



The influence of business groups on board composition in offshore financial multinational enterprises

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ABSTRACT

Based on resource dependence theory we argue for an influence of business groups (BGs) on the board composition of constituent offshore financial multinational enterprises (FMNEs). Using a unique sample of 171 Caribbean FMNEs in an inter-island BG setting, we find BGs' control in constituent firms to be indicative of the importance of the internal financing and intermediation within the group network. This control leads to a higher proportion of lawyers hired to the boards of directors in BG-constituent firms and supports the argument that lawyers provide skills in complex offshore regulatory frameworks that facilitate BGs' optimal tax management. Furthermore, we observe that an increased adoption of shareholder rights governance by BG-constituent firms is associated with increased engagement with outside resource providers, increased potential conflicts of interest and hence a need for hiring more lawyers. Our interpretation is that offshore FMNEs have a need for more lawyers, whose legal skill is critical to the competitive advantage of FMNEs.

1. Introduction

This study focusses on an unstudied niche industry of offshore financial multinational enterprises (FMNEs) which emanate from some of the smallest territories worldwide. These are typically on the doorstep of the biggest economies in the world, for whom the FMNEs provide a legitimate, cost-effective source of financing which utilizes their unique offshore jurisdictional competencies. FMNEs draw on the extensive internally intermediated resources of networks that are based on the underlying framework of business groups (BGs) with international activities. However, there is an acute need to augment the skillsets of the boards of directors with offshore regulatory competencies (e.g., Coffee, 2003; Morse, Wang & Wu, 2016; Krishnan, Wen & Zhao, 2011; Hopkins, Maydew & Venkatachalam, 2015) through the hiring of lawyers as non-executive directors. This trade-off between the internal control and the necessity for external offshore jurisdictional competencies motivates our study of how the level of BG control exerted over boards of directors is associated with the need to hire non-executive lawyer-directors.

This study focusses on the role of the board of directors in

accommodating rival resource dependence contingencies. These are the necessity for BG control, which is a function of the focal firm being a constituent of a BG network, versus the need to co-opt essential environmental contingencies in the form of idiosyncratic offshore jurisdictional knowledge (Agrawal & Knoeber, 2001). The former is essential for the facilitation of access to low-cost internally coordinated resources from the extensive socialized trust across the broader group. The latter provides a means to reduce tax liabilities and therefore even further reduce hurdle rates in the economic viability of intra-group internal capital infusions made to supplement the resources of group constituent firms. The first theoretical contribution is in extending resource dependency theory (e.g., Pfeffer & Salancik, 1978; Hillman & Dalziel, 2003) to rationalize the accommodation of these rival pressures in terms of the composition of boards of directors.

The second theoretical contribution arises from our proposal of a transition in the roles of lawyers within the board of directors, which is contingent on environmental contingencies. We moderate by shareholder value corporate governance adoption, then constituency of FMNE, and then a novel double moderation of both together. The former

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is associated with an emphasis on external stakeholder property rights and transparency, while the opposite is true of the latter, in centering on opacity and relational contracting, which is central to competitiveness. Such moderation facilitates a deeper study of the role of non-executive lawyer-directors, which transitions from professional reputation-based gatekeeper to that of transaction engineer (Krishnan et al., 2011; Hopkins et al., 2015). Moreover, non-executive lawyer-director reputations define credibility in contracting and differentiate between the legitimate offshore economy and more illicit activities.

The empirical contribution comes from a unique hand-collected sample of 171 listed firms in eight national securities markets from across the Caribbean region. The offshore jurisdictions within which our securities markets are situated act as a conduit for US\$ 12 trillion of financial flows and approximately 40% of all foreign direct investment worldwide (Damgaard, Elkjaer, & Johannesen, 2018), underscoring their considerable importance in the world economy. The findings reveal that the boards of directors of BGs within the Caribbean comprise higher proportions of lawyer-directors. However, in those BGs which have adopted higher shareholder value corporate governance, there is a further increase in the number of non-executive lawyer-directors, while this increase triples in the case of those BGs which are constituent to FMNEs. We advocate that, in the former case, this is reflective of lawyers undertaking a more gatekeeper-orientated role associated with an increased orientation towards external contracting, while this transitions to a transaction-engineer role in the latter case, which involves offshore jurisdictional competencies and relational contracting. Finally, the double moderation by both constituency of an FMNE and the adoption of higher shareholder value corporate governance leads to a reduction in lawyer-directors for BGs. This verifies the importance of legal competencies as a transaction engineer within an FMNE industry essentially rooted in opacity.

This study contributes to the literature on institutions by considering the attributes of offshore financial centers. Institutionally, the Caribbean region is unique in being wholly devoid of *developed* economies, while the distinction between “high” and “low” institutional quality mirrors the divide between *offshore financial jurisdictions* and *developing* states (Hines, 2010; Allred, Findley, Nielson & Sharman, 2017). In this way, we address a call by Allred et al. (2017) for more elaboration on the unique institutional structure behind offshore jurisdictional capability.

This study also contributes to the growing literature on the measurement of firm-level adoption of corporate governance. The “G” index proposed in a seminal work by Gompers, Ishii & Metrick (2003) – comprising 22 governance provisions at a firm level drawn from US listed firms’ IRRC data alongside a further six US state-level legislative mandates – is not applicable to our offshore setting. Instead, based on the OECD’s, 2004 *Principles of Good Governance*, we develop an index constituted by 31 individual governance elements drawn from those reported in annual reports. This index has the advantage of being tractable, replicable, and appropriate for the severe data limitations prevalent in offshore settings, which are severely understudied and constrained by notable omissions in many published and universally available indices and metrics.

The study proceeds with the next section outlining the Caribbean region’s institutional context. Section 3 explores the theory and introduces hypotheses. Section 4 details data collection, sample construction, and our model, and defines the independent and control variables used. Section 5 uncovers the empirical results, while Section 6 provides the discussion. The final section concludes.

2. Caribbean institutional context

This study’s starting point is in defining BGs and FMNEs given their centrality in the subsequent analysis. Many recent studies base their definition of BGs on that of Khanna and Rivkin (2001: 47) in stating they comprise “a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to

taking coordinated action.” This study extends this by drawing on Dau, Morck & Yeung (2021: 165) in defining a BG as “a set of private sector firms under common control but with different (though possibly overlapping) sets of owners.” The term “firms”, rather than “corporations”, covers corporation-like organizational forms favored under some countries’ legal systems (Guinnane, Harris, Lamoreaux, & Rosenthal, 2007). This is especially important in regions such as the Caribbean within which a range of offshore compliant, tax-efficient organizational forms are incorporated within BGs.

Following Buckley (1985a,b: 2) an MNE is defined by using the simplest ownership threshold definition in terms of “a firm which owns or controls outputs of income-generating assets, namely goods or services, originating in more than one country”. However, this definition is further extended to include MNEs that have a significant proportion (>30 %) of their traceable revenue streams coming from overseas non-Caribbean jurisdictions, while also maintaining a significant physical presence in overseas branches in those locations. This avoids the limitation it means to have the definition of MNEs based only on control rights and foreign direct investment. These goods or services are offshore competencies in financial services in the case of FMNEs.

The Caribbean region is uniquely divided between territories which are developing economies, defined by a larger size and population, and offshore financial centers, characterized typically by a very small size and restrictive macroeconomic arrangements. The Caribbean developing economies are similar to those worldwide in having inherited a formal institutional legacy based on prior colonial heritage from predominantly European metropolises. Once transplanted, this largely retained its archaic character owing to the limitations of new national polities. As argued by North (1991, 1994), independence merely implied a transition in power from imperial elites to their local counterparts, in terms of hegemonic control vested over nascent national executive bureaucracy. Importantly, political processes that would otherwise be expected to initiate more equitable reforms of archaic transplanted formal institutional architecture are stymied through their subversion under the hegemonic control of demographically narrow polities that effectively disenfranchise much of the population – despite universal suffrage. Further disenfranchisement arises from the cultural incompatibility of formal institutions supporting the vested interests of elites, and informal communitarian cultural institutions that form the social fabric of indigenous societies. Together, these arguments underscore the often considerable institutional “voids” prevalent in developing economies in terms of deficiencies in the support for external contracting and minority property rights.

The implications of voids are an emphasis on the role of extended families as a means of providing social and economic welfare, accompanied by a prevalence of BGs, typically formed by families but also associated with other entities such as individuals, corporations, and the state (Khanna & Palepu, 2000). Family relations are here used as a cultural resource (Bhappu, 2000) in establishing the BG framework. Moreover, these same cultural resources embedded within the indigenous society’s social fabric are critical in shaping powerful relational contracting schema (Granovetter, 1973; Grief, 2015) based on mutual reciprocity and notions of credibility derived from more personalized relations (Berger, Silbiger, Herstein & Branes, 2015). Together, BGs and relational contracting constitute a powerful informal or internal intermediation of resources that effectively bridges the voids in the formal institutions and subsequent deficiencies in third-party external contracting.

A distinctive attribute of the Caribbean region is that it comprises a plethora of islands and archipelagos, with indigenous BGs frequently expanding outside the resource limitations of their home territory to encompass a number of such territories (see for example Sewak & Sharma, 2020). Such expansive inter-island frameworks benefit from significant economies of scale and scope in their operation (Morck, Wolfenzon & Yeung, 2005; Masulis, Pham & Zein, 2011), attributable to centralized control effectively consolidating resource provision and

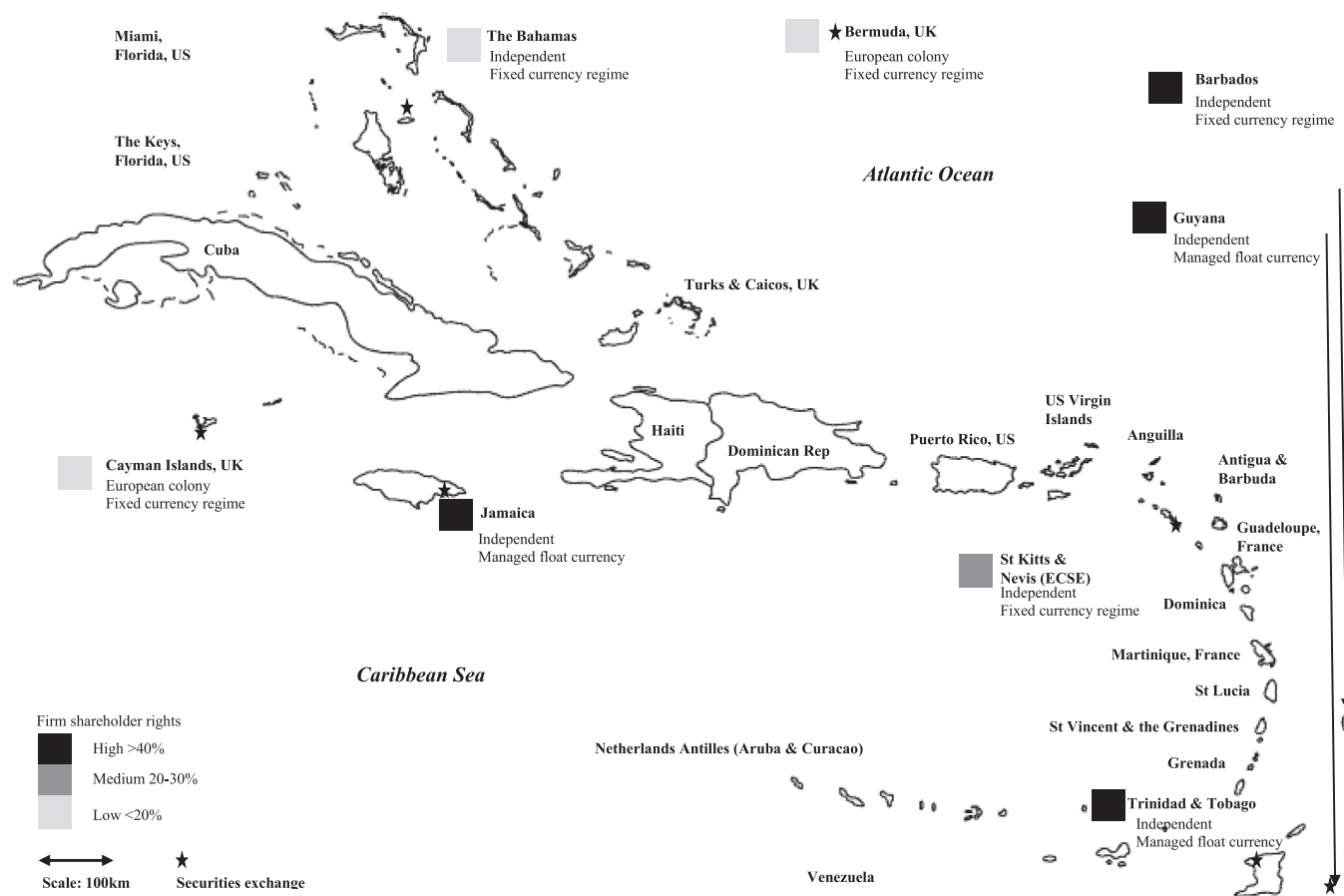


Fig. 1. Caribbean region’s securities exchanges.
Source: Google maps, 2019.

coordination across the wider group. Moreover, individual constituent firms can leverage the wider BG’s brand image and reputation, which often far outweigh their own, while the reputability and prominence of the BG’s brand serves as a deterrent against localized expropriation (Driffield, Mickiewicz & Temouri, 2016) or infringements of property rights. Importantly, these BG inter-island frameworks constitute a valuable network that supports MNE expansion in the form of FMNE activities.

The Caribbean region also has a very high density of tremendously small territories (Hines, 2010). Their extreme smallness is associated with prohibitively high costs of the provision of public goods and services, and almost wholly impedes effective institutional development (Briguglio, 1995; Freyer & Morriss, 2013) owing to the subversion of their economies and political systems by handfuls of large families. These families typically behave collusively and have considerable socio-emotional ties to the local islands, with their dynasties interwoven with both the social fabric and the nascent institutional evolution of the territories (Fichtner, 2016). Such family dominance has significant implications. The questionable viability of the local economies makes many small territories either enter into restrictive macroeconomic arrangements with major trading partners, such as the US, or retain colonial relationships with European metropolises (Hearn, Mohr, Kaur & Khawar, 2022). Therefore, while the islands are bestowed with a distinct archaic colonial institutional heritage, they have successfully evolved this through the extensive family control over colonial metropolises’ and trading partners’ transplantation of a formal institutional architecture (Cobb, 2001; Hines, 2010; Congdon Fors, 2014). This has led to a uniquely bifurcated institutional framework which paradoxically, on the one hand, promotes optimal state and formal protections for minority property rights and third-party contracting, yet on the other hand

simultaneously emphasizes insider welfare to the detriment of minority stakeholders.

While a bifurcated institutional framework provides the underlying fabric supportive of offshore jurisdictional architecture, a critical determinant is formed of the maintained colonial and restrictive macroeconomic arrangements of these island states. These arrangements typically build on the institutional heritage of the territory, shared with the metropole or trading partner, which then facilitates a form of bureaucratic or regulatory arbitrage – something potentially exploitable by overseas firms and MNEs (Jones & Temouri, 2016) seeking to implement financial engineering strategies that will minimize tax liabilities. More critical still, both arrangements facilitate reputability in terms of economic and currency stability, while the colonial ties involve tacit political support in tax treatise negotiations and ensuing enhanced recognition of formal institutional quality. Moreover, this amounts to the colonial metropole acting as a “regulator of last resort” in guaranteeing the integrity of local institutions. Such recognition is essential in differentiating legitimate offshore financial centers from their more nefarious counterparts (Hearn, 2022) which essentially draw on similar cultural resources in their formation.

Together, these institutional arguments underpin the evolution of distinct offshore jurisdictional frameworks, having historically evolved from the legislative framework underpinning the provision of “flags of convenience” associated with the international shipping industry during the 1960s and 1970s. The offshore financing industry, like the underlying jurisdictions, is highly innovative and almost entirely based on legal innovations which govern transactions. Moreover, it forms a lucrative source of income for otherwise deprived, small, isolated territories whose economic viability is at best questionable. The geographical and institutional proximity of offshore jurisdictions to

their onshore counterparts has engendered a highly competitive, lucrative offshore financing industry, which has in turn led to the recent formation of offshore FMNEs as a boutique, niche industry.

The heterogeneity in Caribbean institutional arrangements, as outlined in the preceding arguments, is visible from Fig. 1. A number of observations are apparent. The first is the significant variation in the national average firm-level adoption of shareholder value corporate governance, this being the antithesis of an insider-welfare orientation, given its focus on the property rights protections of external minority resource providers. The second is that there is a sharp divide in the adoption of such corporate governance between territories that have retained colonial status or have restrictive macroeconomic arrangements and those that are larger and have fully independent political, economic, and monetary arrangements. The former, exemplified by Bermuda and the Cayman Islands, are associated with lower levels of shareholder value governance adoption, while the opposite is true for the latter, typified by Jamaica and Trinidad & Tobago.

3. Theory and hypotheses

The theoretical approach is to adopt a distinct resource dependency perspective which emphasizes the principal provision of the board of directors in securing the profitability and economic survival of the firm. Pfeffer and Salancik (1978: 163) note that, “when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it”. Furthermore, they outline four primary benefits provided by boards, being (1) advice and counsel, (2) legitimacy, (3) channels for communicating information between external organizations and the firm, and (4) preferential access to commitments or support from important elements outside the firm.

Hillman and Dalziel (2003: 386) argue that resources facilitate a reduction in the dependency between the firm and its external contingencies (Pfeffer & Salancik, 1978), diminish uncertainty for the firm (Pfeffer, 1972), provide lower transaction costs (Williamson, 1984), and ultimately improve a firm’s chances of survival (Singh, House, & Tucker, 1986). Of critical importance is that of relational capital, sometimes called social capital, which explicitly refers to “the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (Nahapiet & Ghoshal, 1998). This accentuates the latent potential access to resources - through the credibility associated with individual directors - which is embedded in a personalized and expansive social network.

These theoretical arguments emphasize the central role of the board in resource acquisition and coordination within the firm, and they underpin our theorization regarding firms’ boards of directors effectively balancing rival, yet complementary, pressures. These pressures are the need for the constituent firm to maintain participation within the wider BG networks that facilitate access to essential resources, on the one hand. The optimal central coordination of resources is contingent on the BG control exerted over the constituent firms. On the other hand, the BG’s network provides a vital platform from which to effect tax management strategies, which necessitate the hiring of non-executive lawyer-directors who have competencies in the highly localized, idiosyncratic, offshore jurisdictional architecture. Such competencies also constitute a competitive advantage in the case of BG constituents who are also FMNEs.

3.1. Hypotheses

The core argument is that firms’ boards of directors’ act to balance the competing resource dependence contingencies from the wider BG on the one hand and the local jurisdiction, in the form of co-opting legal and offshore bureaucratic competencies, on the other.

A unique benefit arising from the inherently inter-island nature of

Caribbean BGs is that the resulting network benefits immensely from economies of scale and scope in drawing on group-wide synergies (Khanna & Palepu, 2000; Khanna & Rivkin, 2001) which facilitate efficient intermediation of resources. An additional benefit is that the expansive network acts to agglomerate and process information gathered from the unique competencies of constituent firms. As such, the BG becomes a conduit for organizational learning in which the differentiated country-specific advantages of individual constituents are combined and evaluated in combination with more generic firm-specific advantages associated with the BG itself. In this way the sum of the “whole” group outweighs the sum of the individual “parts”, i.e., the individual constituent firms (e.g., Sewak & Sharma, 2020).

This study argues that these network benefits associated with BGs are only beneficial so long as they are accompanied by extensive control asserted over the constituent firms. Moreover, elevated BG control asserted over a constituent firm is indicative of its increased importance within the wider network in relation to intra-group transfers of capital and resources. This control issue is an especially important consideration when the BG network seeks to utilize the benefits of the constituent firms and entities located within offshore financial centers, in terms of optimizing tax efficiencies that can be gained from internal resource intermediation across the group. An essential part of the design of intra-group financial engineering so as to reduce group-wide tax liabilities are the organizational competencies derived from the myriad of localized information coming from each jurisdiction.

The hiring of lawyers onto the board of directors provides the board with a valuable source of human and social capital derived from their multidimensional roles. Lawyers serving as executive directors have been argued to undertake essential roles, in advocacy for the firm, as well as gatekeeping and transaction engineering (Morse et al., 2016). Often, the latter roles overlap, with lawyers, on the one hand, undertaking a role more akin to that envisaged for auditors and accountants (Morse et al., 2016), in taking responsibility for the quality of the firm’s financial statements and conformity with prevailing accounting standards (Coffee, 2003). On the other, lawyers are more actively involved in the design and evaluation of transactions, providing advice of the conformity of contractual design and terms prior to consummation. Furthermore, Agrawal & Knoeber (2001) find lawyers serving in a nonexecutive director capacity are strategically hired to enable the firm to co-opt contingencies associated with complex regulation, such as that in offshore jurisdictions.

This study argues that lawyers are essential in underpinning the competitive advantages associated with intra-group intermediation of resources. The extended group structure, of which the firm is a constituent, facilitates the information processing of localized competencies, thereby facilitating optimally efficient tax minimization strategies. Lawyers’ dual role of gatekeeper and transaction engineer also helps to reduce tensions among minority resource providers regarding tunneling, which is a critical element of intra-group resource intermediation (Pham, 2020). Here, they facilitate the structure of contracts, exploiting tax advantages while simultaneously ensuring the conformity of such transactions with prevailing offshore regulations.

In summary, this study’s theorization emphasizes the importance of BG control over constituent firms through increased representation on their boards of directors, which provides elevated access to the resources embedded in extensive BG networks. However, this increased control is accompanied by a need for increased competency regarding local offshore jurisdictions, which entails elevated proportions of non-executive lawyer-directors. These undertake a multidimensional role of gatekeeping and transaction engineering, which is essential for the wider group and in turn necessitates higher BG representation on boards of directors. These theoretical arguments lead to this study’s first hypothesis:

Hypothesis 1.. *In offshore economies, there is a positive association between the proportion of BG representatives and the proportion of non-*

executive lawyers serving on firms' boards of directors.

Next, we consider the moderation, by firms' adoption of shareholder value corporate governance, of the main association between BG board participation and the proportion of non-executive lawyer-directors. Adoption of these governance elements notably transfers control from insiders to their minority outside stakeholder counterparts, given the enhancements in the protection of the latter's property rights.

This study argues firms' higher adoption of shareholder value corporate governance is associated with an increase in the potential conflict of interest between minority outsiders - focussing on short-term returns on their investment - and insiders from the controlling BG, for whom the tunneling of resources (Chernykh, 2008; Atanasov, Black, Ciccotello & Gyoshev, 2010) is an essential part of the resource coordination and intermediation inherent to the wider network. Consequently, these potential conflicts will lead to increased litigation risk from potential breaches of transparency in the firms' filings and financial statements, which motivate the need to hire more non-executive lawyer-directors as gatekeepers. Moreover, the increased visible presence of lawyer-directors facilitates legitimacy (Suchman, 1995) with external resource providers through the conformity of the firm's governance - especially the lawyer-endorsed filings and financial statements - with international investment norms.

Conversely, at lower levels of shareholder rights adoption, there is less necessity for lawyers to be hired to the board of directors since there is less legitimacy sought from international capital markets. There is also a greatly diminished need for gatekeepers to professionally endorse firm communications. BGs and their constituents essentially retain their opaque, insider-orientated governance, which leads to a reduced necessity to hire non-executive lawyer-directors, given minimal contingencies relating to litigation risk. These theoretical arguments lead to proposing:

Hypothesis 2.. *In offshore economies, the positive association between the proportion of BG board representation and the proportion of non-executive lawyers on the board is positively moderated by the adoption of firm-level shareholder rights governance.*

This study now considers moderation of the main association between the proportion of BG directors and the proportion of non-executive lawyer-directors by whether or not the firm is a constituent of an offshore FMNE. Critical determinants of the offshore financing industry are opacity, accompanied by sophisticated legal and regulatory innovations that facilitate "regulatory arbitrage" between onshore and offshore jurisdictions. These traits have a number of implications. The first is the highly localized specialization of individual offshore jurisdictions within the overarching offshore financing industry - reflected in differentiated sub-sectors such as offshore insurance, offshore banking,

offshore investment funds, and offshore diversified financials. This jurisdictional specialization arises from the unique historical evolution of the institutional framework through the unique interplay of distinct localized actors and specific locational attributes (e.g., Romanelli & Khessina, 2005).

The second is that the offshore regulatory architecture essentially "competes" with its onshore counterparts, spawning considerable regulatory innovation in the economies and financial markets it serves (Moriss & Hensen, 2013). While this helps foreign firms to exploit these differences through regulatory arbitrage and the lucrative attraction of subsidiary registrations, it also leads offshore jurisdictions to encourage beneficial regulatory reforms in their onshore target markets (Sigler, Martinus, Iacopini & Derudder, 2020). Such reforms are essential for retaining competitiveness in the provision of financing, while they are undertaken more quickly and efficiently than when stimulated by comparable rivalry with other onshore jurisdictions (Moriss & Hensen, 2013). Offshore FMNEs are essential to this process since they "export" the institutional capabilities of their home jurisdiction in providing offshore financial services products, whose own competitive advantages are shaped by those of the originating offshore framework.

This study argues that the preceding arguments highlight an acute need for firms to hire more lawyers as non-executive directors. Here, their gatekeeping and transaction engineer roles are indistinguishable within the offshore financing industry. Their professional reputations are essential to their gatekeeping activities for the FMNE, which are essential in the further conveyance of quality and reputability in an otherwise extremely opaque offshore financing industry. Such assurances are essential for affording protections of property rights to FMNE stakeholders, who range from customers of their offshore financial products to external resource providers. Lawyers are essential as transaction engineers too, where their roles are more akin to those of auditors and accountants (Morse et al., 2016). Their legal skills and experience are essential in the structuring and design of contracts (Agrawal & Knoeber, 2001), which keeps them abreast of the highly innovative and dynamic nature of offshore regulatory environments (Blum, 1981). These attributes of lawyers underscore that their being hired to the board of directors constitutes a competitive advantage for the FMNE as a whole.

Contrastingly, non-FMNE firms are less susceptible to regulatory changes, since they do not impact on their competitive advantage, given their interest in offshore jurisdictional competencies is more restricted to initiating their own tax management strategies. Consequently, financial engineering strategies are important in reducing BG-wide and individual-constituent-firm tax liabilities but the critical distinction with FMNEs is that competencies in offshore jurisdictional architecture do not influence their competitive advantage in terms of their products and customer bases. Consequently, this study proposes the following:

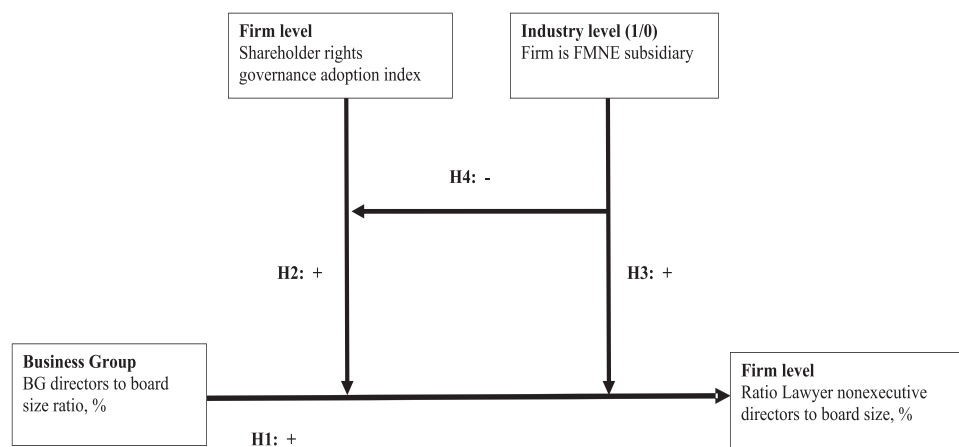


Fig. 2. Theoretical associations.

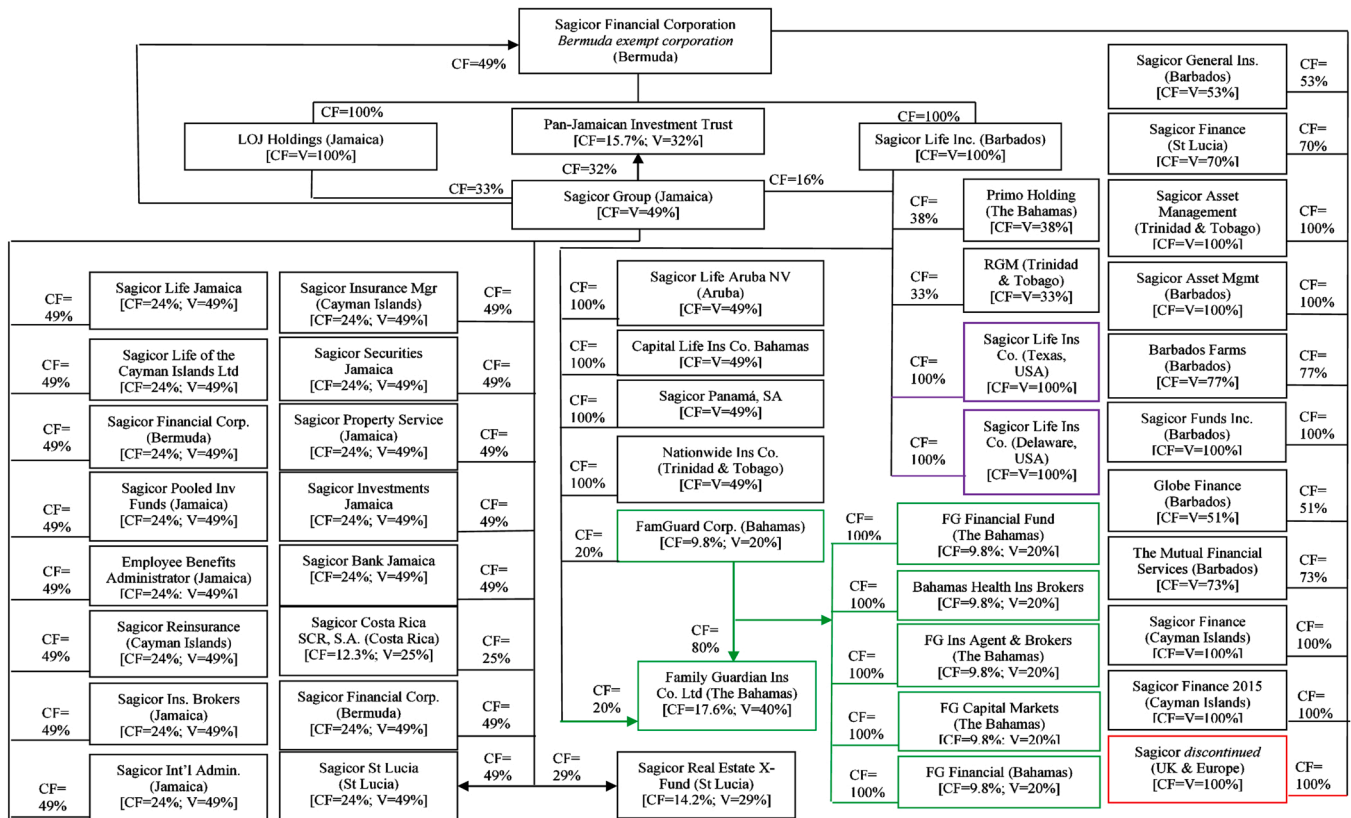


Fig. 3. Organizational structure of Sagikor (Jamaica). This traces the cash flow ownership versus control rights across Jamaica’s Sagikor Group within the Caribbean region. Control and cash flow rights were estimated using the method outlined in Chernykh (2008).

Hypothesis 3. *The positive association between the proportion of BG board representation and the proportion of non-executive lawyers on the board is stronger when the firm is the constituent of an offshore FMNE rather than when the firm is not constituent to an offshore FMNE.*

Finally, the study considers a novel double moderation through the interaction of both the shareholder value corporate governance adoption index and the binary condition of whether or not the firm is an FMNE. This facilitates a more detailed exploration of the FMNE industry.

Social networks constitute the bedrock of FMNEs and the wider offshore financing industry. These are dense and involve the overlapping influence of the extended families upon whom the essentially collusive island economies and their governing offshore institutional frameworks are based, alongside the extensive interaction between and amongst offshore financing firms themselves. In fieldwork interviews in Bermuda, one compliance director likened the sheer density of social interaction between locally domiciled offshore FMNEs as “almost incestuous through extensive interlocking directorates and control.” This amounts to network externalities in terms of spill-over benefits that occur due to the density of relationships leading to internally consistent knowledge generation, learning, and innovation (Zaheer, Lamin & Subramani, 2009) within the offshore financial services industry (e.g., Nachum & Zaheer, 2005). Such institutionally supported dense network ties within an industry constitute industry-specific resources (Pfeffer & Salancik, 1978). Collectively, these location-specific dense industry clusters ubiquitous to the offshore FMNE industry act to reinforce notions of appropriateness in governance structure through isomorphic conformity (DiMaggio & Powell, 1983). Therefore, FMNE networks seek to attain conformity to wider industry-specific norms and values, which are based on opacity.

Moreover, the networks and institutionalized knowledge embedded within them fosters dynamic innovation within the wider industry in terms of lobbying for regulatory changes and in the creation of new tax-

efficient financial contracts – in organizational forms as well as financial products. The former is exemplified by specialized forms of trust, investment funds, exempted corporations, and a plethora of partnerships – all based on opacity, which is central to their marketability.

The preceding arguments emphasize the fundamental importance of opacity accompanied by an overwhelming reliance on relational networks within FMNEs. Consequently, this study argues that the adoption of shareholder value corporate governance undermines the benefits attributable to the opaque networks that dominate the industry. Moreover, there is a conflict or trade-off between the adoption of shareholder value corporate governance and director dependence (Kumar & Sivaramakrishnan, 2008). The former centers on director independence and related assurances of impartiality in monitoring while the latter emphasizes directors’ interlinkages as conduits for external influence over the firm (Fich & Shivdasani, 2007). This is mirrored in FMNEs, based on underlying BG frameworks, which adopt shareholder value corporate governance, therefore adopting a strategic orientation towards seeking external resources through third-party contracting, which is incompatible with offshore industry norms. This would intuitively be associated with a reduced need for lawyers due to fewer regulatory contingencies. Contrastingly, this study argues that FMNEs characterized by increased opacity and hence lower adoption of shareholder value corporate governance have accentuated contingencies on offshore regulatory frameworks and accompanying bureaucracy, necessitating higher proportions of lawyers. These arguments lead to proposing the following hypothesis:

Hypothesis 4. *There is a negative association between BG representation on boards of directors and the proportion of non-executive lawyer-directors when the firm has higher (as opposed to lower) shareholder value corporate governance adoption and is an offshore FMNE (as opposed to is not an offshore FMNE).*

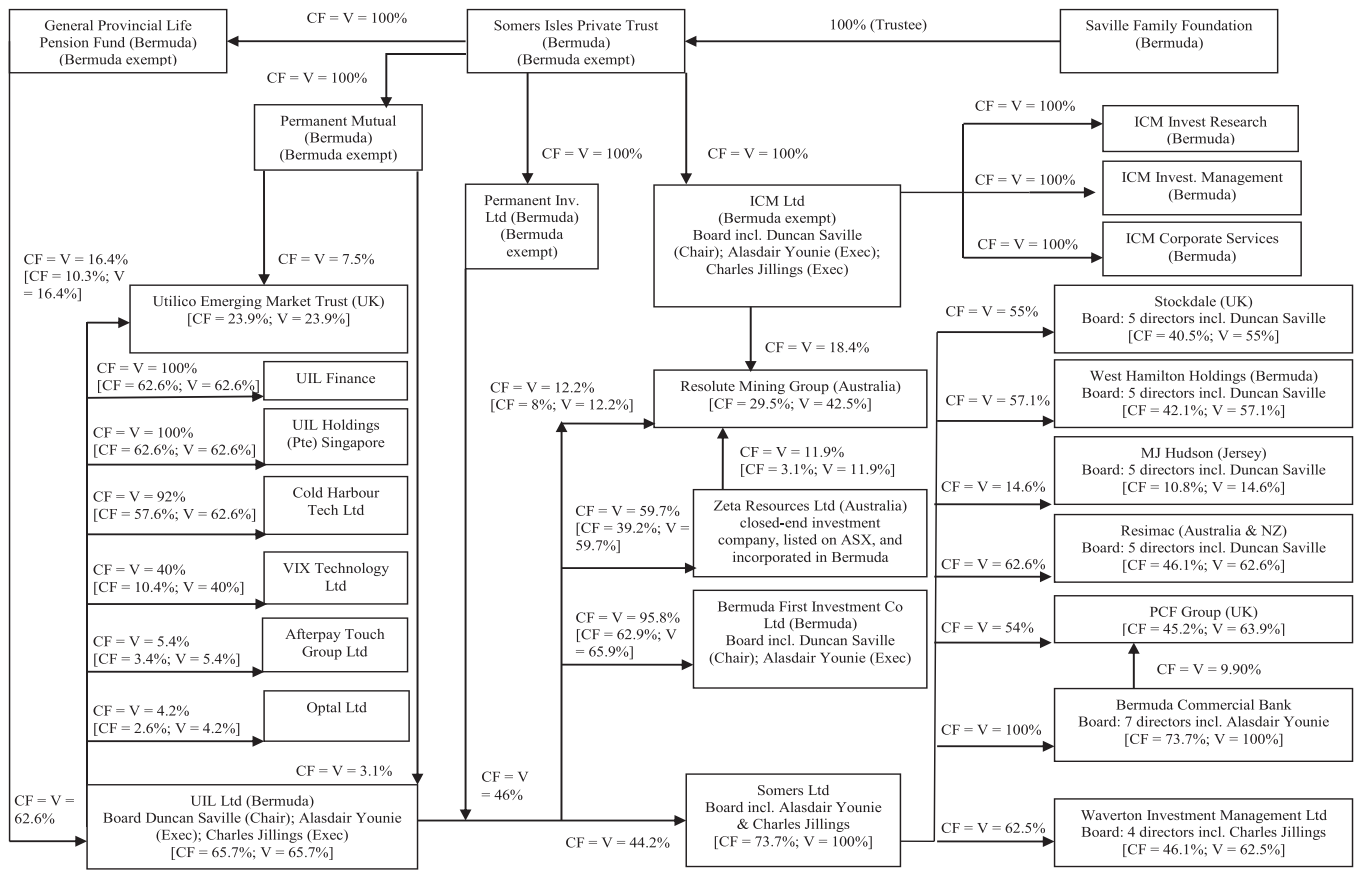


Fig. 4. Organizational structure of Utilico Group (Bermuda). This traces the cash flow ownership versus control rights across Bermudian Utilico group. Control and cash flow rights were estimated using the method outlined in Chernykh (2008).

To summarize this study’s theoretical arguments, a contingency model with a main effect and two contingency (moderating) effects is outlined in Fig. 2.

4. Data

The identification of BG constituent firms follows Masulis et al. (2011) in utilizing both ownership and interlocking directorates of subordinate firms in defining a boundary condition for the group. However, in line with Aguilera, Crespi-Cladera, Infantes & Pascual-Fuster (2020) we moreover draw on a number of additional local sources to further corroborate our definition. Such local sources are essential in opaque emerging economies and especially their offshore counterparts which frequently incorporate offshore-compatible opaque organizational forms within the wider group structure with these obfuscating boundaries and the accentuation of control across the BG.

4.1. FMNE industry context

Examples of three of the largest offshore FMNEs¹ that are based on underlying BG frameworks are shown in Figs. 3 to 5. The first two, namely Jamaica’s Sagicor group² (Fig. 3) and Bermuda’s Utilico group

¹ The offshore FMNE industry originating in the Caribbean has led to overseas expansions to other offshore jurisdictions such as Gibraltar, Malta, Dubai, and Singapore in the case of Cayman National Corporation and Bermuda’s Utilico and Butterfield Group, as well as more regionally focussed expansions in the case of Jamaica’s Sagicor Group.

² A full list of offshore financial FMNEs drawn from listings across the Caribbean is provided in the supplementary appendices of the online version.

(Fig. 4), reveal the incorporation of a number of offshore organizational forms to enhance group-wide tax efficiencies. Three are immediately apparent: (i) the use of “exempt corporation” or exempt “international business corporations (IBC)”, which includes the strategic relocation of the head office to Bermuda, (ii) the use of trusts, and (iii) the employment of both cross-shareholdings and pyramiding to tie the constituent firms together. These are also described in detail in Blum (1981) and Chernykh (2008) in the context of predominantly Russian firms utilizing Cyprus as an offshore financial center.

The use of exempt corporations or IBCs (in point i) implies tax exemption on revenues generated outside of the island jurisdiction, alongside a raft of exemptions from regulatory and ongoing supervision and surveillance reporting otherwise applicable to conventionally registered firms. Furthermore, in the case of the head office, this is exempted from all taxes in Bermuda. Trusts are opaque entities (in point ii), with trust funds established with beneficiaries who are not legally entitled to the wealth stored in such trusts. Rather, the wealth is managed by trustees, with generally weaker reporting requirements. Consequently, these structures provide considerable opacity in the tracing of ultimate controlling ownership. Pyramiding and cross-shareholdings (point iii) imply significant intra-group financing advantages derived from an accentuation of control over cash flow ownership entitlements (see Masulis et al., 2011). This control is evident from the differences between cash flow entitlement and corresponding voting rights for the ultimate owner within each constituent firm – as is visible in Figs. 3 to 5.

The group structure with multiple chains of pyramids demonstrates the versatility of incorporating holding entities as exempted corporations, where dividends attract no taxation, and funds themselves attract no capital gains or corporation tax and act as conduits for the agglomeration, flow, and coordination of capital around the wider group.

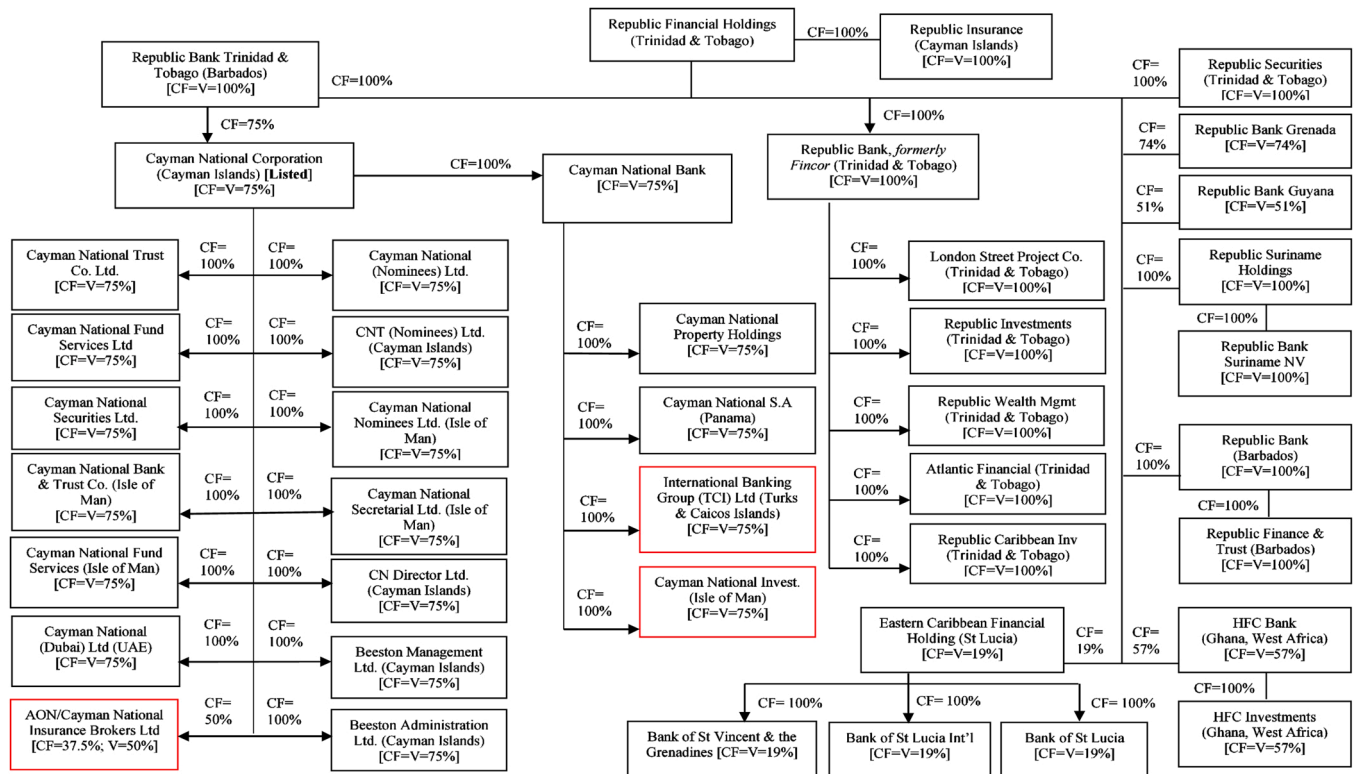


Fig. 5. Organizational structure of Republic Group (Trinidad & Tobago and Cayman). This traces the cash flow ownership versus control rights across Trinidadian Republic Group following its' incorporation of Cayman National Group within the Caribbean region. Control and cash flow rights were estimated using the method outlined in Chernykh (2008).

Notably, these BG networks form the basis for much inward foreign direct investment into Caribbean-island economies (see Hearn, 2022), where foreign MNE firms either take a minority stake in a BG-constituent or enter into a joint venture with the BG's ultimate owner (family).

The flexibility of such FMNEs is exemplified by Trinidad & Tobago's Republic group (Fig. 5) based on underlying family BGs. This is evident from the 2018 merger with Caymanian Cayman National Corporation, whose group structure and reputational brand is maintained within the new conglomerate. While this merger drew on synergies between the two groups, rationalizing their integration, at the same time, the unique identity of each, inextricably tied to the underlying families, was left intact. The resultant conglomerate is notable in its outward foreign direct investment both to other offshore tax havens, such as the Isle of Man, the Turks & Caicos Islands, and Panama, as well as through the establishment of emergent banking groups, such as HFC in West Africa. The conglomerate structure is also notable in forming the basis for joint ventures with major overseas financial services MNEs such as the US's AON.

4.2. Sample

The Caribbean sample is based on the eight established equity

markets of Bermuda, the Bahamas, Barbados, the Cayman Islands, Jamaica, the regional Eastern Caribbean securities exchange, Trinidad & Tobago, and Guyana.³ The dataset is unique and was constructed in two stages. The first involved the compilation of a comprehensive list of firms with listed ordinary shares. These are single-class voting rights: one share – one vote. Thus, entities with primary listings of dual or multiple-class shares, preference shares, or convertible instruments were removed from consideration. Lists of listed firms were compiled for each Caribbean stock exchange from the year 2000 or inception, whichever date was earliest. These lists also considered new listings, suspensions, and de-listings that occurred during the period of 2000–2017 inclusive, to account for potential survivorship bias in the final dataset. Such listing data was obtained from the national stock exchanges (see Appendix Table 1). This resulted in 171 listed firms.

The second stage of the construction of the dataset involved the procurement of individual listed firm's annual reports from across the Caribbean region. Some firms' annual reports were obtained directly from the national stock exchange websites of the Bahamas, Bermuda, Jamaica, and Trinidad & Tobago. Other annual reports were obtained directly from the exchange of Barbados and the Eastern Caribbean securities exchange, while additional direct procurement was undertaken from the national regulator (GASCI) in case of Guyana. Individual listed firms' websites were used for procurement in the case of the Cayman

³ We omit a number of extremely small securities exchanges, such as the Bolsa de Valores de la República Dominicana (<https://bvrld.com.do/>) in the Dominican Republic, which has not attracted any listings since its inception, and the Dutch Caribbean securities exchange (<https://www.dcsx.cw/>), in Curaçao, Netherlands Antilles, which is designated as an offshore market focussing solely on the attraction of international and predominantly Chinese offshore listings seeking to evade home-country restrictions on raising foreign investment, leading to the listing facilitating access to North American investors.

Islands, which was relatively time efficient given the handful of listings. Additional recourse to individual listed firms was also undertaken across the Caribbean region to supplement the original data collection and fill in any missing values (annual reports). This led to an unbalanced panel sample of the 171 listed firms' annual reports. However, there is some time variation in the consistency of the availability of annual reports – with many omissions, typically, before 2004. All firm-specific balance sheet and governance variables were then sourced directly from the collected annual reports. All data was converted to US\$ end-of-period equivalent values to facilitate comparison in a multi-country sample. This led to a final sample cross-section of 171 listed firms with a time series of up to 17 years for each firm. Notably, 98 of these were constituents of family BGs, with a further 36 of those having evolved into FMNEs.

5. Methodology

5.1. Dependent variable

The dependent variable is defined as the ratio of non-executive lawyer-directors to the total size of the board of directors. Following [Agrawal and Knoeber \(2001\)](#), lawyer-directors are defined as those who hold professional law degrees (such as LLB, BCL, LL.M, LL.D, or JD), as reported in their biographies within the annual reports. However, following [Krishnan et al. \(2011\)](#) and [Hopkins et al. \(2015\)](#), we also include those currently practising in law firms and acting as legal counsel, as recorded in their biographical descriptions. Notably, where biographical descriptions were not available, the lists of board members at the front of annual reports were consulted, which list professional qualifications alongside each director's name.

5.2. Explanatory variables

This study has one explanatory variable: the proportion of BG representatives on the board of directors. This includes both executive and nonexecutive BG-affiliated directors. This variable is used to test our main effect, as outlined in [Hypothesis 1](#).

Identification of BG representatives was undertaken manually, drawing on the combination of an in-depth study of the directors' biography sections of the annual reports and a non-exhaustive list of extensive local sources, outlined in [Appendix Table 1](#). Such a manual identification process was essential given the severity of opacity across the Caribbean region. Directors' biographical information is notably minimal in the case of the Bahamas, Bermuda and the Cayman Islands, necessitating recourse to the aforementioned local sources.

However, utilizing these additional local sources was essential given that local families routinely wield control over firms far in excess of their cash flow entitlements, with such differences arising through the smallness of island societies and the consequent dominance by the families, accompanied by onerous indigenization laws, such as “60:40 rules” legislating that a minimum 60% of control be in the hands of local interests ([Hearn, 2022](#)), who are essentially comprised only of the families themselves. This feature implies that a comparable measure of BG ownership would fail to capture the full extent of family and ultimate owner control over BG-constituent firms. The extent of the dominance by tiny numbers of families is visibly evident in the authors' fieldwork interviews across the Caribbean, and reflected in a proliferation of common family names permeating all areas of government, the media, business, and the civil service. This is exemplified by the *Symonettes* in the Bahamas, the *Gibbons*, *Butterfield*, and *Lines* families in Bermuda, and *Boddens*, *Ebanks*, and *Merryns* in the Cayman Islands.

BGs are synonymous with the dominance of family institutions within the Caribbean region, which form the social fabric of the island economies. This study's focus on their representation on the boards of constituent firms provides a means to capture the degree to which BGs leverage control over the firms within which they participate. It also

circumvents a number of thorny issues regarding BG participation in firms, stemming from more direct measures involving ownership. The first concerns the use of “cut offs” for ownership, where firms are designated as having family involvement typically at 10% or 20% thresholds, which fails to account for the accentuation of control over cash flow ownership rights typical of family-conglomerate firms. The second issue is the deliberate obfuscation of direct ownership by families, who use multiple nominee accounts, or chains of shell companies and offshore vehicles, such as trusts, in conjunction with nominee accounts. This practice is particularly prevalent in offshore jurisdictional settings. Finally, a third issue relates to the significant variations in direct ownership in relation to financing strategies based on the organizational advantages of pyramidal chains accentuating control in relation to firm riskiness within BGs ([Masulis et al., 2011](#)). Collectively, these issues underscore the benefits of the use of BG board participation as a measure of control over a constituent firm, rather than any metric based on direct cash flow ownership.

5.3. Moderation variables

The first moderating variable, corresponding to [Hypothesis 2](#), is that of firm-level adoption of shareholder value governance. We adopt the rights of shareholders sub-index of the [OECD's \(2004\)](#) principles of good governance, which is formed from the equally weighted average of nine elements and sub-indices ([A.1 to A.12 in Appendix Table 2](#)). These are drawn from a total of 33 individual governance elements isolated annually, per individual firm, from annual reports. The focus of this specific index is on capturing the quality of minority informational rights protections, annually, for each firm. Constructing such a firm-level index is highly labor-intensive and involves unrestricted access to all annual reports for each firm in each year of listing. In our case, this alone resulted in 2506 firm-year observations for each of the 33 governance elements. The construction of this index represents an extension of the inaugural firm-level governance “G-index” comprising 24 provisions, of which 22 were firm level, in the seminal study by [Gompers et al. \(2003\)](#), which was restricted in application to the US setting alone.

The second moderating variable, corresponding to [Hypothesis 3](#), is a simple binary variable taking a value of one if a firm is an offshore FMNE and zero otherwise. The categorization of financial industries includes banking, diversified financial, and insurance, defined according to the two-digit Global Industry Classification (GICS) codes developed by MSCI (see <https://www.msci.com/gics>).⁴ The FMNE classification comprises those firms that have a significant proportion (>30%) of their traceable revenue streams coming from overseas non-Caribbean jurisdictions, while also maintaining a significant physical presence in overseas branches in those locations. This overseas component is important inasmuch that it underscores their multinational nature but also that the array of financial products offered to international client bases include those associated with offshore tax engineering strategies.

The third, corresponding to [Hypothesis 4](#), follows [Chahine, Filatotchev & Wright \(2007\)](#) in terms of the combined moderation of the two continuous variables, namely the ratio of BG representation on the board and firm-level shareholder value corporate governance, in one of two binary states: whether the firm is or is not an offshore FMNE. To mitigate collinearity concerns, first, the firm shareholder rights index was centered and normalized, and second, the inclusion of this interactive term, as with all moderating variables, was accompanied by the

⁴ This equates to 24 industry categories, four of which did not feature in our dataset, so that 20 industry categories were used in our study. We follow the techniques of [Khanna and Yafeh \(2007\)](#) in allocating industry classifications in emerging economies. We use the GICS codes owing to the lack of homogeneity in industry classifications across the Caribbean, with many of the markets in our sample amongst the smallest and least developed worldwide.

checking of the variance inflation factors (VIFs), which were less than 2 in all models.

5.4. Control variables

Five sets of control variables were adopted. *Institutional controls* include a binary effect taking a value of one if the island territory maintains European colonial status and zero otherwise. Secondly, we control for state institutional quality with the aggregate of the six World Governance Indicator (WGI) metrics (Kaufman, Kraay, & Mastruzzi, 2009). Detailed definitions of the six metrics alongside their sourcing are provided in Appendix Table 2. These six range in value from -2.5 to $+2.5$ but here are rebased to a 0–10 scale prior to aggregation.

Board controls account for firm-level variations. The first is the natural logarithm of board size, defined as the total number of both nonexecutive and executive directors, and controls for differences in communication and decision-making effectiveness, since larger boards are argued to be less effective in achieving consensus and formulating strategy (Boyd, 1994) while, at the same time, their larger size better enables them to accommodate wider outside block and stakeholder interests prevalent in non-shareholder-value governance systems such as those related to family. The second is the board independence ratio, defined as the proportion of independent nonexecutives on the board, while the third is the proportion of social elites, which captures the degree to which indigenous polity elites have been co-opted on to the board of directors. The third is whether the same individual occupies both the CEO and Chairperson roles, which provides a measure of the monitoring of executive discretion within the firm. Fourth and last is ethnic diversity, based on a modified Herfindahl index gauging the degree of ethnic concentration among the directors, based on three identifiable ethnic groups prevalent across the Caribbean, namely European, Asian, and African origin (e.g., Harjoto, Laksmana & Lee, 2015).⁵

Firm controls are drawn from prior empirical governance studies (Sanders & Carpenter, 1998; Finkelstein & Boyd, 1998). The natural logarithm of the firm's pre-tax revenues (or sales) is used as a proxy for size, assumed to control for the complexity of the firm's operations and thus to mirror the complexity of the task environment, which is in turn reflective of an enhanced need for disclosure in order to successfully cope with increasing information-processing requirements and complexities in decision-making. Then the accounting return on assets (ROA)⁶ is used as a measure of firm performance, in line with Finkelstein and Boyd (1998). Firm age is also controlled, as older firms are anticipated to have larger, more complex operations mirroring more complex task environments. The variable also controls for the "liability of newness" and the considerable information asymmetries generated by a lack of operational and performance history (Arthurs et al., 2008).

Capital structure controls capture the influence of capital and financial structure through two variables. These are the ratios of preferred shares to total assets and retained earnings to total gross revenues. The first captures an alternative measure of separating ownership from control through exacerbated preferential control rights in the form of raising capital through either non- or partial-voting-rights shares. In order to

⁵ This is a modified Herfindahl concentration index and should be interpreted as a "high" value indicating concentration or homogeneity, and a "low" value being indicative of diversity or heterogeneity.

⁶ ROA is conventionally defined as $ROA = (\text{Net Income} + \text{Interest} \times (1 - \text{Tax Rate})) / \text{Total Assets}$ (see Khanna & Palepu, 2000). However, due to significant variation in the data arising from varying reporting standards across Africa, with frequent omission of reported interest income and corporate taxation rates from listings prospectuses, we used a modified version of this, namely $ROA = \text{Net Income} / \text{Total Assets}$. However, while both measures suffer from business cycle effects and are not forward-looking, they do provide a representative indication of firm performance subject to the data limitations prevalent in emerging economies.

gauge the degree of internal, as opposed to external, financing, we also develop the new variable of retained earnings to total gross sales or revenues.

Ownership controls account for the concentrated cash flow holdings of venture capital (VC), namely the combination of domestic and foreign venture capitalists, and then corporate block owners and firm directors. First, in terms of VC, the identification of venture capitalist ownership initially involved studying the ownership section of each annual report. However, in a region where venture capitalist investment is notoriously informal and fledgling in nature, there are few professional associations for this early-stage financing industry. This necessitated a triangulation exercise utilizing the local sources outlined in Appendix Table 1 alongside the perusal of the Caribbean Investment Network⁷ and Caribbean Alternative Investment Association.⁸ Second, corporate block holder ownership was identified from the ownership declarations in annual reports. The final, third control is that of director ownership, with those holdings reported either in a dedicated director ownership subsection adjacent to their biographies, in a shareholders' section, or in the annexures of the financial statements.

5.5. Empirical model

To test this study's hypotheses, pooled OLS models were adopted and applied to our unbalanced panel sample with firms in cross-section and years as the time-series dimension. Also applied were robust errors while a range of industry and year (time) binary effects or dummies were also included. The models take into account the structure of our panel, defined by considerable variation between firms but little in the time-series dimension within any given firm, as exemplified by minimal year-on-year changes in governance arrangements. This mitigates empirical issues associated with potential autocorrelations in the time-series component of the underlying unbalanced panel dataset. Contrastingly, fixed effects specifications require within-firm variability in the variables if firms are to be used as their own controls, and the minimal within-firm variability in our dataset would lead to overly large standard errors.

Four sets of regression models are estimated with the first solely having the explanatory variable of the proportion of BG representatives on the board of directors. The remainder correspond to the moderating hypotheses, with the second being moderated by the statistically normalized shareholder rights index, the third involving moderation by the binary variable of being an FMNE or otherwise, and the fourth being doubly moderated by both the shareholder rights index and that binary variable. These tests correspond to our hypotheses.

Additional country binary fixed effects are not included since their addition would lead to perfect collinearity with formal institutional quality. In this way the dummy variable trap (Wooldridge, 2010)⁹ is avoided in the modeling. However, binary industry effects are included albeit with the omission of diversified financial, banking, and insurance categories, which form the basis of the offshore financial FMNE variable. Finally, time (year) fixed effects are applied across all models.

⁷ <https://www.caribbeaninvestmentnetwork.com/caribbean-investors>

⁸ <http://caraia.org/>

⁹ If dummy variables for all country (and time) categories were included, their sum would equal 1 for all observations, which would be identical to and hence perfectly correlated with the vector-of-ones variable whose coefficient is the constant term; if the vector-of-ones variable were also present, this would result in perfect multicollinearity, so that the matrix inversion in the estimation algorithm would be impossible. This is referred to as the dummy variable trap (Wooldridge, 2010).

Table 1
Descriptive statistics and correlations.

	Mean	Std. Dev.	1	2	3	4	5	6	7	8		
1 Ratio of non-executive Lawyer directors	8.600	11.380	1.000									
2 Ratio BG directors	37.764	36.074	0.121 **	1.000								
3 Offshore FMNE	0.268	0.443	0.056 **	0.315 ***	1.000							
4 Shareholder value, Normalized	0.000	1.000	0.188 **	0.076 ***	0.138 **	1.000						
5 Europe Colony	0.099	0.299	-0.110 ***	0.163 ***	0.114 **	-0.407 ***	1.000					
6 Institutional quality, Normalized	0.520	0.547	-0.164 ***	-0.060 **	0.094 **	-0.423 ***	0.397 **	1.000				
7 Log (board size)	2.153	0.296	0.091 **	0.197 **	0.268 ***	0.129 **	0.021	0.041†	1.000			
8 Ratio Ind. Nonexecutives	0.198	0.164	0.010	-0.209 ***	0.013	0.071 **	-0.073 ***	-0.005	0.218 **	1.000		
9 CEO = Chairperson	0.332	0.471	0.070 ***	-0.059 **	-0.035	-0.025	0.138 ***	0.031	-0.273 **	-0.213 **		
10 Ethnic diversity index	0.624	0.193	-0.117 ***	-0.048 *	-0.010	-0.236 ***	0.422 ***	0.213 ***	-0.107 **	-0.108 **		
11 Log (gross revenues, US\$)	17.298	1.954	0.122 ***	0.156 **	0.231 **	0.145 **	-0.018	0.102 ***	0.526 **	0.041†		
12 ROA	-0.081	5.201	0.023	0.026	0.012	0.041†	-0.077 ***	-0.037	0.073 **	0.023		
13 Log (Firm age)	3.411	1.001	0.018	0.200 **	-0.028	0.125 **	-0.059 **	-0.107 **	0.239 **	-0.084 **		
14 Preferred shares/Total assets	1.230	5.820	-0.070 **	-0.046 *	-0.045 *	-0.229 ***	-0.077 **	0.100 **	-0.022	-0.029		
15 Retained earnings/Sales	1.092	4.099	-0.076 ***	-0.024	0.010	-0.045 *	0.038†	-0.064 ***	-0.176 **	-0.049 *		
16 VC ownership	3.012	7.196	-0.002	-0.039†	-0.077 **	0.172 **	-0.079 **	-0.162 **	-0.007	0.097 **		
17 Corporate block ownership	2.965	8.721	0.045 *	-0.094 **	0.011	0.117 **	-0.123 **	-0.144 **	0.254 **	0.176 **		
18 Director ownership	2.217	7.709	-0.083 ***	-0.166 ***	-0.016	-0.021	-0.047 *	0.090 **	-0.077 **	-0.148 **		
			9	10	11	12	13	14	15	16	17	18
1 Ratio of non-executive Lawyer directors												
2 Ratio BG directors												
3 Offshore FMNE												
4 Shareholder value, Normalized												
5 Europe Colony												
6 Institutional quality, Normalized												
7 Log (board size)												
8 Ratio Ind. Nonexecutives												
9 CEO = Chairperson	1.000											
10 Ethnic diversity index	0.132 ***	1.000										
11 Log (gross revenues, US\$)	-0.166 ***	-0.096 ***	1.000									
12 ROA	-0.036	-0.056 **	0.035	1.000								
13 Log (Firm age)	-0.088 **	-0.067 **	0.382 **	0.065 **	1.000							
14 Preferred shares/Total assets	0.024	0.069 ***	0.063 **	0.006	-0.051 *	1.000						
15 Retained earnings/Sales	0.074 **	0.017	-0.285 **	0.006	-0.056 *	-0.039†	1.000					
16 VC ownership	-0.043 *	-0.042†	-0.066 **	0.012	0.025	-0.070 **	-0.052	1.000				
17 Corporate block ownership	-0.045 *	0.001	0.035	0.009	0.079 **	-0.060 **	-0.023	0.113	1.000			
18 Director ownership	0.053 **	-0.106 ***	-0.071 **	0.010	0.017	-0.011	-0.023	0.014	-0.065 **	1.000		

Table outlining Pearson correlations between all variables as well as individual variables means and standard deviations

†p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.005

6. Empirical results

6.1. Descriptive statistics and correlations

Caribbean listed firms' boards of directors have on average nine members with a standard deviation of almost three members, indicating variation from very large BGs and firms with equally big boards of 12 members to much smaller, predominantly entrepreneurial, ventures of six directors (see Table 1). On average, they are comprised of almost 9 % lawyers and almost 40 % BG representatives, while approximately 20 % of their members are independent nonexecutives. One third of firms have the same person in both CEO and Chairperson roles. Boards are also ethnically homogeneous with members predominantly drawn from one of main ethnicities in the region. The average annual revenues of firms is US\$112.5 m while this is subject to fairly huge dispersion of just over US \$ 200 m reflecting the diversity within the sample. Firm performance is low at - 8.01 % which is a reflection of moribund industries arising from natural monopolies due to the relative isolation of island economies, though this is subject to a huge standard deviation of 520 % reflecting the diversity of the sample. Finally, 27 % of all listed firms across the region are constituent to offshore FMNEs, while almost 10 % of firms are listed in European colonial jurisdictions of Bermuda and

Cayman Islands.

In terms of correlations, and the evidence from Table 1 reveals these are minimal between variables while a majority are statistically significant ($p \leq 0.01$) which mitigates concerns over potential collinearity. Moreover, inspection of VIFs (being under 2.5) prior to empirical modeling in all models further mitigates concerns over potential structural collinearity within sample.

6.2. Multivariate results

The empirical evidence regarding the statistical support for our hypothesis testing is displayed in Table 2. There is a large, positive and statistically significant coefficient of association (0.040, $p \leq 0.005$) between the ratio of BG directors on board of directors and the dependent variable, namely the proportion of non-executive lawyer directors evident in model 1. This implies strong statistical support for the maintenance of Hypothesis 1. These results have economic significance too, where a one percentage point change in the ratio of BG directors to board size leads first to a 4% increase in ratio of lawyers serving as non-executive directors on the board.

Next, the study considers moderation first by the focal firm's adoption of shareholder value corporate governance and then second by the

Table 2
Determinants of ratio of lawyers as directors ^{a, b}.

	Dependent variable: Ratio of non-executive Lawyer directors to board size			
	Main effect	Moderated effect	Moderated effect	Moderated effect
Intercept	0.045 [0.04]	0.048 [0.04]	0.028 [0.04]	0.018 [0.04]
Explanatory variables				
Ratio BG directors	0.040 [0.01]* **	0.039 [0.01]* **	0.027 [0.01]* **	0.027 [0.01]* **
Ratio BG directors *Shareholder rights index	--	0.019 [0.01]* *	--	0.039 [0.01]* **
Ratio BG directors *Offshore FMNE	--	--	0.059 [0.02]* **	0.064 [0.02]* **
Ratio BG directors *Shareholder rights index *Offshore FMNE	--	--	--	-0.037 [0.01]* **
Offshore FMNE	-0.058 [0.01]* **	-0.061 [0.01]* **	-0.086 [0.01]* **	-0.089 [0.01]* **
Shareholder rights index	0.009 [0.00]*	0.001 [0.01]	0.008 [0.00]*	0.001 [0.01]
Institutional controls				
European colony	0.014 [0.01]†	0.022 [0.01]†	0.011 [0.01]†	0.015 [0.01]†
Institutional quality	-0.030 [0.01]* **	-0.031 [0.01]* **	-0.029 [0.01]* **	-0.027 [0.01]* **
Board controls				
Log (Board size)	-0.011 [0.01]	-0.011 [0.01]	-0.008 [0.01]	-0.005 [0.01]
Ratio Ind. Nonexecutives	-0.014 [0.02]	-0.013 [0.02]	-0.006 [0.02]	-0.003 [0.02]
CEO = Chairperson	0.035 [0.01]* **	0.032 [0.01]* **	0.036 [0.01]* **	0.035 [0.01]* **
Ethnic diversity index	-0.067 [0.02]* **	-0.071 [0.02]* **	-0.064 [0.02]* **	-0.073 [0.02]* **
Firm controls				
Log (gross revenues, US\$)	0.010 [0.00]* **	0.010 [0.00]* **	0.011 [0.00]* **	0.011 [0.00]* **
ROA	0.001 [0.00]* **	0.001 [0.00]* **	0.001 [0.00]* **	0.001 [0.00]* **
Log (Firm age)	-0.009 [0.00]* **	-0.010 [0.00]* **	-0.009 [0.00]* **	-0.008 [0.00]* **
Capital controls				
Preferred shares/ Total assets	-0.052 [0.04]†	-0.059 [0.04]†	-0.050 [0.04]†	-0.048 [0.04]†
Retained earnings/Sales	-0.001 [0.00]†	-0.001 [0.00]*	-0.001 [0.00]*	-0.001 [0.00]*
Ownership control				
VC ownership	-0.001 [0.00]	-0.001 [0.00]	-0.001 [0.00]	-0.001 [0.00]
Corporate block ownership	0.001 [0.00]*	0.001 [0.00]* *	0.001 [0.00]* **	0.001 [0.00]* **
Director ownership	-0.001 [0.00]*	-0.001 [0.00]*	-0.001 [0.00]*	-0.001 [0.00]*
No. obs.	1699	1699	1699	1699
F-statistic [prob.]	28.11 [0.00]	27.92 [0.00]	28.44 [0.00]	27.24 [0.00]
Root MSE	0.1055	0.10535	0.10525	0.10477
Adjusted R ²	0.1785	0.1813	0.1830	0.1914

Notes: Pooled OLS regression (cross section, by firms) with robust errors; Unbalanced panel comprising No. Firms [No. Years] is 171 [17]; ^a Time (year) binary fixed effects included in all cases; ^b Industry binary fixed effect controls included in all cases; Offshore financial services defined as combination of banking, insurance and diversified financial sectors; †p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.005

binary condition whether the firm is a constituent of an offshore FMNE. The evidence relating to the first moderating condition is displayed in model 2. The coefficient on the main effect between ratio of BG board representation and ratio of lawyer directors on board is large, positive and highly statistically significant (0.039, $p \leq 0.005$). This is accompanied by an interactive coefficient which is almost half in absolute size, positive and only marginally statistically significant (0.019, $p \leq 0.01$). This implies statistical support for the maintenance of Hypothesis 2. The economic significance of this result is highlighted in the context of firm's higher, as opposed to lower, adoption of shareholder rights governance with a one percentage change in ratio of BG directors causing an aggregate 5.8% increase in ratio of lawyer directors on the board.

The evidence relating to the first moderating condition is displayed in model 3. Consistent with the previous main effects, the coefficient between the ratio of BG board representation and ratio of lawyer directors on board is large, positive and highly statistically significant (0.027, $p \leq 0.005$). This is accompanied by an interactive coefficient which more than double the absolute size of the main effect, positive and highly statistically significant (0.059, $p \leq 0.005$). This implies statistical support for the maintenance of Hypothesis 3. In terms of economic significance and this result emphasizes in the context of firm's being an FMNE, in contrast to their non-FMNE counterparts, a one percentage point increase in the ratio of BG directors causes an 8.6% increase in the ratio of lawyers serving as directors on the board.

Next, a novel double moderation (in model 4) is considered in terms of by both the focal firm's adoption of shareholder value corporate governance and the binary condition of whether the firm is a constituent of an offshore FMNE. This provides a means to distinguish between the changing impact of a firm's shareholder rights governance adoption on a BG's influence over the firm's hiring of lawyers to their boards – where this is in itself contingent on whether the firm belongs to the offshore financial FMNE industry or not. The main effect between the dependent variable and the ratio of BG directors (0.027, $p \leq 0.005$), as well as its additional interaction, first, with the firm's adoption of shareholder value corporate governance (0.039, $p \leq 0.005$) and then with the binary condition of the firm being an offshore FMNE (0.064, $p \leq 0.005$), are all large, positive, and highly statistically significant, corroborating the preceding evidence from models 1–3. Importantly, this evidence mitigates concerns over potential collinearity. However, the fourth and final double interaction effect is large, negative, and highly statistically significant (−0.037, $p \leq 0.005$), which statistically supports the maintenance of Hypothesis 4.

The associations between each of the control variables and the dependent variable are consistent in size, direction, and statistical significance across all four models. In terms of institutional controls, higher proportions of lawyers serving as directors are, on the one hand, associated with the firm being located in a European colonial jurisdiction, while on the other with firms located in jurisdictions defined by lower-quality formal institutional architecture and deficiencies in the support and protections afforded to external, third-party contracting. In terms of board controls, higher proportions of lawyer directors are associated with smaller boards of directors, an increased likelihood of CEO-Chairperson duality, and increased ethnic homogeneity amongst the firm's upper echelon. In terms of firm controls, higher numbers of lawyer-nonexecutive directors are associated with larger firms with more complex revenue streams and managerial task environments, elevated performance, and that are younger in age. In terms of capital controls, the dependent variable is associated, albeit weakly significantly, with lower proportions of retained earnings relative to gross

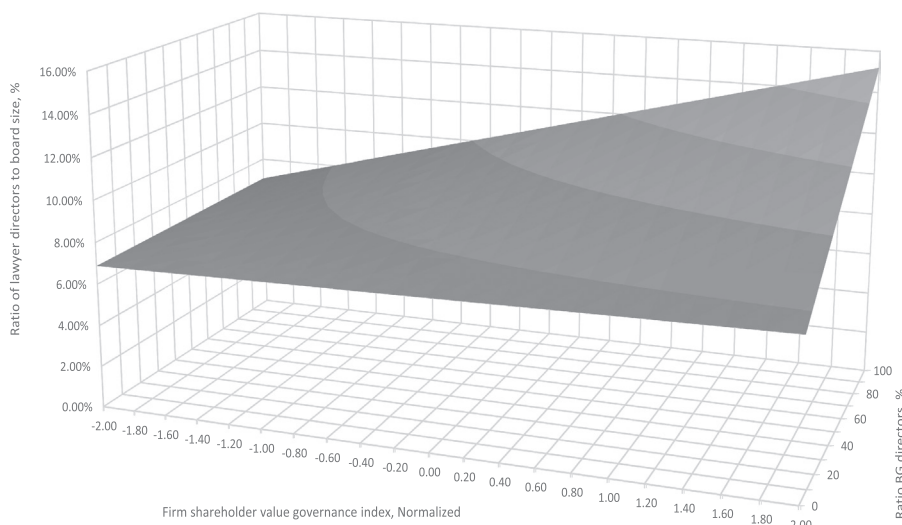


Fig. 6. Moderation by firm’s adoption of shareholder value corporate governance.

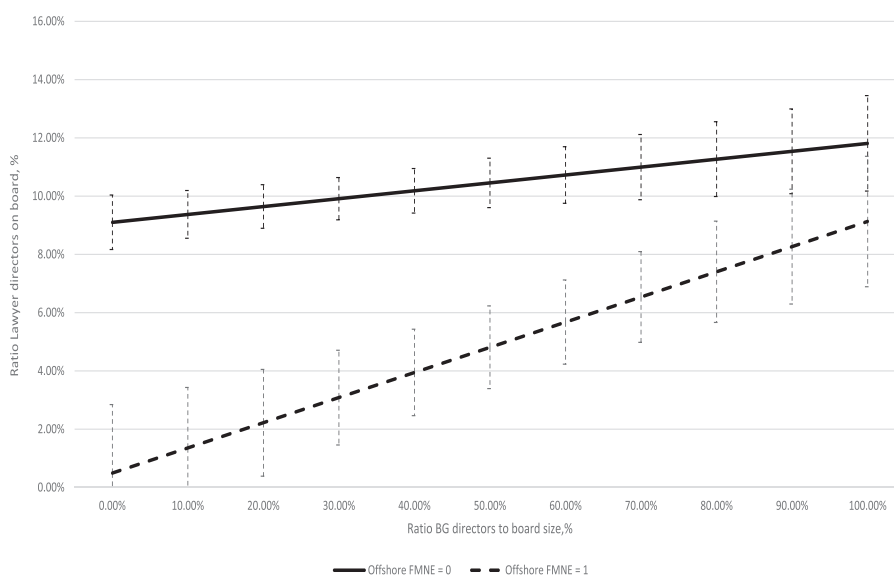


Fig. 7. Moderation by Offshore financial FMNE. Note: Error bars are based on standard error at $p \leq 0.05$ confidence margin.

sales, i.e., less dependence on internal financing from retained earnings. Finally, in terms of ownership controls, higher proportions of lawyer-directors are associated with marginally lower levels of VC ownership yet markedly higher corporate block ownership.

Analysis of the diagnostic statistics for each of the four models reveals a distinct trend. There is a progressive incremental increase in F-statistics and adjusted R^2 explanatory power, and a corresponding incremental decrease in root mean square error (Root MSE) when moving from model 1 through models 2 and 3 to model 4. This indicates that the model with moderation by the offshore FMNE factor as well as the double moderation model are the statistically strongest models of the four. This is exemplified by the adjusted R^2 increasing by 1.21% between the main effect in model 1 and the double interaction in model 4.

As a supplementary exercise, using the estimated model parameters, we input a range of values for the ratio of BG directors on the board, firstly to account for a range of index values of firm adoption of shareholder rights governance and secondly to account for the binary change in whether the focal firm is (is not) a constituent of an offshore FMNE. The former results in a three-dimensional probability surface, while the latter results in a two-dimensional interaction plot of the estimated

proportions of lawyer-directors on the board.

Moderation by firm shareholder rights governance results in a three-dimensional probability surface, as displayed in Fig. 6. While there is a negligible impact on the proportion of lawyer-directors from increasing the ratio of BG directors at very low levels of shareholder value governance adoption, this reverses at progressively higher levels. Here, increasing the ratio of BG directors leads to significant subsequent increases in the proportion of lawyer-directors serving on the board. Overall, this highlights the importance of lawyer-nonexecutive directors in conjunction with elevated BG control over firms, with this merely increasing at higher levels of firm adoption of shareholder value corporate governance, associated with external contracting for resources.

The two-dimensional interaction plot shown in Fig. 7 reveals that, as the ratio of BG directors progressively increases, there is a markedly higher or steeper increase in the proportion of lawyers hired to the board in offshore FMNEs (the solid, lower line) as compared to in their non-offshore-FMNE (the dotted, upper line) counterparts. Evidence from the error bars reveals that, under a ratio of BG directors of approximately 10%, the moderation lacks statistical significance (shown by the

lower error bar being below zero). At all other levels, the lowest error bars remain above zero. This evidence highlights the additional importance of lawyer-nonexecutive directors in offshore FMNEs over and above that in their non-offshore-FMNE counterparts.

6.3. Robustness

Four additional robustness checks were undertaken, the findings of which are not reported for brevity reasons but are available from the authors upon request. The empirical findings substantiate our earlier statistical support for our four hypotheses.

The first robustness check involved re-estimating all models, utilizing a variation in the dependent variable, notably the ratio of specifically nonexecutive directors who are lawyers. This omitted from consideration the executive directors who were lawyers. This was motivated by [Agrawal and Knoeber \(2001\)](#), in terms of the strategic co-opting of contingencies relating to governmental bureaucracy through the hiring of lawyer-nonexecutives. The empirical evidence supports our main analysis undertaken using the ratio of non-executive lawyer-directors, although, notably, there is weaker evidence in relation to moderation by shareholder value corporate governance. This study argues this is indicative of a more powerful gatekeeper role inherent to executive directors who are lawyers, which is somewhat lacking in their nonexecutive counterparts, who are recruited largely to co-opt offshore bureaucratic tax-related legislative contingencies. As such, this study argues a subtle difference in emphasis between the roles of nonexecutive and executive directors who are lawyers – though the strength of this assertion is blurred by a combination of small sample size and the frequent mixing of unitary and dual-tier board structures which somewhat blurs the distinctions between director roles in practice.

The second robustness test is in replacing the ratio of BG directors by BG ownership. These findings weakly corroborate our main evidence with this meager support being a reflection of an often-considerable gap between cash flow ownership and control across the region. This in itself is an outcome from overwhelming family dominance of local economies accompanied by indigenization policies.

As our third robustness test, this study addressed endogeneity concerns. Unfortunately, this study lacked appropriate potential instrument variables that precludes the application of methods such as two-stage least squares. Moreover, the minimal time series variation in many of the corporate governance variables reduces the efficacy of applying lagged regressions or models based on change, or first differences in variables between periods as are used in [Krishnan et al. \(2011\)](#). Our focus in addressing endogeneity is on potential reverse causality between the dependent variable, the proportion of lawyer-directors on board, and our main independent variable, the ratio of BG directors. Consequently, a modification of the reverse causality procedures in [Heflin & Shaw \(2000\)](#) which involve two distinct steps was adopted. The initial step took ratio BG directors as the dependent variable, while the ratio of lawyer-directors was moved from a dependent to an explanatory variable. The residuals from this first-step model were then inserted into a final model as explanatory variables, with the ratio of non-executive lawyer-directors being the dependent variable. The results consistently found show the coefficient associated with the residuals consistently lacked statistical significance, underpinning a general lack of endogeneity. Additionally, this study repeated this two-step scheme using the ratio of lawyer-nonexecutive directors which ultimately led to similar results – further underpinning a lack of endogeneity.

Our fourth and final robustness test consisted of splitting the sample into pre- and post-2008 segments, reflecting the before and after periods

surrounding the 2008 global financial crisis. Notably the pre-2008 subsample was one third the size (in firm-year observations) of its post-2008 counterpart. Generally, the results were consistent with our main aggregate models, although statistical significance in the pre-2008 sample was visibly lower.

7. Discussion

This study undertakes a unique exploration of the determinants of board composition and BGs' involvement in the offshore financing industry of FMNEs. The study contributes to the perspective advanced by [Aguilera et al. \(2019\)](#) that corporate governance is a precursor for firms to establish their strategic orientation. This study argues there is a multi-dimensional role for firms' boards of directors, reflected in the need to accommodate resource dependencies from the BG network while acquiring offshore jurisdictional competencies which form the basis of FMNEs' competitive positioning through the strategic hiring of non-executive lawyer-directors. Moreover, the study further extends these insights in considering the moderating influence of firms' adoption of shareholder value corporate governance, which promotes third-party contracting in the external acquisition of resources.

The findings have important implications. First, the study elaborates on a novel finance-based perspective of the extended framework of BGs (e.g., [Morck et al., 2005](#); [Masulis et al., 2011](#)) and how intra-group financial strategies utilize the jurisdictional idiosyncrasies of the institutional contexts within which each constituent is embedded. While there are disproportionate benefits from belonging to the group for individual firms, in terms of benefitting from large economies of scale and scope in resource provision, vis-à-vis the prohibitively high costs of resource provision at an individual firm level within each island, there are additional strategic benefits arising from the group structure. This study's findings emphasize the complementarity between the need for accentuated control over group-constituent firms and the rival need for co-opting offshore regulatory competencies. The former is in accordance with their relative importance within intra-group financial strategies, while the latter enhances the capabilities of the network itself in financial engineering strategies that minimize tax liabilities.

Second, this study highlights the internationalization of family-controlled firms and BGs, with family control overwhelmingly dominant across the Caribbean. BGs are faced with balancing the socio-emotional wealth considerations of the controlling owner, typically a family, which emphasize localization ([Bird & Wennberg, 2014](#); [Gomez-Mejía, Makri, & Kintana, 2010](#)), against the need for competitive efficiencies that drive expansion overseas ([Arregle, Duran, Hitt, & van Essen, 2017](#)). This study's resource dependence theoretical approach views the firms' boards of directors as accommodating the need for maintained socio-emotional wealth and associated BG control on the one hand, with the need to gain competitive advantage through co-opting offshore jurisdictional competencies by hiring non-executive lawyer-directors on the other.

Third, the findings reveal a transition in the role of non-executive lawyer-directors from one of gatekeeper in the case of the firm adopting shareholder value governance, which implies a cession of control to outside minority stakeholders by insiders, to an emphasis on transaction engineer in the case of FMNEs. These findings are important in revealing consistent support for the hiring of non-executive lawyer-directors to the board, given contingencies related to both external contracting and relational contracting. Moreover, the novel double moderation by shareholder value adoption and being a constituent of an FMNE confirms the importance of opacity as a hallmark of the FMNE industry,

with this implying that FMNEs adopting shareholder value governance need fewer non-executive lawyer-directors. These findings reveal an as yet unstudied niche industry and source of outward FMNE activity which, by its very nature, is centered on secrecy – in part a reflection of the offshore jurisdiction from which it originates – and also a need to conform to the expectations of and attain legitimacy from clients in target markets.

In terms of practitioner implications, we reaffirm anecdotal evidence of the profound importance of non-executive lawyers within offshore economies, with the recruitment of these onto boards of directors facilitating firms’ exploitation of tax management strategies. In interviews during fieldwork in Bermuda, one senior compliance director commented “...the hiring of lawyers on to boards of directors means the firm benefits from getting up to several million dollars’ worth of legal advice in a given year rather than having to seek this externally”. It also shed light on a multi-billion-dollar niche industry of offshore financial FMNEs which export unique offshore competencies as a competitive advantage against onshore counterparts in target markets, with these typically being major developed international financial centers. Lawyers are critical to the dynamic competitive advantage of these distinctive FMNE firms.

In terms of limitations and the first is that the sample consists of listed firms across the mostly English-speaking Caribbean, where this excludes unlisted entities that are more commonly used in opaque offshore organizations. The second is that it would be useful to widen the study to encompass the non-Anglophone Caribbean, including Franco-ophone, Hispanic, and Dutch-speaking countries, and also much more broadly to offshore tax jurisdictions worldwide. However, a major constraint in both cases is severe difficulty of obtaining data, itself a function of the secrecy and asset protections we are studying here.

8. Conclusion

This study explores the extent of BG control of the board composition of constituent offshore FMNEs. It provides an overview of some of the limitations in the adoption of shareholder-welfare-enhancing governance within offshore tax havens. Furthermore, the study provides deeper insights into the extended role of family institutions within offshore island economies. Finally, this study contributes to the nascent literature on the governance attributes of the newly evolved industry of offshore FMNEs.

Data availability

Data will be made available on request.

Appendix

See Tables A1 and A2.

Table A1
Data sources.

Market	Information source
Caribbean	Databases: Bloomberg LLP; Thomson Perfect Information portal & Datastream
Bermuda	Bermuda stock exchange library, Hamilton, Bermuda and website: http://www.bsx.com /Hamilton-based interviews (11/2016 & 05/2019); Bermuda stock exchange: James S. McKirdy (Chief Compliance Officer) Bermuda Monetary Authority (BMA): Tessa Ingham (Analyst) Bermuda Chamber of Commerce: Kendaree Burgess (Executive Director) Bermuda Government: Victoria Taylor, Executive Officer Listed firm: Ozics Holdings Ltd (Auvo Kaikkonen, CEO); Cohort

Table A1 (continued)

Market	Information source
Barbados	Ltd (Tracey Packwood); Bermuda Commercial Bank Ltd (Charlene Gilbert) Barbados stock exchange, Bridgetown, Barbados and websites: http://www.bse.com.bb /Bridgetown-based interviews (07/2011 and 11/2016); Barbados exchange: Marlon E. Yarde (GM); Barry Blenham (Operations); Donna Hope (Operations Manager) Central Bank of Barbados: Financial Division
Bahamas	Bahamas stock exchange, Nassau, The Bahamas and websites: http://bisxbahamas.com /Nassau-based interviews (05/2019); Bahamas international securities exchange [BISX]: Keith Davies (CEO); Holland Grant (COO) Chamber of Commerce: Jeffrey N. Beckles (CEO) Securities Exchange Commission of the Bahamas (Senior Analysts) Bahamas Venture Capital Fund c/o Baker Tilly Managers: Joan Octaviano (Head of Audit) Bahamas Development Bank: Director (Mme Pelicanos) University of the Bahamas graduate school of business: Remelda Moxley (Dean)
Cayman Islands	Listed firm: Bank of Bahamas (Leashawn McPhee); Emera (Dina Bartolacci Seely); Commonwealth Bank (Gina Greene); ICBL (Jennifer Clarke); Doctors Hospital (Joanne Lowe) CISX, Cayman Islands exchange, Georgetown, Grand Cayman and websites: http://www.csx.ky Georgetown, Grand Cayman-based interviews (05/2019); Cayman Islands exchange: Sandy McFarlane (Operations Manageress) Cayman Islands Development Bank: Tracy Ebanks (General Manager/CEO) Cayman National Securities: Erol Babayigit (Vice President)
Jamaica	JSE, Jamaican stock exchange, Kingston, Jamaica and website: https://www.jamstockex.com /Kingston-based interviews (07/2016); Jamaican stock exchange: Marlene J. Street Forrest (General Manager); Sandra Shirley (Principal e-campus); Charlette Eddie-Nugent (Listings Manager); Neville R. Ellis (Operations Manager) JSE electronic media marketing event (07/2016): Spanish Court Hotel Annex, Kingston, Jamaica Bank of Jamaica: Financial services division interviews
Eastern Caribbean	ECSE, Basseterre, St Kitts & Nevis and website: http://www.ecseonline.com /Basseterre-based interviews (11/2011); Eastern Caribbean stock exchange: Trevor E. Blake (GM); Sherizan Mills (Operations Officer) Eastern Caribbean Central Bank visit (11/2011) Telephone-based interviews (06/2016–08/2016); Eastern Caribbean stock exchange: Trevor E. Blake (GM); Sherizan Mills (Operations Officer) Nevis, Charlestown-based interviews (11/2011); Financial district in Charlestown, Nevis; St Lucia-based interviews (11/2011): Financial district, Castries, St Lucia
Guyana	GASCI, Guyana Securities Council, Georgetown and website: http://www.gasci.com /Telephone-based interviews (08/2015–01/2017); Cheryl Ibbott (CEO, Guyana Securities Council c/o Bank of Guyana); Vick (Compliance Officer, Guyana Securities Council)
Trinidad & Tobago	TTSE, Trinidad & Tobago stock exchange, Port of Spain and website: http://ttsec.org.tt /Trinidad, Port of Spain based procurement (06/2016–07/2016); Trinidad, Ministry of Finance: Melissa Mattoo and Christine Frank (Communications Officers) Trinidad, Central Bank of Trinidad & Tobago: Candice Dilbar (Research Economist) Trinidad, Listed firm: National Enterprises Limited (Keisha Armstrong, Head of Secretariat) Tobago: Scarborough and Canaan-based interviews in financial district (06/2016–07/2016)

Table documenting a non-exhaustive representation of data and information sources from across Caribbean region

Table A2
Firm shareholder rights index.

Index elements	Mean	Std. dev.
A.1 Does the company offer other ownership rights beyond voting? %	18.99 ***	39.24
(i) Preference shares%	11.36 ***	31.74
(ii) Convertible Bond/Shares & Options%	1.34 ***	11.53
(iii) Multiple share classes%	10.52 ***	30.69
A.2 Is the decision on the remuneration of board members or executives approved by the shareholders annually? %	68.42 ***	46.49
A.3 How is the remuneration of the board presented? %	81.90 ***	38.51
(i) Are individual directors base cash salaries disclosed? %	7.57 ***	26.47
(ii) Are individual directors' bonuses disclosed? %	1.34 ***	11.53
(iii) Are individual directors' long-term incentives (options, pension etc.) disclosed? %	4.11 ***	19.86
(iv) Are benefits paid to directors? %	7.70 ***	26.67
(v) Are benefits enumerated/ evaluated? %	6.87 ***	25.30
(vi) Is salary aggregated into one lump sum paid? %	81.70 ***	38.67
(vii) Is director fees aggregated into lump sum emolument? %	81.57 ***	38.77
A.4 Quality of Notice to call a Shareholders Meeting in the past one year. %	63.68 ***	48.10
(i) Appointment of directors, providing their names and background %	66.49 ***	47.21
(ii) Appointment of auditors, providing their names and fees. %	62.96 ***	48.30
(iii) Dividend policy, providing the amount and explanation. %	57.25 ***	49.48
A.5 Did the Chairman of the Board attend at least 1 AGM in the past 2 years? %	52.92 ***	50.41
A.6 (i) Did the CEO/Managing Director attend at least 1 AGM in past 2 years?	51.80 ***	49.98
Board effective monitoring %	24.72 ***	40.19
(i) Is a name list of board attendance available? %	28.94 ***	45.36
(ii) How many directors did not attend 100% meetings? #	3.13 ***	2.95
(iii) How many directors did not attend 70% of meetings? #	1.15 ***	1.44
A.7 Do AGM minutes record that there was an opportunity for shareholders to ask questions/raise issues in the past one year? %	11.04 ***	31.34
A.8 Does the company have anti-takeover defences? %	87.61 ***	32.95
(i) Cross shareholding %	78.75 ***	40.91
(ii) Pyramid holding %	79.26 ***	40.55
(iii) Board members hold more than 25% of share outstanding %	21.63 ***	41.18
A.9 Company dual listed? %	8.92 ***	28.51
(i) Company dual listed on OECD stock exchange %	1.47 ***	12.06
(ii) Controlling parent listed on OECD stock exchange %	16.30 ***	36.95
E.11 What is the size of the board? #	8.97 ***	2.51
Shareholder rights index:	39.75 ***	22.87

This table provides the definition of each of the governance elements within the OECD (2004) shareholder rights index. All are sourced from individual firm annual reports, and all are measured as binary effect Yes/No which is coded as 1/0. The only exceptions are elements A.7 (ii) and (iii) and E.11, where a count of the number of directors is undertaken. E.11 board size (#directors) is displayed for reference and is not included in the index. A single tailed t-test (difference from zero) statistic is reported alongside the average and standard deviation. †p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.005

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