



Ownership structure and internationalization of Indian firms



Chitra Singla^{b,*}, Rejie George^a, Rajaram Veliyath^c

^a Indian Institute of Management Bangalore, India

^b Indian Institute of Management Ahmedabad, India

^c Coles College of Business, Kennesaw State University, USA

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ABSTRACT

We examine the longitudinal relationship between ownership structure and firm internationalization, in a sample of Indian firms. Drawing on principal-principal (PP) agency theory and the resource-based-view (RBV) of the firm, we argue that divergent preferences (motivations) of a firm's owners affect the firm's propensity to internationalize, while resource heterogeneity among these owners (owners' capability to access and provide resources) affects the firm's capability to internationalize. We argue that both motivation and capability are required for firms to pursue internationalization and that when either of these is missing in an owner, that owner's shareholding will be negatively associated with internationalization. Additionally, our results uncover an interesting dichotomy. While family owners with lower levels of ownership favor their firms' internationalization, they do not favor it at higher levels of ownership. Our results indicate that foreign owners appeared to adjust their roles to accommodate the preferences of the dominant family owners.

1. Introduction

Emerging economies are increasingly prominent influences in the world economy. There is considerable interest in the activities of emerging market multinationals from these countries (Cuervo-Cazurra, 2012), mainly because of the increase in the outflows of foreign direct investment (FDI) from these emerging economies in recent years. According to data reported by the United Nations Conference on Trade and Development (UNCTAD, 2014),¹ the annual FDI outflows from countries in Asia exceeded US\$ 326 billion in 2014, reflecting a rapid rate of increase from US\$ 168 billion in 2006 to US\$326 billion in 2014. However, outward FDI from India has been lower compared to that from other emerging markets such as China and Russia. Even though India appears in the top 20 list when it comes to FDI inflows, it does not appear in the top 20 rankings when it comes to FDI outflows (UNCTAD, 2014). This indicates that compared to firms from other emerging markets, Indian firms are still at a nascent (initial) stage of internationalization. This anomaly prompted us to examine some of the antecedents of outward FDI (i.e., internationalization) in the context of Indian firms. Specifically, we attempt to study the impact of owner heterogeneity (arising from firm ownership or shareholding differences) on outward FDI (i.e., internationalization) among a sample of Indian firms. Prior studies examined the impact of family owners and foreign corporate owners on the internationalization of Indian firms.

We build on these earlier contributions by employing a more holistic framework that captures all the different categories of ownership. In a recent review article on ownership, Boyd and Solarino (2016) suggested that the extant literature primarily examined family and institutional owners. Consequently, these authors called for studies that address multiple owner types (p. 16, Boyd & Solarino, 2016). This paper seeks to bridge this perceived gap by examining the impact of five major ownership categories on internationalization. We also examine the impact of an important owner category, the 'domestic corporate', which has not been previously examined in the ownership-internationalization literature. These owners are important because they tend to represent pyramidal structures and cross-holdings by corporates, all of which together may be controlled by the several categories of owners. They are thus important mechanisms for exercising control in India. Further, both Eisenhardt (1989; p.71) and Boyd and Solarino (2016) advocate the need to integrate multiple theoretical perspectives in order to fully understand the complexities of the ownership-internationalization relationship. This paper seeks to fulfil this theoretical need by integrating the dominant paradigm, i.e., the principal-principal (PP) agency theory, with the resource-based view (RBV). Using these twin lenses, we develop a theoretical framework (2 × 2 matrix) that enables us to understand the ownership-internationalization relationship in a more nuanced manner.

Most of the extant work that examined the ownership-

* Corresponding author.

E-mail addresses: chitras@iima.ac.in (C. Singla), rejie@iimb.ernet.in (R. George), rveliyat@kennesaw.edu (R. Veliyath).

¹ http://unctad.org/en/PublicationsLibrary/wir2014_overview_en.pdf (last accessed on June 28, 2015).

internationalization relationship used developed economy contexts, wherein firms have typically already achieved high levels of internationalization. Among the emerging markets, there has been some work on Chinese firms (Boyd & Solarino, 2016). However, there is very limited work on firms in the Indian context, which is arguably the next biggest emerging market (after China) and one that is becoming increasingly intertwined with the global economy. According to Cuervo-Cazurra (2012), emerging market firms could behave differently from developed market firms during the initial phases of internationalization. Therefore, it is important to examine whether the extant theories that were formulated in the context of developed economies can be consistently applied to emerging economy contexts. Cuervo-Cazurra (2012) specifically called for more research in emerging markets that incorporated owners' attitudes and their impacts on decision making. In this study, we make a significant attempt to address this research gap by linking our arguments to both owners' motivations and their capabilities, each of which has been posited to determine owners' influences.²

Drawing on the twin planks of the PP agency theory and the RBV, we hypothesize that both foreign corporate ownership and foreign institutional ownership are positively related to internationalization. In contrast, family and domestic corporates and institutional ownerships are hypothesized to negatively impact a firm's internationalization. Further, we hypothesize that foreign ownership positively moderates the relationship between family ownership and internationalization as well as that between domestic corporates and internationalization. Our empirical results provide broad support for these hypotheses, and the findings from the cumulative model where all the owner types are present in the regression specification and from the models with interaction effects are particularly noteworthy. They bring out two particularly important observations. Firstly, these models flesh out the relative power positions of these owners with respect to their individual impact on internationalization. Our findings indicate that the positive influence of foreign investors is contingent on the extent of family holding. While prior work from advanced economies showed the positive impact of institutional investors on FDI (e.g., Tihanyi, Johnson, Hoskisson, & Hitt, 2003), our findings confirm the assertions made by Cuervo-Cazurra (2012) that emerging market firms behave differently when compared to advanced market firms. Our tentative conclusion that owners' motivation (and hence the firm's motivation) is more important than their capabilities in their effects on internationalization decisions requires further research. Secondly, the interactions of foreign owners (institutions and corporates) with family owners at high and low thresholds of family owners appears to be indicative of collusion and monitoring tendencies among these foreign owners. This finding appears to illustrate the dominance of family owners and the changing role of foreign owners from being conscientious monitors of the family's choices to potential colluders (Attig, Guedhami, & Mishra, 2008; Maury & Pajuste, 2005). While this finding is admittedly very tentative, it holds substantive promise for further investigation into this phenomenon. This study is a pioneering work that teases out the nuances associated with the ownership-internationalization relationship by examining the roles played by both firm owners' motivations as well as their capabilities to access resources. In the next section where we develop the theoretical framework, we discuss the PP agency theory and RBV in greater detail.

2. Theoretical background

The principal-principal (PP) agency problem (La Porta, Lopez-De-

² We use the terms 'owners' motivation' and 'firm's motivation' interchangeably. A firm's motivation is a composite of the various owners' motivations. Similarly, the owners' capability to access and provide resources and the firm's capability have been used interchangeably.

Silanes, Shleifer, & Vishny, 2000; Ward & Filatotchev, 2010) focuses on conflicts between principals (i.e., majority owners and minority owners), as compared to the traditional agency theory that addresses principal-agent (PA) related conflicts. The PP agency theory argues that owner concentration combined with identity differences among owners such as family, foreign, domestic, institutional, and corporate owner categories (Douma, George, & Kabir, 2006; Villalonga & Amit, 2006) could lead to different risk preferences, time horizons, and goals,³ spurring the inclinations among dominant owners to appropriate the private benefits of control. These inclinations create differences in owners' motivations (and hence the firm's motivations) to pursue different strategic decisions such as internationalization (Thomsen & Pedersen, 2000; Tihanyi et al., 2003). Since concentration of ownership is the norm in most emerging market settings, PP conflicts abound in those contexts (Su, Xu, & Phan, 2008; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

Therefore, extant research argued that the ownership structure of emerging market firms determines their strategic orientations and influences their attitudes toward growth (Peng, Tan, & Tong, 2004; Cui, Meyer, & Hu, 2014). Since the risk-tolerances, goals, and motivations of owners can differ, different types of (minority) owners have to monitor the preferences of other (majority) owners and encourage them to support value-maximizing decisions such as internationalization. If all owners are risk-averse or risk-neutral, their motivations are already synchronized; however, this is most likely not the case. Therefore, if one owner group is risk-neutral and the other (especially the dominant) owner group is risk-averse, then the owners' motivations and goals do not match, which has consequences for the firm's strategic actions. According to the PP agency theory, some of the dominant owners may not encourage the firm to pursue value-maximizing strategies such as internationalization because it jeopardizes their investments in the firm. In such instances, the minority owners can impact the firm's decisions by actively monitoring and questioning the dominant owners' preferences, and by persuading them to support value-maximizing strategies for the firm. Thus, owner types and their interactions can materially impact the firm's motivation to pursue internationalization.

However, motivations alone are not enough to pursue any strategic decisions (Cui et al., 2014). Firms and their managers also need to have the capabilities to pursue and accomplish strategic decisions. Therefore, we employ the resource-based view (RBV) to understand the implications that resource heterogeneity stemming from ownership structure differences has on the competitive advantages of firms (Douma et al., 2006). While emerging market firms have resource endowments, these endowments are typically not as large as those of their counterparts in developed countries because of the lack of institutional development in emerging economies and the relatively younger ages of these firms (Hitt, Dacin, Livitas, Arregle, & Borza, 2000). These firms need additional resources such as financial capital, technical capabilities, managerial capabilities, and reputation to become competitive in international markets (Peng, 2012). Consequently, emerging market firms use alliances to tap into these resources and capabilities (Cuervo-Cazurra, 2012; Hitt et al., 2000). These alliances could be in the form of shareholdings invited from the different owner types such as domestic and foreign corporates, domestic and foreign institutional investors, or family ownership. We postulate that emerging market firms that are dependent on these owners to gain access to certain resources and capabilities are more susceptible to having their strategic decisions influenced by the preferences of these influential owners.

Since different owner types possess and/or have access to different types of resources, access to these resources enables firms to pursue

³ Costs are associated with bearing risks, monitoring (Jensen & Meckling, 1976), decision making, and market contracting, which include the conventional losses attributed to market power distortions (Thomsen & Pedersen, 2000), while the benefits include dividends and the private benefits of control.

uniquely different strategies such as internationalization. Further, owners can also affect the availability and deployment of resources and capabilities for efficient or inefficient use (Seth, 2004), thereby impacting the capability of the firm to undertake international expansion. For instance, foreign corporate owners can provide access to technology and knowledge about foreign markets that can be an especially valuable resource for an emerging market firm that is exploring international expansion (Liesch & Knight, 1999). Similarly, family owners can provide resources such as social networks, political connections, and reputation, thus providing the firm with certain specific and unique advantages. RBV postulates that such firm-specific advantages can be usefully exploited and developed while entering foreign markets (Madhok, 1997; Peng, 2001). Since different owners have different capabilities to access and provide resources, the resulting impact on the firm's capability to internationalize (Peng & Jiang, 2010) is expected to differ according to the types of owners and their interactions.

In short, this study argues that both the firm's *motivation* and its *capability* to internationalize are greatly influenced by its various owners (or the owners' motivation and capability to access resources). Both of these are fundamental drivers of a firm's competitive actions such as internationalization or foreign expansion (Chen, 1996; Cui & He, 2017; He, Mahoney, & Wang, 2009). Since different owner types can vary in terms of the two dimensions of motivation and capability (with which they can access and provide resources to their firms), their respective impacts on internationalization would also vary. We depict our arguments in a conceptual framework (2 × 2 matrix) shown in Fig. 1a that brings these two theoretical lenses (i.e., PP agency theory and RBV) along with the associated motivation and capability dimensions together in the form of a grid.

Fig. 1a shows that if an owner is high on both motivation and capability (Cell 1), there are strong reinforcing elements among these two dimensions (stemming from both theoretical lenses), and the impact on internationalization will be positive. In contrast, there are reinforcing negative impacts when the owner is low on both these dimensions (Cell 3), resulting in a strongly negative influence on internationalization. If any of the owner types are lacking in either one of these dimensions (i.e., either motivation or capability) as shown in Cells 2 and 4 of Fig. 1a, then that owner type would impact internationalization negatively, since both motivation and capability are required to pursue internationalization. In addition, given that firms typically have multiple owners, there is the possibility that the owner types situated in multiple cells (of the matrix) interact with one another. Examining these interactions, especially when these owners have different preferences, enables us to further unravel the nuances of the ownership-internationalization relationship. By examining all the major categories of shareholders (owners) in a firm in unison as well as their interactions, we make a substantial attempt to address the existing gap in the literature, which has rarely considered the collective impact of all the owners of a firm.

Prior studies such as Bhaumik, Driffield, and Pal (2010), Filatotchev, Strange, Piesse, and Lien (2007), George, Wiklund, and Zahra (2005), Lu, Xu, and Liu (2009), Tihanyi et al. (2003), and Zahra (2003) provided empirical evidence that ownership structure impacts a firm's foreign expansion strategy. However, the preponderance of studies examining the differing motivations of owner types (using the PP agency theory) primarily focused on the role of institutional investors and family holdings (considered largely in isolation) in developed economy contexts (Boyd & Solarino, 2016). The inconsistency in the existing findings could have been caused because most studies examined only the impact of a particular type of owner (acting in isolation) on a firm's strategic decision, without factoring in the influences of the other concentrated owners (Boyd & Solarino, 2016). Nominally, while such decisions are taken by a dominant or influential group of owners and/or their representatives, the presence of other owners/representatives does influence the firm's decision making.

These arguments provide the context for us to develop the following

testable hypotheses, based on the differing goals, risk preferences, and resource endowments of owners.

3. Hypotheses

3.1. Family ownership

According to prior research, family ownership is a critical component of ownership structures in emerging economies (e.g., Chang, 2003; La Porta, Lopez-De-Silanes, & Shleifer, 1999).⁴ Family owners are willing to invest in long-term projects (Anderson & Reeb, 2003), and they suffer less managerial myopia (Stein, 1989) because they are committed owners or relational owners (David, O'Brien, Yoshikawa, & Delios, 2010). They are also concerned about the firm's survival and reputation (Anderson & Reeb, 2003) as they typically tend to pass on their wealth to the next generation (Miller & Breton-Miller, 2005). Therefore, these owner-managers are interested in increasing their family wealth, and hence, in deploying resources in ways that create wealth. Therefore, the internationalization of the firm is an attractive option for family owners because internationalization tends to be profitable in the long run (Lu & Beamish, 2004).

However, the extant literature presents mixed evidence about the impact of family ownership on a firm's internationalization. Only a few researchers (such as Carr & Bateman, 2009; Zahra, 2003) have argued for a positive impact citing altruism, social capital, socio-economic wealth, and business ownership as the main reasons for family owners preferring risky strategies such as internationalization. The evidence of the positive impact of family ownership on internationalization is very limited. Most of the extant empirical research found a negative impact of family ownership on internationalization, arising from the risk aversion and/or loss aversion tendencies of family owners. It has also been argued that since family owners suffer from a relative lack of portfolio diversification, their concentrated equity holdings in the firm may lead to the limited availability of liquidity (Anderson & Reeb, 2004) and risk aversion. In addition, these owners may perceive greater risk due to their lack of prior experience and knowledge in overseas markets (Zaheer, 1995). These problems are exacerbated by the difficulty of transferring family business models that are rooted in the local culture of the home country into a new international context (Gallo & Sveen, 1991).

Further, some family firms may be resistant to change as the family may not want to relinquish its control and authority over the firm to an outsider (Mishra & McConaughy, 1999), particularly when there is a shortage of managerial abilities within the family. This potential for the family to lose control of the company due to greater managerial opportunism (e.g., Zhang & Ma, 2009) is aggravated in economies with relatively weak property rights regimes (such as India). Moreover, family firms may seek to avoid the external scrutiny of regulators and investors (Bhaumik et al., 2010) by not raising capital (required for internationalization) from external markets. Family owners might also raise their firms' cost of capital on account of activities such as tunneling of resources and expropriation of benefits from minority shareholders. In fact, prior research showed that family owners prefer debt over external equity (Thomsen & Pedersen, 2000), and this tendency imposes liquidity constraints on their firms. This causes such firms to follow conservative strategies that limit their future growth and profitability (Zahra, 2003). Therefore, despite internationalization being a profitable strategy in the long run (Lu & Beamish, 2004), family owners are less motivated to pursue this risky strategy.

According to the resource-based view of the firm (Barney, 1991), family ownership can facilitate the provision of resources, resulting in certain competitive advantages for the firm. For example, family

⁴ In this paper, 'e.g.' in the context of citations indicates that we have cited only a limited set of relevant research work owing to space constraints.

			Principal-Principal Agency Theory	
			Firm's (owners') motivation to undertake FDI	
			Low	High
RBV	Firm's capability (due to owners' resources) to undertake FDI	Low	Negative impact on internationalization (Cell 3)	Negative impact on internationalization (Cell 2)
		High	Negative impact on internationalization (Cell 4)	Positive impact on internationalization (Cell 1)
a: Impact of the Presence of a Particular Type of Owner in a Firm on its Motivation and Capability to Undertake Internationalization (FDI)				

Fig. 1a. Impact of the presence of a particular type of owner in a firm on its motivation and capability to undertake internationalization (FDI).

ownership leads to benefits such as lower cost of debt⁵ (Anderson, Mansi, & Reeb, 2003), efficient decision-making processes (e.g., Daily & Dollinger, 1992), the availability of substantial financial and physical assets representing the pooled financial resources of the family (Dyer, 2006), and the family's reputation and political clout. These factors help such firms to adapt relatively easily to the changes in business environments that the firm is likely to encounter during international expansions, and to deal with the reputational liabilities in overseas markets arising from being a foreign and unknown company. Moreover, in the longer term, the survival of the firm symbolizes stability and quality, in addition to providing political clout. Since the value of the resources that are deployed is dependent on the institutional context (Meyer, Estrin, Bhaumik, & Peng, 2009), we also argue that intangible resources such as reputation and political connections can substitute for under-developed institutions in emerging markets (such as India), and hence can be considered more valuable in such contexts (Khanna & Rivkin, 2001; North, 1990). Therefore, access to these valuable intangible resources available through the family owners could provide firms with competitive advantages. However, the durability of these benefits will decline over time (Habbershon & Williams, 1999). Moreover, these advantages might not be transferable across family generations (e.g., Villalonga & Amit, 2006). Nonetheless, the availability of these resources and capabilities through family owners does make a firm more capable of pursuing internationalization. Therefore, we argue that since family owners are high on capabilities when it comes to accessing the resources and capabilities for internationalization, they can enhance the firm's capability to pursue internationalization. However, while family owners are high on the capability dimension, they are not motivated enough to undertake the substantial risks associated with outward FDI, and to deploy resources to follow foreign expansion strategies. This places them in the lower left quadrant of Fig. 1b (Cell 4) relating to firms undertaking FDI.

According to our conceptual model, both motivation and capability are required to pursue internationalization. Therefore, we propose the following hypothesis:

H1. Family ownership is negatively related to a firm's degree of internationalization.

⁵ Family owners are concerned about the firm's survival and long-term profitability; these goals match with those of the bond-holders/debt-holders. There is less goal conflict between family owners and debt holders. Therefore, debt holders do not charge high premiums from family-owned firms, leading to low agency cost of debt.

3.2. Domestic corporate ownership

Domestic corporates are owners who usually have strategic equity stakes in other firms.⁶ Though domestic corporates and the firms in which they invest are legally independent from one another, they are often linked through cross-holdings or pyramidal shareholding structures (i.e., firm A invests in firm B, and firm B invests in firm A). Consequently, these corporate owners can gain access to inside information and can get involved in the strategic decision-making processes of these firms. Domestic corporates are motivated more by non-financial goals when they acquire ownership stakes. Non-financial goals include obtaining control rights, seeking resources, exercising property rights, and developing sustainable competitive advantages and capabilities (Aguilera & Jackson, 2003). These are means to pursue strategic interests such as regulating competition between firms, underwriting relational contracts (Aguilera & Jackson, 2003), as well as sustaining and enhancing firms' core competencies (Douma et al., 2006). For example, some domestic corporates invest in firms that were their former buyers or suppliers so that they can have continued access to these resources. Such investments also help in building long-term relationships with buyers and suppliers, and in reducing the uncertainties of demand and supply. This is important especially because of poor contractual protections that exist in emerging economies such as India (Cuervo-Cazurra, 2012). This indicates that domestic corporates invest in other firms within the home country in order to improve their competitiveness in domestic markets by gaining access to resources and by reducing uncertainty in demand and supply. Such goals drive the motivations of domestic corporate owners.

If the focal firms in which domestic corporates have invested undertook risky strategies such as internationalization, it could put the domestic corporates' future in danger. This is because such risky strategies could also affect the focal firm's existing business, which can adversely affect the availability of resources for the domestic corporates as well as the demand and supply cycle(s) of the domestic corporates. Moreover, for a large number of Indian firms, the domestic corporate holding tends to be in the form of intra-corporate holdings or cross-holdings, which serve as additional devices for control by these firms. A greater proportion of such arrangements may result in more of the domestic corporate's resources being tied up in these investments. For

⁶ A firm has promoter shareholding as well as non-promoter shareholding. In this case, Indian corporates that are promoters are considered to be domestic corporate owners; these domestic corporates will not be affiliated to the same business group as that of the focal firm (i.e., the firm in which they are investing). Therefore, domestic corporates would not have an overlap with the family ownership variable in this study.

			Principal-Principal Agency Theory	
			Firm's (owners') motivation to undertake FDI	
			Low	High
RBV	Firm's capability (due to owners' resources) to undertake FDI	Low	Domestic institutions (H5) (Cell 3)	Public sector units (PSUs) (Cell 2)
		High	Family (H1) and domestic corporates (H2) (Cell 4)	Foreign corporates (H3) and foreign institutions (H4) (Cell 1)
b: Impact of the Presence of a Particular Type of Owner in a Firm on its Motivation and Capability to Undertake Internationalization (FDI)				

Fig. 1b. Impact of the presence of a particular type of owner in a firm on its motivation and capability to undertake internationalization (FDI).

all these reasons, the inherent risk aversion of domestic corporates will not motivate them to favor outward FDI. Therefore, we position domestic corporates under the 'low motivation' category.

From an RBV perspective, domestic corporates could provide resources such as industry knowledge, network, and capital, thereby enhancing a firm's capability to pursue FDI. As was mentioned earlier, these resources are valuable in emerging markets such as India, which have underdeveloped institutions and markets. Domestic corporates are relational investors and provide capital (equity) on a long-term basis to the firm, which is a good resource to pursue long-term strategies such as internationalization. Further, if these domestic corporates are themselves internationalized, then they can provide access to international experience and knowledge about foreign markets. Therefore, because they can enhance a firm's capability to pursue internationalization by providing access to various valuable resources, we position domestic corporates under the 'high capability' category.

However, their reticence and unwillingness to engage in foreign expansion through FDI (reflecting a lack of motivation) may not enable the firms in which they have invested to productively access these resources for foreign expansion. This scenario is depicted in the bottom left quadrant in Fig. 1b (i.e., Cell 4). Per our conceptual model, both motivation and capability are required to pursue internationalization. Therefore, we hypothesize that:

H2. Domestic corporate shareholding is negatively related to a firm's degree of internationalization.

3.3. Foreign corporate ownership

Foreign corporates are foreign owners who have strategic equity stakes in domestic or host country firms.⁷ Such corporates with ownership stakes are not motivated purely by financial goals; they are also motivated by the desire to develop worldwide competitive advantages and capabilities, and thereby capture new markets (Douma et al., 2006). For instance, foreign corporates often seek Indian firms as suppliers of products for their global operations because of the relatively low production costs in India (Chhibber & Majumdar, 1999). Therefore, the use of emerging market firms as a supply platform for their global operations is a favored strategic choice for foreign firms. Moreover, foreign corporates do not perceive internationalization as a risky strategy because these corporate owners have prior experience of

outward FDI. Further, foreign corporates may also prefer to partner with Indian firms to expand FDI in other countries, using the existing as well as the newly acquired sets of resources and capabilities obtained through their emerging market expansions. For example, they may want the Indian firms in which they have invested to enter other emerging markets where the Indian firms' experiences and business models are more fungible.⁸ Therefore, we position foreign corporates under the 'high motivation' category.

In addition, viewed from the RBV lens, emerging market firms form alliances with foreign companies in order to gain access to technology (Cuervo-Cazurra, 2012) and international trading and knowledge networks. Firms with foreign corporate shareholdings can also leverage their local and foreign contacts to offer foreign technology in local markets (Kock & Guillen, 2001). Foreign corporates possess certain capabilities⁹ such as international production and marketing capabilities (Chhibber & Majumdar, 1999) that allow them to make differentiated products whose reach can be enhanced by deploying these capabilities in an emerging market firm that has relatively low wage levels and an educated workforce. Consequently, the foreign corporate gains more manufacturing and production cost advantages (Chhibber & Majumdar, 1999). This makes the foreign corporate's products competitive in a global market (Caves, 1982). Such a process also helps emerging market firms in globalizing their operations, and hence benefits both the parties (i.e., the emerging market firms such as Indian firms and the foreign corporates). Therefore, we position foreign

⁸ An excerpt from an interview of Shinzo Nakanishi (MD, Maruti Suzuki) on www.cio.in indicates the important role of Maruti Suzuki India Ltd. in Suzuki's global operations: "I believe Maruti Suzuki is ready to play a much bigger role in Suzuki's global operations, and it is my task is to make that happen. Maruti Suzuki's manufacturing capability has reached a level where we want to make small cars exclusively for export to Europe. Of the three million cars that Suzuki wants to sell worldwide, about 30 percent have to come from here. Maruti Suzuki's R & D has also shown tremendous potential with its contribution to the Swift and Concept A-Star (one of the three global cars the company showcased earlier this year). R & D at Maruti Suzuki will strengthen over the next three to five years, both in terms of infrastructure and capability. We have also started to share our sales and service practices with other Suzuki companies worldwide. We also share Maruti IT solutions with Suzuki subsidiaries and I expect this flow to gain momentum in the next few years. We have also lined up critical initiatives that will improve the experience of our customers and partners." (Source: <http://www.cio.in/ceo-interviews/it-drives-maruti>; last accessed on 15/08/2017).

⁹ For example, foreign corporates (FORCs) possess location-specific advantages in other countries, such as international marketing capabilities, global supply chain networks, and in-depth knowledge about foreign markets (Chhibber & Majumdar, 1999). These foreign corporates possess intangible assets such as marketing skills, patented designs or processes, and manufacturing or research know-how. The ownership of these assets enhances the FORC's competencies and capabilities, which these firms/corporates can leverage in environmental contexts other than that of the parent country (Chhibber & Majumdar, 1999).

⁷ For example, CAG Tech (Mauritius) Ltd., which is a joint venture of Con Agra Inc. (USA) and Tiger Brands (South Africa), has a strategic stake in Agro Tech Foods Ltd. in India.

corporates under the ‘high capability’ category because they can enhance a firm’s capability to pursue internationalization. In summary, as depicted by their placement in the bottom right quadrant of Fig. 1b (Cell 1), foreign corporates strengthen both a firm’s motivation as well as its capability to undertake internationalization.

H3. Foreign corporate shareholding is positively related to a firm’s degree of internationalization.

3.4. Institutional ownership

Institutional investors, both foreign and domestic, consist of banks, mutual funds, insurance companies, public and private pension funds, and investment companies. The main objective of these investors is the creation of shareholder value (Thomsen & Pedersen, 2000) because the performance of institutional investors¹⁰ is usually measured in terms of the valuation of their portfolios. Short-term profit-oriented investors may benefit from sudden increases in the share price following the announcement of foreign acquisitions (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010). Investors such as pension funds and banks that have a long-term profit orientation will also be favorably interested in internationalization because it is a profitable option in the long run (Lu & Beamish, 2004). In addition, these institutional investors (both domestic and foreign) have diversified portfolios that allow them to undertake more risk. Although both foreign institutional investors and domestic institutional investors are favorably inclined toward internationalization, their respective impacts on a firm’s motivation and capability to undertake internationalization would differ. We explain the differing motivations of these institutional investors below.

Foreign institutional investors with globally diversified portfolios are more likely to encourage high-risk (Portfolio theory by Markowitz, 1991), high-commitment FDI decisions by firms in emerging markets (Filatotchev et al., 2007; Strange, Filatotchev, Buck, & Wright, 2009). In addition, foreign institutional investors are known for quick entry and exits of their investments as they prize liquidity and have the requisite incentives to sell their stakes unless the firms in which they have invested can maintain short-term capital market gains. These investors are very selective about their investments in that they prefer large, familiar, actively traded, high-visibility, and high-priced stocks (Falkenstein, 1996). These characteristics of foreign institutions indicate that these investors are interested in better-performing firms. Since internationalization is associated with increases in stock prices upon the announcement of foreign acquisitions (Gubbi et al., 2010), which therefore, can lead to financial gains in the short run in addition to being profitable in the long run, we argue that these institutional investors will motivate the firms in which they have invested to undertake foreign expansion through FDI. Therefore, we position foreign institutional owners under the ‘high motivation’ category.

Further, foreign institutions are mainly of the pressure-resistant type (Brickley, Lease, & Smith, 1988) and are endowed with superior monitoring abilities. They supply cues to other investors about the potential for good performance of firms by providing the impetus for professionalization and transparency in firms. Since retail investors generally track the investments of these foreign institutions, it creates

¹⁰ The different categories of institutional owners exhibit different behaviors. For example, mutual funds are more sensitive to past returns compared to pension funds, and they churn their portfolios quickly. These owners benefit from positive and abnormal returns shortly after the announcement of international acquisitions (Doukas & Travlos, 1988) by a firm. On the other hand, pension funds have relatively longer time horizons (e.g., Tihanyi et al., 2003). These funds are more concerned about long-term economic indicators, such as job growth, productivity, and global competitiveness. Pension funds managers believe largely in a buy-and-hold strategy and have rigorous fiduciary responsibilities. Therefore, they will also prefer to gain the benefits of internationalization by investing in domestic firms that are undertaking foreign expansion. Thus, despite their differing orientations, both these sets of institutional owners largely benefit from internationalization.

more demand for the firm’s stock, and hence increases the share price. This symbolic signal of good governance is an important requirement for emerging market firms such as Indian firms that are perceived to be poorly governed. Therefore, foreign institutional investment brings reputational and credibility benefits to the focal firm, which are important resources in international markets. This helps Indian firms in managing some of the liabilities of foreignness and in finding potential partners and attracting better investments while undertaking foreign expansion (Mazzola, Ravasi, & Gabbioneta, 2006). Therefore, from an RBV perspective, foreign institutional shareholders enhance a firm’s capability to engage in internationalization. We position foreign institutional owners under the ‘high capability’ category. As depicted in Fig. 1b, foreign institutional shareholders strengthen both a firm’s motivation and its capability to pursue internationalization via FDI, placing them in the bottom right quadrant (Cell 4).

H4. Foreign institutional shareholding is positively related to a firm’s degree of internationalization.

In contrast, domestic institutions, despite their diversified portfolio and ability to absorb more risk, may not motivate firms to undertake internationalization for several reasons. Domestic institutions are pressure-sensitive investors such as banks and insurance companies, whose monitoring efforts are compromised on account of conflicts of interest. Banks, for instance, could have the very same firms in which they have invested as their clients (Brickley et al., 1988; Kochhar & David, 1996); i.e., lending to these firms can be a major source of income for some banks. In such cases, banks will not be inclined to oppose the preferences of the other majority/controlling shareholders in the firm. In addition, owing to the nature of these domestic institutions in India that are largely government-owned (the banking sector is heavily regulated and state-controlled in emerging economies such as India), they do not actively participate in a firm’s strategic decisions unlike banks and financial institutions do in developed economies of the West (Douma et al., 2006; Ramaswamy, Li, & Veliyath, 2002). Moreover, the policy emphasis in these state-controlled institutions is primarily on ‘nation-building’ and encompasses support of domestic social causes (Cappelli, Singh, Singh, & Useem, 2010). However, institutional changes such as the Government of India’s relaxation (in early 2000) of the severe restrictions imposed on outward FDI by the domestic institutions have altered the scenario to a certain degree. Domestic institutions can now directly seek growth and risk reduction through the geographic diversification of their portfolios instead of being purely dependent on the firms in which they have investments for geographic diversification.¹¹ Therefore, pressure-sensitive domestic institutions will not actively motivate firms to undertake foreign expansion into other countries. We position domestic institutional owners under the ‘low motivation’ category.

Moreover, these domestic institutions, unlike foreign institutions, are less endowed with regard to managerial and technical resources. The principal resources provided by this category of institutional investors are largely restricted to capital. We position domestic institutional owners under the ‘low capability’ category. Therefore, as depicted by their placement in the upper left quadrant of Fig. 1b (Cell 3), the presence of domestic institutional owners in the investor profile enhances neither the motivation nor the capability of a firm for pursuing internationalization.

¹¹ However, international expansion through investment in domestic firms is a less costly and more transparent process of foreign expansion (thereby reducing information asymmetries) compared to the alternate route of direct investments by the domestic institutions themselves in foreign securities and in firms in other countries (Tihanyi et al., 2003). For example, the investing domestic institution can more effectively save on costs associated with (reducing) information externalities (e.g., gaps in learning, cost externalities) and (overcoming) institutional restrictions such as tax codes, antitrust provisions, and financial limitations by investing in firms with international activities, rather than by directly investing in international markets (Doukas & Travlos, 1988).

H5. Domestic institutional shareholding is negatively related to a firm's degree of internationalization.

Ideally, we would have liked to hypothesize about the owners in Cell 2 as well. Public sector units (PSUs or government-owned companies) typically fall under Cell 2 because these companies tend to have high motivation to go international, but they have limited capabilities. After 2010, the Indian government has made substantial policy changes to encourage PSUs (especially big PSUs that are facing intense competition due to inward FDI) to invest abroad.¹² Unfortunately, data limitations in terms of an inadequate number of firms that have government ownership in our sample do not permit us to reliably study this ownership type. Consequently, we have not hypothesized a relationship for this ownership category. Per our conceptual model, PSUs or government ownership would have a negative impact on internationalization because while they are high on motivation, they are low on capabilities.

3.5. Interaction effects

As discussed in the theoretical perspective section, it would be interesting to examine whether the negative influence of the owner types in Cell 2 and Cell 4 can be strengthened (through reinforcing effects) or weakened (through mitigating effects) by the influence of the owner types in Cell 1. Specifically, we examine the impact of the interactions among the owner types in Cell 1 with those in Cell 4, as this is an especially interesting combination in the context of our study. When Cell 4 owners, i.e., family owners and domestic corporates (with high motivation-low capability) interact with Cell 1 owners, i.e., foreign owners (with high motivation-high capability), we expect the negative impacts of the Cell 4 owners to turn positive, because the firm would now have both high motivation as well as high capability residing within (the firm). Earlier, we had argued that family owners were less motivated to pursue internationalization because they perceived risks in foreign expansion due to a lack of international experience as well limited knowledge about foreign markets (Zaheer, 1995). Similarly, domestic corporates were also argued to have a negative impact on internationalization because they are concerned about performance, resource availability, and the supply-demand cycle of the firm's operations, especially if the firms in which they have invested become engaged in risky and time-consuming strategies such as internationalization. This is because the performance of domestic corporates is closely tied to the performance of the firms in which they have invested. The presence of foreign corporates and foreign institutional investors who have access to foreign markets, knowledge, international trading, and prior international experience would help family owners to perceive less risk in international expansions (Bhaumik et al., 2010). Further, the presence of foreign owners would result in good governance, more professionalization, better transparency, and more attractive investments, all of which will reduce the liquidity constraints that family owners generally face, consequently resulting in better performance (Douma et al., 2006). This enables domestic corporates to perceive less risk in internationalization and to not be concerned about the potentially poor performance of the focal firm. Consequently, the presence of foreign owners will motivate them to pursue resource-intensive strategies such as internationalization. Therefore, we propose that foreign institutional and foreign corporate shareholding weaken the negative relationship between family ownership and internationalization, as well as the negative relationship between domestic corporates and internationalization.

H6a. Foreign corporate ownership weakens the negative relationship between family ownership and a firm's degree of internationalization.

H6b. Foreign institutional ownership weakens the negative relationship between family ownership and a firm's degree of internationalization.

H7a. Foreign corporate ownership weakens the negative relationship between domestic corporate ownership and a firm's degree of internationalization.

H7b. Foreign institutional ownership weakens the negative relationship between domestic corporate ownership and a firm's degree of internationalization.

4. Research methodology

4.1. Data

We constructed a balanced panel dataset of 101 firms over a period of seven years (2002–2008) with the degree of internationalization measured as the ratio of foreign assets to total assets (FATA). Data corresponding to the dependent variables and the independent variables such as FATA was manually compiled from the annual reports of the firms. Data corresponding to the ownership variables and the control variables were collected from the CAPITALINE database provided by Capital Market Ltd., an Indian information services firm.

4.2. Variables

We measured the dependent variable, i.e., the firm's degree of internationalization, as the ratio of foreign assets to the total assets of the firm (FATA) (Bhaumik et al., 2010), where foreign assets was the sum of the total assets of all the foreign subsidiaries of the firm.

Our main independent variables were the ownership variables. In prior research, ownership variables were measured as a fraction of the shareholding(s) held by a particular type of owner (Douma et al., 2006). Therefore, the variable FAMILY was considered as the proportion of shareholding in the firm held directly by families and indirectly through group-affiliated firms where both families and the group-affiliated firms were the promoters of the firm. We included group-affiliated firms because in India, several families hold controlling rights in other firms through pyramidal shareholding structures and cross-holdings. If only the direct stakes of the family were considered, the true extent of family control in group firms would be understated. Domestic corporate shareholding consists of investments by non-promoter corporate bodies. Foreign and domestic institutional shareholding consist of shareholding by banks, mutual funds, insurance companies, public and private pension funds, and investment companies that make portfolio investments in other companies.

We created two more independent variables to test hypotheses H6a, H6b, H7a, and H7b. We decided to specify minimum shareholding criteria for foreign institutions and foreign corporates because owners needed to have substantial stakes in the firm in order to influence decision making (Bhaumik et al., 2010). Therefore, we decided on a 5% cut-off criterion for foreign institutions and foreign corporates. We created the variables FORI 5 and FORC 5. FORI 5 is the absolute value of foreign institutional holdings when the institutional holding is greater than or equal to 5%; otherwise, the value is 0. Similarly, FORC 5 is the absolute value of foreign corporate shareholding when corporate shareholding is greater than or equal to 5%; otherwise, the value is 0.

We controlled for variables such as firm size, age, performance, leverage, R & D intensity, industry, and year effects. Firm size and age are related to the level of internationalization (Chhibber & Majumdar, 1999; Tallman & Li, 1996). Larger and older firms tend to accumulate more resources over time, which could be beneficial to successful operations in foreign markets. Internationalization requires substantial capital for new plants, human resources, and advanced information systems to deal with the uncertainty and increased organizational complexity (Dunning, 1993). Therefore, we controlled for the effects of

¹² See page 14 of the document: <https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/OV27022012.pdf> (accessed on 11th May 2017).

firm size, measuring it as the natural logarithms of a firm's total sales and firm age (also measured as the natural log, akin to firm size). In addition, the performance of a firm is related to internationalization (Dunning, 1993). High-performing firms will typically have more resources and capabilities to manage internationalization by absorbing the costs of doing business globally (Tihanyi et al., 2003). Therefore, firm performance effects were controlled by using return on assets (ROA), the ratio of the net profit to the total assets of the firm. Firms in industries with different levels of reliance on technology and research may have different proclivities to expand internationally. For example, differences in demand conditions, market characteristics, and government regulations in different industries provide added opportunities for international expansion (Tihanyi et al., 2003). Therefore, we included industry as a control variable. We constructed dummy variables corresponding to 11 broad industry categories (SIC codes in parentheses). These were: agriculture (1); metal and mining (10); food products (20); textile (22 and 23); paper and allied products manufacturing (26); chemical and pharmaceuticals (28); petroleum refining (29); cement (32); electric and electronic (36); auto (55); and business services (73).

We also controlled for group effects by creating a group dummy, which was coded 1 if the firm was affiliated with a business group, and 0 otherwise. There could be capability and knowledge spillovers among group-affiliated firms (Chhibber & Majumdar, 1999). If some firms in the group were already internationalized, it could be easier for sibling group companies to undertake foreign expansion as they could draw from the experiences of these other group-affiliated companies. Controlling for group affiliation also allowed us to control for some aspects of product diversity, since group-affiliated firms would have access to the firms in the group that were in other diversified lines of business. We also controlled for multinational (non-Indian) company (MNC) investors by using the variable 'MNC dummy', which took the value of 1 if the firm was owned by a non-Indian foreign multinational company and 0 otherwise. Since foreign MNCs already have experience in internationalization, we needed to control for the prior internationalization experiences of such investors.

Additionally, we controlled for R&D intensity because a higher level of R&D expenditure by firms motivated them to increase the scale of foreign operations in order to amortize the R&D expenditures incurred over larger numbers of units sold. Leverage measured as the ratio of total debt to total assets was used as a control variable to account for the capital structure differences that influenced a firm's investment decisions. We also controlled for government shareholding—the only broad shareholder category that was excluded when the hypotheses were formulated—to control for any residual effects on internationalization arising from government ownership. Finally, we controlled for year effects by using year dummies to capture the increases in internationalization over time by firms based in India. These effects could arise because of the greater competitiveness of products from India in international markets, and also because of the enhanced export incentives provided by the government.

4.3. Estimation methods

We used random effects panel data regression. The fixed-effects approach was ruled out because some of the ownership variables (the principal independent variables) were time-invariant for some of the firms. In addition, the fixed-effects approach may not have produced consistent and efficient estimates for panels over relatively short periods such as the 7-year period of the present study (Chintagunta, Jain, & Vilcassim, 1991). The random-effects models were compared to the fixed effects models employing the Hausman test (Baltagi, 1995: 68). In all cases, the random-effects models were preferred. In each case, we checked for multi-collinearity and found the VIF factors to be less than five in all regressions. We also controlled for heteroscedasticity using Whites' cross-section method, and hence have robust standard errors.

Table 1
Descriptive statistics and correlations for sample with FATA (foreign assets to total assets) as the dependent variable.^a

Variables	Descriptive statistics		Correlations ^b												
	Mean	Std. Dev.	FATA	Exports intensity	FAMILY	Foreign institution	Domestic institution	Foreign corporate	Domestic corporate	Govt	ROA	Leverage	Size	R & D intensity	Logage
FATA	0.10	0.19	1												
Exports intensity	0.31	0.30	0.16**	1											
FAMILY	0.39	0.22	-0.14**	0.05	1										
Foreign institution	0.07	0.10	0.20**	0.21**	-0.21**	1									
Domestic institution	0.11	0.10	-0.03	-0.36**	-0.39**	0.07	1								
Foreign corporate	0.06	0.15	0.03	-0.15**	-0.41**	-0.15*	-0.01	1							
Domestic Corporate	0.06	0.06	-0.06	0.08*	-0.15**	-0.15**	-0.07	-0.13**	1						
Govt	0.00	0.04	-0.01	0.08*	-0.13**	-0.05	0.04	-0.03	0.01	1					
ROA	0.09	0.11	0.08*	0.10**	-0.10**	0.24**	-0.03	0.05	-0.07	-0.02	1				
Leverage	0.27	0.18	-0.14**	0.05	0.28**	-0.19**	-0.01	-0.24**	0.07	-0.05	-0.32**	1			
Size	6.41	1.52	0.05	-0.30**	-0.30**	0.45**	0.46**	-0.07	-0.15**	0.06	0.09*	-0.12**	1		
R & D intensity	0.02	0.06	0.01	0.19**	0.14**	0.05	-0.12**	-0.03	-0.01	-0.02	-0.04	0.09*	-0.06	1	
Logage ^c	3.47	0.64	-0.12**	-0.48**	-0.28**	-0.08*	0.46**	0.21**	-0.05	0.07	-0.12**	-0.06	0.28**	-0.17**	1

^a N = 707.

^b **Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

^c Logage is natural log of firm's age.

Table 2a
Results of random effect panel data regression analysis for FATA^a (foreign assets to total assets).

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
	Controls	H1	H2	H3	H4	H5	Full model
FAMILY		- 0.14 [†] (0.08)					- 0.13 [†] (0.08)
Domestic corporates			- 0.37 ^{***} (0.07)				- 0.40 ^{***} (0.08)
Foreign corporates				0.18 [†] (0.11)			0.10 (0.10)
Foreign institutions					0.17 ^{**} (0.06)		0.06 (0.06)
Domestic institutions						- 0.05 (0.07)	- 0.16 [†] (0.09)
ROA	- 0.11 (0.08)	- 0.10 (0.07)	- 0.11 (0.08)	- 0.11 (0.08)	- 0.11 (0.08)	- 0.10 (0.07)	- 0.08 (0.07)
R & D intensity	0.08 (0.06)	0.10 (0.07)	0.07 (0.06)	0.08 (0.06)	0.07 (0.05)	0.11 [†] (0.06)	0.12 [†] (0.07)
Size	0.03 ^{***} (0.01)	0.02 ^{***} (0.01)	0.02 ^{***} (0.01)	0.03 ^{***} (0.01)	0.03 ^{***} (0.01)	0.02 ^{***} (0.01)	0.02 ^{***} (0.01)
Logage ^b	- 0.01 (0.04)	- 0.03 (0.05)	- 0.01 (0.04)	- 0.01 (0.04)	- 0.02 (0.04)	- 0.01 (0.04)	- 0.02 (0.04)
Leverage	- 0.01 (0.03)	0.01 (0.03)	0.01 (0.03)	- 0.01 (0.03)	0.01 (0.02)	- 0.01 (0.03)	0.01 (0.02)
Group dummy	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)
MNC dummy	- 0.03 (0.03)	- 0.07 [†] (0.03)	- 0.03 (0.03)	- 0.03 (0.03)	- 0.11 [*] (0.05)	- 0.05 (0.04)	- 0.12 [†] (0.07)
Govt	0.02 (0.06)	0.01 (0.06)	0.02 (0.06)	0.01 (0.05)	0.02 (0.06)	- 0.13 ^{***} (0.03)	- 0.18 ^{***} (0.05)
Adjusted R ²	0.097	0.105	0.100	0.100	0.103	0.109	0.121
F stat	4.14 ^{***}	4.32 ^{***}	4.12 ^{***}	3.98 ^{***}	4.23 ^{***}	4.46 ^{***}	4.36 ^{***}

^a N = 707. Standard errors are in parentheses. Intercept, year dummies, and industry dummies are included in the regression, but the results are not reported due to space constraints.
^b Logage is natural log of firm's age.
[†] p < 0.10.
^{*} p < 0.05.
^{**} p < 0.01.
^{***} p < 0.001.

The basic regression models/equations that we estimate in this study are as follows:

For testing hypotheses H1 to H5:

$$\begin{aligned}
 \text{Internationalization}_{it} = & \text{Constant} + \alpha_1 \text{Ownership}_{it} + \beta_1 \text{Performance}_{it} \\
 & + \beta_2 \text{R\&D Intensity}_{it} + \beta_3 \text{Size}_{it} + \beta_4 \text{Logage}_{it} \\
 & + \beta_5 \text{Leverage}_{it} + \beta_6 \text{Group Dummy}_{it} \\
 & + \beta_7 \text{MNC Dummy}_{it} + \beta_8 \text{Govt}_{it} \\
 & + \beta_9 \text{Industry Dummies}_{it} + \beta_{10} \text{Year Dummies}_{it} \\
 & + \mu_{it}
 \end{aligned}$$

where *Ownership_{it}* represents family, domestic corporate, foreign corporate, foreign institutional, and domestic institutional ownership for hypotheses H1, H2, H3, H4, and H5, respectively.

The following sample model for interaction effects was used to test hypotheses H6a, H6b, H7a, and H7b:

$$\begin{aligned}
 \text{Internationalization}_{it} = & \text{Constant} + \alpha_1 \text{Ownership}_{1t} + \alpha_2 \text{Ownership}_{2t} \\
 & + \alpha_3 \text{Ownership}_{1t} \times \text{Ownership}_{2t} + \beta_1 \text{Performance}_{it} \\
 & + \beta_2 \text{R\&D Intensity}_{it} + \beta_3 \text{Size}_{it} + \beta_4 \text{Logage}_{it} \\
 & + \beta_5 \text{Leverage}_{it} + \beta_6 \text{Group Dummy}_{it} \\
 & + \beta_7 \text{MNC Dummy}_{it} + \beta_8 \text{Govt}_{it} \\
 & + \beta_9 \text{Industry Dummies}_{it} + \beta_{10} \text{Year Dummies}_{it} \\
 & + \mu_{it}
 \end{aligned}$$

where *Ownership_{1t}* represents either family or domestic corporate ownership, and *Ownership_{2t}* represents either FORC 5 or FORI 5 to test hypotheses H6a, H6b, H7a, and H7b.

5. Results

Table 1 summarizes the descriptive statistics for all the variables along with their correlations with the dependent variable FATA. With regard to significant correlations, FATA is positively correlated with foreign institutional shareholding, and negatively correlated with FAMILY. Interestingly, family ownership is negatively related to all other types of ownership. FATA is positively correlated with performance, and negatively correlated with firm leverage. Table 2a reports the

results of the tests for hypotheses H1 to H5. Model 1 in Table 2a shows the base model with the control variables. Firm size exhibits a positive and significant impact on FATA. Model 2 tests hypothesis H1 with FATA as the construct measuring internationalization. The coefficient corresponding to FAMILY is negative and significant, indicating support for hypothesis H1. Model 3 tests hypothesis H2, and we obtain strong support for the negative relationship between domestic corporate shareholding and FATA. Hypothesis H3 is tested in Model 4, which indicates support for a positive relationship between foreign corporate shareholding and FATA. Model 5 provides support for hypothesis H4: foreign institutional shareholding is positively related to FATA. Model 6 shows no support for hypothesis H5 as domestic institutional shareholding has no significant effect on FATA. Thus, domestic institutional shareholders do not influence strategic decisions on whether to internationalize. Model 7 in Table 2a checks the robustness of these results when all the ownership variables are introduced into the model together. This composite model reinforces the earlier results obtained for the negative effects on FATA of the FAMILY and domestic corporate shareholding variables. However, the foreign ownership variables—both the corporate and the institutional variety—appear to lose significance in this model. Even more surprisingly, domestic institutional shareholding, which was not significant earlier, is negative and significant in this model.

Overall, the results from the composite model indicate that all the domestic ownership types have a consistently negative impact on FATA (i.e., FDI). In contrast, foreign ownership types (who were hypothesized to positively unilaterally affect FDI decisions) appear to be unable to impact this strategic decision (to internationalize) in the presence of these other domestic owner types, comprising mainly of family (majority) owners. The full model also highlights another interesting finding: domestic institutional investors appear to go along with the decisions of the dominant or majority owners (in this case, the family owners, since the mean family ownership is 39%). This may help in explaining the negative and significant effect of domestic institutional shareholding in the full model (compared to its non-significant effect on FATA when this variable was considered in isolation in Model 6).

It appears that in the Indian context, domestic institutional shareholders tend to play a passive role (with a swing vote) because of the nexus between these government-owned providers of capital and the powerful business families who managed these firms. This led to the nominees of these institutions serving on the boards of the firms to

Table 2b
Interaction results of random effect panel data regression analysis for FATA^a (foreign assets to total assets).

Variables	Model 1 (H6a)	Model 2 (H6b)	Model 3 (H7a)	Model 4 (H7b)	Model 5 (full model)
FAMILY	- 0.09 (0.07)	- 0.10 (0.07)			- 0.05 (0.08)
Domestic corporates			- 0.21*** (0.06)	- 0.32*** (0.10)	- 0.22*** (0.07)
FORC 5 (foreign corporates ≥ 5%)	0.09 [†] (0.05)		0.10** (0.04)		0.19** (0.06)
FORI 5 (foreign institutions ≥ 5%)		0.05* (0.02)		0.04** (0.01)	0.04 (0.03)
Family × FORC 5	- 0.32** (0.10)				- 0.32** (0.11)
Family × FORI 5		- 0.04 (0.04)			- 0.02 (0.05)
Domestic corporates × FORC 5			- 1.39*** (0.36)		- 1.40*** (0.31)
Domestic corporates × FORI 5				0.01 (0.10)	0.01 (0.13)
Domestic institutions					- 0.19* (0.08)
ROA	- 0.10 (0.07)	- 0.11 (0.07)	- 0.07 (0.06)	- 0.10 (0.07)	- 0.06 (0.06)
R & D intensity	0.08 (0.06)	0.08 (0.06)	0.08 (0.06)	0.09 (0.06)	0.07 (0.07)
Size	0.02*** (0.01)	0.02*** (0.01)	0.03*** (0.01)	0.02*** (0.01)	0.02*** (0.01)
Logage	- 0.03 (0.04)	- 0.03 (0.04)	- 0.02 (0.04)	- 0.01 (0.04)	- 0.02 (0.04)
Leverage	0.01 (0.03)	0.02 (0.03)	0.01 (0.03)	0.01 (0.04)	0.03 (0.03)
Group dummy	- 0.01 (0.03)	0.01 (0.03)	- 0.02 (0.03)	- 0.01 (0.03)	- 0.02 (0.03)
MNC dummy	- 0.10* (0.04)	- 0.06 (0.04)	- 0.10** (0.03)	- 0.04 (0.03)	- 0.14** (0.05)
Govt	0.01 (0.06)	0.03 (0.06)	- 0.06 [†] (0.03)	- 0.10** (0.03)	0.10** (0.04)
Adjusted R ²	0.11	0.11	0.13	0.11	0.15
F stat	4.32***	4.25***	4.94***	4.35***	4.79***

^a N = 707. Standard errors are in parentheses. Intercept, year dummies, and industry dummies are included in the regression, but the results are not reported due to space constraints.
[†] p < 0.10.
* p < 0.05.
** p < 0.01.
*** p < 0.001.

Table 3
Post-hoc interaction results of random effect panel data regression analysis for FATA^a (foreign assets to total assets).

Variables	Results corresponding to low family				Results corresponding to high family			
	Model 1	Model 2	Model 3	Full model 1	Model 4	Model 5	Model 6	Full model 2
Low family (≤ 16.7%)	1.02*** (0.24)	0.48** (0.19)	0.20 (0.22)	- 0.25 (0.17)				
High family (> 16.7%)					- 0.16* (0.07)	- 0.10 (0.06)	- 0.11 [†] (0.07)	- 0.08 (0.08)
FORC 5 (foreign corporates ≥ 5%)		- 0.05* (0.02)		- 0.04 [†] (0.02)		0.10* (0.05)		0.09 [†] (0.05)
FORI 5 (foreign institutions ≥ 5%)			0.04** (0.01)	0.03 [†] (0.02)			0.06* (0.03)	0.04 [†] (0.03)
Low family × FORC 5		4.25*** (1.22)		3.90*** (1.16)				
Low family × FORI 5			0.98** (0.31)	0.85** (0.29)				
High family × FORC 5						- 0.36*** (0.10)		- 0.33*** (0.10)
High family × FORI 5							- 0.06 (0.04)	- 0.04 (0.05)
Domestic corporates				- 0.27** (0.09)				- 0.37*** (0.08)
Domestic institutions				- 0.07 (0.08)				- 0.14*** (0.08)
ROA	- 0.10 (0.08)	- 0.08 (0.07)	- 0.10 (0.08)	- 0.07 (0.07)	- 0.10 (0.07)	- 0.10 (0.07)	- 0.10 (0.07)	- 0.08 (0.07)
R & D intensity	- 0.08 (0.06)	0.06 (0.05)	0.06 (0.06)	0.07 (0.05)	0.10 (0.07)	0.08 (0.06)	0.08 (0.06)	0.09 (0.06)
Size	0.02*** (0.01)	0.02*** (0.01)	0.01*** (0.01)	0.02*** (0.01)	0.02*** (0.01)	0.02*** (0.01)	0.01*** (0.02)	0.01*** (0.01)
Logage	- 0.01 (0.04)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.03 (0.04)	- 0.03 (0.04)	- 0.03 (0.04)	- 0.02 (0.04)
Leverage	0.01 (0.03)	0.02 (0.03)	0.01 (0.03)	0.02 (0.03)	0.01 (0.03)	0.01 (0.03)	0.02 (0.03)	0.01 (0.03)
Group dummy	- 0.01 (0.04)	- 0.02 (0.04)	- 0.01 (0.04)	- 0.02 (0.04)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)	- 0.01 (0.03)
MNC dummy	- 0.03 (0.03)	- 0.02 (0.02)	- 0.02 (0.03)	- 0.03 (0.02)	- 0.07* (0.04)	- 0.10* (0.04)	- 0.06 [†] (0.04)	- 0.11* (0.05)
Govt	0.02 (0.06)	0.01 (0.06)	0.03 (0.05)	- 0.10** (0.04)	0.01 (0.06)	0.01 (0.06)	0.03 (0.06)	- 0.15*** (0.04)
Adjusted R ²	0.12	0.16	0.13	0.17	0.11	0.12	0.12	0.14
F stat	4.74***	6.09***	4.86***	5.80***	4.48***	4.64***	4.41***	4.64***

^a N = 707. Standard errors are in parentheses. Intercept, year dummies, and industry dummies are included in the regression, but the results are not reported due to space constraints.
[†] p < 0.10.
* p < 0.05.
** p < 0.01.
*** p < 0.001.

(generally) support the incumbent family owners' preferences. These arguments are in line with those of Douma et al. (2006). Such practices reinforce the family owners' conservative choices with regard to firms engaging in FDI.

Next, we present the results corresponding to hypotheses H6a, H6b, H7a, and H7b in Table 2b. Model 1 of Table 2b shows the results corresponding to hypothesis H6a, which indicate a negative and significant moderating impact of foreign corporates on the family-internationalization relationship. This is contrary to the finding reported in the extant literature and does not support hypothesis H6a. Additionally,

this result might connote a collusion between family owners and foreign corporates in appropriating the private benefits of control (Attig et al., 2008; Maury & Pajuste, 2005). Model 2 of Table 2b shows the results corresponding to hypothesis H6b. The hypothesis does not garner support because foreign institutional ownership does not have a significant moderating impact on the family-internationalization relationship. Models 3 and 4 of Table 2b show the results corresponding to hypotheses H7a and H7b. Both the hypotheses do not receive support. However, the results in Model 3 (for H7a) show a negative moderating effect of foreign corporates. Once again, these results could

portend a collusion between foreign and domestic corporates to appropriate the private benefits of control by these dominant shareholder groups at the expense of the minority shareholders (Attig et al., 2008; Maury & Pajuste, 2005).

The results also clearly show that when low motivation-high capability owners (family and domestic corporates, i.e., Cell 4 in Fig. 1b) interact with high motivation-high capability owners (foreign corporates or foreign institutions, i.e., Cell 1 in Fig. 1b), the motivation levels of the low motivation owners (i.e., family and domestic corporates) do not seem to be sufficiently impacted to convince them to favor internationalization.

Model 5 of Table 2b shows the full model and the results for hypotheses H6a, H6b, H7a, and H7b. These results also seem to be in line with the results of Model 7 of Table 2a, where the preferences of the domestic owners (i.e., family and domestic corporates) opposing internationalization appeared to be dominant, overriding the preferences of the foreign owners. We examined the nuances of these relationships further in the post-hoc tests.

To build on the results of Model 7 of Table 2a and that of Table 2b, we explored the relationship further by looking at various cut-offs of family ownership and foreign ownership. The purpose of using different cut-offs (for ownership) was to examine whether the negative interaction effects held at different levels of ownerships/shareholding. Therefore, we created two variables of family ownership: low family ownership and high family ownership. For this segmentation, we adopted one sigma below the mean value of family ownership as the basis for classification. The two variables of family ownership employed were: *low family ownership* (equal to the mean – 1 sigma, which was ≤ 16.7%) and *high family ownership* (with values greater than mean – 1 sigma; the range was between 16.75% and 100%). The low family ownership variable had the absolute values of family ownership/shareholding less than or equal to 16.7%, 0 otherwise. Similarly, we constructed a high family ownership variable that had the absolute values of family ownership/shareholding if the value of family shareholding was > 16.7%, and 0 otherwise. We interacted these variables with the variables that we had constructed earlier (i.e., FORI 5 and FORC 5). The results of these interactions are shown in Table 3. These results are very insightful and help to capture the nuances of the ownership-internationalization relationship.

Model 1 of Table 3 shows that the direct effect of low family ownership on internationalization is positive and significant. This indicates that at low levels of ownership, family owners do favor internationalization. Models 2 and 3 of Table 3 show the results corresponding to low family interaction with FORC 5 and FORI 5. As expected, these results show the positive moderating impacts of FORC 5 and FORI 5 on the low family-internationalization relationship. This shows that foreign owners strengthen the positive relationship between family-internationalization when family ownership is low (< 16.7% in our study). This denotes a monitoring effect of one class of dominant shareholders (i.e., foreign owners) over another dominant shareholder class (i.e., family), as opposed to collusion effects (Attig et al., 2008; Maury & Pajuste, 2005).

In contrast, Model 4 of Table 3 shows that the direct effect of high family ownership on internationalization is negative and significant. This result shows that as the level of family shareholding increases, its impact on the firm's internationalization becomes negative. The interaction results shown in Models 5 and 6 of Table 3 also indicate the negative and significant moderating effects of FORC 5. This suggests that as the levels of family ownership increase, the foreign corporate owners switch their roles from being monitors to colluders with the family owners. In contrast, the moderating effect of FORI 5 on the high family-internationalization relationship was not significant, indicating that this category of foreign owners did not switch their roles. Overall, these results reinforce the inability of foreign corporates and institutions to influence (and change) the preferences of family owners, especially at high levels of family ownership. These results also show

that as the levels of family ownership increase, foreign institutions and corporates are unable to monitor the other dominant (domestic) ownership classes such as the family and domestic corporates.

This is in line with the arguments made by Maury and Pajuste (2005) and others: the choice whether to monitor or to collude is available to all blockholders (shareholders with block-holdings) in the organization.

Our results for these interaction effects (in the respective interactions with low and high family ownership) were similar when we increased the cut-offs from 5% to 10% for foreign corporates and for foreign institutions. However, these results are tentative, and they require further investigation and testing. Nevertheless, they emphasize the strong role of the dominant family owners in a firm's internationalization decisions. The varying signs in the family ownership-internationalization relationships (as the levels of family ownership changed) may provide an explanation for the ambiguous results documented in the extant literature. Zahra (2003) posited a positive relationship between family ownership and internationalization, while others have reported a negative relationship. Our results are more in line with the results reported by Fernandez and Nieto (2006) and Sciascia, Mazzola, Astrachan, and Pieper (2012), who examined non-monotonicity in the relationships between family ownership and internationalization. The extant literature (e.g. Bhaumik et al., 2010) argues that while the family impacts internationalization negatively, the presence of foreign owners weakens this negative relationship. Our results also indicate that the observed moderating effects of foreign ownership are dependent upon the levels of family ownership, and that the results could vary from positive moderation (monitoring effect) to negative moderation (collusion effect) as the levels of family ownership increases. This suggests that on balance, family owners are disinclined to raise capital through external markets to expand into foreign markets because they prefer to retain control over the firm.

6. Robustness tests

Some researchers such as Kim and Yi (2009) and Tihanyi et al. (2003) raised concerns about endogeneity in the relationships between foreign institutional ownership and internationalization. These foreign institutions may be investing based on their interpretations of the firm's foreign expansion expectations (Kim & Yi, 2009). Since it is relatively more difficult to obtain (firm-specific) intentionality information in

Table 4
Results of Heckman two-stage procedure for FATA^a (foreign assets to total assets).

Variables	Stage 1	Stage 2
	Dependent variable: foreign institutional shareholding dummy	
Foreign institutions		0.20* (0.09)
Advertising intensity	1.87 (2.42)	–
ROA	3.28** (1.24)	– 0.07 (0.08)
R & D intensity	– 0.87 (0.96)	0.17 (0.26)
Size	0.93*** (0.08)	– 0.02** (0.01)
Logage	– 0.45** (0.14)	– 0.05*** (0.01)
Leverage	– 0.25 (0.51)	– 0.21*** (0.05)
Group dummy	– 0.21 (0.17)	0.02 (0.02)
MNC dummy	– 0.80** (0.33)	0.01 (0.04)
Govt	51.55 (55.41)	0.03 (0.18)
Year dummies	Included	Included
Rho	– 0.32* (0.15)	– 0.31 (0.14)
Sigma	– 1.68*** (0.03)	0.19 (0.01)
Lambda		– 0.06 (0.03)
Wald Chi ²		70.64

^a Standard errors are in parentheses. Intercept and year dummies are included in the regression, but the results are not reported due to space constraints.

* p < 0.05.

** p < 0.01.

*** p < 0.001.

emerging economies owing to greater market imperfections, it is possible that foreign institutions chose to invest only in those firms that already have some visible presence in international markets (Dahlquist & Robertsson, 2001; Kang & Stulz, 1997). This could make the relationships between these foreign institutions' investments and firm internationalization endogenous in nature.

To address such endogeneity concerns, we first checked the causality between foreign institutional shareholding and internationalization by employing the Granger Causality test using both 1-year and 2-year time lags. We found that internationalization did not attract (i.e., cause) foreign institutional shareholding. This demonstrated that the examined relationship was not bi-directional. In addition, during our analysis, we conducted an additional procedure to examine whether the endogenous characteristics of foreign institutional shareholding were influencing the results.

To correct for potential endogeneity, we employed a two-stage Heckman (1979) estimation procedure examining the effect of foreign institutional shareholding on internationalization. We formed a dummy variable called the foreign institutional shareholding dummy, which was equal to 1 if foreign institutional shareholding had invested in a firm, and 0 otherwise. In the first stage, we used this foreign institutional shareholding dummy as a dependent variable, and ran a Probit regression to estimate the probability of foreign institutional shareholders investing in a firm. Since foreign institutional shareholding was assumed to be endogenous, we needed one instrumental variable for this stage that was correlated with foreign institutional shareholding but was theoretically uncorrelated with internationalization. We used advertising intensity akin to Kim and Yi's (2009) analysis as a proxy instrument for foreign institutional shareholding, since it captured the firm's visibility, and typically foreign institutional investors invest in well-known firms. Therefore, advertising intensity was used as one of the independent variables in the first stage of the Heckman procedure. In the first stage, the inverse Mills ratio was generated, which was used in the second stage, where we regressed internationalization against the other variables to adjust for the potential bias created by endogeneity (Hamilton & Nickerson, 2003; Shaver, 1998). The results corresponding to the Heckman procedure are shown in Table 4.

The coefficient corresponding to FORI was positive and significant. This indicated that our estimates were largely robust and devoid of endogeneity.

7. Conclusion and implications

This study extends the extant literature by examining the behavior of emerging market firms in their early internationalization phase, as indicated by the average value of outward FDI (0.10) in our sample. According to Cuervo-Cazurra (2012), there is a need to examine emerging market firms in their early phases of internationalization because this is the phase where emerging market firms are likely to demonstrate differential behavior as compared to developed market firms. Further, Cuervo-Cazurra (2012) report that there is limited research that examines the impact of country of origin (the institutional context as well as the managers' and owners' attitudes and knowledge) on firms' behaviors. This study addresses this research gap by examining the impacts of the owners' motivations and their capabilities on firm's behavior. The demonstrably negative influence of dominant family owners in firm internationalization decisions is indicative of the existence of PP agency problems among Indian firms, because firm internationalization is seen to be value-enhancing. This is especially true when the foreign owners prefer that the firm undertakes FDI. Because family owners are generally averse to losing control over the firm, they do not permit external/outside shareholders to hold a substantial equity stake in the firm. This enables them to impose their preferences on the firm's strategic decision choices.

We report two interesting findings with substantive theoretical implications. Firstly, our work challenges the conventional notion that

foreign investors (foreign institutions and corporates)—who are known for their advocacy of shareholder capitalism (Ahmadjian & Robbins, 2005) and are insulated from prior business and social ties with the firms in which they have invested—are able to significantly influence the management of these firms (Brickley et al., 1988; Yoshikawa & Phan, 2005). Our findings indicate that the positive influence of foreign investors is contingent on the extent of family holding. The relationship is quite nuanced in that the positive influence of foreign owners (both corporate and institutional owners) on outward FDI either disappears or becomes negative in the presence of increased family shareholding (Model 7 of Table 2a and the interaction results shown in Tables 2b and 3). While prior work from advanced economies showed the positive impact of institutional investors on FDI (e.g., Tihanyi et al., 2003), this study shows that all institutional investors do not have similar preferences. Our findings that show the positive impact of foreign institutions on internationalization and the non-significant impact of domestic institutions on internationalization confirm the assertions made by Cuervo-Cazurra (2012) that emerging market firms behave differently when compared to advanced market firms. Consequently, examining such nuances extends the extant literature and theories on MNCs. Importantly, this study indicates the importance of holistically examining the impacts of the heterogeneity of ownership identity and composition on firm internationalization. In the Indian context, where concentrated ownership and family ownership of public firms are predominant, this suggestion has an important bearing, especially since all owners do not behave independently (and in isolation); on the contrary, their decisions are greatly influenced by the preferences of the other dominant shareholders.

Secondly, the interactions of foreign owners (institutions and corporates) with family owners at high and low thresholds of family ownership indicate collusion and monitoring tendencies among these foreign owners. While this finding is admittedly very tentative, it holds substantive promise for further investigation. These findings also have interesting linkages to the prior work of Attig et al. (2008) and Maury and Pajuste (2005), who examined the impacts of dominant owner types and their tendencies to collude in order to extract the private benefits of control. Therefore, examining such nuances extends the extant literature and theories on multinationals.

Our perspective mirrors the evolution of mid-range theories in the social sciences, which are aimed at integrating theory with empirical research, as opposed to grand theorizing, which is typically context-agnostic. An example of such an approach is the work by Ruigrock, Amman, and Wagner (2007), who argue for a mid-range contingency theory in the context of internationalization-performance relationships. We argue for a similar approach in research on ownership-internationalization relationships. In this light, we examine the existing beliefs/theories related to ownership-internationalization in the Indian context.

Our results indicate that family ownership and cross-holding linkages—which are considered to be a response to the weak institutions in emerging economies such as India—can hinder outward FDI by firms. This has important managerial implications for the top management of Indian firms, where concentrated family ownership is the norm. These managers, particularly those with family linkages, need to be sensitive to the differences in the types of resources that specific owner types bring, which can assist their firms in undertaking internationalization. Since outward FDI is required to compete effectively with foreign MNCs in both home and foreign markets, firms with dominant family ownership positions need to manage the tradeoffs between the dual concerns of avoiding short-term risks and promoting long-term growth in a more balanced manner. Foreign corporates have resources such as knowledge about foreign markets and connections that are part of their established global networks. Foreign institutions tend to have the requisite monitoring skills, and their positive impact on FDI is indicative of the advantages of cooperating with these investors in order to establish a foothold in foreign markets. As family-

owned business in India face increasing competition from inward FDI into India, joining hands with resource-rich investors such as foreign corporates and foreign institutional investors would be a fruitful strategy to enhance the international competitiveness of Indian firms. However, such alliances will be beneficial only when the gap between the extent of family shareholding and foreign shareholding is not very large. As this gap increases, foreign owners may not play the monitoring role that they are supposed to play, and they may end up colluding with the decisions of the family owners. Therefore, the dilution of control (of the family) by raising more external equity from foreign owners seems to be an important requirement for promoting the internationalization of Indian firms.

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Chitra Singla is Assistant Professor at the Business Policy Area of the Indian Institute of Management Ahmedabad, India. Her research interest lies at the intersection of International Business, Family Businesses, and Corporate Governance. Her research work has been published in journals such as Strategic Management Journal and Journal of Business Research. She is a member of the Editorial Review Board of Management International Review. She can be reached at chitras@iima.ac.in.

Rejie George is a Professor in the Strategy Area at the Indian Institute of Management (IIM) Bangalore. He holds the IIMB Chair of Excellence and is the Chairperson of the Fellowship Program (FPM) as well as Chair of the Center for Corporate Governance and Citizenship at IIM Bangalore. Rejie has published in journals such as the Strategic Management Journal, Journal of Business Research, Journal of International Business Studies, Long Range Planning and the Asia Pacific Journal of Management. His research interests are in the areas of Corporate Governance, Strategic Management and International Business. His email is rejie@iim.ernet.in.

Rajaram Veliyath is a Professor of Strategic Management and International Business and Associate Dean for Graduate Programs and Research at the Coles College of Business. His research interests include corporate governance practices, CEO and director compensation and internationalization strategies of emerging market firms. His work has been published in the British Journal of Management, Corporate Governance: An International Review, Strategic Management Journal, Journal of Management Studies, Long Range Planning, Management International Review, International Business Review, and Contemporary Accounting Research among other outlets. His email is rveliyat@kennesaw.edu.