The International Diversification-Firm Performance Link: The Moderating Role of Board Capital

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Internationalization, Board Capital & Performance

Introduction

Research Objective

- This study contributes to the IB literature by examining **the international diversification-firm performance link** by reflecting upon **board capital** as a key boundary condition.

Research Gaps & Contributions?

- An incorporation of **board capital** (*i.e.*, **managerial competence, information processing, & resource accessibility**) into the performance implications of **strategic diversity** (*i.e.*, **internationalization**).
- **Corporate governance** as a timely & hot topic in **the Japanese context**.
- **FSTS** (scale) -> The **Blau's (1997) index** of the **degree of internationalization** (dispersion) (**See EXCEL SHEET**).

$$BI = 1 - \sum (p_i)^2$$

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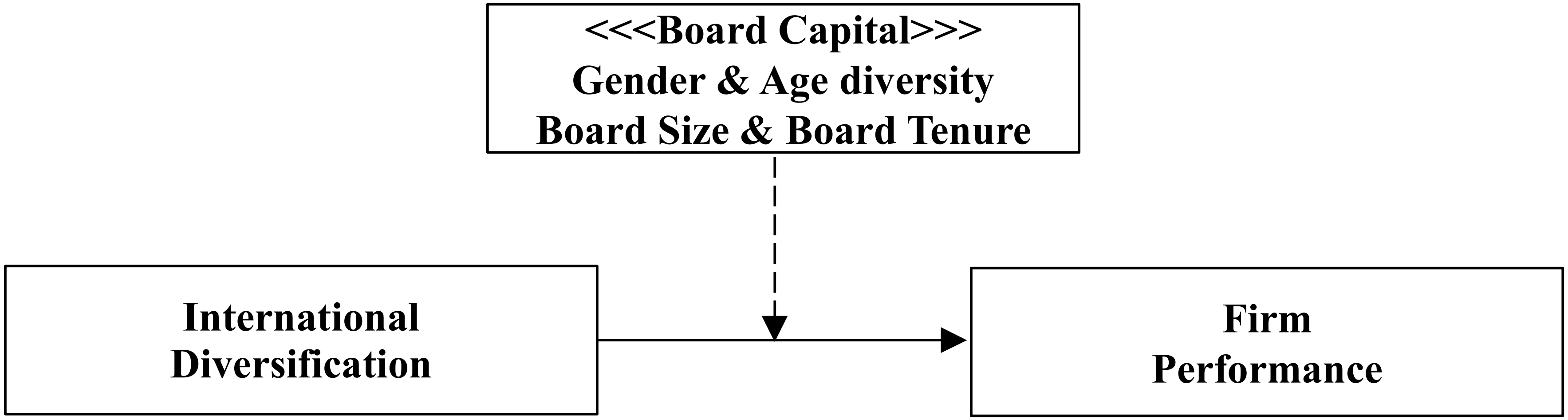
Introduction

Proposed Conceptual Model

- **Theory:** Human capital theory, resource dependence theory, & agency theory etc.
- **Analytical strategy:** Panel regression models
- **Unit of analysis:** 136 Japanese corporations
- **Industry focus:** The chemical industry
- **Time span:** 2010-2019 (DV: 2011-2020)
- **Sample size:** 136 × 10 years = 1,360

→ **Direct influence**
⇢ **Moderating influence**



Note: Own illustration.

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Literature Review

Definition?

– **Board capital** is defined as a combination of directors' human, social & intellectual capital (Becker, 1964).

Why Important?

1) **A board of directors** are involved in **strategic management process** of a firm & influence the internationalization process (Song et al., 2020).
2) Given that **managerial complexity & challenges** generated in the internationalization process, CEOs & other top management members must count on **a more effective & diversified board that offers resources** (Hitt et al., 1994; Van der Walt et al., 2006).
3) Capitalizing on comprehensive knowledge & know-how offered by diverse board members, the board may be able to **more effectively monitor top executives' decisions & behaviors** (Haynes & Hillman, 2010; Van der Walt et al., 2006).

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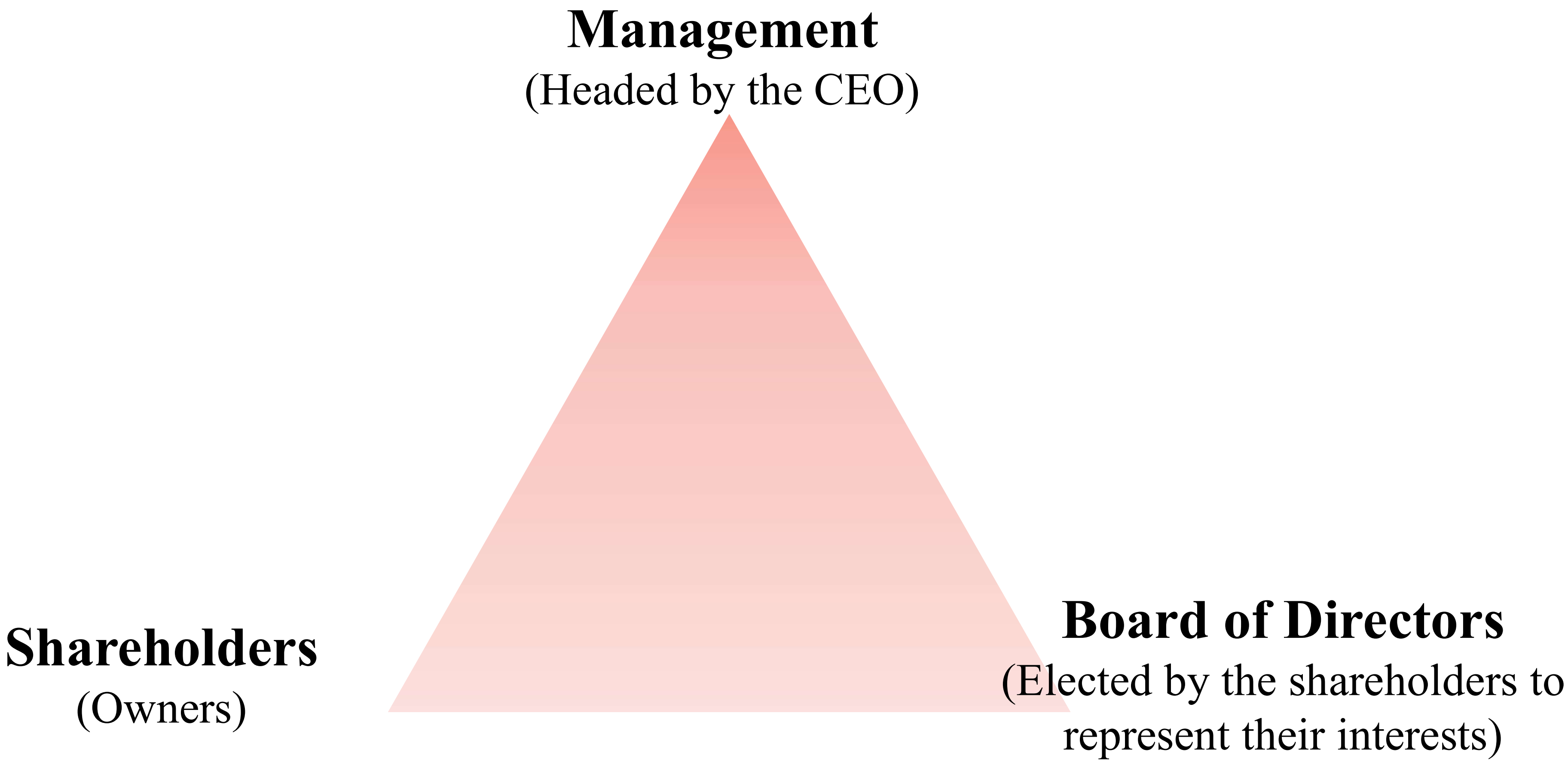
■ Key Elements of Corporate Governance



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Theoretical Backgrounds

Positive effects

Negative effects

❖ *Resource Dependence & Human Capital Perspectives*

– Board capital enables a firm to **secure resources** which are vital to reduce risks & improve performance (Taljaard et al., 2015).

– Board capital reflects varied & crucial resources (*e.g.*, **advice, counsel, & legitimacy**) for **better decision makings** (Hillman et al., 2000; Hillman & Dalziel, 2003).

– **Accumulated human capital** (*e.g.*, **skills**, **experiences, expertise**) from board capital enhances decision making process with **unique knowledge & perspectives** from each differentiated board member (Carter et al., 2010).

BOARD DIVERSITY IS A SOURCE FOR UNIQUE RESOURCES.

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Theoretical Backgrounds

The Agency Theory & the Stakeholder Theory

Positive effects

Negative effects

- Board capital increases **board independence** since **differentiated characteristics** of members in a differentiated board reinforce the capability of the board to **question the original system** (Song et al., 2020) & counter the weight of a CEO (De Maere et al., 2014).
- Various perspectives in **a diversified & large board** may result in **effective monitoring**, which decreases agency costs (Carter et al., 2003).
- Since **a diversified, large, & long-tenured board** offers **symbolic values to stakeholders** of a firm, there may be a higher chance for a firm to build a **beneficial relationship with its stakeholders**, thus increasing firm value (Hillman et al., 2001).

BOARD DIVERSITY SENDS A POSITIVE SIGNAL TO A SOCIETY.

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Theoretical Backgrounds

❖ *Social Identity Theory (Homogeneity vs. Heterogeneity)*

Positive effects

Negative effects

- Individuals tend to **relate themselves with others who are similar to them** in social category memberships (Williams & O'Reilly, 1998).
- The similarity-attraction perspective stresses that individuals are likely to **build & preserve relationships** with **others who share common demographic characteristics** (Song et al., 2020).
- **HOWEVER**, **heterogeneity** in a group often causes **conflicts** between individuals along with **problems of communication** (Song et al., 2020).
- Individuals with **diverse backgrounds** may **not fully comprehend others' ideas** & **unlikely trust each other** (Richard et al., 2003).

BOARD DIVERSITY TRIGGERS CONFLICTS IN A BOARDROOM.

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Hypothesis Development

Board Size (+)

- **Larger boards** are associated with **greater diversity in expertise & experience**, positively influencing corporate reputation & image (Mackenzie 2007; Ntim & Soobaroyen 2013; Jizi et al. 2014).
- Large & diversified boards are more likely to bring together **in-depth & collective intellectual knowledge** from the business sector, which subsequently can influence **the quality of strategic decision-making**; this, ultimately, will positively impact performance (Arosa et al., 2010; Pearce & Zahra 1992).
- **Larger boards** may reap the benefit of **collective intelligence**, which is embodied in the adage "two heads are better than one" (Arosa et al., 2010; Pearce & Zahra 1992).
- Since **uncertainty** is **one of the key issues in internationalization decisions**, board size should be able to mitigate it through **acquiring additional knowledge** (Kretinin et al., 2020).

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Hypothesis Development

Board Tenure (+)

- Long-tenured directors can **perform their monitoring roles with greater skills & better** contribute to **company strategy** (Ben-Amar et al., 2013).
- The **tacit knowledge** of board members acquired during their tenure in a firm is crucial in order to **make efficient decisions** (Zald, 1969).
- Long-tenured directors are also expected to have **a superior amount of information** & thus be more competent at **assessing strategic decisions** & their potential consequences **in the short or long run** (Zahra, 1996).
- Long-tenured directors have **a greater experience, commitment & competence** (Vafeas, 2003), & this may **reduce the risks** associated with the international expansion process.

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Hypothesis Development

Gender Diversity (+)

- **Female board directors** are likely to have **a cognitive style** focusing on **harmony in a group** (Hurst et al., 1989) & capacity for effective dissemination of information (Earley & Mosakowski, 2000).
- Compared to male board members, **female board members** have to **face various types of challenges** before becoming a board director, hence **building up differentiated human capital** to cope with strategic & operational challenges & accessing external sources effectively (Rose, 2007).
- Gender diversity tends to **enhance the quality & quantity of alternative solutions** in the decision-making process of a firm (Song et al., 2020).
- Gender diversity in a board sends **a positive signal to various internal & external shareholders**, in turn achieving **better corporate image & reputation** (Rose, 2007).

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Hypothesis Development

Age Diversity (+)

- **Young board members** are more inclined to **take risks on strategic changes**, expecting superior firm performance (Herrmann & Datta, 2005).
- **Young members** in an organization are more likely to have (1) the ability to implement new & novel ideas, (2) more ambition to build own career pathways, & (3) more commitment to tackling established norms & traditions (Cheng et al., 2010).
- **Older board directors** have (1) richer industry-specific knowledge & (2) better understandings of competitors' strategic orientation & external market conditions (Reed & Defillippi, 1990).
- **A mix of young & old board members** results in generating **synergetic impacts** by collaborating with each other (Song et al., 2020).

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Methodology

Operationalization

- **Dependent Variable:** Profitability (**ROA**)
- **Independent Variable:** International diversification (***Blau Index* of the firm's international expansion across different countries**)
- **Moderating Variables:**
  Board size (**The total number of board members**)
  Board tenure (**Average number of years of directors on a board**)
  Gender diversity (***Blau Index***)
  Age diversity (***Blau Index***)
  $$BI = 1 - \sum (p_i)^2$$
- **Control Variables:** Firm size, financial slack, CEO age, CEO elite education, CEO power

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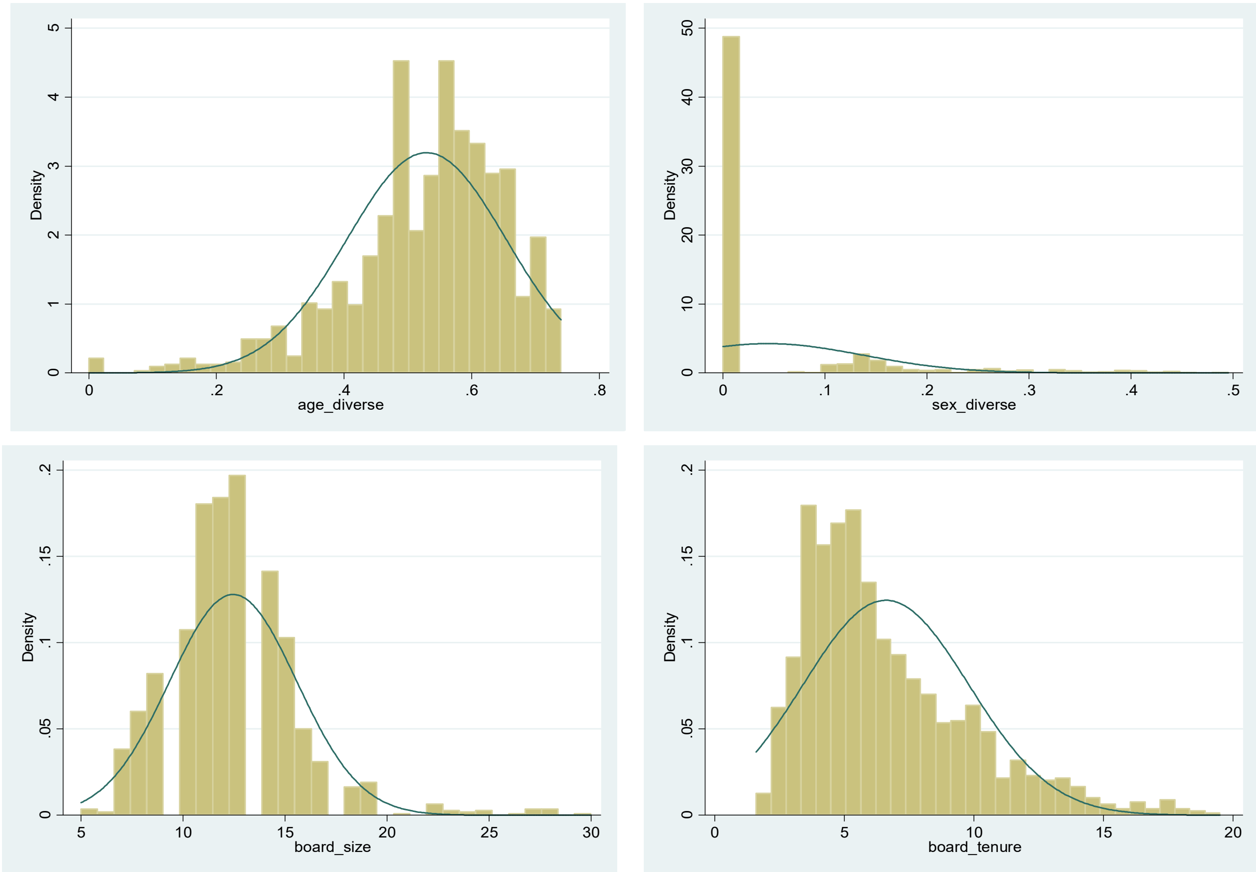
Empirical Results

Descriptive Statistics



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■ Empirical Results

	DV: Return on Asset (t+1)									
	Model 1		Model 2		Model 3		Model 4		Model 5	
Independent variables	Coef.	t	Coef.	t	Coef.	t	Coef.	t	Coef.	t
International diversification (1)	**2.176**	**2.31** **	**2.338**	**2.44** **	**2.123**	**2.26** **	**2.519**	**2.64** **	**2.546**	**2.70** **
Gender diversity (2)	-1.270	-0.95	-1.311	-0.98	-1.296	-0.97	-1.273	-0.95	-1.265	-0.95
Age diversity (3)	0.356	0.50	0.363	0.51	0.017	0.02	0.386	0.54	0.336	0.47
Board size (4)	-0.164	-3.56 ***	-0.163	-3.55 ***	-0.167	-3.64 ***	-0.183	-3.91 ***	-0.158	-3.45 ***
Board tenure (5)	-0.098	-1.86 *	-0.097	-1.85 *	-0.093	-1.77 *	-0.104	-1.99 **	-0.119	-2.25 **
Firm size	-0.072	-0.07	-0.119	-0.12	0.090	0.09	-0.046	-0.05	-0.331	-0.33
Financial slack	0.004	2.47 **	0.004	2.48 **	0.004	2.54 **	0.004	2.49 **	0.004	2.25 **
CEO age	-0.015	-0.99	-0.015	-1.04	-0.015	-1.00	-0.015	-1.03	-0.019	-1.27
CEO elite	0.483	1.96 **	0.484	1.96 **	0.467	1.89 *	0.457	1.85 *	0.469	1.91 *
CEO power	-0.010	-0.23	-0.013	-0.31	-0.017	-0.41	-0.009	-0.23	-0.003	-0.07
(1) × (2)			5.850	0.92						
(1) × (3)					**8.805**	**2.43** **				
(1) × (4)							**0.412**	**2.06** **		
(1) × (5)									**-0.505**	**-3.17** ***
Constant	7.410	2.12 **	7.486	2.14 **	7.156	2.05 **	7.309	2.09 **	8.316	2.38 **
R-sq (within)	0.032		0.031		0.043		0.033		0.011	
F-statistic	3.18 ***		2.97 ***		3.44 ***		3.29 ***		3.83 ***	
Observations	1360		1360		1360		1360		1360	

Notes: Levels of statistical significance: * = 10%; ** = 5%; *** = 1%.

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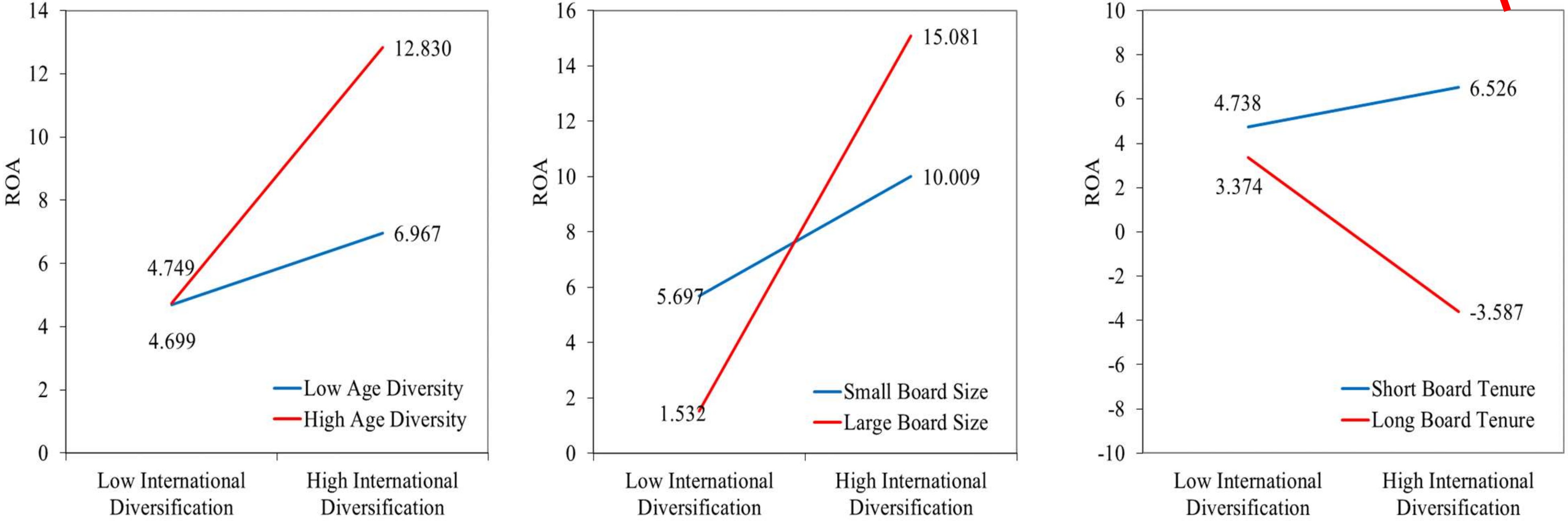
■ Empirical Results

❖ *Interaction Effects*

Tenure (↑) = Independence (↓), monitoring role (↓), communication (↓), isolation (↑), openness to outside information (↓), commitment to established rules & (↑) & reluctance to strategic changes (↑)



Note: Own illustration.

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Conclusive Remarks

Managerial & Theoretical Implications

- **Board capital** matters in the **multinationality-performance equation**.
- In terms of age diversity, shareholders of a firm should take into consideration the **optimal balance between young & old board members** to fully leverage benefits from a diversified & accumulated human capital.
- This study confirms the **validity of the relevant theories**, including the human capital theory, the resource dependence theory, & agency theory.

Limitations & Suggestions for Future Research

- **Other international diversification/performance measures**?
- **Generalizability** (*e.g.*, other industries, other cultures, other countries etc.)
- **Different types of board diversity** (*e.g.*, nationality, functional, structural, international backgrounds, tenure, education, psychological motivations etc.)
- **Mediating processes**? **Other moderating variables**?

Determinants of Superior Foreign Subsidiary Performance

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Delios & Beamish (2001)

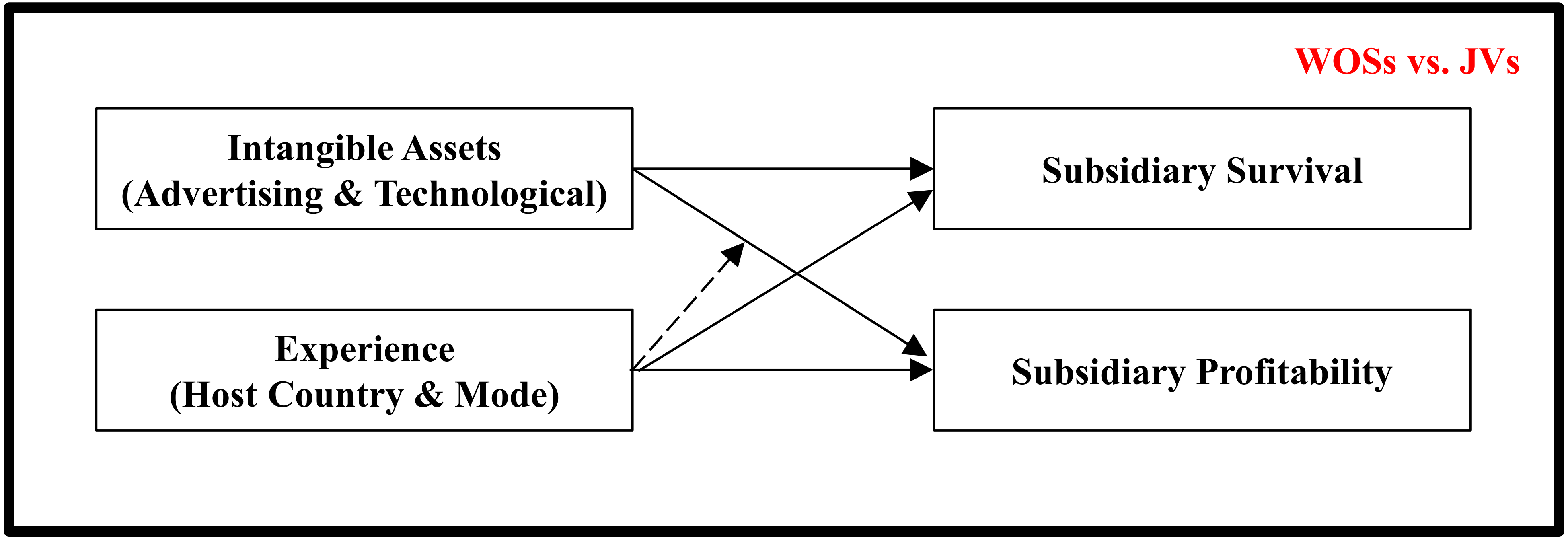
Questions

- What is the **core argument** of this piece of work?
- Define '**intangible assets**' in general & **why** they are **important** for multinational firms in outperforming their local competitors.
- Explain the logic behind the statistically significant interaction effect between **host country experience & advertising assets** on profitability in the case of **wholly owned subsidiaries**.
- Discuss the **managerial relevance** of this article in detail.
- Search **one multinational firm** venturing in a foreign market environment, which takes full advantage of its **own marketing capability** & then evaluate the **nature & quality** of its **marketing capability**.

Delios & Beamish (2001)

■ Proposed Conceptual Model

Theory: An evolutionary view on MNCs.
Data: 3,080 subsidiaries of 641 Japanese MNCs.



Time Periods: 1986-1996.
Statistical techniques: Survival analysis & Ordered logistic.

→ **Direct influence**
- - → **Moderating influence**

Note: Own illustration.

Delios & Beamish (2001)

Empirical Results

Variable	Survival Analysis[b]				Ordered Logistic Regression for Profitability[c]							
	Model 1: Wholly Owned Subsidiaries		Model 2: Joint Ventures		Model 3: Wholly Owned Subsidiaries		Model 4: Joint Ventures		Model 5: Wholly Owned Subsidiaries		Model 6: Joint Ventures	
Intangible assets												
Advertising	5.80**	(2.02)	1.71	(2.09)	−6.17†	(3.49)	−0.03	(2.78)	−3.51*	(1.70)	−2.15	(5.12)
Technological	4.23***	(0.91)	2.12**	(1.01)	6.86**	(2.54)	0.04*	(0.02)	6.28**	(2.40)	0.04†	(0.02)
Experience												
Host country[d]	0.04***	(0.01)	0.08***	(0.02)	−0.01	(0.01)	0.01	(0.54)	−0.01	(0.01)	0.01	(0.27)
Mode[d]	0.14***	(0.02)	0.14***	(0.02)	0.01	(0.00)	0.02*	(0.01)	0.01	(0.01)	0.02*	(0.01)
Host country × advertising									10.14**	(3.70)	0.14	(0.33)
Host country × technological									3.45	(0.70)	0.07	(0.11)
Organizational characteristics												
Subsidiary age					0.02***	(0.01)	0.03***	(0.01)	0.01**	(0.00)	0.03***	(0.01)
Subsidiary size	0.05**	(0.02)	0.10***	(0.02)	0.11***	(0.03)	0.10***	(0.03)	0.11***	(0.03)	0.10***	(0.03)
Parent firm size	−0.16***	(0.03)	−0.11***	(0.03)	0.04	(0.05)	−0.00	(0.04)	0.04	(0.05)	−0.01	(0.04)
Region dummies												
Asia	0.55***	(0.10)	0.63**	(0.18)	0.43**	(0.14)	0.46***	(0.13)	0.44**	(0.14)	0.46***	(0.13)
Europe	−0.01	(0.11)	−0.08	(0.20)	0.06	(0.15)	0.14	(0.18)	0.08	(0.15)	0.14	(0.18)
North America	−0.18	(0.11)	−0.18	(0.19)	0.00	(0.13)	0.17	(0.17)	0.02	(0.14)	0.17	(0.17)
Log-likelihood	−1,513.55		−2,305.34		−696.54		−784.20		−690.14		−783.88	
Model chi-square	353.50***		405.54***		124.08***		114.38***		136.88***		115.02***	
Incremental chi-square									12.80**		0.64	
Number of cases	1,375		1,705		728		928		728		928	
Number of exits	350		300									

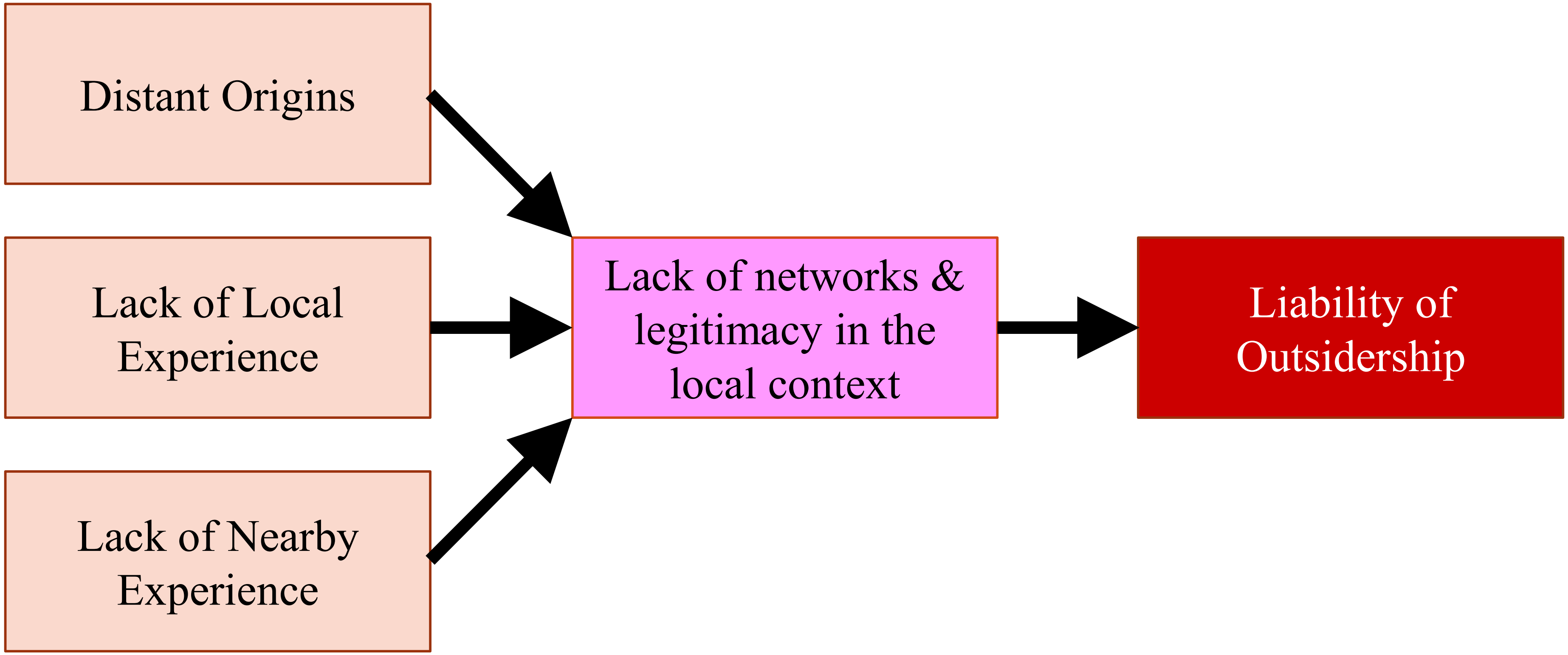
Source: Delios & Beamish (2001: 1034).

Delios & Beamish (2001)

WHY do you think that the positive effect of an MNC subsidiary's technological assets on subsidiary profitability is NOT strengthened by its level of host country experience?

Delios & Beamish (2001)

■ Liability of Outsidership (Foreignness)



Source: Peng & Meyer (2011: 14)

Delios & Beamish (2001)

■ The Resource-Based View of the Firm

- … attaches importance to the logic that a firm's competitive advantage lies in its **internal organization** (Barney, 1986).
- … originated in **Penrose**'s (1959) "*Theory of the Growth of the Firm*", offers crucial insights into corporate strategy.
- … is that different internal resources in different firms shape their own capabilities that become **competitive advantages**.
- Collis & Montgomery (1995) develop five analytical indicators:
  - **Inimitability:** Is the resource hard to copy?
  - **Durability:** How quickly does the resource depreciate?
  - **Appropriability:** Who captures the value that the resource creates?
  - **Substitutability:** Can a unique resource be trumped by a different resource?
  - **Competitive superiority:** Whose resources are really better?

The VRIO framework focuses on the value creation (V), rarity (R), inimitability (I) & organization (O) aspects of resources.

Delios & Beamish (2001)

■ The Distinction Between Resources & Capabilities

- The **tangible & intangible assets** as well as **human resources** that a firm uses to choose & implement its strategies.
- **Tangible assets:** Financial & physical assets.
- **Intangible assets:** Technical & reputational assets.
- **Human resources** (or human capital): Individual employees' skills, talents & knowledge through experiential learning & their capacity for collaboration & communication.

- ... are firm-specific abilities to use resources to achieve organizational objectives.
- ... are harder to observe & more difficult to quantify.
- No firm is likely to generate competitive advantage by relying on primary resources !
- ... refer to abilities to connect different stages of **the value chain**.
- **Five major function capabilities (Please see the next slide!)**

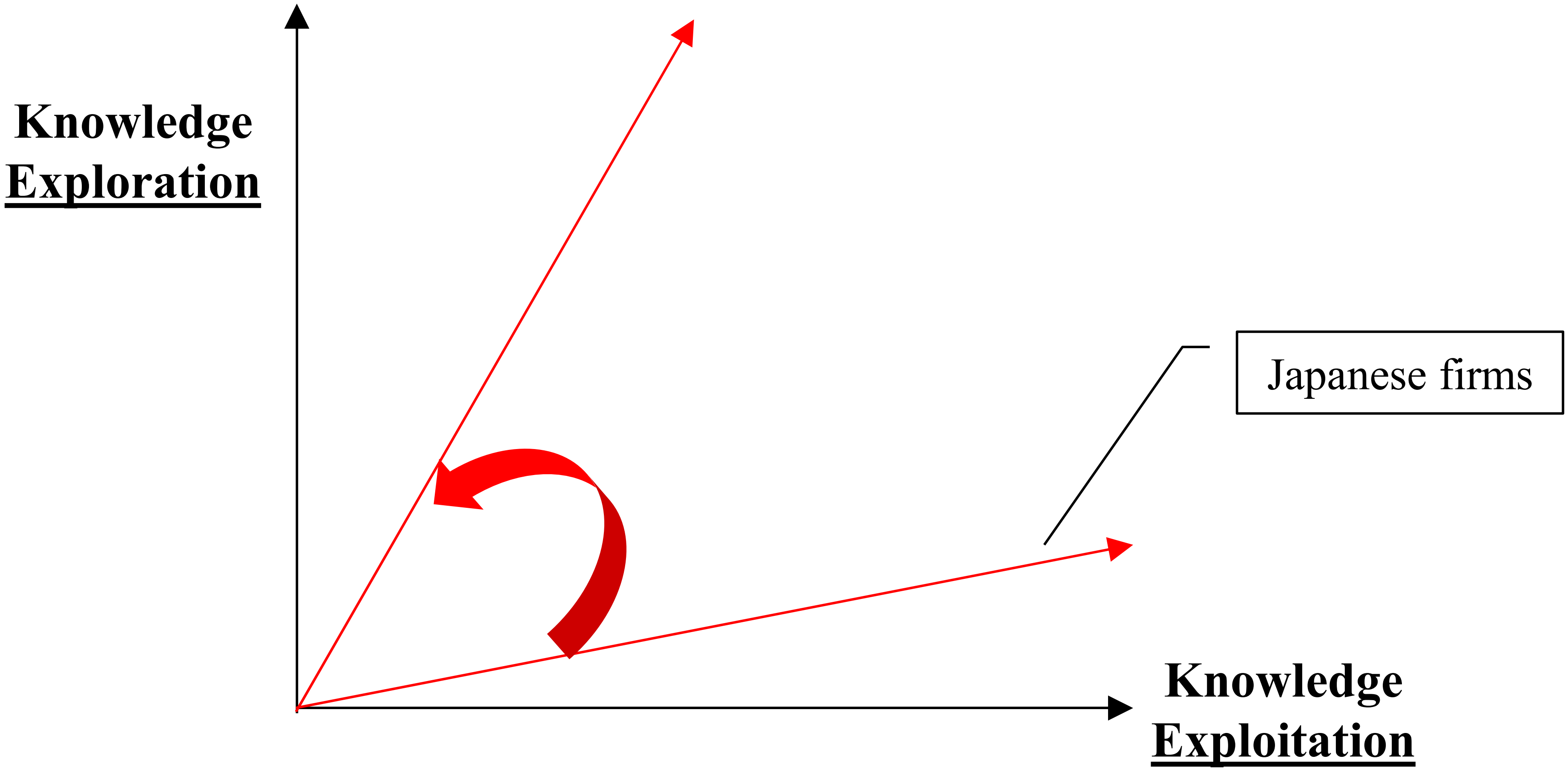
Delios & Beamish (2001)

Examples of Functional Capabilities

	Function	Capability	Example
1	**Corporate Functions**	> Ability to attract & manage financial resources.	> Exxon Mobil
		> Strategic innovation	> Google
		> Strategic management of multiple businesses	> GE, P&G
2	**Research & Development**	> Design capabilities	> Samsung
		> Innovative new product development	> Apple, Sony
		> Fast-cycle new product development	> Zara, Canon
3	**Operations**	> Flexibility & speed of response	> Zara
		> Continuous quality improvement in manufacturing	> Toyota
		> Efficiency in volume manufacturing	> Hon Hai
4	**Marketing**	> Brand management	> P&G
		> Reputation for quality	> BMW
		> Responsiveness to market trends	> L'Oreal
5	**Sales & Distribution**	> Efficiency of order processing & distribution	> Dell, Amazon
		> Effective distribution management	> Walmart
		> Quality & effectiveness of customer service	> SAP

Delios & Beamish (2001)

- **Competency Trap = A Source of Poor Innovation**



Isobe et al. (2002)

Questions

- Discuss the **originality & novelty** of this scholarly investigation.
- Explain the **strengths** & **drawbacks** of **first-mover advantages**.
- Provide **contextualized discussions** on how the availability of **supporting infrastructure** influences **technology transfer** & the **timing of entry**.
- Discuss the underlying logic behind the positive effect of **parent control** on **technology transfer**.
- Explain **the most responsible factor** for predicting **successful JV projects in practice** by extending the empirical results.
- Select **one Western MNC** operating successfully in **one of emerging economies** & identify **what made it successful**.

Isobe et al. (2002)

■ First-Mover Advantages & Late-Mover Advantages

First-mover advantages ⟵ ⟶ **Late-mover advantages**

(1) Proprietary, **technological leadership**
(2) Quick **acquisition** of scarece resources
(3) Establishment of **entry barriers** for late entrants
(4) Avoidance of **clash** with dominant firms at home **(↓)**
(5) Relationships & connections with **key stakeholders** (e.g., customers & governments)

(1) Opportunity to **free ride** on first-mover investments
(2) Resolution of technological & market **uncertainty (↓)**
(3) First mover's difficulty to **adapt to market changes** (Late movers' willingness to take advantage of first movers' inflexibility)

"*Entry timing per se is not the sole determinant of success & failure of foreign entries. It is through interaction with other strategic factors that* ***entry timing affect performance***".

Isobe et al. (2002)

■ Technology Transfer is Difficult & Challenging !

1 Knowledge Retention

Challenges
Can the firm keep the knowledge it has accumulated?

Common obstacles
Employee turnover & knowledge leakage.

Knowledge Sharing 2

Challenges
Are people willing to share knowledge with others inside the firm?

Common obstacles
'How does it help me?' syndrome & 'knowledge is power' mentality.

Challenges
Is knowledge communicated effectively between people & business units?

Common obstacles
Inappropriate channels, language barriers.

3 Knowledge Transmission

Challenges
Do potential recipients appreciate & utilize knowledge available elsewhere in the organization?

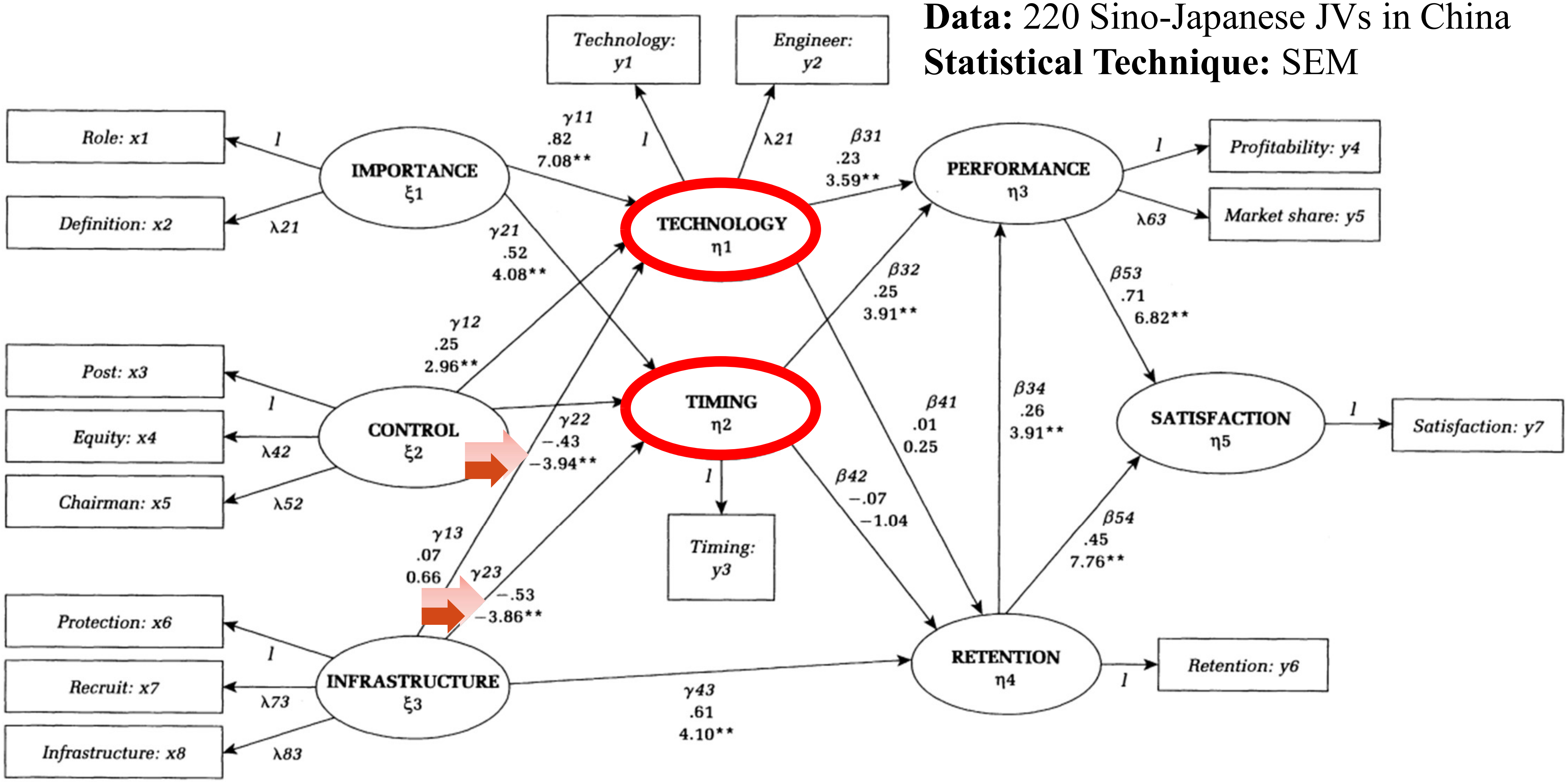
Common obstacles
Limited absorptive/learning capacity.

Knowledge Utilization 4

Isobe et al. (2002)

■ Proposed Conceptual Model

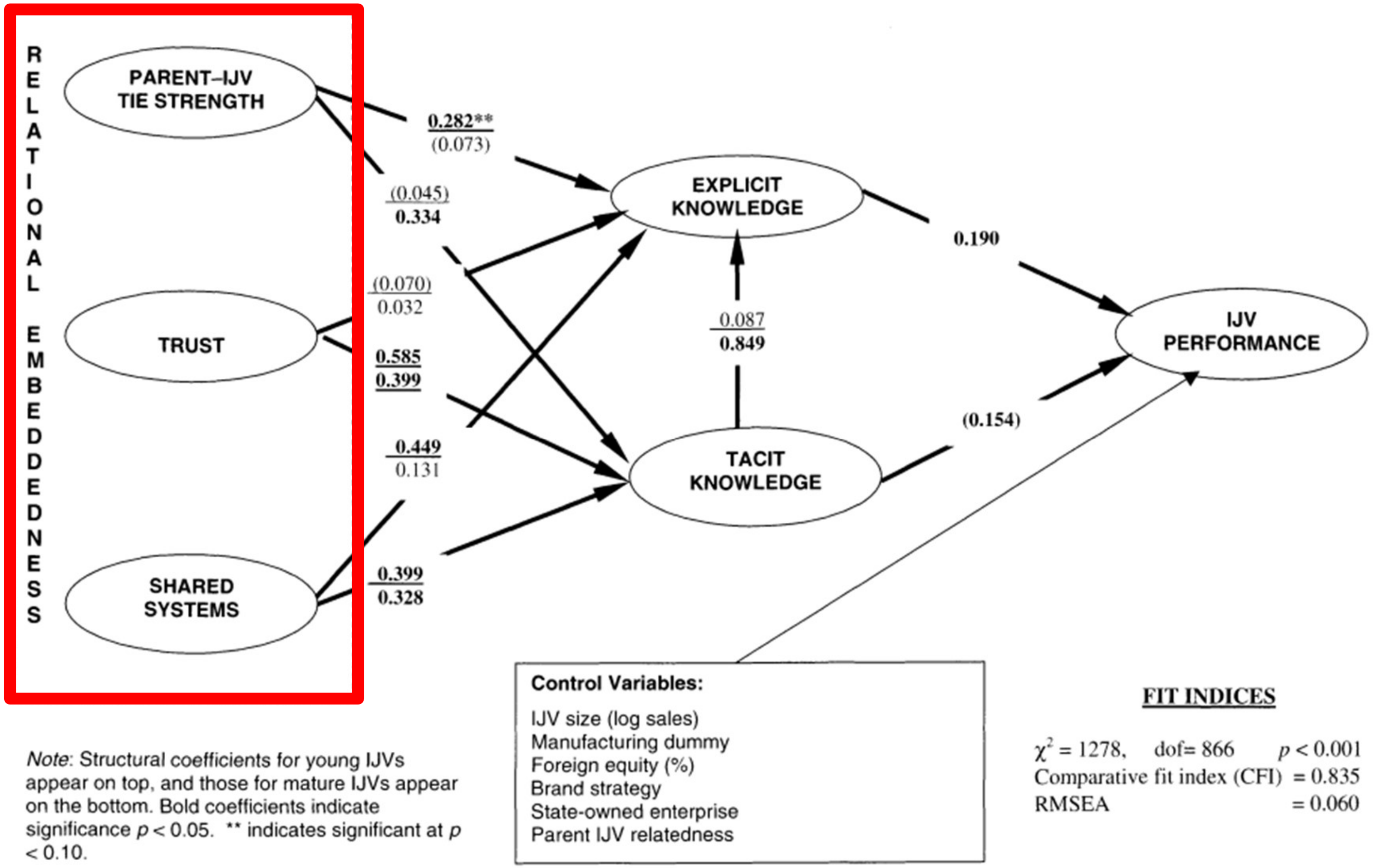
Data: 220 Sino-Japanese JVs in China
Statistical Technique: SEM



Note: Isobe et al. (2002: 1999).

Isobe et al. (2002)

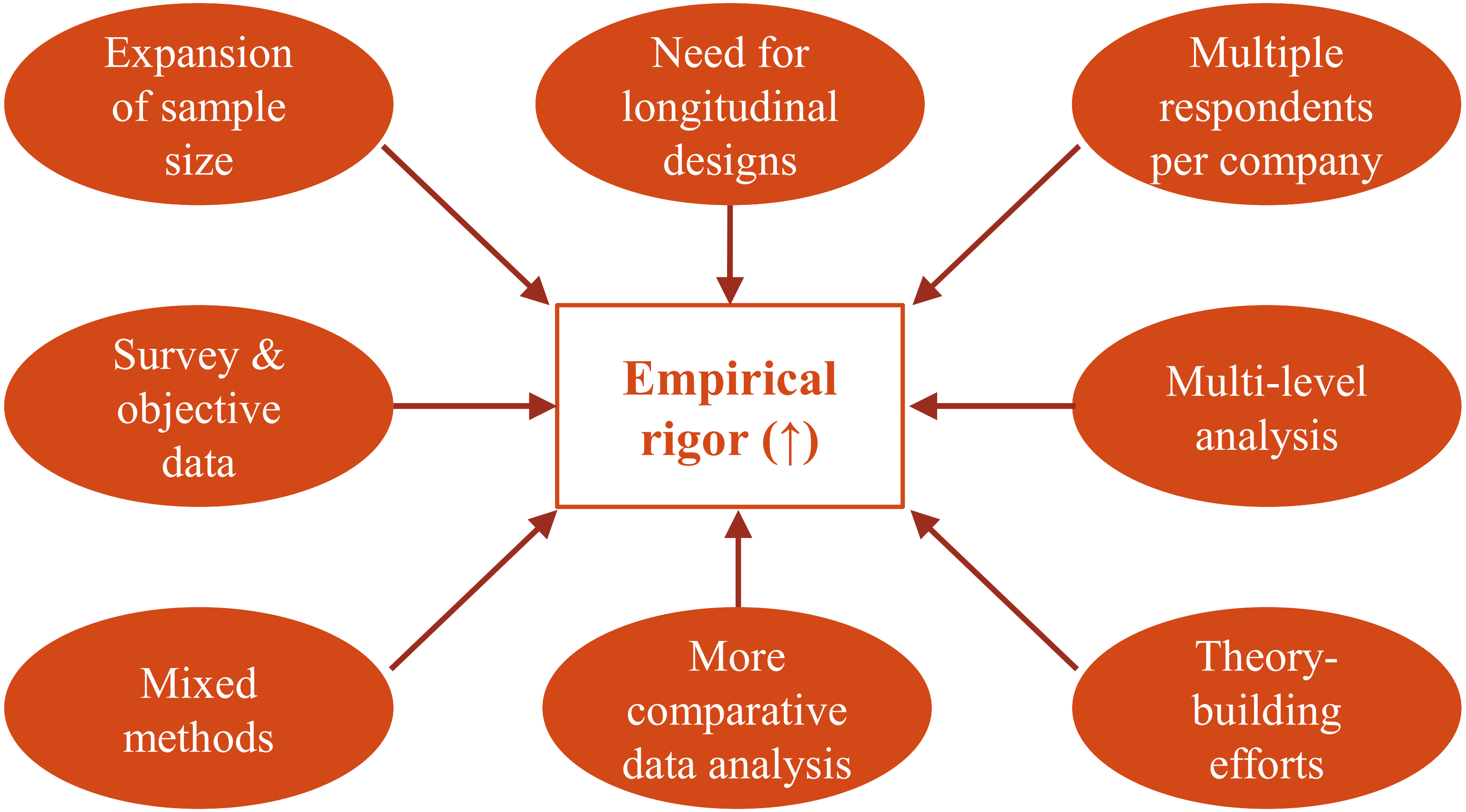
■ Dhanaraj et al.'s (2004) Study



Note: Dhanaraj et al. (2004: 435).

Isobe et al. (2002)

■ Critical Methodological Challenges



Reading Assignments

- **Reading Assignments for 08.03.2024 (Friday)**
  - **FDI Strategies - Entry Mode Selection.**

    – **Peng, M. W.** (2000). "Controlling the Foreign Agent: How Governments deal with Multinationals in a Transition Economy", *Management International Review*, 141-165.

    – **Hubbard, N.** (2013). "Danone & Wahaha Group".

The End of Today’s Lecture

ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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