DOCTOR OF PHILOSOPHY IN MANAGEMENT

ESSAYS ON INTERNATIONALIZATION, CORPORATE GOVERNANCE, OWNERSHIP NETWORKS, AND FIRM PERFORMANCE

By

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To

My Parents

ACKNOWLEDGMENTS

Proclaim! (or read!) in the name of thy Lord and Cherisher, Who created-
Created man, out of a (mere) clot of congealed blood:
Proclaim! And thy Lord is Most Bountiful,-
He Who taught (the use of) the pen,-
Taught man that which he knew not.
[Quran, 96:1-5]

I firmly believe that nothing happens without the Almighty's decree. Being thankful to Him begins with being grateful to His creation. This research output would not have been feasible without the support of several faculty, fellow students, staff, and family members.

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ABSTRACT

Understanding the determinants of the success or failure of a firm's internationalization strategy is one of the fundamental research motives in strategic management (e.g., Rumelt, Schendel, & Teece, 1994; Teece, 2020) and international business (e.g., Peng, 2004). Hence, investigating whether internationalization influences firm performance, and the extent of this influence is integral to this fundamental objective. The internationalization-firm performance (I-P) relationship has been studied extensively, and a few influential reviews have been published to enable us to navigate the research stream (e.g., Hitt, Tihanyi, Miller, & Connelly, 2006). However, it continues to generate renewed interest among scholars as past studies have differed in their conclusions about the I-P relationship (e.g., Abdi & Aulakh, 2018; Pisani, Garcia-Bernardo, & Heemskerk, 2020).

Primarily, two reasons account for this variance among studies examining the phenomenon. Firstly, the absence of adequate theoretical nuancing to contextualize the relationship at the firm, industry, and country levels leads to varying findings. Scholars have highlighted the influence of contextual factors in the I-P relationship and the need to move beyond grand theorizing focussed on why and how internationalization affects firm performance (Bowen, 2007; Contractor, 2007, 2012; Kirca, Roth, Hult, & Cavusgil, 2012). Secondly, a lack of appropriate data that is unrestricted based on firm size or level of internationalization and a lack of empirical sophistication and rigor have also contributed to ambiguity in the results (Bowen, 2007; Cardinal, Miller, & Palich, 2011; Contractor, 2012; Kirca et al., 2012).

The dissertation aims to re-examine the I-P relationship by incorporating these two aspects. The dissertation is organized into three essays. In the first two essays, we contextualize the analysis at the firm and industry level and undertake a mid-range contingency approach

more suited to the I-P research stream (e.g., Ruigrok, Amann, & Wagner, 2007; Singla & George, 2013). The first essay investigates the implications of industry heterogeneity and product diversification strategies on the nature of the I-P relationship. The second essay examines an important corporate governance mechanism – ownership structure – as a contingency investigating the individual and the simultaneous influence of two vital ownership structures – family ownership and business group affiliation – on the I-P relationship. The third essay takes a macro view and investigates a fifth contextual element that impacts firm-level behavior – the structure of the corporate ownership network. While this essay, does not undertake an analysis of the I-P relationship, we embark on the groundwork for future studies on the influence that network position may have on the relationship. We limit ourselves to investigating how changes in FDI and corporate governance reforms have impacted the ownership network.

We use India as the empirical setting for the research. An advantage of choosing India is that firms here have internationalized relatively late, mostly post the 1991 liberalization of the Indian economy. The availability of a relatively large sample of data from the above period facilitates capturing the different stages of the phenomenon, in particular, the early stages, thereby avoiding range restrictions that may have biased the prior findings (e.g., Cardinal et al., 2011; Lu & Beamish, 2004). Moreover, past I-P research has primarily focused on developed markets, whereas emerging market firms internationalize while embedded in a different institutional context (e.g., Hitt et al., 2006); for example, differences in corporate governance norms (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Therefore, by empirically situating the study in India, we can unravel the nuances associated with the single-country setting and focus on emerging markets.

A brief sketch of the content of the three essays at the core of the dissertation is provided below.

Essay 1: The essay investigates how industry context and product diversification strategies affect the relationship between internationalization and firm performance. The distinct characteristics of services, viz a viz manufacturing, and the simultaneous pursuit of product scope strategies are likely to disparately influence the underlying mechanisms of costs and benefits in the I-P relationship and consequently lead to differences in the nature of the I-P relationship. We investigate the impact of the simultaneous pursuit of internationalization and product diversification (including its types) on firm performance while accounting for the role of industry differences. Earlier studies in this domain have looked at these strategies in silos (Cuervo-Cazurra, Mudambi, Pedersen, & Piscitello, 2017), focussing on the manufacturing industry and seldom differentiating between the types of diversification: related and unrelated. In general, related product diversification due to resource sharing is said to provide superior benefits than unrelated product diversification; however, the same may not be the case in services due to a lack of fungibility of resources.

From a methodological viewpoint, we conduct a robust study offering valuable insights into the direct effects and contingencies. We overcome methodology and data-related concerns for non-linear relationships in past studies to a great extent. We take cognizance that the presence of a cubic relationship does not automatically confirm the presence of an S-shaped relationship and test for the existence of local minima and maxima necessary to substantiate the presence. Similarly, we confirm the presence of a 'U', by following the three-stage testing procedure of Lind & Mehlum (2010). We also ensure that our models follow a fuller specification and include all the lower-order direct and interaction terms to avoid potential biases in the estimation (Cohen, Cohen, West, & Aiken, 2002).

We, study manufacturing and services firms from an emerging market (India) and trace a long twenty-four-year period (1996-2019) using an unrestricted sample of 189,844 firm-year observations. We find that for manufacturing firms, the I-P relationship is an 'S.' In contrast, it is a 'U' for a sample of services firms, implying that, unlike manufacturing, services firms are yet to achieve their optimal internationalization level. We also find that increasing product diversification by services firms flattens the 'U' whereas increasing diversification by manufacturing firms strengthens the 'S.' These findings provide valuable new insights that services firms are better off pursuing the two strategies simultaneously unlike manufacturing firms. To the best of our knowledge, our study is the first to document these contrarian influences on the I-P relationship. We check for our results' robustness by conducting state-of-the-art statistical tests recommended in the literature for both the cubic model and the quadratic model.

Essay 2: In this essay, we attempt to address the lack of research on the effect of governance mechanisms on the outcomes of internationalization in emerging market contexts and focus on two unique ownership structures associated with emerging markets, namely, family ownership and business group affiliation (Aguilera, Crespí-Cladera, Infantes, & Pascual-Fuster, 2020; De Massis, Frattini, Majocchi, & Piscitello, 2018). We theorize how preservation of socio emotional wealth (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011) by family owners leads to both principal-principal agency problems (Singla, Veliyath, & George, 2014) and principal-principal agency benefits (Sauerwald, Heugens, Turturea, & Essen, 2019) which influences the underlying mechanisms of the I-P relationship leading to a change in shape and position of the relationship. For business group affiliation, we use the resource-based view (Penrose, 1959; Peteraf, 1993) and build on the salient features commonly associated with business groups including their reputation, interconnected organization structure, and internal capital markets. We theorize the influences business group affiliation has on the cost and benefits associated with internationalization and the resulting influence on the shape and position of the I-P relationship. Lastly, since treating all business groups with family ownership as homogenous in terms of the influence exerted by the family misses out on the variation in control that different levels of family ownership may have, we, also theorize for a joint effect of family ownership and business group affiliation on the I-P relationship.

In order to investigate these phenomena, we utilize a twelve-year longitudinal data set of 2,168 manufacturing firms from an emerging market (India) with a combined total of 18,489 firm-year observations. We use a subset of the dataset used in the previous essay as the ownership data required to operationalize family ownership is available in an appropriate format from a later date. Further, we narrow down to the manufacturing industry as it is the more widely studied of the two. We use new tools and techniques to theorize for non-linear relationships and their associated moderating effects as suggested by Haans, Pieters, & He, (2016), and in the process furnish a robust understanding of the influence that family ownership and business groups have on the I-P relationship. Specifically, our key finding indicates that a firm that has high levels of family ownership and is affiliated with a business group can change the nature of the underlying U-shaped relationship between internationalization and performance (I-P) to an inverted 'U' relationship. As such we provide new insights that there can exist both a 'U' and an inverted 'U' relationship over the same stages of internationalization. To the best of our knowledge, this is the first documentation of such a phenomenon in the I-P domain and our study represents the first that simultaneously investigates the twin effect of key governance mechanisms (family ownership and business group affiliation) on the I-P relationship.

Essay 3: The essay investigates how institutional changes – FDI and corporate governance reforms, associated with liberalization, govern the evolution of ownership networks. Domestic interfirm networks where firms have a long history of operation are a primary source of information, resources, and capabilities. Therefore, understanding their evolution is essential for management scholars; however, they continue to be understudied. Increasing globalization due to economic liberalization should lead to fragmentation and erosion of a country's ownership network. Yet, these networks remain highly persistent due to the presence of properties consistent with small worlds. The lack of efficient institutions and the prevalence of institutional voids in emerging markets encourage businesses to organize as business groups (Guillén, 2000; Khanna & Palepu, 1997), and these groups occupy prominent positions in the economy (e.g., Manikandan & Ramachandran, 2015).

We use shareholding data of listed firms in India to construct and investigate the ownership networks at three points in time – 2001, 2010, and 2019. India started liberalizing its economy in the early 1990s, and FDI and corporate governance reforms commenced in the latter half of that decade. We find evidence that post-liberalization, at the time of the inception of FDI and corporate governance reforms, the corporate ownership network in India exhibited small-world characteristics. Specifically, we find that in 2001 at the onset of the reforms the ownership network in India reflects small-world properties, which, however, weaken in 2010 but are relatively stronger in 2019. Our unpacking of the influence of institutional transition on ownership networks due to FDI and corporate governance reforms and the use of the institution-based view from the strategy field marks our contribution to strategy, international business, and corporate governance.

To conclude, the dissertation, which lies at the intersection of strategy, international business, and corporate governance, strives to make several contributions. *First*, by focusing on contextual considerations at the firm and industry level, it answers the call for more context-based studies to understand better the underlying basis for the I-P relationship (e.g., Bowen, 2007; Kirca et al., 2012) and it highlights the need to develop mid-range theories for the I-P research stream (e.g., Singla & George, 2013). *Second*, the findings from essay-1 indicate that outcomes of firm internationalization are contingent on the industry and within the industry on the levels and types of product diversification. The study, therefore, provides a sense of industry-specific optimal product scope for profitable internationalization by firms. *Third*, by investigating the effect of corporate governance-related contingencies of family ownership and business group affiliation on the I-P relationship, we respond to the call by De Massis et al. (2018) to explore the influence that different corporate governance configurations have on internationalization outcomes. *Fourth*, by incorporating the various methodological advancements in the assessment of quadratic and cubic models and the suggestions on data sample, our investigation of the I-P relationship provides relatively more robust answers than earlier studies to the fundamental question on determinants of internationalization outcomes in strategy and international business domains. *Fifth*, by investigating the evolution of the ownership network in India, its small-world characteristics, and the role of CG and FDI reforms, we contribute to the literature on small worlds of corporate governance. *Finally*, at a broader level, it attempts to answer two fundamental questions in strategic management, i.e., what determines the success or failure of firms' internationalization strategies? and why are firms different? (Rumelt et al., 1994; Teece, 2020).

Key Words: Internationalization, Firm Performance, Family Ownership, Business Groups, Ownership Networks