From Agency Costs to Experiential Learning: Minority Shareholders in Business Groups' International Expansion

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ABSTRACT

Business groups (BGs) are among the most prevalent organizational forms worldwide, yet their internationalization strategies remain insufficiently understood. This paper examines the role of minority shareholders as a mode of entry (MOE) in shaping BGs' cross-border expansion. Drawing on agency theory and the knowledge-based view, we argue that minority shareholders represent a double-edged sword: while they generate principal–principal conflicts and monitoring costs, they also enhance the group's knowledge stock by forcing controlling owners to develop transferable governance routines. Using a large panel of affiliate- and group-level data, we show that prior experience with minority shareholder affiliates increases the probability of subsequent co-investment, confirming an experiential learning mechanism. At the group level, the accumulated propensity to rely on minority shareholders predicts both the likelihood of being multinational and the number of countries entered, though the relationship follows an inverted-U shape as governance complexity rises. Family-controlled BGs are less able to translate minority shareholder experience into internationalization, consistent with their socioemotional wealth preservation motives and higher risk aversion. These findings contribute to research on business groups and international business by reframing minority shareholders not only as agency cost problems but also as strategic partners in governance learning, with implications for theory, policy, and managerial practice.

1. INTRODUCTION

At its core, a business group (BG) is generally understood as a set of legally independent firms that are joined or tied together by formal (e.g., ownership and interlocking directorates) and informal ties (e.g., kinship, friendship, religion, language…), that share group resources (Mahmood et al., 2011), and typically operate cohesively to achieve mutual goals (R. V. Aguilera et al., 2023). Unlike the Anglo-American model dominated by standalone corporations, BGs represent a hybrid organizational form that blends features of markets and hierarchies (Holmes et al., 2018). Business groups are seen as an organizational response to inefficient or missing institutions, particularly in emerging economies, where they can compensate for institutional voids (Khanna & Palepu, 2000; Khanna & Yafeh, 2007).

However, business groups are not only present in developing economies. For example, 50% of the Swedish stock market is held by two family-controlled business groups (Dau et al., 2021), BGs employ 40% of the workforce in OECD countries (R. V. Aguilera et al., 2023), play a key role in Japan's and South Korea's corporate development (H. Kim et al., 2006; R. K. Morck & Nakamura, 2005), and control a large quantity of non-publicly held firms in Belgium (78%), Sweden (53%), and Portugal (44%) (La Porta et al., 1999). Their ubiquity and economic significance justify the need to understand better how BGs are governed, how they expand across borders, and how their ownership structures affect their strategic behavior.

Business groups present an idiosyncratic ownership structure. Pyramidal ownership is observed worldwide, and its relationship with the separation of control and ownership is a central theme in the literature (R. V. Aguilera et al., 2023; Almeida et al., 2011; Almeida & Wolfenzon, 2006). Such separation allows, on the one hand, controlling a large number of firms with a relatively small equity investment. On the other hand, the control-ownership separation allows for the transfer and reassignment of inputs among affiliates (R. V. Aguilera et al., 2020; Dau et al., 2021; Holmes et al., 2018), through internal capital and labor markets, and helps overcome institutional deficiencies (inefficient external financial markets, poor contract enforcement, etc.). However, the governance of business groups differs from that of standalone firms because decisions must balance the competing interests of multiple affiliates, ultimate controllers, and minority investors (cite HOLMES ET AL 2018). These issues are particularly pronounced in the relationship between controlling and minority shareholders (Faccio et al., 2001; Johnson et al., 2000; Kali & Sarkar, 2011; S. Kim & Kim, 2022; Urzúa I., 2009).

Despite the prevalent view of minority shareholders as a source of agency conflict, we argue that they play a beneficial role in international expansion, potentially fostering faster and broader internationalization for BGs. The institutional voids BGs overcome are typically regional-specific (Khanna & Palepu, 2000; Khanna & Yafeh, 2007). Moreover, the literature predicts that family-owned business groups' nepotism, reluctance to control dilution, and risk aversion become a barrier to acquiring managerial talent, learning to implement efficient monitoring processes, and limiting international expansion funding only to internal sources (R. V. Aguilera et al., 2023; Arregle et al., 2021; Miller et al., 2013). Therefore, raising external capital from minority shareholders can increase access to crucial managerial talent and financial resources needed for expansion. Furthermore, learning how to manage agency costs efficiently provides a non-location-bound governance knowledge and network skills that can be replicated in new foreign regions (Schwens et al., 2018). Thus, experiential learning (firms learn from past experiences to guide future behavior) in this area becomes crucial to internationalization.

The internationalization process of business groups has received increasing but still scant attention. Whether these structures provide an advantage (internal markets, overcoming institutional voids) or a disadvantage (minority shareholder expropriation) remains an open question. For the first time, this paper blends organizational learning (Levitt & March, 1988) and agency theory and studies its association with business group internationalization.

We find that the past presence of affiliates with minority shareholders increases the probability of an affiliate having minority shareholders, supporting the experiential learning hypothesis. This effect is stronger in family-owned BGs, supporting the lack of experience with such a governance mode of entry (MinMOE) hinders its future use. Later, we utilize BG's average propensity to use minority shareholders as a mode of entry to predict the probability of a business group being a multinational business group (MNBG) and the number of countries in which a BG is present. We also observe that the family's risk aversion moderates the effect of MinMOE on both the probability of being a MNGB and the number of countries in which a BG is present.

Furthermore, we posit that the benefits of using minority shareholder co-investment as a mode of entry are not linear. On top of the internationalization complexity, the increased number of affiliates with minority shareholder agency conflicts in a BG adds an additional management complexity. Therefore, we predict a turning point in the relationship between a BG's propensity to use minority shareholders as a mode of entry (MinMOE) and the probability of being an MNBG. The turning point is confirmed only in non-family business groups. Future research on corporate blockholdings and the family's socio-economic wealth (SEW) pursuit could shed some light on this phenomenon.

Our paper contributes to the understanding of minority shareholders in business groups by reframing their role as a double-edged sword. Prior work has primarily emphasized minority investors as sources of agency costs and expropriation risk. Our findings complement this perspective by highlighting how governance experience, rather than only market knowledge, shapes international scope. Through repeated co-investment, business groups develop transferable governance routines in contracting, dividend distribution, and monitoring that can be leveraged in international expansion.

2. LITERATURE REVIEW AND HYPOTHESIS FORMATION

Business groups are structurally distinct from conglomerate organizations mainly, but not exclusively, due to the limited liability of their affiliated units which makes them legally independent from one another (Belenzon et al., 2023; Carney et al., 2011). These firms are bound together by ownership/economic links and/or social relations, coordinate to achieve mutual objectives, and share a common dominant owner (R. V. Aguilera et al., 2024, 2020; Yiu et al., 2007). Business groups are seen as an adaptive response to market imperfections (e.g., weak factor markets and institutions) and can facilitate financing in environments with underdeveloped capital markets (Carney et al., 2011; Manikandan & Ramachandran, 2015). Thus, business groups are highly variegated and have complex structures. They are ubiquitous in many countries, using different structural shapes (pyramidal, horizontal, web), and owner identities (state, labor, family, corporate).

Ownership concentration is a fundamental characteristic of corporate ownership and control structures across the globe, particularly outside the Anglo-Saxon economies (Claessens et al., 2000; La Porta et al., 1999; R. Morck et al., 2005). It implies that one or a few shareholders hold a large portion of a firm's equity and therefore, control and decision-making power is vested in a limited number of parties (R. V. Aguilera et al., 2024; Holmes et al., 2018; La Porta et al., 1999). Controlling shareholders can achieve and amplify their power through various mechanisms that often lead to a divergence between control rights and cash flow rights (Almeida et al., 2011; Almeida & Wolfenzon, 2006; Claessens et al., 2000; Kang et al., 2014; R. Morck et al., 2005). Pyramidal structures are arguably the most important mechanism, especially in environments with poor investor protection (Faccio & Lang, 2002; Masulis et al., 2011). In a pyramid, a controlling shareholder directly controls one firm, which then controls another firm, and so forth, allowing control over many firms with a relatively small direct capital investment (Almeida et al., 2011; Almeida & Wolfenzon, 2006). Concentrated ownership has its bright and dark sides.

Some argue that pyramids primarily facilitate tunneling, while others suggest they offer financing advantages for new firm creation. On the one hand, concentrated owners have greater incentives to monitor managers, potentially leading to higher performance and market value (Holmes et al., 2018). Pyramidal structures can provide a financing advantage by allowing controlling shareholders to set up new firms when the pledgeability of cash flow is limited, investing only a fraction of the required capital (Dau et al., 2021). They enable supporting high-risk/high-return investments, fostering innovation (R. V. Aguilera et al., 2024). Furthermore, thanks to the monitoring incentive, BGs can coordinate affiliates to prevent cheating in corrupt environments and circumvent dysfunctional institutions and incomplete markets (Dau et al., 2021). On the other hand, however, the primary concern with concentrated ownership is the potential for conflicts between the controlling shareholder and minority shareholders, where the former expropriate the latter via tunneling (Faccio et al., 2001; Johnson et al., 2000; Kali & Sarkar, 2011; S. Kim & Kim, 2022; Urzúa I., 2009). Also, concentrated control through pyramids, especially by wealthy families, can lead to economic entrenchment, where these elites leverage their political influence to shape institutional development to their advantage, thereby hindering economic growth (Fogel, 2006; R. Morck et al., 2005; Pattnaik et al., 2018).

Internationalization mechanisms are a critical strategic decision for firms expanding globally, and this decision is particularly nuanced when considered within the broader context of business groups. International mode of entry (MOE) choices respond to a control–resource commitment trade-off. BGs seeking to maximize control and capable of resource allocation opt for foreign direct investment (equity modes) (Andreu et al., 2017; Chang et al., 2012). The MOE choices can be classified into equity-based entries (wholly- or partially-owned affiliates) and non-equity-based entries (contractual agreements or exporting) (Andreu et al., 2017; Beugelsdijk et al., 2018; Tihanyi et al., 2005).

A wholly owned affiliate (WOA) is preferred when BGs desire to maximize control, since it allows making decisions at their discretion, without concerns about opportunistic behavior. This mode is also preferred for protecting proprietary technologies and other R&D intensive assets (Chang et al., 2012; Li & Xiong, 2022; Schwens et al., 2018). Some family-owned business groups, particularly those with a strong desire to preserve their Socioemotional Wealth (SEW) and family identity, may prefer WOS to ensure their family values and norms are maintained (Jain et al., 2024). However, WOS entails a large resource commitment and a higher risk (Xu et al., 2020), higher liability of foreignness due to its integration challenges, and possibly SEW loss for family-owned BGs (Boellis et al., 2016).

The advantages of a partially owned affiliate (POA) include risk sharing, as well as access to local knowledge and expertise that helps overcome the liability of foreignness. It brings financial advantages due to the control-ownership separation (Pongelli et al., 2016; Saiyed et al., 2023). However, the presence of minority shareholders paves the way for potential agency costs (Beugelsdijk et al., 2018; Chang et al., 2012; Jain et al., 2024).

This paper focuses on the intersection between equity modes of entry and principal-principal agency conflicts. When BG controlling shareholders decide to expand globally by establishing a new affiliate, they must decide whether to enter with a wholly owned subsidiary or a partially owned one. Because typically business groups are designed to overcome region-specific institutional voids and market inefficiencies, the liability of foreignness, the added cost and risk of operating in an unfamiliar environment, plays a crucial role (Hutzschenreuter & Matt, 2017; Zaheer, 1995). As BGs gain experience, uncertainty decreases (Jain et al., 2024). However, Schwens et al., (2018) differentiates between mode-specific (non-location-bound) and market-specific (location-bound) experience. Mode-specific learning can lead BGs to repeat the same mode in new locations. Therefore, we posit that the decisions regarding international scope and MOE are not independent of one another but depend heavily on experiential learning, which is fundamental to understanding how business groups expand across borders.

Certainly, the presence of minority shareholders pushes controlling shareholders to deal with agency conflicts. However, experience managing this type of conflict and MOE can provide controlling shareholders with non-location-bound experiential learning. Experiential learning is viewed as dynamic, where a business group's past and current activities shape and redefine processes and routines for setting up an affiliate using the same MOE (Hutzschenreuter & Matt, 2017; Schwens et al., 2018). Therefore, our first hypothesis predicts that a business group's past experience with minority shareholders increases the probability of allowing minority shareholders to take part in an affiliate’s ownership.

However, we argue that this relationship is not linear. Increasing partially-owned affiliates can increase complexity, leading to a loss of control and increasing management costs. For this reason, we expect a turning point in the relationship between experience managing partially-owned affiliates and the use of minority shareholders as a MOE.

Hypothesis 1A: The more experience with partially-owned affiliates a BG has, the higher the probability that an affiliate will have minority shareholders.

Hypothesis 1B: There is a turning point in the relationship between experience managing partially-owned affiliates and the probability of an affiliate having minority shareholders.

The literature presents a mixed and often contradictory view on how family ownership influences a firm’s internationalization and its choice of mode of entry. This debate largely revolves around whether family firms are primarily risk-averse or exhibit a long-term orientation and stewardship behavior (Arregle et al., 2021; Debellis et al., 2021; Karaevli & Yurtoglu, 2021; Pongelli et al., 2016). Families' risk aversion stems from the desire to preserve SEW, loss of control, undiversified wealth – since typically the entire family’s wealth is invested in the business, desire for conformity, nepotism, and limited managerial talent (Debellis et al., 2021; Fernández & Nieto, 2006; Jain et al., 2024).

A contrasting view, often rooted in stewardship theory, posits that family ownership can facilitate internationalization due to a long-term perspective and strong identification with the firm, which motivates them to act in the firm’s best interest, even with challenges and risks. Furthermore, family businesses often adopt a long-term horizon to ensure the business's continuity across generations, fostering persistent and resilient strategies. Most importantly, the overlap between ownership and management can be used as a mechanism to minimize agency conflicts (Arregle et al., 2021; Colli & Colpan, 2016; Holmes et al., 2018; Jain et al., 2024; Karaevli & Yurtoglu, 2021; Muñoz-Bullón & Sánchez-Bueno, 2012). For this reason, we argue that family ownership moderates positively the positive relationship predicted in hypothesis 1A.

Hypothesis 2: Family ownership positively moderates the probability of using minority shareholders as a MOE.

As mentioned before, BGs face two types of international barriers: the lack of location-based knowledge, since they are typically designed to overcome region-specific institutional voids and dysfunctional markets; and the lack of non-location-based knowledge, such as experience in different corporate practices, dealing with agency conflicts, etc. We propose that BGs accustomed to dealing with minority shareholders as an MOE gather experience in such agency conflicts and develop skills, routines, and processes to replicate this mode in different regions. Therefore, we hypothesize that when a BG's propensity to use minority shareholders as a MOE, the internationalization scope of the business group increases. However, we argue that this effect is moderated by family ownership for three reasons: risk-aversion, desire for conformity, and the lack of managerial talent, especially in subsequent family members, facing BG structures that increase in complexity.

Hypothesis 3A: A higher BG propensity of relying on minority shareholders as a MOE is positively associated with internationalization.

Hypothesis 3B: Family ownership moderates the positive association between a BG's propensity of relying on minority shareholders and internationalization.

3. DATA & METHODOLOGY

This study utilizes ownership data from Bureau van Dijk's ORBIS database. We collect a total of 829,049 firm-year observations between 2017 and 2021. We use affiliate variables to test hypotheses 1 and 2. Then, we keep only the business group variables to test hypothesis 3.

a. Business Group Empirical Identification

We follow the same BG empirical identification methodology as (R. V. Aguilera et al., 2020; Belenzon et al., 2019; Masulis et al., 2011), which is depicted in *Figure 1*. To identify business groups, we utilize specific variables for each firm, each shareholder's identifier, and the ownership structure of 9,683,174 firms (comprising all active firms in the ORBIS database). In the first stage, we examine a firm and identify its largest shareholder. We must also distinguish whether it is a person or another firm. (2) We determine the controlling shareholder of the affiliated firm. Numerous studies investigating ownership structures have assumed that control can be achieved through an ownership stake greater than 20% in public companies (La Porta et al., 1999; Masulis et al., 2011). In contrast, for private companies, the ownership threshold is 50% (Belenzon et al., 2019). If we identify a controlling shareholder as a corporation, we repeat the process for this other corporation. We define a company as a widely held firm if its largest shareholder does not meet either of these two ownership thresholds. We cease escalating if the identified controlling shareholder is an individual or an institution not included in our database (e.g., a governmental institution). The last controlling shareholder identified through this process is deemed the BG controlling shareholder. If the controlling shareholder is a corporation and does not meet one of the specified criteria, we conclude that a widely held entity owns this particular business group.

[Insert *Figure 1* around here]

b. Key variables

In this study we

4. RESULTS

Tables 1 to 3 provide the descriptive statistics and correlation matrices for both affiliate- and BG-level variables. At the affiliate level, about 27% of affiliates are partially owned with minority shareholders (MinShMOE = 1). The average business group has roughly 2.6 affiliates with minority shareholders, and the average hierarchical level of affiliates is 1.7, reflecting that most affiliates are located close to the headquarters in the ownership chain. Capital intensity and leverage display moderate variation across affiliates, and the average level of investor protection across countries in the sample is relatively high. At the BG level, 29% of groups are classified as multinational (MNBG = 1), operating in an average of 1.7 countries and across nearly three 2-digit NACE industries. The distribution of the average predicted probability of using minority shareholders (Mean Phat) shows substantial heterogeneity, with values ranging from near zero to almost one.

[Insert *Table 1* around here]

The correlation matrices provide first insights consistent with our hypotheses. At the affiliate level (*Table 2*), the lagged number of affiliates with minority shareholders is positively and significantly correlated with the probability that a focal affiliate has minority shareholders ($\rho = 0.28$). This supports the idea that groups learn from prior experience. At the BG level (*Table 3*), being multinational is strongly correlated with the number of countries ($\rho = 0.64$), as expected. Mean Phat is positively correlated with both MNBG and N Countries, suggesting that a higher propensity to rely on minority shareholders as a mode of entry is associated with broader internationalization scope.

[Insert *Table 2* and *Table 3* around here]

Table 4 presents logit estimates of the probability that an affiliate has minority shareholders (MinShMOE). Across specifications, several robust patterns emerge. First, hierarchical distance (Level) is consistently positive and significant, suggesting that affiliates further away from headquarters are more likely to involve minority shareholders. Capital intensity also increases the probability of minority shareholder involvement, consistent with the idea that resource-intensive projects benefit from risk sharing. Across all specifications in Table 4, the coefficient of *Leverage* is negative and highly significant. This suggests that BGs face a trade-off when financing affiliates: they can either bring in a minority shareholder to share ownership, or they can rely on debt financing. Both mechanisms reduce the need for the headquarters to provide the full investment, but they are largely substitutes rather than complements.

Most importantly, we find strong evidence of experiential learning. The lagged number of affiliates with minority shareholders (Lag N MinSh MOE) significantly raises the probability that a new affiliate will be partially owned. Column (3) introduces the quadratic term, which is negative and significant, confirming the hypothesized inverted-U relationship: while initial experience with minority shareholders encourages repeated use of this governance mode, excessive reliance eventually reduces the likelihood of further adoption due to rising coordination and agency costs.

[Insert *Table 4* around here]

Family ownership plays a critical moderating role. The positive coefficient on FamilyBG indicates that family-controlled groups are overall more likely to use minority shareholders. However, the interaction effects reveal a nuanced pattern. In column (2), the FamilyBG × Lag N MinSh MOE term is positive and significant, suggesting that family groups learn from experience and become more open to minority shareholders. Yet column (3) shows that family groups experience a flatter inverted-U curve: the negative interaction with the squared term indicates that the marginal benefits of accumulating minority shareholder affiliates decline more gradually in family BGs.

Table 5 shifts the focus to the international outcomes of BGs, examining both the probability of being multinational (MNBG) and the number of countries of operation (N Countries). The results provide consistent support for our third set of hypotheses.

First, Mean Phat—the group's average predicted probability of relying on minority shareholders—is strongly and positively associated with both the likelihood of being multinational and the breadth of international scope. This finding suggests that prior experience with minority shareholders as a mode of entry generates transferable governance capabilities that facilitate expansion across borders. In other words, learning to manage principal–principal conflicts at home prepares BGs to confront the uncertainties of foreign entry.

[Insert *Table 5* around here]

Second, the models uncover critical nonlinearities and ownership effects. In the logit models predicting MNBG, the inclusion of Mean Phat squared (Column 3) produces a concave relationship, consistent with an inverted-U pattern: up to a point, co-investing with minority shareholders enhances the probability of becoming multinational, but excessive reliance may dampen further internationalization. This turning point appears more relevant for non-family groups, as the interaction terms show. Family BGs display a significantly weaker relationship between Mean Phat and internationalization: the FamilyBG dummy is negative and significant in MNBG models, and its interaction with Mean Phat (Columns 2 and 3) suggests that reliance on minority shareholders dampens internationalization plans of domestic family BGs.

Third, the fixed-effects regressions on the number of countries (Columns 4 and 5) reinforce these conclusions. Mean Phat again has a positive and significant effect on the number of foreign countries, while the interaction with FamilyBG is negative, suggesting that family ownership dampens the benefits of minority shareholder experience for international scope.

Interestingly, Ln OPENMARK is positively associated with the probability of being classified as a multinational BG, yet its coefficient turns negative when the dependent variable is the number of countries in which a BG operates. This divergence suggests that market openness facilitates the initial step into internationalization—BGs in more liberalized environments are more likely to become multinational. However, once abroad, highly open environments also provide alternative channels of international involvement, such as exporting and importing, that may substitute for setting up affiliates across many different countries. In other words, BGs embedded in open economies may cross the threshold of being multinational more easily, but they do not necessarily expand their geographic scope as broadly through equity-based affiliates. Year dummies capture the disruptions of the COVID-19 pandemic, with a dip in 2021 for both multinomial status and scope.

Together, the results confirm our hypotheses. At the affiliate level, BGs with greater prior experience of minority shareholder co-investment are more likely to repeat this mode of entry, though the effect diminishes at higher levels of exposure (H1A and H1B). Family ownership positively moderates the initial learning effect but also flattens the inverted-U curve (H2). At the BG level, the accumulated propensity to use minority shareholders as a governance mode significantly predicts both the probability of being multinational and the extent of international diversification, though the relationship is weaker or even negative in family-controlled groups (H3A and H3B). These findings underscore the dual nature of minority shareholders in BGs—as sources of governance complexity but also as conduits of experiential learning.

5. DISCUSSION

A central contribution of this study is to reframe the role of minority shareholders in business groups as a double-edged sword. Traditionally, minority investors are portrayed primarily as a source of agency conflict: controlling shareholders may expropriate them through tunneling, self-dealing, or dividend suppression, leading to principal–principal frictions and increased monitoring costs (Faccio et al., 2001; Kali & Sarkar, 2011; S. Kim & Kim, 2022; Urzúa I., 2009). In this view, wholly owned affiliates appear safer from governance disputes because they allow controlling shareholders to retain full discretion over resources and decisions. Yet our results highlight the underappreciated benefits of minority shareholders.

Co-investment introduces new perspectives, local networks, and external discipline into the governance of affiliates, thereby enriching the group's overall knowledge stock (Hutzschenreuter & Matt, 2017; Levitt & March, 1988; Schwens et al., 2018). While wholly owned affiliates tend to concentrate learning and decision-making at headquarters, minority-owned affiliates become vehicles for knowledge diffusion and experimentation in governance. By forcing controlling owners to design contracts, establishing dividend distribution rules, and monitoring alongside co-owners, minority shareholders induce BGs to develop routines for managing complex governance relationships. These acquired governance practices represent non-location-bound knowledge that can be used to expand internationally in unfamiliar environments (Schwens et al., 2018).

BGs that repeatedly co-invest with minority shareholders accumulate experiential learning in managing principal–principal conflicts, which can then be transferred across affiliates and countries. This capability helps them overcome uncertainty and liability of foreignness in international markets. In this sense, minority shareholders are not merely an agency cost problem; they are also a knowledge acquisition strategy that enhances the internationalization capacity of BGs.

6. CONCLUSION

This study sheds light on the dual role of minority shareholders in business groups' internationalization strategies. By examining how groups decide on their mode of entry and how accumulated experience with minority shareholders shapes their multinational scope, we show that minority investors act as both a source of agency conflict and a catalyst for organizational learning. Our results reveal an inverted-U relationship: at low to moderate levels, minority co-investment enhances internationalization by enriching the group's knowledge stock and governance capabilities; at high levels, however, the added complexity and agency costs reduce the effectiveness of this strategy. Moreover, family-controlled business groups appear more reluctant to translate minority shareholder learning into international expansion, consistent with their socioemotional wealth preservation and risk-aversion motives. Overall, these findings suggest that minority shareholders should not be viewed solely as an agency cost problem, but as a knowledge acquisition mechanism that can strengthen the international capacity of business groups when balanced carefully.

Our findings provide important lessons for managers and policymakers since co-investing with minority shareholders is not only a financing alternative prone to developing agency conflicts, but it is also a strategic learning tool. Our results suggest that minority co-investment also generates positive externalities by fostering organizational learning that enables groups to expand internationally and build governance capacity. Regulators should therefore pursue a balanced agenda: strengthen minority shareholder protections (e.g., through stronger dividend rights, disclosure rules, and board representation) to reduce agency risks, while avoiding blanket restrictions that could discourage co-investment. In emerging economies, supporting minority shareholder participation may help groups overcome institutional voids and accelerate integration into global markets.

Just as minority shareholders can expand governance knowledge relevant for internationalization, they may also foster learning that enables business groups to diversify across industries. Affiliates with external co-investors may expose groups to new technologies, industry practices, and networks, potentially easing entry into unrelated sectors. Our sample is multi-country, but the models treat institutional protection largely as a control. Future studies could explicitly examine how national-level investor protection, enforcement quality, or cultural distance conditions the trade-off between the costs and benefits of minority co-investment.We focused on internationalization scope. An important extension would be to analyze whether minority shareholder co-investment ultimately enhances or diminishes long-run performance, innovation, and resilience of business groups, and whether the benefits differ between family and non-family groups.

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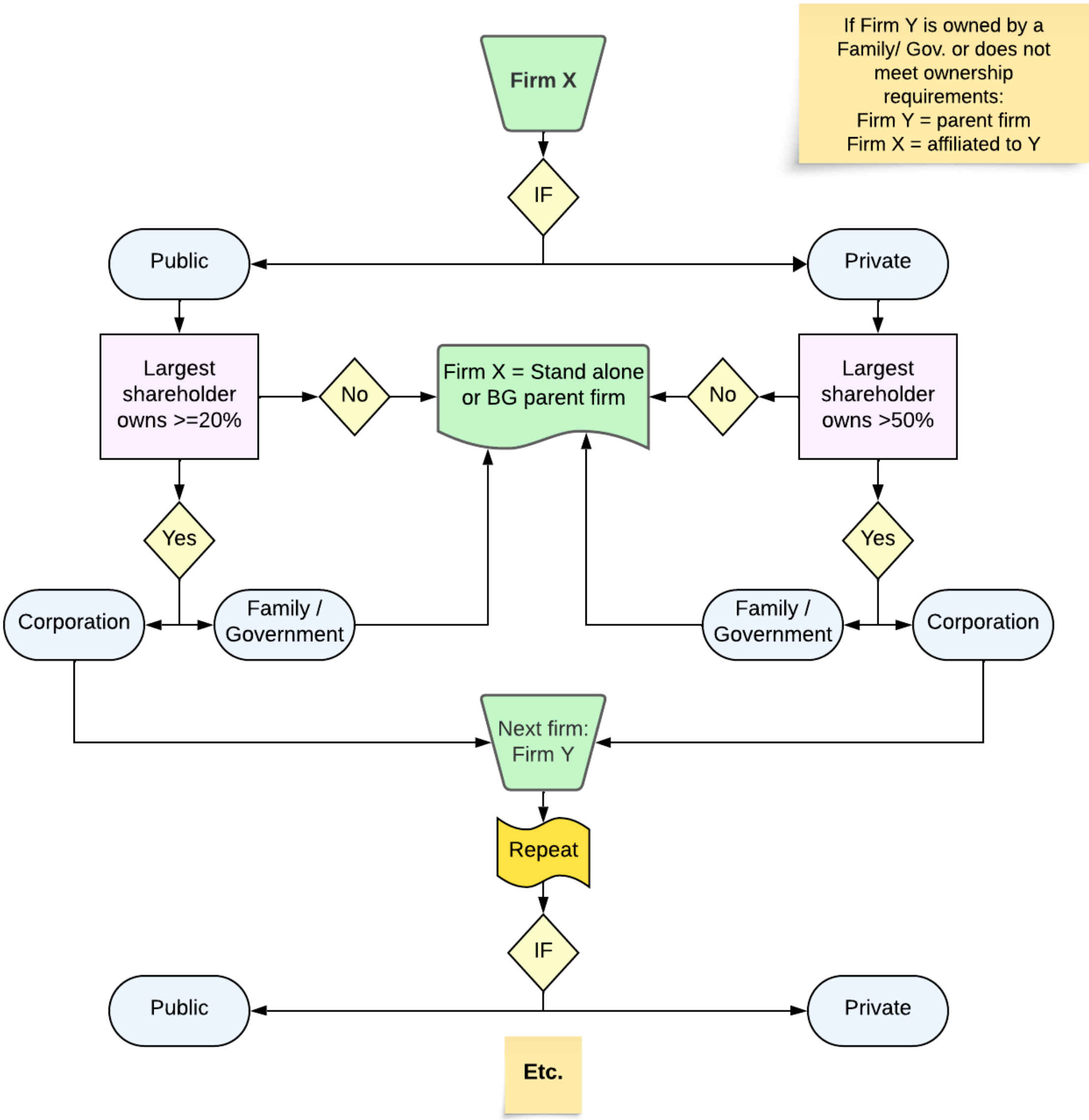
8. LIST OF FIGURES



9. LIST OF TABLES

Table 1. Descriptive Statistics

Affiliate-level var	N	Mean	Median	Min	Max
MinShMOE	580946	.271	0	0	1
N MinShMOE	580946	2.632	1	0	22
Level	580946	1.681	1	1	14
Cap Int	580946	.44	.368	0	1
Leverage	580946	.219	.071	0	.903
Inv Prot	580946	74.397	77.65	34.45	94.9
BG-level var					
MNBG	103284	.291	0	0	1
N Countries	103284	1.664	1	1	29
N NACE2	103284	2.867	3	1	32
Ind Conc	103284	.499	.452	.071	1
BG OPENMARK	103284	76.358	77.824	37.067	91.667
Mean Phat	103284	.207	.158	.015	.999

Table 2. Correlation matrix of affiliate-level variables

	MinShMOE	N minsh	Level	Cap Int	Leverage	Inv Prot
MinShMOE	1					
N minsh	0.281***	1				
Level	-0.0797***	0.258***	1			
Cap Int	-0.0132***	0.0211***	-0.00730***	1		
Leverage	-0.0160***	0.00145	-0.0141***	0.351***	1	
Inv Prot	-0.194***	-0.146***	0.0554***	0.0606***	0.0494***	1

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 3. Correlation matrix of BG-level variables

	MNBG	N Countries	N NACE2	Ind Conc	BG OPENMARK	Mean Phat
MNBG	1					
N Countries	0.640***	1				
N NACE2	0.257***	0.417***	1			
Ind Conc	-0.171***	-0.219***	-0.741***	1		
BG OPENMARK	0.0865***	0.0413***	-0.0473***	0.0531***	1	
Mean Phat	0.0648***	0.119***	0.301***	-0.204***	-0.310***	1

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4. Logit models predicting the probability of using minority shareholders as MOE

	(1) MinShMOE	(2) MinShMOE	(3) MinShMOE
Level%	0.167***	0.109***	0.432***
	(0.032)	(0.033)	(0.036)
Inv Prot	0.003*	0.002	0.001
	(0.001)	(0.001)	(0.002)
Leverage	-0.226***	-0.234***	-0.203***
	(0.028)	(0.028)	(0.031)
Cap Int	0.178***	0.198***	0.180***
	(0.023)	(0.023)	(0.026)
Lag N MinSh MOE	0.116***	0.103***	0.396***
	(0.008)	(0.007)	(0.011)
FamilyBG		0.272***	0.179***
		(0.053)	(0.032)
FamilyBG # Lag N MinSh MOE		0.079*** (0.029)	0.194*** (0.024)
Lag N MinSh MOE2			-0.016***
			(0.001)
FamilyBG # Lag N MinSh MOE2			-0.009*** (0.002)
_cons	-0.802	-0.997	-1.639*
	(0.700)	(0.832)	(0.916)
Observations	580946	580946	580946
Pseudo R^2	0.136	0.146	0.192
FEs	Yes	Yes	Yes
Unit	Affiliate	Affiliate	Affiliate

Standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*

Table 5. Logit and regression models predicting internationalization scope

	(1) MNBG	(2) MNBG	(3) MNBG	(4) N Countries	(5) N Countries
2019.year	-0.082***	-0.076***	-0.077***	0.011***	0.010***
	(0.020)	(0.020)	(0.020)	(0.004)	(0.004)
2020.year	-0.084***	-0.073***	-0.073***	0.036***	0.036***
	(0.019)	(0.020)	(0.020)	(0.004)	(0.004)
2021.year	-0.090***	-0.080***	-0.076***	-0.010**	-0.010**
	(0.021)	(0.021)	(0.021)	(0.005)	(0.005)
Ln OPENMARK	2.685***	2.423***	2.651***	-2.036***	-2.036***
	(0.074)	(0.072)	(0.077)	(0.122)	(0.122)
Mean Phat	1.333***	1.852***	3.835***	0.196***	0.414***
	(0.042)	(0.060)	(0.177)	(0.035)	(0.052)
FamilyBG		-0.845***	-0.645***		0.030**
		(0.024)	(0.037)		(0.015)
FamilyBG # Mean Phat		-0.053	-2.179***		-0.269***
		(0.084)	(0.261)		(0.052)
_cons	-12.746***	-11.337***	-12.511***	10.425***	10.398***
	(0.327)	(0.318)	(0.343)	(0.530)	(0.530)
Observations	103284	103284	103284	103284	103284
Within R^2	.z	.z	.z	0.008	0.009
Adj R^2	.z	.z	.z	-0.467	-0.466
Unit	BGid	BGid	BGid	BGid	BGid
Model	logit	logit	logit	xtregfe	xtregfe

Standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*