Chapter 11
Does Internationalization of Business–Group–Affiliated Firms Depend on Their Performance?

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ABSTRACT

Previous research on international operations of the business groups (BG) have predominantly looked into the effects of internationalization on various frontiers of business. Pertaining to emerging economies, the implicit assumption is internationalization helps to avert the uncertainties of market imperfections. We raise doubt on the implicit assumption that just being affiliated to a parent firm will provide the resources for internationalization. Therefore, we have taken up this study, to understand the dynamics of emerging economy multinationals, which are characterized by their asset seeking nature to internationalize. We have tested our hypotheses on listed Indian firms. We have selected top 499 BSE listed companies, which had reported the highest amount of sales in 2010 as the base, and we generated a balanced panel dataset of 2994 firm years using the observations for the period 2010-2015. We used General Linear Square (GLS) fixed effects model to examine the impact of performance of BG affiliated firms on their degree of internationalization. We expected a positive relationship between firm performance and degree of internationalization, which was further anticipated to be positively moderated by business group affiliation of firms.

INTRODUCTION

With the advent of globalization and open market, international diversification has become an important strategy for the survival and growth of firms. Compared to the pre-crisis period, during 2008, foreign investments have surprisingly seen growth from the emerging economies. Post-crisis period saw an increase in the foreign investments from emerging economies in contrast to the developed economies where they experienced a dip in foreign sales (UNCTAD, 2016). Outward foreign investments from these economies accounted for 15.5% of GDP in 2013 and rose to 18.3% in 2015 (UNCTAD, 2016). In contrast to developed economies, where post-recession period faced a dip in foreign sales, emerging economies experienced a continued rise in foreign sales (UNCTAD, 2016). For Asian countries alone, percentage share of foreign direct investment in world total rose from 20.2% during 2009 to 30.2% in 2014. All these statistics signify the importance of studying internationalization from the emerging economies. Emerging economies on the other hand is dominated by business groups, which are seen as intermediaries among the imperfect and underdeveloped institutional set up of the emerging economies (Chang and Hong, 2000).

Previous research on international operations of the business groups (BG) have predominantly looked into the effects of internationalization on various frontiers of business. In all these studies pertaining to emerging economies, the implicit assumption is internationalization helps to avert the uncertainties of market imperfections. However, it has not been answered how the firm specific advantages, in the form of its unique resources, helps in internationalization. Moreover, numerous studies have looked into the effect of internationalization on performance of the firm. Very few have explored the other way round, employing prospect theory (Jung and Bansal, 2009) and resource based perspectives (Fiegenbaum et al., 1997). Moreover, these studies were conducted on firms from developed economies. However, as of now, to the best of our knowledge, empirical analysis failed to provide evidence on the effect of performance on internationalization. Additionally, being BG affiliated and not performing will deprive the firm of the benefits of its affiliation because the parent firm will prefer to invest their resources in products, which are more profitable. We raise doubt on the implicit assumption that just being affiliated to a parent firm will provide the resources for internationalization. Therefore, we have taken up this study, to understand the dynamics of emerging economy multinationals, which are characterized by their asset seeking nature to internationalize. Hence, the research questions driving our study are:

1. Does firm performance affect international diversification of emerging economy multinationals?
2. Is affiliation to business group advantageous for the relationship between performance and internationalization?

Based on resource based arguments, we hypothesized that better performance will translate to an increase in internationalization, as with better performance the firm gains enough confidence and tangible and intangible resources required to venture abroad. Drawing on this, we further predict that the positive effect of performance will be more pronounced and hence, will be moderated by business group affiliated firms due to availability of unique and inimitable resources, which facilitates faster entry into diversified markets. We rely on resource-based view to incorporate the effect of firm specific resources and to understand the moderating effect of business group affiliation. Since business groups are the dominant business entities in emerging economies, therefore resource-based perspective is pertinent as