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Private equity and entrepreneurial investments: understanding the determinants of founder-CEO succession in the Caribbean

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ABSTRACT

Our study develops a contextually embedded institution-theoretic model of the major influences precipitating entrepreneurial founders' leadership succession. Drawing on a unique sample of 184 listed firms from 10 national securities markets across the Caribbean region, we find that both business group (BG) and private equity (PE) ownership are associated with an increased likelihood of founder retention. The results also show that firms' adoption of shareholder value corporate governance negatively moderates the BG main effect, while positively moderating its PE counterpart. We argue that this is reflective of a simpler lifecycle in emerging economies centred on one major transition, namely the transition from internal to external resource provision.

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Founder succession; business groups; private equity; institutions; Caribbean; Latin America; Emerging Economies

1. Introduction

Our study focuses on the determinants of founders' succession from the chief executive officer (CEO) leadership role in firms within emerging and offshore economies. Prior studies on founder succession (e.g. Jain and Tabak 2008, Chahine, Filatotchev, and Zahra 2011; Wasserman 2003, 2017) are divided, with one strand emphasizing founders' hubris, overconfidence and reluctance to reform, which impedes the progress of their firms. However, a more recent strand (Hearn and Filatotchev 2019) emphasizes the maintained value of founders due to the contextual embeddedness of their human capital and personalized social networks, which provide critical resources for and ensure the survival of nascent entrepreneurial ventures. We contribute to this debate by asking whether there are differences between the influence of private equity (PE) and business groups (BGs), two prominent early-stage seed capital providers in emerging economies with varying degrees of contextual embeddedness, in precipitating founder-CEO succession.

Our approach develops a novel institutional perspective, which draws on Scott's (2007) three institutional dimensions to capture heterogeneity within and between national institutional frameworks, in conjunction with DiMaggio and Powell's (1983) isomorphic influences, eschewing conformity in corporate governance, emanating from BGs and PE. In this way, we build upon the seminal Minto-Coy, Lashley and Storey (2018) special issue on 'enterprise and entrepreneurship in the Caribbean region' in *Entrepreneurship & Regional Development* and, in particular, Williams and Ramdani's (2018) view of social networks being a source of context-specific value in emerging economies. Our theorization overcomes shortcomings in prior founder succession

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studies (e.g. Jain and Tabak 2008; Wasserman 2003, 2017), which largely centre on efficiency or agency perspectives, undertaken within the formal institutional sphere of large, developed economies, such as the US. Contrastingly, we undertake a fine-grained analysis of the contextual basis of the rival influence of BG and PE in precipitating founder-CEO succession and, in so doing, explicitly consider informal institutional frameworks in addition to their overstudied formal counterparts. Our novel institution-theoretic approach to founder-CEO succession is our first theoretical contribution.

Of critical importance is our premise that firm lifecycles (e.g. see Brav and Gompers 2003, Wasserman 2003) in emerging economies are profoundly different from those in large, developed economies, which are underpinned by third-party, external contracting. Consequently, rather than the lifecycle comprising a sequence of junctures, each of which is centred on a realignment of the firm's strategic objectives and orientation with externally orientated stakeholders (e.g. Wasserman 2003, 2017), we argue that this is subsumed within socialized networks and accompanying relational contracting. This leads to a single major corporate milestone in the trajectory of firms, denoted by their seeking external resource infusions for the first time, which is reflected in their adoption of shareholder value corporate governance. This form of corporate governance originates from the same institutional framework as international investment norms (e.g. Aguilera and Jackson 2003; Aguilera and Jackson 2010) and emphasizes minority stakeholder property rights vis-à-vis those of insiders. Our consideration of how firms' adoption of shareholder value corporate governance moderates the influence of PE and BGs on founder-CEO succession leads to our second theoretical contribution.

Our study draws on a unique sample of 184 listed firms from 10 national securities exchanges across the breadth of the Caribbean region, with annual observations from 2000 to 2017. We explore the likelihood of founders stepping down from the CEO role by applying probit modelling with the maximum likelihood estimation format, in line with Jain and Tabak (2008), as well as Hearn and Filatotchev (2019). The binary dependent variable is the likelihood of the founder being retained as CEO in the year of the annual report as opposed to being replaced by a non-founder. The independent variables are the ownership, first of BGs and then PE, plus controls. Our results show, while both BG and PE ownership increase the likelihood of founder succession, this is markedly more likely with PE than BG ownership – in line with Hearn and Filatotchev (2019). Furthermore, moderation by firms' adoption of shareholder value governance detracts from the main effect of ownership by BGs, while accentuating the effect of PE ownership. We make several contributions to the literature.

The first is to add to the nascent attempts by Hearn and Filatotchev (2019) to undertake cross-country comparative studies of entrepreneurship in terms of formal institutional architecture, while uncovering common themes from informal contexts, such as social networks and family (e.g. Tajeddin and Carney 2019; Masulis, Pham, and Zein 2011). These studies are essential in determining entrepreneurial outcomes, such as founder-CEO succession.

The second is in studying entrepreneurship outcomes focusing on formal sectors and accompanying economic opportunity-based entrepreneurship within an emerging economy context given such countries have attracted substantial attention regarding their often-burgeoning informal economies (e.g. Khavul, Bruton, and Wood 2009; Khayesi, George, and Antonakis 2014) associated with subsistence entrepreneurship. In this way, we contribute to recent elaboration on a broader definition of institutional voids (e.g. Webb, Khoury, and Hitt 2020) encompassing both formal and informal institutional frameworks.

The third is in advancing the notion that context matters in business research. As argued by Williams and Ramdani (2018) and Bruton, Zahra, and Cai (2018), this is so often overlooked, or at best only cursorily alluded to, in an overwhelming majority of studies focusing on developing theorization within large, developed economies. The severely understudied Caribbean is a significant omission, given the opportunity it affords to focus on the extensive variation between and within a plethora of island states in terms of institutional frameworks.

Our study proceeds as follows. In the next section, we outline the distinctive institutional framework prevalent in the Caribbean. Section 3 introduces our theory and hypotheses, before section 4 reveals our methodology, variable definitions and empirical model. Section 5 highlights our empirical results, while section 6 discusses them in relation to theoretical and practitioner implications. The final section concludes.

2. The uniqueness of the Caribbean business environment for entrepreneurship

Caribbean institutional frameworks share many similarities with emerging economies worldwide, although there are some important differences attributable to regional idiosyncrasies. These are reflected in visible heterogeneity in formal institutions across the region, accompanied by a dominance of powerful indigenous family interests and social networks within the informal spheres.

The single defining characteristic of the region's territories is their size, in terms of both geography and population (e.g. Hurley 2018). This has several profound implications regarding the evolution of institutional frameworks across the region, as well as in the prevalence of both formal and informal institutional voids. Generally, larger territories across the region have sovereign independence facilitated by their relatively large domestic economies, supporting economic self-determination and a politically active electorate (e.g. North 1991, 1994). These states, in common with all territories across the Caribbean, have immediate access to a colonial-era legacy of inherited political and governmental bureaucratic architecture, which at independence was typically archaic and unreformed (Hines 2010; Suss, Williams, and Mendis 2002). Often, independence merely resulted in the transition of demographically narrow polities (North 1991, 1994) based on imperial elites to those centred on their local indigenous counterparts. Attempts to initiate more socially inclusive and equitable institutional reform are impeded by the stymieing of political processes (North 1991, 1994), with this attributable to institutionalization rather than self-serving actions of the ruling elites.

The lack of effectiveness in structural institutional reform has led to significant voids in the formal architecture that would otherwise support impartial third-party, external contracting. This underscores a powerful argument regarding the importance of social networks in subsuming economic activity, with such networks alleviating adverse selection and moral hazard costs (Granovetter 1973). Mitigation of adverse selection occurs through social pre-screening using the network as an informational conduit, while moral hazard is minimized through the fear of social ostracism from the network itself in the event of unforeseen behavioural blemishes in the fulfilment of contractual terms (Granovetter 1973; Greif and Tabellini 2010). However, networks are acutely vulnerable to the warping of the otherwise ambivalent informal relational contracting (see Barnett, Yandle, and Naufal 2013) upon which they depend. This leads to favouritism and nepotism, which constitute powerful sources of institutionalized corruption, mirrored in informal institutional voids.

Contrastingly, smaller territories are subject to prohibitively high costs in the provision of public goods and services (e.g. Drinkwater, Lashley, and Robinson 2018), alongside an innate inability to indigenously reform and evolve their formal institutional frameworks. Their tiny electorates effectively impede the political process, which would otherwise stimulate reform (Hines 2010; Suss, Williams, and Mendis 2002). While such smallness constitutes a formidable formal institutional void, it also emphasizes the importance of powerful, local, extended, multi-branch families whose influence transcends nascent public-private sector boundaries as a means of 'bridging' these voids. Moreover, these families subsume island societies under their control and influence, with indigenous economies being collusive in nature and wholly based on interactions between oligarchic local families. These traits lead to a number of implications.

The first arises from smaller territories retaining colonial status or adopting restrictive macroeconomic arrangements, such as fixed currency exchange rate regimes with major trading partners such as the US (Hearn et al. 2022), which affords uninhibited access to high-quality European formal institutional architecture. Hegemonic familial control over local island authorities, accompanied by

their relative remoteness, underscores their considerable autonomous control over the selective transplantation of formal institutional architecture from the European metropoles and the US. This has led to a unique niche competitive advantage based on offshore jurisdictional capability (Fichtner 2016; Cobb 2001), which has, in turn, propelled the wealth of the smaller territories. This is derived from the raft of fixed fees levied at international corporations (Hearn et al. 2022) seeking to establish subsidiaries in order to exploit financial engineering strategies associated with reduced revenue-based taxes and opacity. In turn, the accumulation of such wealth has further accentuated the dominance of powerful family interests within the smaller territories. Moreover, this perpetuates families' collusive, oligarchic control (e.g. Fogel 2006) over resources within the island economies.

The second is that such hegemonic familial domination reflects a marked extension of the notion of network economies in larger developing countries, given the subsuming of the networks themselves under the fold of a handful of families. Personal affiliation with the families is essential for the procurement of resources for firms, while the families themselves constitute a handful of overarching BGs, which perpetuate their deeper socio-emotional attachments to the islands themselves. Here, conceptually, we define a BG as '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' (Khanna and Rivkin 2001, 47). Therefore, such familial domination, like its reflection in the overarching BGs, is a durable, beneficial means to enhancing the island societies' economic survival. This is especially important for resilience following the otherwise catastrophic annual hurricanes and disruptive seismic events that beleaguer the region.

Seminal work by Dana (1987, Dana 1990) highlights the differences in bureaucratic state architecture and interventionalist policy within indigenous economies, both within the Caribbean, and within individual island territories themselves. Dana's seminal work focused on the contrasts in formal institutional architecture associated with both substantial differences in cumbersome bureaucratic regulations hindering entrepreneurship (such as the legal and regulative measures necessary to start/close a business) and levels of a state interventionalist approach in the indigenous economy. Much of this heterogeneity originates from profound differences in heritage and levels of reform of the formal institutional architecture – exemplified by St Lucia and Haiti both being based on unreformed, cumbersome, Napoleonic French civil code law, in contrast to Surinam's adherence to relatively modern Dutch civil code law and Guyana's hybrid Roman-Dutch[1] – English common law system.

Further evidence of the profound importance of the role of the state regulatory environment in influencing indigenous perceptions of the legitimacy of entrepreneurship, as well as the entrepreneurial ecosystem frameworks essential to the nurturing of entrepreneurial activity, is provided by Felzensztein and Gimmon (2021) for the specific case of Cuba. Here, the hegemonic state control over political institutions effectively curtails any potential expansion of subsistence entrepreneurial activity, while inhibiting opportunity-based entrepreneurship, which is the type more prevalent in Western economies, by comparison. These inhibitions range from prohibition of the upscaling of entrepreneurial ventures, to avoid potential competition with state sectors, to a wholesale lack of political support for marketing, advertising and, more generally, third-party contracting – essential for the intermediation of resources. Gimmon and Felzensztein (2021) argue that entrepreneurial families are highly effective at pooling social and relational capital vested in extensive informal networks, thereby providing a socially legitimate means of overcoming institutional voids. Moreover, they emphasize the social welfare aspects of familial involvement in entrepreneurial firms. While both studies focused on an emerging economy in transition, at the same time, they highlight the profound importance and limitations of the familial involvement in entrepreneurial ventures that is ubiquitous across the wider Caribbean region.

In summary, there is considerable institutional heterogeneity across the Caribbean region, while this is accompanied by a dominance of networks, centred on family affiliation in very small island territories. These factors are reflected in visible distortions in wealth and the emergence and perpetuation of informal economies rivalling their formal counterparts. These informal economies

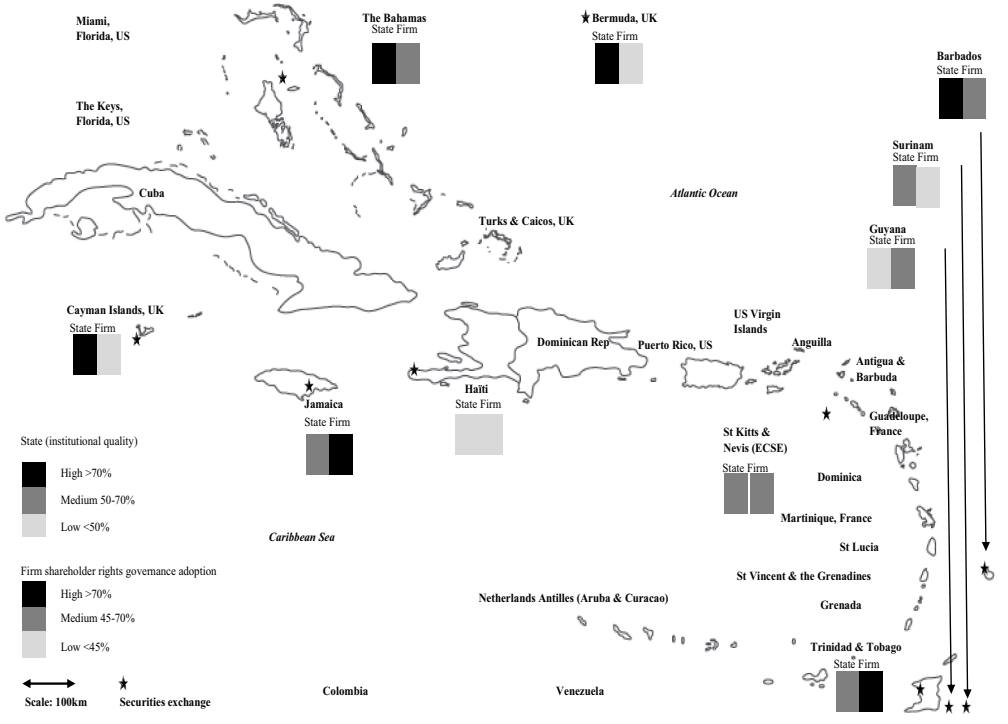

Figure 1. Caribbean sample institutional frameworks. Map of national securities exchanges across Caribbean region alongside average state institutional quality and then average firm adoption of shareholder rights corporate governance

are often visibly teeming with activity, while being entirely unregulated, untaxed, and out of reach of state institutions (Schneider 2005). Here, entrepreneurship is almost entirely subsistence-based, rather than driven by economic opportunity as in the often relatively small formal sector, which forms the basis of our theorization and study.

Some observations regarding the Caribbean region are visibly apparent from Figure 1. The first is a seemingly counter-intuitive correlation between higher formal institutional quality and lower average firm adoption of shareholder rights corporate governance. This is reflective of the subsuming of high formal institutional quality regimes by locally powerful informal actors, such as families and related networks, which also underpins the offshore jurisdictional capabilities of these territories. A second visible trait of the region is its sheer size and the relative geographic isolation of a plethora of islands and archipelagos, which are dispersed in an arc from the North-Western tip of South America across to Florida, US.

3. Theoretical framing

Our starting point is to apply Scott's (2007) three representative pillars of national institutional frameworks, namely regulative, normative and cognitive, to underscore organizational legitimacy claims. We then focus on the isomorphic influence (DiMaggio and Powell 1983) of BGs and PE on firms, in precipitating founder-CEO succession to achieve greater alignment and legitimacy with environmental and stakeholder constituencies.

The regulative pillar mirrors formal institutions inasmuch that it concerns the influence of formalized state architecture, industrial standards and the like in establishing the 'rules of the game' (North 1990). This comprises elements such as copyright laws, patents for new innovations, bankruptcy codes and formalized measures such as the preparation of financial statements and

adoption of corporate governance to which entrepreneurial founders and their firms must conform, or face formal sanctions. A significant shortcoming in prior literature on founder leadership succession (e.g. Wasserman 2003, 2017; Jain and Tabak 2008) is that it exclusively focuses on this regulative institutional domain and within large, developed economies, such as the US. Importantly, in such contexts, the regulative pillar enshrines external contracting and is accompanied by a congruent, supportive, informal socio-cultural framework.

Prior founder-CEO succession studies emphasize that milestones in firms' corporate lifecycles are junctures facilitating greater reorientation of the firms' strategy and governance towards external stakeholder interests. This is exemplified by initial product launches being associated with increased reorientation towards outside investors, stakeholders or PE investors through tranches or staged-financing rounds (Wasserman 2017). Similarly, the liquidation of PE holdings is associated with an elevated reorientation towards outside minorities or institutional investors who replace them (Wasserman 2017). This is also true in initial public offerings, namely firms' debuts on organized securities exchanges. Founder succession denotes the transition of the firm away from an entrepreneurial phase, with its governance and strategy almost wholly dominated by the founder's charisma and personal connections, to more professionalized management leadership. This facilitates the firm's organizational realignment and conformity with a wide range of external stakeholder constituencies, including those from capital markets, and labour and industry associations.

The normative and cognitive pillars collectively fall under the notion of informal institutions. Both pillars evolve over many generations and result in perceptions of an objective framework which both enables and constrains an organization's or individuals' actions, strategic orientation and governance. Normative systems comprise frames or models of socially appropriate interaction based on values (what is preferred or considered proper) and norms (how things are to be done, consistent with those values) that further establish consciously followed ground rules to which people conform (Scott 2007). The normative pillar centres on the social obligation to comply, which is rooted in social necessity (March and Olsen 1989), with the institutionalized prescriptions of a particular model or frame.

The cognitive pillar originates from deeper cultural, linguistic and religious institutions within the social fabric of societies. It is based on subjectively socially constructed rules and meanings inherent in taken-for-granted notions and preconscious behaviours individuals scarcely think about (DiMaggio and Powell 1991; Meyer and Rowan 1991). As argued by Bruton, Ahlstrom and Li (2010, 423) ' . . . *this pillar is increasingly important to entrepreneurship research in terms of how societies accept entrepreneurs, inculcate values, and even create a cultural milieu, whereby entrepreneurship is accepted and encouraged*.' Importantly, prior literature ascribes a joint role for normative and cognitive institutional domains in underpinning powerful informal entities, such as social networks and extended family, whose effectiveness lies in facilitating transactions, thereby bridging voids or inadequacies in the regulative architecture.

In economies dominated by social networks and accompanying culturally imbued relational contracting schemas, almost all the preceding lifecycle milestones are wholly subsumed within the networks (Williams and Ramdani 2018). Strategic shifts or reorientations are undertaken within networks to align insiders' goals more closely with those of dominant local actors (Barnett, Yandle, and Naufal 2013), such as families or elites and their kinship networks, so as to in turn accentuate reputability (social status) and associated credibility in contracting (e.g. Rautiainenet al. 2019). Additional rounds of internal relationally mediated financing, labour market intermediation, acquisition of factors of production and resources, and even customers and consumer audiences are all extensively determined through relational dynamics within social networks that transcend the emerging economy.

This is especially true of smaller Caribbean territories with networks dominated by powerful local familial affiliation. Importantly, considering the contextual embeddedness of governance relations within an emerging economy framework, our focus on the succession event is not restricted to any single juncture within the firm lifecycle. In this way, we depart from studies undertaken in large,

developed economies based on third-party, arm's length contracting (e.g. Wasserman 2003, 2017; Jain and Tabak 2008) since they are aligned to the assumption that every corporate milestone in the lifecycle is reflected in a reorientation towards external stakeholder interests.

These characteristics of the Caribbean territories underscore the profound importance of entrepreneurial founders in terms of their human capital and social networks (Williams and Ramdani 2018). The former is associated with their track record in entrepreneurial ventures, while the latter is associated with their personal networks and social status within them, determining their credibility in contracting for resources. However, the importance of their social networks is far more encompassing than that envisaged in larger, developed economies (Williams and Ramdani 2018), within which most prior studies on founder succession have been undertaken. The true value of their social networks and connections is derived from both visually realizable sources and latent sources, with which the founder has an understanding but only infrequent contact. This is akin to Granovetter's (1973) thesis on weak and strong social ties.

More importantly still, the founder's elevated social status is critical in deterring claims over assets from wider family members, common in communitarian cultures (Khavul, Bruton and Wood 2009, Khayesi, George and Antonakis 2014) with institutionalized notions of communal co-ownership of assets (Berger et al. 2015). Such cultural traits emanate from the cognitive institutional domain. We extend these arguments in asserting that, for founders, there is an accentuated importance to their dexterity in negotiating with the powerful local actors prevalent in emerging economies, such as families, ruling elites and their kin, to procure resources while inhibiting potential encroachments (Atanasov et al. 2010) in the form of the tunnelling of cash flows, assets and control, which is associated with a wider entrenchment influence.

In summary, the value accorded to founders arises from their social status and personalized networks, through which they draw on legitimacy from the normative and cognitive institutional domains, which are essential in overcoming the formal institutional voids besetting the regulative pillar or domain. However, these traits of founders also lead to an additional source of value through their dexterity in navigating the myriad of social networks and family affiliations prevalent within the normative and cognitive institutional domains. In this way, founders' personal traits provide a valuable means of overcoming voids in the informal socio-cultural institutional framework too. Consequently, there are compelling theoretical arguments underscoring the retention of founders within CEO leadership roles in their firms vis-à-vis their succession and replacement. Next, we consider the influence of two rival forms of supplementary capital provision, namely BGs and PE.

3.1. Hypotheses

BGs are attributed the role of being a versatile means of overcoming the deficiencies in the external contracting environment (Khanna and Palepu 2000; Khanna and Rivkin 2001), through their extensive networks reflected in control transcending boundaries between constellations of nominally independent firms. The myriad of relationships within BGs, mirroring the control leveraged across constituents by a common owner, typically a family, is attributable to sociological origins (e.g. Bhappu 2000). These are embedded historically within a society's cultural fabric. In this way, BGs have powerful organizational legitimacy claims rooted deep within the normative and cognitive institutional domains of an indigenous society's social fabric. The control leveraged across the BG is mirrored in a coercive and normative isomorphic influence on individual group constituents to attain conformity with the common BG identity and governance.

Following from this control, there is an equally strong mutual assurance commitment amongst group-constituent firms. The mutual assurance of BGs leads to a conflict of interest with entrepreneurial founders. This is particularly true where entrepreneurship is based on the diffusion of innovative technologies into new markets, where these technologies effectively undermine or 'disrupt' existing technologies, leading to an erosion of entrenched monopolies (Khanna and Yafeh 2007). As just mentioned, there is a powerful influence on group-constituent firms

(DiMaggio and Powell 1983) to conform with the uniform governance of the BG, which is associated with moral (appropriateness of organizational structure) and pragmatic (compatibility with audience expectations) legitimacy (Suchman 1995). In this way, the benefits of a common BG identity outweigh those associated with individual firms and in particular their entrepreneurial founders. This leads to significant benefits arising from credibility of contracting and the ability to acquire future external resources and investment on preferential terms given group-wide reputation and mutual support.

However, despite these institutionalized inhibitions against entrepreneurial founders, at the same time, BGs and their familial owners are often the single dominant resource intermediary in developing and small economies (Khanna and Yafeh 2007). BGs providing seed capital funding and incubatory support to founders are more likely to have vested interests in controlling the importation or assimilation of innovations acquired from abroad or aimed at establishing new monopolies domestically. Masulis, Pham, and Zein (2011) attribute the very pyramidal structure of groups as an optimal means of facilitating access to financial capital for riskier founder-led ventures, while at the same time meaning they have minimal direct participation. Moreover, we argue that, in emerging economies, BGs view founders in terms of their personalized social networks, status and the value of these for the focal firm. Founders also have sufficient social standing (Hearn and Filatotchev 2019) with which to negotiate and acquire additional resources from rival BGs and elsewhere within the economy, which supplement within-group resource provision. These theoretical arguments underscore BGs' support for the retaining of founders as CEOs, as opposed to the initiating of their succession, and lead us to propose the following:

Hypothesis 1: BG ownership is negatively associated with founder-CEO succession.

PE comprises both business angel and venture capital financing (Bruton et al. 2010). Both are acutely susceptible to institutional voids prevalent within emerging (Hearn and Filatotchev 2019) and small economies. Business angels are characterized as being informal, predominantly based on social connections and trust (Harrison, Mason and Smith 2015), and as being 'patient capital', and a durable source of support, mentorship and capital infusions (Harrison, Mason, and Robson 2010) for entrepreneurial founders. Their informality underscores their extensive reliance on social networks and their closeness – in terms of both geographic proximity and socialization (Harrison, Mason, and Robson 2010) – with the entrepreneurial founders. This facilitates their dual role in acting as mentors during the investment process, while at the same time being able to exercise superior monitoring, surveillance and investment appraisal (Mason and Harrison 1996, 2002). However, their extensive reliance on socialization and networks belies a vulnerability to informal institutional voids associated with favouritism and nepotism in social networks and families.

We argue business angels' susceptibility to informal institutional voids leads to their eschewing the mimetic isomorphic influence (DiMaggio and Powell 1983) on their investee firms to conform with opaque relational corporate governance, associated with network economies. In this way, firms mimic connectivity to extensive networks through the retained presence of their founders as CEOs. Founders have social status, which is accompanied by relational capital and considerable dexterity in navigating the myriad of social networks and family affiliations, which leads to moral and pragmatic legitimacy (Suchman 1995) for the firm as a whole. A further source of conformity influence arises from normative isomorphism, from those business angels emanating from the indigenous society and therefore cognizant of the normative and cognitive institutional domains, which institutionally underpin network economies. Consequently, founder retention as CEO further facilitates the firm in attaining a more network, relational corporate governance model, in conformity with the indigenous societal fabric.

Contrastingly, venture capitalists are formal investors (Bruton, Fried, and Manigart 2005) with extensive reliance on regulative institutions to provide the necessary contractual protections to mitigate investment risks. Adverse selection risk is mitigated through extensive due

diligence and pre-screening of potential investee firms, which involves the analysis and corroboration of accounting and financial information in balance sheets and investment term sheets (Bruton, Ahlstrom, and Li 2010). Moral hazard is mitigated through extensive performance-related covenants stipulating the progressive release of rounds of funding contingent upon the successful attainment of performance targets, typically ratios based on cash flow and profitability metrics. Venture capital is especially vulnerable to voids (Hearn and Filatotchev, 2019) – both formal and informal. Inadequacies in the regulative institutional architecture undermines the protections afforded to property rights, implying an elevated emphasis on compensatory informal institutions, such as social networks and familial affiliation. However, venture capital almost wholly lacks legitimacy with such informal actors, given the global dominance of US industry norms (Bruton, Fried, and Manigart 2005). Consequently, to mitigate this uncertainty, we argue that venture capital will eschew the strong mimetic isomorphic influence towards conformity with opaque informal governance centred on relational networks. This, in turn, strongly supports the retention of founders, given their adeptness at navigating indigenous networks.

In summary, our preceding theoretical arguments underscore both normative and mimetic isomorphic influence, arising from business angels to inhibit founder succession, while venture capital is associated with mimetic isomorphism alone. Considered together as PE, both will likely exert a powerful influence against founder succession within an emerging economy context. Consequently, we test the following hypothesis:

Hypothesis 2: PE ownership is negatively associated with founder-CEO succession.

3.2. Corporate governance moderation

Next, we explore the moderation of our main association by firms' adoption of shareholder rights governance. At this stage, it is important to reiterate the structure of our sample and its relevance to our forthcoming theorization. In particular, higher shareholder value corporate governance adoption is associated with the relatively heterogeneous corporate governance arrangements that are prevalent in larger emerging economies (Haxhi and Aguilera 2017). Here, firms adopt such governance to circumvent the institutional voids that would otherwise inhibit cost-effective acquisition of external resources (Fainshmidt et al.2018). Conversely, lower shareholder value corporate governance adoption is almost universally associated with the smaller territories that are offshore jurisdictions (Temouri, Ahmed, Pereira and Jones, 2020). The latter is due to the extremely powerful familial pressures within these essentially collusive smaller economies (e.g. Sydow, Cannatelli, Giudici, and Molteni, 2022) and the opacity enshrined in the national legal and regulatory architecture as part of their offshore jurisdictional capabilities. In summary, high shareholder value is associated with emerging economies, and low shareholder value with offshore jurisdictions.

This form of governance is centred on firm-level protections for minority stakeholder property rights. It represents a costly commitment by individual firms to uphold minority welfare (Jensen and Meckling, 1976). Moreover, this form of corporate governance originated within the same institutional framework as international capital market or investment norms (Aguilera and Jackson 2003, Aguilera and Jackson 2010). Thus, its adoption by firms signifies a major transition in the demographic audience of investors from whom legitimacy (Deephouse and Suchman 2008) and governance conformity is sought (Certo 2003, Sanders and Boivie, 2003). As such, international investors supersede their opaquer, predominantly family-affiliated indigenous counterparts. Firms undertake such a transition to fuel expansion outside the confines of their island economies. Therefore, the adoption of shareholder rights governance is a major milestone or juncture in the lifecycle of an

indigenous firm (Aguilera and Jackson 2003, Aguilera and Jackson 2010), with this motivating our use of it as a moderator.

The single most important issue underlying the effectiveness of the provision of BG resource intermediation is control over group constituents (Masulis, Pham and Zein, 2011). Such control, typically based on a range of 'hard' ownership-based means and 'soft' means (Khanna and Palepu, 2000) taken through the exertion of socialized influence, is centred on powerful altruism, namely the 'social glue' that binds the collective interests of the constituents under the joint strategic control of an ultimate owner, typically a family. Then, the ultimate owner, or family, can exercise optimal centralized coordination of resources and facilitate highly effective internal resource intermediation (Masulis, Pham and Zein 2011), which is a significant competitive advantage of BGs (Khanna and Yafeh 2007). We argue that, while such powerful, centralized control is intact, our preceding arguments regarding BGs' support for founder retention hold. We argue this is due to the founder being recognized for their elevated social status (Nelson 2003), which is essential in negotiating resources from the BG, while at the same time balancing the competing demands so as to not unduly dilute the BG's control or influence but simultaneously deter potential detrimental entrenchment (Morck, Wolfenzon, and Yeung 2005). Consequently, in contexts of lower shareholder value corporate governance adoption, we argue that BG ownership of firms is associated with founder-CEO retention.

Contrastingly, in contexts with higher adoption of shareholder value corporate governance by firms, this is representative of a transfer of control away from the founder and insiders, and towards minority (Aguilera and Jackson 2003; Aguilera and Jackson 2010), unrelated outsider resource providers. The attraction of additional supplementary resource infusions is problematic regarding a surrender of control by insiders (e.g. Wasserman 2017). First, it is associated with a relinquishment of control by the founder, which reduces the latter's importance in determining the firm's affairs and influence over its outcomes (Michael 2007). It also erodes the firm's negotiating position with a range of stakeholders accessible to the firm through the dense social networks prevalent in emerging economies (Hearn and Filatotchev 2019). Therefore, the founder effectively concedes control (Wasserman 2017) and the value associated with it. Second, BG intermediation and provision of resources is acutely susceptible to levels of control exerted over constituent member firms (Masulis, Pham and Zein 2011). The transfer of property rights of a given constituent firm to external minority investors provides them with a powerful platform from which to question the very functioning of internal resource markets within the BG itself. Such 'conflicting voices' (Arthurs et al. 2008) within the firm erode the BG's resource provision ability. Furthermore, the potentially increased conflict of interests leads BG ownership towards being more likely to initiate founder-CEO succession to facilitate a strategic realignment and reassertion of BG control over the firm. These theoretically based arguments lead us to test the following:

Hypothesis 3: In Caribbean economies, firms' adoption of shareholder value governance positively moderates the main negative association between BG ownership and founder-CEO succession.

We argue that PE investors are more likely to recognize the inherent benefits of founders and seek their retention in contexts of higher shareholder value corporate governance adoption by firms. This argument is 'sample specific' given that, in our Caribbean region sample (Hearn et al. 2022, Hearn et al. 2022), high shareholder value corporate governance adoption is the sole prerogative of larger emerging economies vis-à-vis their smaller offshore counterparts. Founders bring with them human and social network resources associated with their elevated status (Hearn and Filatotchev, 2019), which are of benefit to the firm. Moreover, given the importance attached to founder reputations, they are disincentivized from adverse behaviours associated with entrenchment or expropriation (Hearn and Filatotchev, 2019), since such blemishes would erode their reputation and credibility

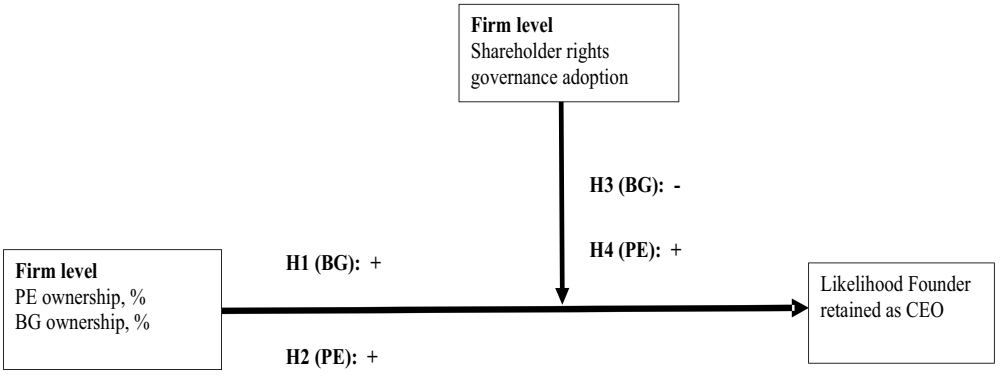

Figure 2. Theoretical associations.

(Michael, 2007) thereby impairing their personal and their firm's value. Furthermore, despite the effective transfer of control from founder to outside minority investors through the adoption of shareholder value governance (Wasserman, 2017), given the context within which contractual relations are embedded, there is an overwhelming recognition of and emphasis on the importance of the founder (Hearn and Filatotchev, 2019, Michael, 2007). Therefore, on balance, in higher shareholder value corporate governance contexts, PE ownership is associated with an increased likelihood of founder retention and consequently a lower likelihood of founders being succeeded in the CEO role.

Contrastingly, in contexts of low shareholder value governance adoption by firms, we argue there is increased potential for tunnelling of control, cash flows and assets by powerful family interests (Atanasov et al. 2010), which have near complete domination in local island economies. There are equally minimal protections afforded by governmental, legal and judicial institutions, given their subversion under familial interests. Because of this hegemonic dominance by families in essentially collusive economies, we argue that the social status of founders is less beneficial than affiliations with the families themselves (Miller, Le Breton-Miller and Lester, 2011). Consequently, if a succession event were instigated, it would be to realign with the interests and control of indigenous families. Therefore, on balance, we argue that, in lower shareholder value governance contexts, PE ownership is associated with reduced likelihood of founder retention, that is, increased likelihood of the founder leaving the CEO role. These theoretically based arguments lead us to test the following:

Hypothesis 4: In Caribbean economies, firms' adoption of shareholder value governance negatively moderates the main negative association between PE ownership and founder-CEO succession.

To summarize our theoretical arguments, we propose a contingency model with a base effect and two contingency (moderating) effects, as outlined in Figure 2.

4. Methodology

4.1. Data

Our starting point was to include securities exchanges that function by attracting domestic and foreign listings in equal measure. This led to our omission of the *Bolsa de Valores de la República Dominicana*, in the Dominican Republic, which lacks any equity listings, and the *Dutch Caribbean securities exchange*,[2] in Curaçao, Netherlands Antilles, which is designated as an offshore market focusing solely on the attraction of international listings. Our final sample group comprises the 10

established equity markets of Bermuda, the Bahamas, Barbados, the Cayman Islands, Jamaica, Haiti, the regional Eastern Caribbean securities exchange, Trinidad & Tobago, Guyana and Surinam.

Next, there were two steps in the dataset construction. The first entailed the compilation of a comprehensive list of firms with listed ordinary shares. These have single-class voting rights, namely 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 were obtained from the national stock exchanges (see Appendix Table A1). This resulted in 184 listed firms.

The second step involved the procurement of individual listed firms' annual reports from across the Caribbean region. Some annual reports were obtained directly from the national stock exchange websites of the Bahamas, Bermuda, Jamaica, Haiti, Surinam and Trinidad & Tobago. Others were obtained directly from the exchanges of Barbados and the Eastern Caribbean securities exchange, while additional direct procurement was undertaken from the national regulator (GASCI) in the case

Table 1. Descriptive statistics.

			Number (#) of firms with the below categories of ownership and control per market									
		Firm-level	Founder-CEO					Non-Founder-CEO				
Market	N #	Shareholder rights index % [Std. dev.]	Overall #	BG #	BA #	Domestic VC #	Foreign VC #	Overall #	BG #	BA #	Domestic VC #	Foreign VC #
Southeast Atlantic												
Bermuda	14	15.09 [5.04]	2	1	1	0	0	12	10	0	1	2
Northwest Caribbean												
Cayman Islands	3	18.45 [3.92]	1	1	0	0	0	2	2	0	0	0
Bahamas	19	19.57 [14.42]	3	0	0	0	0	16	5	0	0	0
Jamaica	72	50.98 [19.36]	29	8	13	19	0	43	32	9	30	2
Haïti	1	33.33 [0.00]	1	1	0	0	0	0	0	0	0	0
Windward Islands												
Barbados	16	51.64 [19.61]	0	0	0	0	0	16	13		7	0
Eastern Caribbean	12	34.59 [19.67]	0	0	0	0	0	12	7	1	0	0
Dominica	1	16.67 [0.00]	....	... .	... .	....	....	1	1	0	0	0
St Kitts & Nevis	5	42.25 [17.73]	....	... .	... .	....	....	5	2	1	0	0
St Lucia	2	13.60 [10.20]	....	... .	... .	....	....	2	0	0	0	0
Grenada	3	34.80 [18.57]	....	... .	... .	....	....	3	3	0	0	0
St Vincent & Grenadines	1	54.00 [0.00]	....	... .	... .	....	....	1	1	0	0	0
Southwest Caribbean												
Guyana	12	55.61 [15.77]	0	0	0	0	0	12	8	0	0	0
Surinam	11	24.03 [8.04]	0	0	0	0	0	11	8	0	0	0
Trinidad & Tobago	24	49.36 [18.28]	1	0	1	0	0	23	12	1	3	2
Sample average	184	40.04 [22.44]	37	11	15	19	0	147	97	12	41	6

The table reports the number of firms, *N*, per country and includes all firms currently listed, alongside all firms that were listed and then subsequently delisted or suspended their listings during the sample time frame of 2000 to 2017. This mitigates survivorship bias. Firm-level shareholder rights is the sub-index of OECD good governance and defined in OECD (2004) at http://www.oecd.org/corporate/principles-corporate-governance/. On the right-hand side there are counts of the number of firms with founder-CEOs and then those without a founder-CEO in each of the two categories 'overall' column. Adjacent to this is a count of the number of those firms (either with founder-CEO or without) which also have either BG ownership, business angel (BA) ownership or ownership by domestic or foreign venture capital (VC). These latter three constitute the components of our definition of PE. Note that the values for the regional stock exchange of the Eastern Caribbean economic and monetary union (ECSE) includes all subordinate member state listings, namely St Kitts & Nevis, Dominica, St Lucia, Grenada and St Vincent & the grenadines.

of Guyana. Individual listed firms' websites were used for procurement in the case of the Cayman Islands, this being 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 augment any missing values (annual reports). This led to an unbalanced panel sample of 184 listed firms' annual reports. However, there is some variation in the consistency of time availability of annual reports – there typically being many omissions before 2004. All firm-specific balance sheet and governance variables were then sourced directly from the collected annual reports. All data were converted to US$ end-of-period equivalent values to facilitate comparison in the multi-country sample. This led to a final sample of 1,486 firm-year observations from a cross-section of 184 listed firms, with a time series of up to 17 years for each firm.

4.2. Caribbean business groups and private equity

Identification of BGs was undertaken through extensive investigation of ownership holdings reported in the ownership sections of individual firms' annual reports, supplemented with an analysis of director profiles and biographical information, such as lists of additional directorships held by individuals. Usefully, and despite the informality and opacity across the Caribbean, on many occasions, a breakdown or ownership 'map' of group-constituent firms was provided in at least one of the annual reports. This then provided a basis on which to analyse later variations in group constituency. Given the informality and opacity across the region, it was essential to extensively consult a non-exhaustive list of additional information sources, as outlined in Appendix Table A1. This could then be used to triangulate the data and information found in the annual reports to ensure accuracy within a region notorious for a lack of transparency.

Identification of PE was undertaken in two stages: first for business angels and then for venture capital. The identification of business angel investors is altogether more complex, partly owing to the inherent lack of transparency in these often extremely informal markets, but also due to the plethora of investment websites available in each country, which primarily capture very small individual investments and those from the huge diaspora. Fieldwork interviews with senior personnel at the Bahamas Development Bank in June 2019 determined that business angel markets are 'typically unregulated and only occasionally supported by websites', underscoring the informality of angel investment across the region. We built our identification in line with that undertaken by Bruton *et al*. (2010). Consequently, we identified business angels through prospectuses, as those who had invested in the ventures as private individuals, rather than those associated with founders, other board members, senior management, or venture capitalists. We also supplemented our identification through extensive use of internet-based access to local indigenous media, to provide further verification (see Appendix Table A1). The use of local media and business journals is essential in a region with business angel markets that are notoriously informal in nature and with few, if any, organized associations of angel investors.

Our principal method of identification of venture capitalist investors was through the ownership sections of listed firms' annual reports. However, additional verification was undertaken using internet-based local media, stock exchange descriptions and regulatory filings, and from non-exhaustive interviews within all the markets in the sample. To ensure accuracy in a region defined by opacity, we also cross-compared or triangulated each source with other sources, where they were available; such sources are listed in Appendix Table A1. This builds on similar identification techniques employed by Bruton *et al*. (2010) and Hearn and Filatotchev (2019).

The scale and complexity of Caribbean BGs are apparent from Figures 3 and 4. Figure 3 outlines Dutch-speaking Surinam's largest BG, VSH Group, or 'Verenigde Surinaamse Holdingmij', whose constituency accounts for over 75% of the listed firms on the local stock exchange in the capital, Paramaribo. Moreover, the BG is visibly diversified in being spread across multiple industries, while it also has dominance in the shipping and logistics industries, which are fundamental to the survival of what is an extremely isolated economy. The BG also includes several major financial services firms

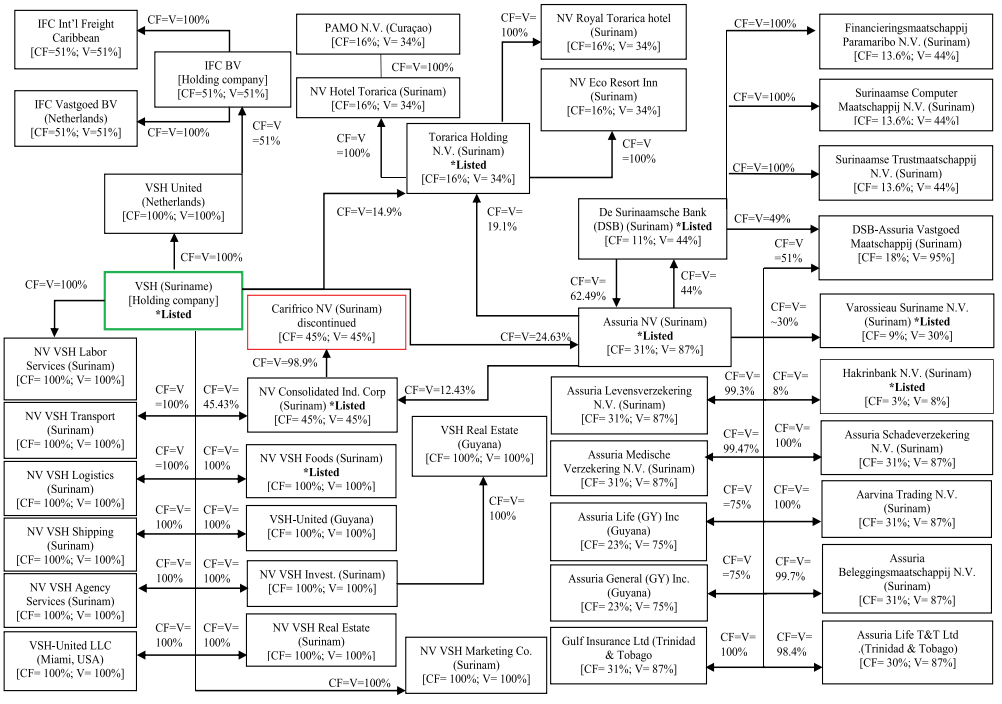

Figure 3. Business group in Surinam (accounts for 75% of listed firms in stock exchange). This traces the cash flow ownership versus control rights across Surinam's VSH Group within the Caribbean region. Control and cash flow rights were estimated using the method outlined in Chernykh (2008)

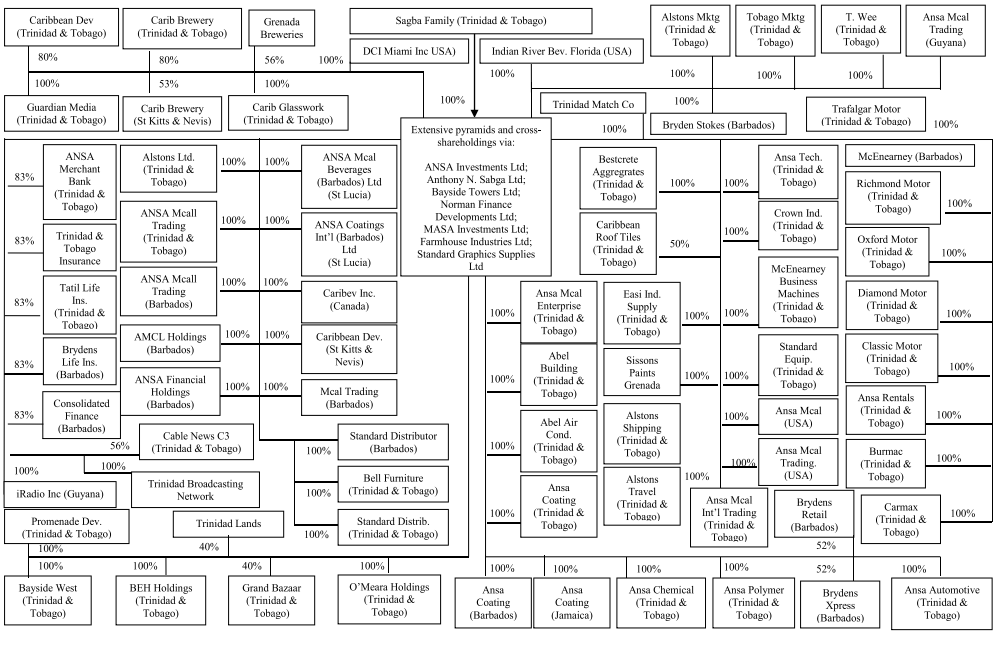

Figure 4. Business group structure of Sagba family (Trinidad & Tobago).

whose presence facilitates the viability of internal capital transfers and markets. Finally, there are often considerable gaps between the cash flow ownership of the VSH Group's firms and the control asserted over them – something affirmed by Masulis *et al*. (2011) in regards the relative riskiness of various constituents of the group. Here, elevated control is asserted, with relatively negligible risks due to minimal direct cash flow holdings.

Next, we elaborate on the Sagba family BG, which originates from Trinidad & Tobago, but is widely dispersed, via a broad plethora of islands, across the entire Caribbean region. The important take aways from Figure 4 are the scale of the BG constituency and its geographic spread, and that the BG is inherently inter-island in structure. This facilitates considerable economies of scale and scope. The former occur through individual constituent firms being able to leverage on the group-wide brand, while the latter are associated with significant benefits coming from centralized coordination and leading to reductions in costs, increased efficiencies and natural competitive advantages. As before, the group has several bespoke financial services firms embedded within its extended structure, which facilitate internal capital markets.

Together, the figures underscore the inter-island nature of Caribbean BGs and their dominance in the plethora of small national economies, where they have a critical role in resource provision and coordination. Moreover, the significant economies of scale and scope associated with their extensive and often huge structures effectively underpin their ability to transcend the more isolated national economies and provide goods and services, something that would be prohibitively costly if undertaken singularly within the national context.

4.3. Empirical model

4.3.1. Dependent variable

Our dependent variable is binary and coded to take a value of one if the founder is the CEO and zero otherwise, thereby measuring their retention or the inverse of succession. As such, the measure captures the specific succession event of a founder being replaced by a non-founder in a given financial reporting year, as reflected by the reporting period of the annual report. This follows studies that have used similar dependent variables, but have focused on a shorter, more specific lifecycle juncture or event, such as an initial public offering (Jain and Tabak, 2008, Hearn and Filatotchev, 2019). Here, in contrast, the dependent variable is applicable to the reporting year of the annual report.

4.4. Explanatory variables

Our explanatory variables are the percentage of ownership held by BGs, which corresponds to *Hypothesis 1*, and then the percentage of ownership held by PE, which corresponds to *Hypothesis 2*. All values were sourced from in-depth studies of individual firm annual reports.

4.5. Moderating variable

Our study utilizes a single moderating variable for our main association outlined above. This is the firm-level adoption of shareholder rights governance. Specifically, we construct a rights of shareholders sub-index using the OECD's (2004) principles of good governance,[3] this being formed from the equally weighted average of nine elements and sub-indices (A.1 to A.9 in Appendix Table A2). We drew these 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, as stated in their annual reports for each year of listing. This process alone resulted in 2,506 firm-year observations for each of the 33 governance elements.

The interaction of the firm's adoption of shareholder rights corporate governance with BG ownership is used to test *Hypothesis 3*, while its interaction with PE ownership corresponds to *Hypothesis 4*.

Our 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, Ishii and Metrick (2003), which was also restricted in application to the US setting. To mitigate collinearity concerns, the shareholder rights index was centred and normalized.

4.6. Control variables

We incorporate five distinct sets of control variables. The first consists of *institutional controls* and includes national institutional quality, defined as the equally weighted average of the six World Governance Indicator (WGI) metrics[4] (Kaufman, Kraay, and Mastruzzi, 2009). Detailed definitions of the six metrics alongside their sourcing are provided in Appendix Table A2. They range in value from -2.5 to + 2.5, but here have been rebased to a 0–10 scale prior to aggregation. Next, we include the natural logarithm of GDP per capita, denominated in US$, to capture the relative wealth of a country or territory. Finally, we include a binary variable, taking a value of one if the firm has a related party located in an offshore financial centre, or OFC, and zero otherwise. The identification of such extended networks and associations of related party affiliate firms was undertaken through an extensive analysis of the director profile, related party and introductory sections of individual firm annual reports.

Next, we consider *board controls*. The first is the natural logarithm of board size, in terms of the total number of executive and nonexecutive directors. This controls for the necessity for larger boards of directors in emerging economies – needed to accommodate a wider range of skills, experience bases and social networks of individual directors to facilitate information and resource acquisition for the firm (Khanna and Rivkin, 2001). Conversely, larger boards are also cited as being more cumbersome in terms of communication, while challenging in terms of consensus establishment in decision making (Boyd 1994, Pfeffer and Salancik, 1978). The second is the outsider nonexecutive ratio, defined as the number of outside, independent and unaffiliated nonexecutives divided by board size. This captures the impartial monitoring capacity of the board of directors. The third is board ethnic diversity, for which we employ a modified Herfindahl index that captures the degree of ethnic diversity amongst directors on the board. The final control is a gender ratio, which captures the number of female directors to total board size.

The third group consists of three *firm controls*. In line with Sanders and Carpenter (1998) and Finkelstein and Boyd (1998), we use the natural logarithm of a firm's pre-tax revenues (or sales) in the last reported year prior to the publication of the annual report as a proxy for size, assumed to control for the complexity of a firm's operations and thus mirroring the complexity of the task environment, which in turn is reflective of the information-processing requirements of the board. We adopt the accounting return on assets (ROA)[5] in the last reported year prior to the annual report as a measure of firm performance, in line with Finkelstein and Boyd (1998) and Khanna and Palepu (2000). We also control for firm age, defined as the difference between annual report publishing year and year of foundation, older firms being anticipated to have larger, more complex operations, mirroring more complex task environments. This 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).

The fourth group encompasses *capital control variables*. These include the total value of preferred stock as a percentage of the total assets of the firm, and the total value of ordinary shares (one share, one vote) relative to the total asset value of the firm.[6] Finally, we include retained earnings value to total gross sales or revenues, which provides an indication of the degree of internal, as opposed to external, financing.

The fifth group contains a single *ownership control*. This is defined as the percentage holdings of corporate block entities. We also include binary effects for industry affiliation and time (year) in each model.

4.7. Empirical model

Our empirical methods are centred on probit modelling with the maximum likelihood estimation format, in line with Jain and Tabak (2008) as well as Hearn and Filatotchev (2019). The dependent variable is the binary (1/0) likelihood of the founder being retained as CEO in the year of the annual report. The independent variables are the ownership, first of BGs and then PE, plus the controls. Differences between countries (institutional environments) are accounted for by the institutional quality controls. Additional country fixed effects are not used, to avoid the dummy variable trap (Wooldridge 2009)[7] and a marked reduction in maximum likelihood in the final models, due to reduced informational content should they be included.[8] However, industry and time (year) fixed effects are applied across all models. Differentiation between models is based on the log pseudo-likelihood statistics, the Wald statistic, which follows a χ^2 (chi-square) distribution, and the pseudo R^2.

5. Empirical results

5.1. Descriptive statistics

Table 1 reveals that 37 out of 184 firms are founder-led, a majority of which involve participation by domestic venture capitalists and business angels but not foreign venture capitalists. Foreign venture capitalist activity is entirely concentrated in the non-founder-led firms. Business angel and venture capitalist participation in founder-led firms is almost double that of BG participation.

Typically, unless the founder of the firm is also the founder of the wider BG, there is minimal direct engagement of BGs with entrepreneurial founders. This is exemplified by Jean Vorbe, the founder of Haiti's *La Société Générale d'Energie S.A.*, abbreviated to *SOGENER*, who is also founder of the broader *Groupe Jean Vorbe*. Anecdotally, it is worth noting that the Vorbe family utilize their BG and constituent firm SOGENER as a domestic political platform to rival the authority of the state itself within Haiti, underscoring the locally powerful oligarchical nature of BGs in developing states. The collusive nature of political economies hegemonically controlled by BGs is evident in the Dutch-speaking territory of Surinam, where all listed firms – bar one – are constituent to one of two BGs with overlapping control. These are *Assuria* and *VSH*, whose influence and participation are in conjunction with the state's.

A more general observation regarding the average national quality of shareholder rights governance adoption is that it exhibits huge variation across the Caribbean region. However, the lowest values are seen in St Lucia (13.60%), Bermuda (15.09%) and the Cayman Islands (18.45%), which all correspondingly have the highest formal institutional quality (not reported here, but available from the authors upon request) and are all among the world's largest offshore tax havens. Conversely, developing countries, such as Jamaica (50.98%) and Guyana (55.61%), have the highest levels of firm adoption of shareholder rights governance.

5.2. Bivariate analysis

Analysis of Pearson bivariate correlations in Table 2 reveals that all – bar two – are negligible in size, while most are highly statistically significant. Of the two exceptions, both are statistically significant, with the first being between the natural log of GDP per capita and formal institutional quality (+0.774, $p \leq 0.005$). This could be intuitively anticipated inasmuch that higher-quality formal institutional architecture is associated with increased wealth across the population. Given this is an aggregated figure, it will reflect the huge national incomes earned by offshore jurisdictions which,

Table 2. Correlations.

		Mean	Std. Dev.	Min.	Max.	1	2	3	4	5	6	7
1	Founder CEO retention	0.130	0.336	0.00	1.00	1.000						
2	PE ownership	3.703	8.044	0.00	49.72	0.242***	1.000					
3	BG ownership	33.050	33.297	0.00	100.00	-0.136***	-0.148***	1.000				
4	Institutional quality	0.444	0.571	-1.70	1.55	-0.140***	-0.154***	-0.094***	1.000			
5	Related party in OFC	0.734	0.442	0.00	1.00	-0.250***	-0.146***	0.177***	0.412***	1.000		
6	Shareholder rights	0.000	1.000	-1.78	2.43	0.028	0.190***	0.028	-0.355***	-0.098***	1.000	
7	Log (Board size)	2.147	0.302	0.69	2.94	-0.286***	-0.037†	0.143***	0.078***	0.256***	0.133***	1.000
8	Ratio Ind. Nonexecutives	0.193	0.164	0.00	0.90	0.104***	0.155***	-0.051*	0.035	0.025	0.088***	0.193***
9	Board ethnic diversity	0.622	0.190	0.33	1.00	0.083***	-0.030	-0.087***	0.201***	0.020	-0.222	-0.100***
10	Board ratio female executives	0.135	0.134	0.00	0.71	0.019	-0.040*	-0.019	-0.030	0.046*	0.022***	0.049*
11	Log (gross revenues, US$)	17.262	1.921	2.30	21.35	-0.394***	-0.156***	0.075***	0.124***	0.278***	0.152†	0.522***
12	ROA	-0.074	5.060	-213.67	10.94	-0.072***	-0.024	0.023	-0.036	-0.010	0.039***	0.067***
13	Log (Firm age)	3.442	0.989	0.00	5.19	-0.378***	-0.063***	0.134***	-0.127***	0.016	0.102***	0.235***
14	Preferred stock/total assets	0.012	0.057	0.00	0.69	-0.063***	-0.075***	-0.051**	0.111***	0.121***	-0.219†	-0.017
15	Debt/total assets	0.176	1.003	0.00	37.30	0.092***	0.038†	-0.058***	0.027	-0.024	-0.034	-0.050***
16	Retained earnings/sales	1.053	3.990	-12.21	82.83	-0.036†	-0.059***	0.000	-0.056*	-0.093***	-0.030***	-0.176***
17	Corporate block ownership	3.163	9.581	0.00	84.66	-0.108***	0.053**	-0.156***	-0.141***	-0.020***	0.082***	0.177***
18	Log (GDP per capita US$)	9.300	0.951	6.50	11.46	-0.187***	-0.214***	-0.045*	0.774***	0.360***	-0.466***	0.083***

		8	9	10	11	12	13	14	15	16	17	18
1	Founder CEO retention											
2	PE ownership											
3	BG ownership											
4	Institutional quality											
5	Related party in OFC											
6	Shareholder rights											
7	Log (Board size)											
8	Ratio Ind. Nonexecutives	1.000										
9	Board ethnic diversity	-0.109***	1.000									
10	Board ratio female executives	0.227***	-0.039†	1.000								
11	Log (gross revenues, US$)	0.053**	-0.101***	0.042†	1.000							
12	ROA	0.020	-0.054**	0.026	0.035†	1.000						
13	Log (Firm age)	-0.103***	-0.082***	-0.08***	0.378***	0.064***	1.000					
14	Preferred stock/total assets	-0.023	0.070**	0.106***	0.066***	0.005***	-0.058***	1.000				
15	Debt/total assets	-0.025	0.034*	-0.040*	-0.048*	-0.889*	-0.087***	0.001	1.000			
16	Retained earnings/sales	-0.045†	0.016	0.029	-0.279***	0.006***	-0.061***	-0.037†	-0.022	1.000		
17	Corporate block ownership	0.154***	0.023	-0.004	0.038†	0.009†	0.060***	-0.059**	-0.012	-0.023	1.000	
18	Log (GDP per capita US$)	-0.052**	0.285***	-0.077***	0.185***	-0.056***	-0.050***	0.057**	0.040*	-0.030	-0.123***	1.000

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

Table outlining descriptive statistics and Pearson correlations between all variables. Shareholder rights corporate governance adoption index is statistically normalized.

being smaller, have smaller populations that in turn lead to higher averages. This notably does not capture inequalities in the distribution of that income. The second of these exceptions is the correlation between ROA and the ratio of debt to total assets (-0.889, $p \leq 0.05$). The wider lack of correlation mitigates concerns over potential collinearity. Furthermore, all variance inflation factors, or VIFs, are less than 10, further mitigating concerns over collinearity.

5.3. Multivariate analysis

The empirical evidence from our hypothesis testing is presented in Table 3, with models 1 and 2 for BG ownership and models 3 and 4 for PE ownership. The evidence from model 1 reveals a positive, highly statistically significant yet small in absolute size, association (+0.005, $p \leq 0.01$), between BG ownership and the likelihood of the founder being retained as CEO. The size, direction and statistical significance of this association is consistent across models 1 and 2, mitigating structural collinearity concerns. The positive association refers to founder retention as CEO, which by implication would be negative if the founder had been succeeded in the CEO role, thereby providing further statistical support for *Hypothesis 1*. This has economic significance too and implies that a 1% change in BG ownership is accompanied by a very small 0.5% increase in the likelihood of a founder being retained as CEO.

Table 3. Determinants of founder succession as CEO[a,b].

	Dependent variable: Founder-CEO retention (opposite of succession)			
	Business Groups (BG)		Private Equity (PE)	
	Main effect	Moderated effect	Main effect	Moderated effect
	Model 1	Model 2	Model 3	Model 4
Intercept	12.752 [1.59]***	8.066 [1.35]***	5.714 [1.41]***	6.358 [1.41]***
Explanatory variables				
H1: BG ownership	+0.005 [0.00]**	+0.006 [0.00]***	– –	– –
H3: BG ownership x Shareholder rights	– –	-0.004 [0.00]**	– –	– –
H2: PE ownership	– –	– –	+0.026 [0.01]***	+0.023 [0.01]***
H4: PE ownership x Shareholder rights	– –	– –	– –	+0.009 [0.01]*
Shareholder rights	+0.132 [0.07]*	+0.273 [0.12]**	+0.095 [0.07] †	+0.035 [0.07]
Institutional controls				
Institutional quality	-0.061 [0.20]	-0.089 [0.20]	-0.112 [0.21]	-0.122 [0.21]
Log (GDP per capita US$)	-0.540 [0.14]***	-0.688 [0.14]***	-0.534 [0.15]***	-0.572 [0.15]***
Related party in OFC	-0.726 [0.17]***	-0.697 [0.17]***	-0.497 [0.14]***	-0.464 [0.14]**
Board controls				
Log (board size)	-1.511 [0.28]***	-1.479 [0.28]***	-1.433 [0.28]***	-1.491 [0.29]***
Ratio independent nonexecutive	3.529 [0.37]***	3.253 [0.37]***	3.333 [0.35]***	3.315 [0.36]***
Board ethnic diversity	2.438 [0.36]***	2.653 [0.39]***	2.475 [0.35]***	2.540 [0.35]***
Board % female diversity	0.672 [0.42]*	0.781 [0.43]*	0.586 [0.42] †	0.621 [0.42] †
Firm controls				
Log (gross revenues, US$)	-0.203 [0.04]***	-0.184 [0.04]***	-0.147 [0.04]***	-0.161 [0.04]***
ROA	-1.128 [0.33]***	-1.146 [0.34]***	-1.167 [0.34]***	-1.164 [0.35]***
Log (Firm age)	-1.091 [0.09]***	-1.147 [0.10]***	-1.113 [0.10]***	-1.116 [0.10]***
Capital controls				
Preferred stock/total assets	-1.678 [1.95]	-1.545 [1.89]	-1.837 [1.86]	-2.262 [1.99] †
Debt/total assets	0.823 [0.24]***	0.820 [0.25]***	0.831 [0.25]***	0.833 [0.25]***
Retained earnings/sales	-0.060 [0.04] †	-0.051 [0.03] †	-0.029 [0.02] †	-0.033 [0.02] †
Ownership control				
Corporate block ownership	-0.046 [0.01]***	-0.043 [0.01]***	-0.048 [0.01]***	-0.050 [0.01]***
No. Obs.	1,486	1,486	1,486	1,486
Log pseudolikelihood	-260.40	-254.41	-252.56	-251.73
Wald (prob.)	842.31 [0.00]	889.68 [0.00]	920.06 [0.00]	929.00 [0.00]
Pseudo R^2	0.5672	0.5772	0.5803	0.5816

[a]industry and time (year) fixed effects included in all models; [b] robust standard errors-statistics are in parentheses; †p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.005.

The evidence from model 3 reveals a large, positive, highly statistically significant association (+0.026, $p \leq 0.005$) between PE ownership and the likelihood of the founder being retained as CEO. As in the preceding analysis, there is consistency in size, direction and statistical significance across models 3 and 4, mitigating concerns over structural collinearity. Moreover, the association is positive, indicating founder retention as CEO, the inverse of the founder being succeeded in the CEO role, thus further supporting *Hypothesis 2*. Notably, the size of the PE association is more than five times the size of that for BG ownership. Its economic significance is visualizable from a 1% change in PE ownership leading to a 2.6% increase in the likelihood of the founder being retained as CEO.

Next, we consider the impact of moderation by the firm's adoption of shareholder value corporate governance – as captured in an index. The evidence from model 2 reveals a very small, positive and statistically significant main effect (+0.006, $p \leq 0.005$) between BG ownership and the dependent variable. The interaction between BG ownership and the shareholder rights index has an equally small, negative and statistically significant effect on the dependent variable (-0.004, $p \leq 0.01$). This supports *Hypothesis 3*. The economic significance of this interactive association is that a 1% change in BG ownership leads to a net 0.2% increase in the likelihood of the founder being retained (as opposed to succeeded) as CEO.

Correspondingly, the evidence from model 4 reveals a much larger, positive and statistically significant main effect (+0.023, $p \leq 0.05$) between PE ownership and the dependent variable. The corresponding interactive association when PE ownership is interacted with the shareholder rights index is very small, positive and statistically significant (-0.009, $p \leq 0.05$). This supports *Hypothesis 4*. The economic significance of this interactive association is that a 1% change in PE ownership leads to a net 1.4% increase in the likelihood of the founder being retained (as opposed to succeeded) as CEO.

In terms of the controls, the likelihood of founder retention as CEO is higher in the context of much lower GDP per capita territories ($p \leq 0.005$) and in firms with a related party located in an OFC ($p \leq 0.005$). Founder-CEO retention is also associated with much smaller boards of directors ($p \leq 0.005$), those which comprise much higher proportions of independent nonexecutive directors ($p \leq 0.005$) and those that are much more ethnically homogeneous ($p \leq 0.005$), as well as those with a higher proportion of female directors ($p \leq 0.10$). Founder-CEO retention is also associated with lower gross revenues, which capture the complexity of director task environments ($p \leq 0.005$), with ROA performance ($p \leq 0.005$) and with younger firms ($p \leq 0.005$). Finally, founder-CEO retention is associated with higher proportions of debt relative to total assets ($p \leq 0.005$) and lower retained earnings relative to gross sales ($p \leq 0.10$). Finally, founders are retained in firms with markedly lower corporate block ownership ($p \leq 0.005$).

Lastly, the evidence from diagnostic statistics reveals the comparative strength of both moderating models compared to their respective main effects. This is true for the moderation of BG ownership (model 2), where the Wald statistic (889.68, $p \leq 0.005$) is higher than that for the main association in model 1 (842.31, $p \leq 0.005$). There is a 1% incremental increase in the pseudo R^2 from the main association in model 1, when moving to that of the moderating expression in model 2. Similarly, in terms of the moderation of PE ownership (model 4), the Wald statistic (929.00, $p \leq 0.005$) is higher than that for the main association in model 3 (920.06, $p \leq 0.005$). This is accompanied by an almost negligible increase of 0.16% in the pseudo R^2 when moving from the main association in model 3 to that of the moderating expression in model 4. These results are indicative of the relative statistical strength of the moderating expressions compared to that of their underlying main association.

As a supplementary exercise, using the estimated model parameters, we input a range of values, first for BG ownership and then for PE ownership, and a range of index values of firm adoption of shareholder rights governance. This results in two three-dimensional probability surfaces of estimated bid-ask spreads, one for each type of ownership.

Moderation of BG ownership by firm shareholder rights governance results in the three-dimensional probability surface displayed in Figure 5, where an inflexion point is clearly visible. At the lowest levels of firm shareholder rights governance, as BG ownership increases, there is a sharp

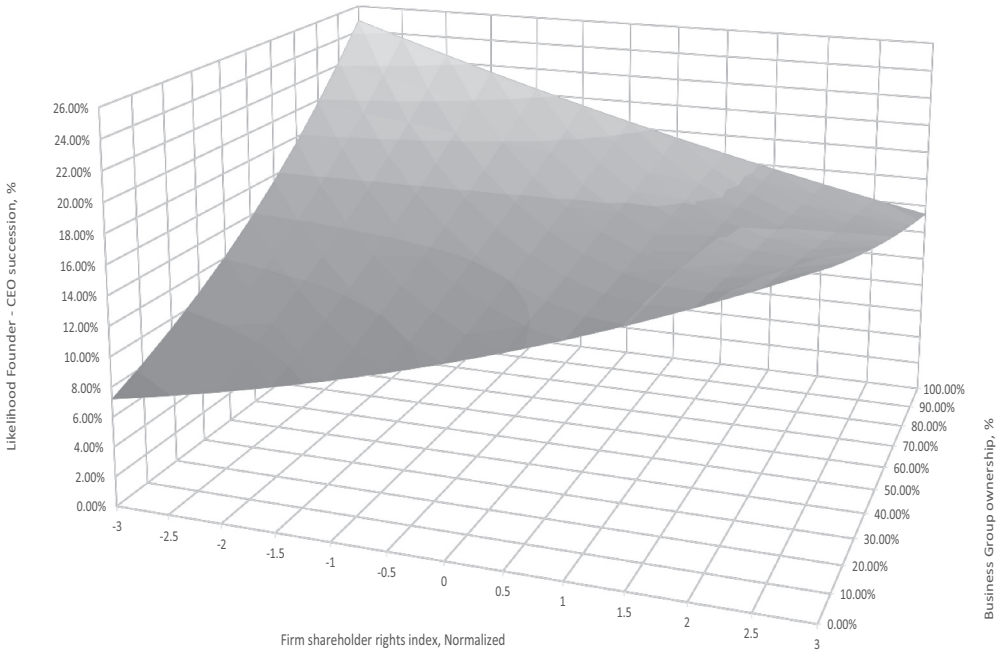

Figure 5. BG ownership moderated by shareholder rights corporate governance.

increase in the likelihood of founder-CEO retention. As firm shareholder rights governance progressively increases to the highest value, the opposite is apparent, with increasing BG ownership leading to sharp decreases in founder-CEO retention. We argue two observations are apparent. The first is the proportionately small scale of change in the dependent variable – evidenced by the limited axis scale of the dependent variable. The second is that the evidence mirrors a transition in the governance associated with the BG role. Here, at low levels of institutional quality, there is an increased emphasis on relational contracting due to the voids in the formal institutional architecture. This leads to an emphasis on human capital and personalized networks of the founder, which leads to their retention as CEO. Conversely, when external finance increases in importance, as reflected by the firm adopting governance affording elevated minority shareholder protections, BG support is sufficient, leading to a lack of necessity for the personalized brand and reputation of the founder.

Moderation of PE ownership by firm shareholder rights governance results in the three-dimensional probability surface displayed in Figure 6, where there is a single large elevation in the probability surface at high PE and correspondingly high shareholder value corporate governance adoption. To fully appreciate the shape of this surface, it is first important to consider that the underlying sample is comprised entirely of developing economies, with higher shareholder value adoption, and offshore jurisdictions, which are rooted in opacity, insider-welfare and negligible shareholder value governance adoption. The human capital and social networks of founders are essential in developing economies, effectively providing a means to circumvent institutional voids when procuring resources. Consequently, founder-CEO retention is higher when firms have an orientation towards adopting shareholder value governance, which is motivated by the need to attract external resource infusions and thereby escape the constraints of the developing economy. Contrastingly, the smallness of offshore jurisdictions and their near total domination by handfuls of powerful local families underscores their collusive nature. There are fewer benefits associated with retaining founder leadership in such contexts, since only family affiliation facilitates access to resources. Together, the evidence from both figures is in line with the theoretical anticipations that underpin our hypotheses.

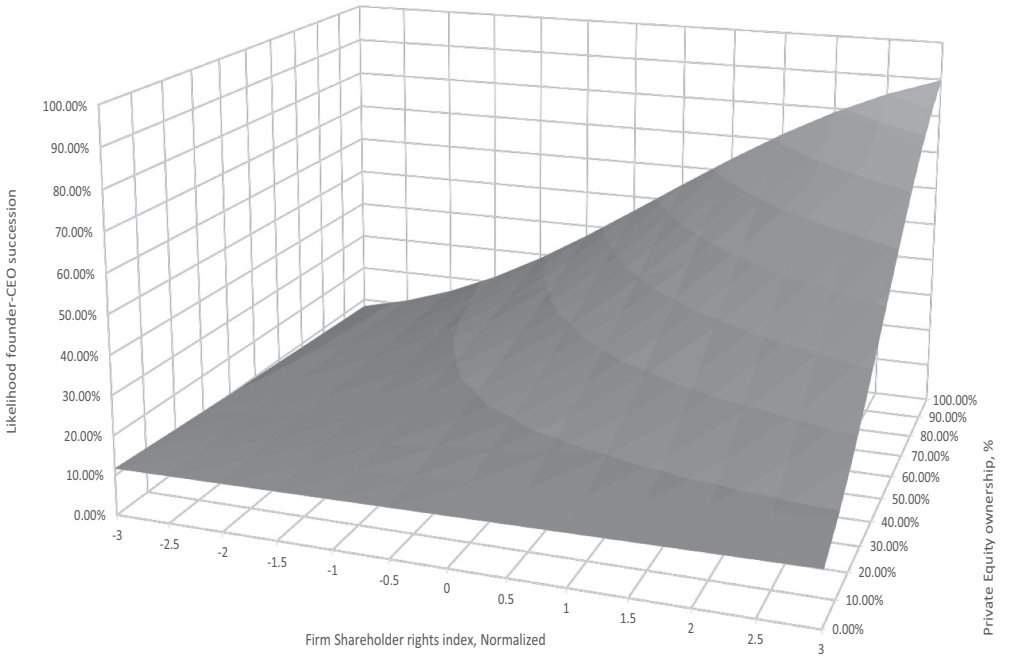

Figure 6. PE ownership moderated by shareholder rights corporate governance.

5.4. Robustness and extensions

We undertook an additional robustness check, 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 hypotheses relating to PE.

We disaggregated PE ownership into the constituent proportions of business angels and venture capitalists, and re-estimated our models with all the same controls and dependent variable. The findings are qualitatively the same as those using the aggregate PE ownership in the main preceding analysis. It is notable that business angel ownership has a much larger impact on founder-CEO retention than does venture capitalist ownership. Following moderation, the effect of the interaction with business angel ownership is negligible in size vis-à-vis that for venture capitalist ownership. This implies that venture capitalist ownership is sensitive to changes in minority investor governance protections, while business angel ownership is not. This would reflect the greater conformity of business angel investors with the indigenous societal fabric.

We extended this analysis by using estimated model parameters, entering a range of these values for both business angel and venture capitalist ownership, along with a range of index values for firm adoption of shareholder rights governance. The resulting three-dimensional probability surface for business angel ownership reveals a lack of sensitivity of the latter to firms' shareholder value governance adoption, reflected in higher business angel ownership across the entire range of shareholder value adoption, leading to massive increases in the likelihood of founder-CEO retention. Conversely, there is a single steep probability peak in the profile of venture capitalist ownership such that, at low shareholder rights governance, any increase in venture capitalist ownership leads to a negligible increase in the likelihood of founder retention. Conversely, under high governance adoption, increasing venture capitalist ownership is accompanied by an extremely steep increase in the likelihood of the founder being retained.

6. Discussion

Our study undertakes a novel analysis of the institutional influences precipitating founder succession from the CEO leadership role within firms in the context of emerging and offshore economies across the Caribbean region. We focus on PE and BG as two common early-stage financiers, in their rival influence of the founder succession event. Our findings reveal that both BG and PE ownership influences founders being retained in their leadership roles although the influence is substantially lower in the case of BG. We find that the adoption of shareholder value governance negatively moderates the positive association between BG ownership and founder retention. The opposite is true in its moderation of the relationship between PE ownership and founder retention.

Our application of an institutional theory perspective (DiMaggio and Powell, 1983) is particularly beneficial in our undertaking of a more fine-grained analysis of the upside benefits associated with founders being retained in CEO leadership roles. This contrasts with the purely downside risks associated with agency-theoretic approaches more typical in the founder succession literature (e.g. Jain and Tabak, 2008, Wasserman, 2017). Consequently, we uncover a more nuanced view of founders' value based on their social status within the social networks which tend to be ubiquitous in emerging and smaller economies owing to their well-documented formal institutional voids. The combination of this elevated status and the relational contracting benefits it brings underscores the moral and pragmatic legitimacy accorded to the firm from its conformity with the opaque network corporate governance model. Therefore, contrary to studies undertaken in the US (e.g. Jain and Tabak, 2008, Chahine, Filatotchev, and Zahra 2011, Wasserman, 2003, 2017), which are typically centred on agency-theoretic approaches, our study emphasizes the retention of founders in the CEO leadership role due to their prolonged value (see e.g. Hearn and Filatotchev, 2019) outweighing any detrimental impact from hubris, overconfidence and other downside risks associated with their leadership.

Our findings support a hitherto unexplored institution-theoretic rationalization of founder-CEO succession, which is based on isomorphic influences (DiMaggio and Powell, 1983) of rival owners on the investee firms' corporate governance to conform with that of an organizational field associated with a given institutional framework. This is an especially important theoretical perspective in emerging and small offshore economies given they typically have significant formal institutional voids (e.g. Khanna and Palepu, 2000), which underscores the importance of informal institutions, and specifically actors drawn from within normative and cognitive frameworks who can act as mediums to facilitate transactions and exchange. Our study sheds important light on two such early-stage financing owners – BGs and PE – in their isomorphic influence that eschews conformity in the governance of their investee firms so as to mitigate 'liabilities of foreignness' (Bell, Filatotchev, and Rasheed 2012) in the case of PE, and specifically venture capital, and 'newness' (Stinchcombe, 1965, Bruton, Ahlstrom, and Li 2010) in the case of investee founder-led firms.

Finally, our findings affirm support for our theorization centring on a re-evaluation of the lifecycle perspective of firms (e.g. Brav and Gompers 2003, Wasserman, 2003). We advocate a simplification of existing corporate lifecycles in terms of a single juncture reflective of firms transitioning from seeking resources within indigenous socialized networks and families towards an emphasis on external, arm's length investors. This overcomes shortcomings with existing notions of the corporate lifecycle since, within emerging economies characterized by institutional voids, the notional 'external' stakeholders with whom the firm seeks realignment at each milestone are rather subsumed under networks or familial affiliations. Our focus on emerging and offshore economies represents a key boundary condition for our study in this respect.

Our results also have important policy implications. The first is that the social status accorded to founders in emerging and offshore economies is far greater than that within large, developed economies. This is a direct outcome of their skillset in navigating the complexities of the informal social networks and collusive families, as well as in acting as a source of reputational credibility within the culturally imbued relational contracting schema

embedded in the networks. The second draws on this view of the prominence of founders inasmuch that this conflicts with the absolute need for uniformity in corporate governance, alongside control extended across constituent members of BGs, leading to an at best minimal motivation to retain founders within BG firms. Such conflict undermines the effectiveness of BGs as a mechanism for development financing of potentially disruptive entrepreneurship which could lead to the development and diffusion of new innovations. The third relates to PE's potential as a source of seed capital for stimulating entrepreneurial economic rejuvenation and reinvigorate stagnated, moribund emerging and offshore economies. Here, PE functions in a very different way from large, developed economies inasmuch that it is subject to voids in both the formal, as well as informal institutional frameworks. Consequently, there is an even greater emphasis on the value accorded to retaining founders as CEOs of investee firms given their presence facilitates the connectivity of the firm as a whole within the broader network economy – leading to considerable legitimacy. Finally, our findings challenge conventional notions of entrepreneurial finance and founder succession which have evolved in large, developed economies such as the US and Europe.

Our findings set the stage for further research into the determinants of founder-CEO succession in a much broader range of institutional contexts than those which have so far dominated the literature, namely those undertaken within large, developed economies (e.g. Jain and Tabak, 2008, Wasserman, 2017). There is potential for the application of quantitative methods utilizing a broader range of indices, capturing various aspects of societal institutional matrices or social fabric. The application of such indices could widen the scope for studies outside of specific geographic regions and facilitate consideration of broader multi-country samples. The application of quantitative methods utilizing a broader range of institutional indices would extend nascent studies by Hearn and Filatotchev (2019) in Africa and this current study on the Caribbean context.

Moreover, we argue there is considerable scope for the application of fine-grained qualitative methods, which can be thought of as complementary to quantitative methods. These could add significant contextual depth and scope in the analysis of both firms' and founders' decision-making surrounding founders' relinquishing of pivotal leadership roles, thereby making novel contributions to institutional theory.

The main limitation of our study is that it is constrained in sample size and geographic focus. In particular, we focus on listed firms across the predominantly English-speaking Caribbean region. It would be potentially beneficial to widen our Caribbean sample to include the non-Anglophone Caribbean, such as Francophone Haiti, and Dutch-speaking Surinam and the Netherlands Antilles, namely Aruba, Curacao and Sint Martin. However, data limitations are severe across the region, being especially relevant for unlisted firms, and a particularly pertinent issue in the study of early-stage entrepreneurial firms. Moreover, the relative dominance of informal sectors in many countries across the region would severely undermine the widening of the scope to early-stage firms.

7. Conclusion

Emerging and offshore economies differ profoundly from their much larger, developed counterparts. They are characterized by extensive institutional voids and often dominated by oligarchic family control, forming the basis for resource intermediation. BGs and PE investors within such contexts are cognizant of the value of founders in terms of their status within social networks, leading to founders' retention in leadership roles. The major corporate milestone event for firms is the transition from opaque indigenous governance frameworks to shareholder value governance. This has a significant moderating impact on both BG and PE ownership's association with founder retention. It also underscores the importance of a reappraisal of the firm lifecycle concept in the context of smaller emerging and developing economies.

Notes

1. This is the same distinct legal family as that in South Africa, Namibia and Sri Lanka (Lee 1914; Cooray 1974).
2. The listings mostly comprise the affiliates of mainland Chinese corporations, which use the listing as a platform from which to seek financing from US, Canadian and foreign investors, thereby circumventing restrictions on attracting foreign investment in their home market.
3. https://www.oecd.org/corporate/principles-corporate-governance.htm.
4. http://info.worldbank.org/governance/wgi/index.aspx#faq.
5. ROA is conventionally defined as ROA = (Net Income + Interest*(1 − Tax Rate))/Total Assets (see Khanna and Palepu 2000). However, due to significant variation in the data arising from varying reporting standards across the Caribbean, with frequent omission of reported interest income and corporate taxation rates from annual reports, we use a modified version of this, namely ROA = Net Income/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.
6. In line with Bruton et al. 2010), we omit the debt-to-equity ratio since it is vulnerable to variations between the static accounting valuation of equity and the market valuation and is vulnerable to the business cycle.
7. 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 2009).
8. We have separately run all models with and without additional binary country effects as an extra robustness check. Their addition caused a substantial reduction in the maximum likelihood and the related informational content of the models, as reflected by reduced Akaike and Schwarz-Bayesian criteria (AIC and SBC).

Disclosure statement

No potential conflict of interest was reported by the author(s).

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Appendix A.

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: 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 Ltd (Tracey Packwood); Bermuda Commercial Bank Ltd (Charlene Gilbert)
Barbados	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 (Ops); Donna Hope (Ops 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) Listed firm: Bank of Bahamas (Leashawn McPhee); Emera (Dina Bartolacci Seely); Commonwealth Bank (Gina Greene); ICBL (Jenifer Clarke); Doctors Hospital (Joanne Lowe)
Cayman Islands	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. Shareholder rights index data elements.

OECD Shareholder Rights index	Founder = CEO	Non – founder
Index – Rights of shareholders	49.52*	41.43
A.1 Does the company offer other ownership rights beyond voting? [%]	14.29	21.15
(i) Preference shares [%]	10.71	11.54
(ii) Convertible Bond/Shares & Options [%]	3.57	0.96
(iii) Multiple share classes [%]	3.57†	11.54
A.2 Is the decision on the remuneration of board members or executives approved by the shareholders annually? [%]	89.29*	67.31
A.3 How is the remuneration of the board presented? [%]	92.86	85.58
(i) Are individual directors base cash salaries disclosed? [%]	3.57†	13.59
(ii) Are individual directors bonuses disclosed? [%]	0.00	0.97
(iii) Are individual directors long-term incentives (options, pension etc) disclosed? [%]	0.00	4.85
(iv) Are benefits paid to directors? [%]	0.00†	7.77
(v) Are benefits enumerated/evaluated? [%]	0.00†	6.80
(vi) Is salary aggregated into one lump sum paid? [%]	85.71	81.73
(vii) Is director fees aggregated into lump sum emolument? [%]	92.86†	77.88
A.4 Quality of Notice to call a Shareholders Meeting in the past one year. [%]	85.71*	66.02
(i) Appointment of directors, providing their names and background [%]	85.71*	67.31
(ii) Appointment of auditors, providing their names and fees. [%]	85.71*	65.38
(iii) Dividend policy, providing the amount and explanation. [%]	82.14*	58.65
A.5 Did the Chairman of the Board attend at least one AGM in the past two years? [%]	88.89**	56.04
A.6 Board effective monitoring [%]	50.95**	26.97
(i) Did the CEO/Managing Director attend at least one AGM in the past two years? [%]	88.89**	56.04
(ii) Is a name list of board attendance available? [%]	57.14*	31.73
(iii) How many directors did not attend 100% meetings [#]	2.31	3.08
(iv) How many directors did not attend 70% of meetings? [#]	0.75	1.08
A.7 Do AGM minutes record that there was an opportunity for shareholders to ask questions/raise issues in the past one year? [%]	7.14	14.29
A.8 Does the company have anti-takeover defences? [%]	92.86	88.46
(i) Cross shareholding [%]	60.71**	84.62
(ii) Pyramid holding [%]	60.71**	84.62
(iii) Board members hold more than 25% of share outstanding [%]	82.14***	9.62
A.9 Company dual listed? [%]	0.00†	7.69
(i) Company dual listed on OECD stock exchange [%]	0.00	0.96
(ii) Controlling parent listed on OECD stock exchange [%]	0.00**	16.35
E.11 What is the size of the board? [#]	7.68**	9.01

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

t-difference in means test for each of the respective governance elements between founder-CEO led firms and their non-founder-CEO counterparts in 2017.