

ESSAYS ON INDIAN BUSINESS GROUPS



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Abstract

Emerging economies are replete with business groups (BGs) that have a presence in diversified industries, operating both in the domestic and foreign markets, and are generally controlled by wealthy families. Consistent with the global success phenomena of BGs, Indian BGs have been instrumental in the success story of the nation's economy. However, despite the increasing global footprint of Indian firms, scholarly attention to the biggest protagonists, that is, the Indian BGs' domestic and international strategy has been underexplored. We adopt a three-essay format, with two essays investigating the role played by different factors at the host-home +nation-level differences on the foreign location choice decision, and one essay understanding the role of external and internal institutions of BG to determine the affiliates' longevity.

The extant literature in IB has found that cultural differences, psychic differences, and formal institutional distance between the host and home nations affect the internationalization decisions of multinationals. However, the effect of these inter-country distances has led to mixed results on internationalization decisions. The first essay builds and contributes to foreign location choice literature in explicating the impact of institutions on location choice decisions by the business groups. We build on the institutional theory to explore the role of cultural distance, psychic distance, formal institutional distance on the likelihood of foreign location choice. Additionally, we draw on the internationalization process model to explore the role of experience reserve.

We find that both cultural and psychic differences directly relate to the foreign location choice respectively and the relation amplifies with the moderation of experience reserve. Furthermore, we also found that squared psychic distance between host-home nations leads to an inverse relationship. Additionally, contrary to our hypothesized relation, we found that the inter-governmental relationships are found to be negatively affecting the relationship between psychic distance and foreign location choice. Furthermore, the results indicate that the formal institutional distance and location choice is affected by the cultural and psychic differences (both as the first hurdle). The results explicate that home nation and organizational structure create an impact on institutional distance and foreign location choice relationship. The study is an attempt to reduce contrasting extant findings conclusively. Through this study, we conclude that Indian BGs are more inclined towards culturally, psychically, and formal-institutionally distant locations. We also

argue that experience in the same or similar countries aids location choice decision-making. Although studies focused on the cross-cultural domain in International Business have analyzed the role of Kogut and Singh index-based distance variables in the international location choice literature, there has not been much significant work in improved calculation measures of distance such as Mahalanobis or Euclidean distance calculation. This study analyzes that the Mahalanobis culture distance affects the likelihood of foreign location choice.

The second essay investigates the role of external and internal institutions on the survival of the family-owned BG affiliate firms in the context of India. In terms of external institutions, we employ two subnational institutions' proxies, viz., the democracy index, and state-level corruption. We find that subnational democracy is inversely related to the likelihood of the survival of the affiliate firm. Drawing from the internal institutional structure of BGs due to the institutional void, we draw the phenomena of related party transfer (tunneling and propping) among sister affiliates and directorate interlocks (interlocks among sister affiliates, and interlocks with non-sister firm). We find that propping inversely and internal interlocks directly affect the likelihood of the survival of the family firm affiliated to the BGs. These findings contribute to the literature of socio-economic wealth perspective wherein the social capital generated by the internal directorate interlocks enhances the chances of survival. Furthermore, we also found that organizations which are propped up by other sister affiliates are less likely to survive, thus, the economic logic prevails despite family-owned BGs providing an enabling internal (capital market based) institutional environment. Our results are based on 6216 Indian family-owned BG-affiliated firms with data analyzed for the years between 2000-2018.

In the third essay, we draw from the assets of foreignness perspective and extend it to the role of differences between home and host informal institutions on internationalization decisions. We draw from the conceptualization of "Indianness" and unpack it in the form of religious and linguistic diversity evident in India. Our sample consists of 211 Indian BGs with 841 internationalization events from 76 choice-set countries. We hypothesized and found empirical support that both religious and linguistic differences between the home and host nations have an inverse relationship with the foreign location choice. Drawing from the experiential learning perspective, we found that entry experience gained from psychically similar or same countries aids in reducing the home-host religious differences. Furthermore, we found the host religion diversity

directly and linguistic diversity inversely affects the location choice decision. This is further positively moderated by the home nation's religious and linguistic diversity respectively. Through this essay, we attempt to join IB scholars responding to the call for investigation of other factors such as religion and language which should be delineated from the common umbrella term of culture. Most importantly, we attempt to establish an identifying identity of Indianness common to all Indian MNEs which plays a role in determining their common character and impacts their internationalization decisions.

Keywords: Indian Business Groups, Emerging economy multinational enterprises, formal institution, informal institution, firm-specific resources, family firms, Indianness.

Thesis Introduction

Indian business groups (BGs) have been instrumental in the journey of growth of the Indian economy. Their entrenchment in the everyday life of Indians can be gauged by the fact that products such as salt, tea leaves, cooking oil, to the utensils used in kitchens, vehicles of public transport to private vehicles have been, in general, produced by a firm affiliated to one or the other Indian Business House. The penetration and consumption of products of BG affiliates in Indian households can be evidenced by the fact that probably the initial first few words in every 90's born child memories are Bajaj Scooters, Godrej Refrigerator, and the list goes on.

BGs are ubiquitous organizational forms in many countries (Khanna & Palepu, 2000b, 2000a; Khanna & Rivkin, 2001a). The evolution of BGs is facilitated by their adaptation to four external contextual factors viz., market conditions, social relationships, political factors, and monitoring mechanisms (Granovetter, 1995; Yaprak & Karademir, 2010; Yiu, Lu, Bruton, & Hoskisson, 2007). Yiu et al. (2007) have “view(ed) BG as an adaptive response to the external forces by deploying various internal mechanisms along two key dimensions: one focuses on the distinctive roles of the group affiliates (horizontal connectedness) and the other focuses on coupling and order between the parent firm and its affiliates (vertical linkages)” (p. 1552).

Extant research has demonstrated that BG affiliates enjoy membership advantage, owing to the access of network, which enables them to overcome the challenges faced by incoming MNEs owing to the liability of foreignness. In continuation of the understanding that international expansion decision of BG affiliated firms is generally taken at the group level as compared to the individual firm level, scholars in the IB field have called for more studies (Kumar, Gaur, & Pattnaik, 2012; Purkayastha, Kumar, & Lu, 2017; Tan & Meyer, 2010) investigating the international expansion of BG firms from the BG level and not at the firm level.

We investigate the internationalization aspect of BGs in the first and the third essays. Furthermore, the two essays build on the calls raised by recent reviews that BG level location choice is fairly under-researched (Aguilera, Crespí-Cladera, Infantes, & Pascual-Fuster, 2019; Steinbach, Holcomb, Holmes Jr., Devers, & Cannella Jr., 2017). Owing to the governance structure and internal institutions in the BGs, it is believed that a hegemonic relationship exists among the group affiliated firms and the core firm which is the seat of the family owners. “A hegemonic relationship exists when one corporation makes decisions that directly and significantly affect the business

conditions of another firm. The second firm cannot take actions to nullify the effects or the benefits sought by the first group and therefore cannot achieve mutual deterrence. The second corporation is constrained to adopt strategies" (Mintz & Schwartz, 1985, p. 14)

The membership advantage bestows an edge to affiliates over other non-BG affiliated firms in overcoming the challenges concerning their liabilities of newness. There have been calls to investigate the subnational institutions' impact on FF's strategy, additionally, internal institutions play an important role in BGs' existence. The horizontal connectedness dimension represents the steps taken by BGs to tighten the horizontal linkages among affiliates and the consequences in terms of performance and strategic choices. Building on this understanding, the **first essay** of this dissertation explores the role of BG-level international experience on foreign location choice by BG affiliates. We build on the conceptualization of experience as a BG-specific dynamic capability in line with the cultural experience reserve developed by Popli, Akbar, Kumar, & Gaur, (2016). Additionally, based on the gradual distant market selection hypothesis of the internationalization process model (Johanson & Vahlne, 1977), this study builds upon the previously underexplored aspect of the dynamic nature of the institutional distance between the home and host nations.

In the first study, we find that both Mahalanobis and Euclidean cultural distances lead to a higher propensity to locate in a culturally distant nation. Furthermore, the likelihood of foreign location choice demonstrates an inverted U-shaped relation with squared Euclidean cultural distance. Both the cultural distance variables are derived from Hofstede's cultural dimensions. We found evidence that the experience reserve variables positively moderate the relationship between distance and the likelihood of location choice. We found similar results for psychic and squared psychic distances. Further, building on the understanding that informal institutions shape the formal institutions, we conduct a two-stage hurdle analysis to demonstrate empirically that the cultural and psychic distances act as a deterrent for the manager to make a decision, but once the hurdle is cleared, the organization tends to select a nation with more developed formal institutions. We agree with scholars evaluating and commenting on the internationalization process of the developed economy (Pedersen & Shaver, 2011) and emerging economy firms (Meyer & Thaijongrak, 2013) that the incremental investments in host location in stages with increasing commitment with time is not always true (Hadjikhani, Hadjikhani, & Thilenius, 2014).

In the **third essay**, we bring to fore the common identity shared by Indian firms on account of their contextual embeddedness and its role in the location choice decision of Indian BG affiliated firms. Thus, the third essay brings “Indianness” (Hansen, 2010; Laleman, Pereira, & Malik, 2015) to the center stage which is unpacked in the form of diversity in religion and language. Building upon the literature of contribution of home nation institutions, we argue that Indian BGs are nurtured within an environment of diverse informal institutions that act as an asset of foreignness (Mallon & Fainshmidt, 2017; Nachum, 2010). We found that religious and linguistic distances between host and home nations and host nation religious and linguistic diversities act as a deterrent to the propensity to locate in a host nation. However, we found that Indian religious and linguistic diversity acts as an asset and cushions the negative aspect of host diversity. Furthermore, prior experience reserve of the Indian BGs leads to diminishing the negative impact of distance variables on the likelihood of location choice.

The other dimension of vertical linkages in BGs as suggested by Yiu et al. (2007) focuses on the “core owner elite”. They are defined as *“an individual, or an entity (such as an organization), or a collection of individuals/organizations, that, having the same interest, controls the dominant share of a BG’s parent company and/or core companies”* (p. 1561). It has been found that the control exerted by the founder-owner is in the form of assuming leadership roles in the BG, participating in pyramidal ownership, and controlling strategic resources. Owing to these factors, several scholars have called for a multi-theoretic understanding of the FB research (Chrisman, Chua, & Steier, 2003) underlining the lacuna in family-owned BG and portfolio entrepreneurship literature.

Thus, the **second essay** builds on this premise and brings to the fore the family firm aspect of the Indian BGs. The essay integrates the socio-economic wealth and institutional theory (Gómez-Mejía, Takács Haynes, Núñez-Nickel, & Jacobson, 2007; Peng, Sun, Vlas, Minichilli, & Corbetta, 2018) under the overarching tenets of the new systems theory to understand the interplay of various factors on the survival of family firms. We attempt to understand subnational institutions such as democracy and corruption at the state level. Additionally, we explore the role of board interlocks and related party transactions on BG affiliated firms’ survival. We found that strong subnational democracy and propping indicate a lesser likelihood of survival of the family firms affiliated to BG, whilst, internal interlocks indicate a higher likelihood of survival of the affiliate firms. This

study is an addition to the limited yet expanding literature of FBGs (Bertrand, Johnson, Samphantharak, & Schoar, 2008; Chittoor & Das, 2007; H. M. Chung & Chan, 2012; Del Giudice, 2017; dela Rama, 2012; Shanmugasundaram, 2019).

These essays are an effort to further our understanding of Indian organizations in general and business groups in particular.

Table 1-1 Thesis snapshot

Essay	Research question	Theoretical lens	Key Findings	Contribution
Essay 1: Dis-Entangling the Role of Experience Reserve and Institutional Distance on FDI Location Choice by Business Group Affiliates	“What is the role of international experience reserve and institutional distance on the foreign location choice?”.	Internationalization process Model; Institutional theory	Factors such as 1. Host-home cultural difference, 2. Host-home psychic difference, 3. Moderation by experience reserve of both factors (1) and (2), respectively lead to a higher likelihood of Indian BG affiliates investing in the host nation. Host nations with advanced formal institutional distance from home nations lead to a higher likelihood of Indian BG affiliates investing in the host nation.	Explains that experience reserve and formal institutional and cultural/psychic differences have a positive implication on BGs location choice towards the more different and distant host nation
Essay 2: Board Interlocks, Related Party Transfer, Institutional Environment and Firm Longevity: Empirical Evidence from Indian Family-owned Business Group firms	“What is the impact of the internal and external institutional factors on the longevity of an FBG affiliate firm?”.	Institutional theory; SEW; New systems theory	Propping and strong subnational democracy tends to reduce the likelihood of firm survival, respectively, internal interlocks lead to the likelihood of longevity of the family-owned BG affiliate	Establishes the role of internal (to BG) and external institutional (s) factors in the survival of family-owned business group affiliate firms
Essay 3: Role of “Indianness” in Indian Business Groups’ International Location choice – The effect of home and host nation Religion and language diversity	“What role does Indianness, by virtue of its diversity, play in foreign location choice of Indian MNEs?”.	Assets of Foreignness; Institutional theory	Host-home nations' religious and linguistic distance, host linguistic diversity, and the moderation effect of the home nation's language diversity on host language diversity are inversely related to the propensity to invest in Indian BG affiliate firms in that host nation. Host's religious diversity, moderation effect of home nation's religious diversity on host's religious diversity leads to a higher likelihood of choice of that host nation.	Demonstrates the importance of host nations’ informal institutions and host-home informal institutional interaction in international location choice decisions.

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