can enhance a firm's ability to access and acquire external resources and information, thereby enabling managers to devote greater attention to environmental contingencies, including industry dynamics, competitive pressures, and market growth opportunities.
- *Hypothesis 4. The difference in a FBG affiliate's responsiveness to internal versus external social comparison is weaker for FBGs that have a higher ratio of outside directors.*

Research Method



- Sample: Top 100 Taiwanese business groups and FBG *affiliates* are listed on the Taiwan Stock Exchange Corporation.
- Family Business: More than 20% ownership is held by the family.
- Time frame: 2014~2024
 - DVs: two-year window. (Ref et al., 2021)
- Data
 - Financial data: Taiwan Economic Journal Data Bank
 - TMT data: Annual reports and The Manager Directory in Taiwan.
 - Business group data: China Credit Information Service (CCIS)
 - 1642 firm-year observations from 109 Taiwanese business groups.
- Analytical approach
 - Probit model

Measures



➤ Dependent variable:

- *New foreign markets*: dummy variable (0/1) (Ref et al., 2021)

➤ Independent variables: Social comparison (Ma et al., 2024)

- External = $I \times (\text{ROA} - \text{Industry average ROA})_{j,t}$
- Internal = $I \times (\text{Industry adjusted ROA} - \text{BG average industry adjusted ROA})_{j,t}$

➤ Moderators

- *Family ownership; Family CEO; Outside directors' ratio*

➤ Control variables:

- Affiliate: Firm size, Debt ratio, R&D intensity, Marketing intensity, Product diversity, Institutional ownership.
- Group: Size, Diversity, CEO tenure, and inner circle member background diversity.

Table 1. Effects of social comparison on new market entry

	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	0.051(0.114)	0.063(0.113)	0.065(0.113)	0.064(0.113)	0.053(0.112)
Firm Size	0.014(0.018)	0.011(0.018)	0.011(0.018)	0.010(0.018)	0.013(0.018)
R&D Intensity	-0.279 [*] (0.116)	-0.272 [*] (0.115)	-0.261 [*] (0.115)	-0.272 [*] (0.115)	-0.262 [*] (0.114)
Debt Ratio	-0.402 ^{***} (0.043)	-0.366 ^{***} (0.043)	-0.371 ^{***} (0.043)	-0.366 ^{***} (0.043)	-0.357 ^{***} (0.043)
Product Diversity	0.029 [*] (0.013)	0.026 [*] (0.013)	0.024 ⁺ (0.013)	0.026 [*] (0.013)	0.026 [*] (0.012)
Marketing Intensity	-0.219 [*] (0.098)	-0.175 ⁺ (0.098)	-0.156(0.098)	-0.170 ⁺ (0.100)	-0.158(0.097)
Institutional Ownership	-0.003(0.035)	-0.010(0.035)	-0.007(0.035)	-0.010(0.035)	-0.005(0.035)
Family ownership	0.031 [*] (0.013)	0.022 ⁺ (0.013)	0.020(0.013)	0.022 ⁺ (0.013)	0.024 ⁺ (0.013)
Family CEO	0.029 [*] (0.014)	0.025 ⁺ (0.015)	0.025 ⁺ (0.015)	0.025 ⁺ (0.014)	0.021(0.014)
Outside directors	-0.002(0.003)	-0.003(0.003)	-0.002(0.003)	-0.003(0.003)	-0.002(0.003)
Group variables	Included	Included	Included	Included	Included
Year effect	Included	Included	Included	Included	Included
Internal social comparison		-0.114 ^{***} (0.020)	-0.112 ^{***} (0.020)	-0.114 ^{***} (0.020)	-0.125 ^{***} (0.038)
External social comparison		-0.055(0.039)	-0.043(0.039)	-0.054(0.039)	-0.055(0.039)
Internal comparison x Family ownership			-0.239 [*] (0.107)		
External comparison x Family ownership			-0.021(0.091)		
Internal comparison x Family CEO				-0.127 [*] (0.060)	
External comparison x Family CEO				0.050(0.052)	
Internal comparison x Outside directors					0.314 [*] (0.155)
External comparison x Outside directors					-0.212(0.165)
Pseudo R-squared	0.184	0.192	0.202	0.197	0.207

Note: 1.+p<0.1; *p < 0.05; **p < 0.01; ***p < 0.001. 2. Numbers in parentheses are standard errors

Conclusion



- Our study contributes insights into the BTOF literature about the social referents (external vs internal) and their application in FBGs research.
 - This study is among the first to examine the relative salience and contingencies of internal social comparison.
 - This study investigated how FBG's governance mechanism influences new market entry at the affiliate level.
- Limitation
 - The sample is constrained to Taiwanese FBGs.
 - This study does not include some of the variables about group level (e.g., affiliate mutual dependency, relationship with parent company), industry effect (e.g., competition, growth rate), and government relations.



Q & A

Thank you for your attention !