


## Performance of mid-size internationalized Indian firms: evaluating the role of family control

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### ABSTRACT

The rapidly growing and gradual emergence of multinational firms from the Indian sub-continent now calls for thorough re-understandings of extant theories and existing ideologies of the ‘internationalization’ process. We would initially assess the three-stage model of internationalization in the context of mid-size Indian firms and intend to investigate the relationship between performance and degree of internationalization. Based on the longitudinal dataset (2005-12) of publicly listed firms, our findings suggested that mid-size firms remained stuck up in the first stage of internationalization and accordingly exhibit a downward-sloping relationship between internationalization’s degree and performance. Most of the mid-size firms continued to show a predominantly family-controlled stance, and the impact of family ownership shows negative effects on the degree of internationalization. By examining the performance heterogeneity in family-owned firms towards internationalization, this paper enriches the existing body of research and assume it to be a prolific addition in the literature on international expansion.

### Contribution/ Originality

This study tries to examine the vital impact of family ownership on the level of internationalization and its performance. We suggested that developing a network of relationships within target markets, in addition to enhance managerial capabilities as well, would obviously minimize the apparently perceived risks and other adverse performance effects at the initial level of internationalization.

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## 1. INTRODUCTION

The internationalization process of family-owned firms aroused keen interests and curiosity among researchers of International Businesses (IBs). The most critical idea evolved from these studies (De Massis *et al.*, 2018; Ray *et al.*, 2018) leads us to know as to how internationalization could offer both benefits and challenges to family-owned firms and other firms as well. Since family-owned businesses are included among the small and medium enterprises (SMEs), and form the backbone of Indian economy. These play significantly critical roles in the well-being of local communities. For an expansion abroad important decisions had to be taken (Pukall and Calabrò, 2014) given the long history of more focus on domestic conditions and limited access towards international presence.

In general, the performance of Indian firms upon internationalization has been studied extensively by many researchers of international business (IB). A body of researchers (Contractor *et al.*, 2003; Lu and Beamish, 2004; Singla and George, 2013) analyzed their performance in the context of increasing degree of internationalization (DOI), while others (Arregle *et al.*, 2012; Lin, 2012) examined the scale, geographic dispersion, pace and rhythm of the internationalization process. However, there is still a lack of conclusive evidence regarding the impact of family ownership on different aspects of internationalization (Pukall and Calabrò, 2014), and its process does affect profitability when exports are directed to distant markets (Pacheco, 2019). Therefore, it is quite crucial and informative to know whether Indian SMEs exhibit better differential performance benefits upon internationalization.

The costs and benefits gradually vary with the passage of time depending upon the degree and process of internationalization (Contractor *et al.*, 2003). Previous researches had established that the internationalization-performance linkage could be described in three stages (Miller *et al.*, 2016). In the initial stages of internationalization, the liability of foreignness and newness increases the costs more than the ensuing benefits. In the second stage, internationalized firms start to enjoy the benefits from exploitations of various factors like, firm-specific assets, enhanced learning, assimilation of knowledge, economies of scale, adequate scope and geographical diversification. Finally in the third stage, as some firms may go beyond and reach their optimal internationalization, tend to face high costs due to organizational complexity and wider scope. The relationship between performance and DOI was found to be non-linear (Lu and Beamish, 2004; Miller *et al.*, 2016), U-shaped (Capar and Kotabe, 2003; Hitt *et al.*, 1997), inverted U-shaped (Contractor *et al.*, 2003) or S-shaped (Lu and Beamish, 2004). However, there is partial support for S-curve in the cases of emerging firms with suitably stable economy (Contractor *et al.*, 2007). Therefore, it means that the direction of DOI-Performance linkage is not conclusive, but rather context-specific (Elango and Sethi, 2007). Family ownership and emerging markets are considered to be the two salient contexts that cause such heterogeneity in DOI-Performance relationship. Again, the significant divergence in the relationship may also be the cause of its dependence on country-level institutional differences (Arregle *et al.*, 2017).

It is interesting to note that several studies (Kirca *et al.*, 2011; Lu and Beamish, 2004; Miller *et al.*, 2016) pertaining to the internationalization-performance linkage mainly focused on developed markets, whereas studies within the context of emerging economies (Contractor *et al.*, 2007; Singla and George, 2013) did not fully support the hypotheses formulated in the context of developed markets. Moreover, all these studies involved cross-sectional designs and samples were also not taken from firms with uniform sizes, though the size of firms was found to be positively associated with their performance upon internationalization. Furthermore, estimations from some research studies conducted on large renowned multinational firms were not directly transferable to small or mid-size firms, because these suffered from a lack of resources and suitable organizational mechanisms, as well. These firms showed many peculiar psychological, political, and cultural factors (Fernández and Nieto, 2005). Their unique characteristics therefore, limited the set of opportunities available to these firms in the huge and expanded international market (Hutchinson *et*

*al.*, 2005). Internationalization offers various opportunities to these firms to increase revenue, gain interest, acquire necessary know-how and become competitively strong (Zhou *et al.*, 2007). However, Mid-size firms remain vulnerable owing to lack of both tangible and intangible assets (Jain and Singal, 2011) and may likely remain on the verge of acquisition targets unless they are inclined towards the improvement of their performance. In line with these flaws, slackness and gaps, we have attempted to study and evaluate the performance of mid-size Indian firms upon internationalization.

We define and categorize mid-size firms as having market capitalization between \$2 billion and \$7 billion, mostly comprising of first-generation or second-generation Indians, who run the family-controlled business. Family control could be considered as direct holding or indirectly managed through a family trust. Decision making in these family-controlled firms primarily lies with the owners. Therefore, some flaws like family control, lack of external monitoring, and limited control exercised by institutional investors could obviously result in family members dominating stance for the governance system of these firms (Arregle *et al.*, 2012; Carney, 2005). Traditionally, much evidence exists to show that family-controlled business is usually focused on domestic markets and internationalization is assumed to be a risky measure (Alessandri *et al.*, 2018). Therefore, our second objective is to study the role of family ownership in explaining the variations in the internationalization process from the perspective of stage model.

Our objectives are inclined towards addressing the call from scholars (Arregle *et al.*, 2012; Ruigrok and Wagner, 2003) to explore the role of organization's dimensions, such as organizational structure, composition of top management team, and ownership control, on its DOI-performance linkage. Family-owned firms are being established as a majority of publicly traded firms in emerging markets (Credit Suisse, 2018) and surprisingly, India has the third-highest number of publicly traded firms in the world. India provides the right context and obvious grounds for our study's investigation. The degree of family ownership firms might be a source of heterogeneity in the internationalization performance (Ray *et al.*, 2018) of mid-size Indian firms. To substantiate our findings, we investigate as to how family ownership affects the DOI. In this way, we contributed towards the theory of family-owned firms through an understanding of the impact of internationalization, which is now considered the key strategic decision by mid-size family firms.

The remaining study is structured as: following the first section on "Introduction", the next section presents a brief "Review of the Literature", regarding performance of firms and their degree of internationalization, along with the impact of family ownership, leading to our hypothesis. The final section sets out the "Empirical Evidence", as well as our analysis towards conclusion and interpretation of the results.

## 2. THEORY AND HYPOTHESIS

Scholars have predicted a curvilinear relationship between DOI and performance, but without any consistent findings (Miller *et al.*, 2016). Firstly, we review the general three-stage theory (Lu and Beamish, 2004) of firm internationalization. Based on the degree of internationalization, firms fall into three stages of internationalization. The stage I defined as the early stage, stage II as growth stage, and stage III as the mature stage (Contractor *et al.*, 2007; Kumar and Singh, 2008).

The three stages capture the intent of a firm's internationalization efforts, including various facets of internationalization-intensity, diversity and distance (Miller *et al.*, 2016). While international intensity captures the depth of international commitment, international diversity covers the breadth of international operations and international distance measures the differences in location, culture, institutions, economics between host and home markets. Non-linear relationship between internationalization and performance indicates dysfunctional consequences at intermediate to higher levels of internationalization (Pacheco, 2019). The internationalization-performance linkages have

been studied in many small country contexts: Portugal (Pacheco, 2019), Spain (Fernández and Nieto, 2005), Taiwan (Lin, 2012), Singapore (Pangarkar, 2008).

Stage I or the early stage of internationalization comprises of firms that have begun their international expansion recently. In this stage, costs are high primarily due to liabilities of foreignness, differences in culture and institutions. Unfamiliarity with the foreign markets in terms of customers, suppliers, institutions, the political and legal system, sociocultural issues, and host market competition results in liabilities of foreignness (Zaheer, 1995). The unfamiliarity means higher costs of doing business in the host markets. Internationalizing firms also have to deal with the issues of cultural distance, defined as differences in terms of societal norms, individual behaviour and values between the home and host countries (Hofstede *et al.*, 2005). Higher cross-national cultural distance means that the focal firm faces operational problems of communication, social exchange, information gathering and dissemination, which lead to higher costs of internalization (Berry *et al.*, 2010).

Internationalizing firms have to try very hard to gain institutional legitimacy in the host market. Institutions provide information about business partners and their likely behaviour (reduce information asymmetry). Existence of a robust institutional framework reduces transaction costs (Meyer *et al.*, 2009). As firms get more experience in host markets and start conforming to local, social and institutional norms, they may achieve institutional legitimacy (Kostova and Zaheer, 1999). In a sense, firms continue to encounter costs from multiple factors upon internationalization. Emerging-market firms face more constraints and deficit of resources in terms of capital, managerial, and technological competencies to compete effectively in foreign markets (Hitt *et al.*, 2000). Further, these tend to be comparatively young or recently privatized, their managerial capabilities and decision-making processes are not fully developed (Lyles *et al.*, 1993). Therefore, in the early stages of internationalization in the emerging economy, firms display a downward curve in line with prior research (Capar and Kotabe, 2003; Kumar and Singh, 2008; Lu and Beamish, 2004) establishing declining performance with increasing DOI.

In the next stage, the growth stage, firms start reaping the benefits of economies of scale and scope (Lu and Beamish, 2004). International expansion reduces costs and boosts revenues as the firm enjoys increasing market power over its suppliers, distributors, and customers (Hitt *et al.*, 1997). A firm can also earn above-average returns in international markets by exploiting its firm-specific assets (Kirca *et al.*, 2011), through knowledge acquisition and transfer (Hitt *et al.*, 1997), organizational learning and experience (Barkema and Vermeulen, 1998; Ruigrok and Wagner, 2003). Some firms even increase commitment to the host country by establishing subsidiaries to benefit from country-specific resources (Kogut and Chang, 1991).

Emerging-market firms operate in higher-risk home locations that are subject to uncertain structural environment and changes (Nachum, 2004). Their motivation for diversifying into international markets is to hedge risks and minimize the market failure arising from pure dependence on home markets for resources and other supplies (Contractor *et al.*, 2007). Owing to small markets in emerging economies, firms in these markets are smaller in size and operate at uneconomic scale (Ray, 2004). These circumstances offer high incentives to go for international expansion. Therefore, in stage II, firms start benefiting from internationalization.

Stage III or the mature stage of internationalization comprises of firms which have over-expanded internationally. In such cases, the benefits of internationalization get negated by high costs of coordination and increased regulatory diversity (Sundaram and Black, 1992). They face high coordination costs due to the limited capacity of their managers to cope with a widening geographical scope, information overload (Hitt *et al.*, 1997), information loss, distorted governance mechanisms (Hoskisson and Turk, 1990), cultural and institutional diversity (Ghoshal and Bartlett, 1990).

Limited managerial bandwidth and poorly developed decision-making processes (Lyles *et al.*, 1993) of emerging economy firms, coupled with growing pressure on them to secure international legitimacy (Hitt *et al.*, 2000), overall costs outweigh the benefits at a higher level of internationalization seen in the final stages of internationalization. But, most emerging markets firms have yet to reach that stage (Contractor *et al.*, 2007).

### 2.1. Internationalization of mid-size firms

Success in international business requires additional management capabilities, appropriate governance systems to handle the complexities of international business and higher risk-taking capability (Liu *et al.*, 2011). Family firms are reluctant to internationalize lest it should affect their socio-economic wealth (Alessandri *et al.*, 2018) and socio-emotional wealth (Pukall and Calabrò, 2014). Because of unique assets, risks and the context, the curvilinear (S-shaped or U-shaped) stage model of internationalization may not hold family-owned Indian firms. But, change in circumstances due to liberalization of the Indian economy since 1992, has transformed Indian business away from conventional manufacturing to technology-intensive industries. Firms faced increased international competition, fast-changing business environment, and shortening product life cycles, they were forced to globalize. But, mid-size firms, most of which are predominantly family-controlled, lack governance systems and decision-making capability required to sustain international business operations.

Indian mid-size firms are mostly first or second generation family-controlled firms. Compared to large Indian firms who exhibited global aspirations (Singal and Jain, 2013) much earlier, mid-size firms started to internationalize late, and are still in the initial stages of internationalization. Similar to other firms, these firms also encounter additional costs due to liabilities of foreignness, cultural and institutional differences. Additionally, these firms tend to be controlled or influenced by family members, which hinder the growth and may even become a liability in managing large-scale, technologically complex industries (Carney, 1998). Centralized decision-making, low involvement of professional managers, and simple organizational structure limits their ability to carry out international tasks (Liu *et al.*, 2011).

Moreover, they suffer from lack of exploitable resources and differential perceptions of the potential gain from internationalization (Alessandri *et al.*, 2018) due to peculiar psychological, political, cultural factors (Fernández and Nieto, 2005). These unique characteristics limit the set of opportunities available to them in the international market (Hutchinson *et al.*, 2005). We expect Indian mid-size firms to have a negative relationship between DOI and performance partially due to liabilities of foreignness, cultural and institutional differences, and also due to limited management capability of family firms in handling large-scale or technologically sophisticated firms.

Hypothesis I: The shape of the DOI-performance relationship for mid-size Indian firms is expected to be linear and downward sloping.

### 2.2. Effect of family control

Family control affects the degree of internationalization in two ways. Firstly, family firms are risk-averse and less likely to go for internationalization (Evert *et al.*, 2018). Owing to high and concentrated shareholding, they suffer from an undiversified portfolio and constrained by liquidity (Anderson and Reeb, 2003). Family firms are more inclined to preserve the socioemotional wealth that might be adversely affected by the risks of internationalization (Alessandri *et al.*, 2018).

Given that internationalization poses a risk, and family wealth is tied to the expansion strategy. The family-controlled firms take a conservative stance regarding internationalization. They are less enthusiastic about committing big investments in distant places and relinquish control (Liu *et al.*, 2011) to professional managers for managing international operations. Secondly, the managerial capability of family members of successive generations may not be suitable enough to manage the

complexities of international business. Therefore, the desire to preserve socioeconomic family wealth (Alessandri *et al.*, 2018) accompanied by limited managerial capability and lack of global mindset (Singal and Jain, 2013) would restrict the international expansion of mid-size Indian firms.

Hypothesis II: There will be a negative association between family ownership and the degree of internationalization of mid-size Indian firms, other things being equal.

### 3. METHODOLOGY

#### 3.1. Sample

Firm-level financial data for the study has been collected from PROWESS (maintained by the Centre for Monitoring Indian Economy, CMIE) and CAPITALINE (owned by Capital Markets Ltd). These databases are created from annual reports filed with regulatory agencies by listing companies. Several past studies (Bhaumik *et al.*, 2010; Contractor *et al.*, 2007; Singal and Jain, 2013) on emerging markets have used these databases.

Since our study focuses on the performance of mid-size firms upon internationalization, our sample frame is the mid-cap index maintained by the Bombay Stock Exchange (BSE). The index has 246 firms spread over multiple industries and covers firms that have a market capitalization between \$2 billion to \$7 billion. For analysis, we selected four industries-Capital Goods, Healthcare, Consumer Goods and Transport Equipment. These industries are primarily composed of mid-size, family controlled firms. From the above, we selected 73 firms in total. Firms in these industries have been relatively aggressive in carrying out export operations and setting up foreign subsidiaries. Given our focus is on Indian firms, we excluded subsidiaries of foreign firms operating in India. The final sample has 50 firms with complete data available. The period of study is 2005-2012 as most mid-size firms have started to internationalize recently. Data for the promoters shareholding were also collected from the PROWESS.

#### 3.2. Methods

For empirical data analysis, we conducted pooled cross-section time-series regression analysis using SPSS statistical software. In the pooling, firm-level data is examined over the period of analysis. Accordingly, firm-year is the unit of analysis. Given that firm level variables change over time, we consider the panel design as better suited to capture variations across time, space or both. Failure to take into account such variability can result in biased regression parameters. Panel data enhances the reliability of the coefficient estimates (Bowen and Wiersema, 1999), and it is a widespread technique among strategy researchers. The full empirical model is provided below.

Model A:

$$\text{Firm performance} = (\text{DOI} + \text{Firm Size} + \text{Firm Age} + \text{Industry Dummies} + \text{Year Dummies}) + e$$

Model B:

$$\text{DOI} = (\text{Family ownership} + \text{Firm Size} + \text{Firm Age} + \text{Industry Dummies} + \text{Year Dummies}) + e$$

#### 3.3. Variables description

##### 3.3.1. Relationship between DOI and firm performance

###### 3.3.1.1. Dependent variables

Firm performance upon internationalization is measured using two accounting-based measures: Return on assets (ROA) and Return on Capital Employed (ROCE). ROA, calculated as a ratio of net income to total assets, measures the efficiency with which a company utilizes its assets. ROCE measures the efficiency with which firms utilize the resources. These measures have previously been used in several studies (Contractor *et al.*, 2007; Evert *et al.*, 2018; Lu and Beamish, 2004).



### 3.3.1.2. Independent variables

The independent variable of interest is the degree of internationalization (DOI) calculated as the ratio of foreign sales to total sales (FSTS). The FSTS is a widely used measure for a firm's DOI and has been repeatedly used in several previous studies on international business research (Arregle *et al.*, 2012; Contractor *et al.*, 2007; Lu and Beamish, 2004). FSTS measure is based on consolidated sales, and it includes both domestic sales and that of foreign subsidiaries.

### 3.3.1.3. Control variables

We incorporated several controls such as firm size, age (Singla and George, 2013) that may affect the performance of firms. We controlled for firm size by using the natural logarithm of market capitalization, a market based evaluation of tangible, intangible and positional capital (Singal and Jain, 2016). Logarithm scale achieved normality in data distribution, so that the interpretation of results is easy. The number of years of operation since inception is taken as a measure for firm age (Arregle *et al.*, 2012). Dummy variables were added to control for industries taking the capital goods industry as the base industry. We also added controls for each year since the period of study includes the years of the recent global slowdown.

### 3.4. Relationship between family control and level of internationalization

In this case, our empirical model is B. The independent variable is the degree of family control. The dependent variable is the degree of internationalization as measuring by FSTS. The control variables are the same as in the previous model.

In literature, family firms are defined along three dimensions: family ownership or family management or both (Arregle *et al.*, 2017). An appropriate measure for family ownership is the extent of voting rights possessed by the family members on the board (Chakrabarty, 2009; Liu *et al.*, 2011). But, due to the non-availability of the information on all firms, we used promoter shareholdings as a proxy for family control (Bhaumik *et al.*, 2010; Evert *et al.*, 2018). Promoter shareholding is a suitable measure as a shareholding block determines the control of a board position by the owner, family member or its representative. Domestic promoters' shareholding, in combination with at least one family member in the management position, is considered a defining feature of the family firm (Pukall and Calabrò, 2014).

## 4. RESULTS

We show the descriptive statistics and correlations among variables in Table 1. Mean FSTS of the sample over eight years of analysis is 22%, and the mean age of the firm is 37 years. The results are similar to previous studies on DOI and firm performance (Kumar and Singh, 2008). Mean shareholding of the domestic promoters at 41%, though considered to be high, is within the acceptable range given that mid-size firms closely held by the promoters.

**Table 1: Descriptive statistics and correlations**

Variable	Mean	Standard Deviation	1	2	3	4	5
1. ROA	0.09	0.06					
2. ROCE	0.21	0.14	0.81**				
3. FSTS	0.22	0.25	-0.05	-0.23**			
4. Domestic Promoters Shareholdings (%)	41.68	23.83	-0.01	-0.11*	0.01		
5. Market Capitalization	2750.1	3,568.50	0.07	-0.01	0.08	0.07	
6. Firm Age	37.38	21.02	0.10*	0.29**	-0.26**	-0.23**	-0.07

\*\*\* p < 0.001, \*\* p < 0.01, \* p < 0.05

The results of the regression of DOI on the performance for mid-size Indian firms are presented in Table 2. The two measures of performance have been regressed, separately, on the dependent variables. Models 1 and 2 have ROA as the (dependent) performance variable, and models 3 and 4 consider ROCE as the performance variable.

**Table 2: Random effects panel regression of DOI on firm performance**

Variables	ROA		ROCE	
	Model 1	Model 2	Model 3	Model 4
Constant	0.06*** (0.01)	0.07*** (0.01)	0.15*** (0.04)	0.17*** (0.03)
Y1	0.004 (0.01)	0.003 (0.01)	-0.01 (0.03)	-0.01 (0.03)
Y2	0.005 (0.01)	0.005 (0.01)	-0.01 (0.03)	-0.01 (0.03)
Y3	0.01 (0.01)	0.01 (0.01)	-0.01 (0.03)	-0.01 (0.03)
Y4	-0.02 (0.01)	-0.02 (0.01)	-0.07* (0.03)	-0.07 (0.03)*
Y5	-0.001 (0.01)	-0.002 (0.01)	-0.03 (0.03)	-0.03 (0.03)
Y6	0.002 (0.01)	0.001 (0.01)	-0.03 (0.03)	-0.04 (0.03)
Y7	-0.001 (0.01)	-0.002 (0.01)	-0.05 (0.03)	-0.05 (0.03)
FMCG	0.02* (0.01)	0.02* (0.01)	-0.01 (0.02)	-0.01 (0.02)
Healthcare	0.03*** (0.01)	0.04*** (0.01)	-0.003 (0.02)	0.02 (0.02)
Transport Equipment	-0.004 (0.01)	-0.004 (0.01)	-0.02 (0.02)	-0.02 (0.02)
Firm Size	0.001 (0.002)	0.001 (0.002)	0.002 (0.004)	0.004 (0.004)
Firm Age	0.0002* (0.0001)	0.0002 (0.0001)	0.002*** (0.00)	0.002*** (0.00)
FSTS		-0.026* (0.01)		-0.11*** (0.03)
R <sup>2</sup>	0.09	0.10	0.11	0.14
Adjusted R <sup>2</sup>	0.06	0.07	0.08	0.11
F-Statistic	3.28***	3.37***	3.93***	4.74**
Durbin-Watson Statistic		2.11		2.03

Firm size computed as natural logarithm of market capitalization. Y1 to Y7 are the dummy variables for the years. Figures in brackets are standard errors.

\*\*\* p < 0.001, \*\* p < 0.01. \* p < 0.05

Models 2 and 4 are full models incorporating independent variables. Both models are significant, as saw with the F statistics (Model 2: F=3.37, p< 0.01; Model 4: F=4.74, p<0.01). In models 2 and 4, DOI, as measured by FSTS, is negatively associated with ROA (b= -0.026, p<.05 and ROCE (b= -0.11, p < .001), supporting the Hypothesis I. This implies that the slope between DOI and firm performance for mid-size Indian firms is linear and downward. Firm size is not significant as compared to previous studies where firm size is positively associated with firm performance (Kumar and Singh, 2008; Lu and Beamish, 2004). It is possible because our sample includes mid-size firms only, and hence there is not much variation in firm size. Firm age is positively related to firm performance which suggests that firms have improved performance over time. This finding is in line with previous studies on DOI and performance.



**Table 3: Random effects panel regression of family ownership on DOI**

Variables	DOI	
	Model 1	Model 2
(Constant)	0.14** (0.05)	0.19*** (0.06)
FMCG	-0.02 (0.05)	-0.03 (0.03)
Healthcare	0.20*** (0.03)	0.20*** (0.03)
Transport Equipment	-0.01 (0.03)	-0.03 (0.03)
Firm Size	0.02*** (0.01)	0.03*** (0.01)
Firm Age	-0.003*** (0.001)	-0.003*** (0.001)
Domestic Promoters Shareholdings		-0.11* (0.05)
R-squared	0.214	0.224
Adjusted R <sup>2</sup>	0.189	0.198
F-Statistic	8.773***	8.568***
Durbin-Watson Statistic		1.945

Firm size computed as natural logarithm of market capitalization. Year dummies are insignificant and not shown. Figures in brackets are standard errors. \*\*\* p < 0.001, \*\* p < 0.01, \* p < 0.05

Table 3 shows the results of regression analyses of the effect of promoter shareholding on DOI. Model 2 is a complete model. The dependent variable in these cases is FSTS. The coefficient of domestic promoters shareholding is negative (b = -0.11, p<0.05) supporting Hypothesis II. Firm age is negatively associated with DOI (b = -0.003, p<0.001). It implies that older mid-size firms are reluctant to internationalize. Also, this may be a reason for their better performance in the earlier regression analysis reported in Table 2.

#### 4.1. Post hoc analysis

To validate the negative relationship between DOI and firm performance, we segregated our data into two groups, group 1 for the period 2005 to 2008 and group 2 for the period 2009-2012. We conducted an independent sample t-test to compare both groups in terms of performance (ROA and ROCE). No significant change in the performance suggests that mid-size Indian firms have not yet started to realize the benefits of stage II of internationalization and the costs of governance in managing complexities of international business have outweighed the benefits of international business.

Next, we segregated our data into two groups based on average FSTS. Group 1 comprised firms with below-average FSTS and group 2 had firms with above-average FSTS. We compared both samples in terms of age and firm size using an independent sample t-test. FSTS was significantly higher for the new firm validating our earlier results that are in-line with an earlier study by Contractor *et al.* (2007).

To substantiate our finding that firm size is not significant in determining the performance of mid-size firms, we divided our sample into the top 20 percentile and bottom 20 percentile based on size and conducted t-tests to compare the two groups in terms of performance. No significant difference was found in the performance between the two groups. It further validates the regression results.

## 5. DISCUSSION

We provide empirical support that in the case of mid-size Indian firms relationship between DOI and performance is linear and downward-sloping. As per the three-stage model of internationalization (S-curve hypothesis; Lu and Beamish, 2004), in the early stages, internationalizing firms face high costs primarily due to liabilities of foreignness, cultural and institutional differences, and are, therefore, subject to lower performance. As these firms increase their scale of international operations, there is no evidence of improvement in the performance of these firms due to benefits associated with stage II, that is, economies of scale, increased market power over suppliers, distributors, and customers, knowledge acquisition and transfer, organizational learning and experience. The DOI-Performance relationship is complex and contextual because of firm's characteristics such as business group, firm size, firm age (Singla and George, 2013), risk attitudes (Alessandri *et al.*, 2018; Pukall and Calabro, 2014) and ownership structure (Ray *et al.*, 2018).

Our results suggest that mid-size firms remain stuck in stage I of internationalization and the benefits, if any, of internationalization, are offset by lack of managerial competencies and aspirations to handle international operations. There is a lack of international orientation, as these are predominantly controlled by owners or immediate family members who may not have the desired capabilities and international exposure required to manage geographically spread business. Owing to the family association, past strategic actions of mid-size firms, history of growth and organizational logic result in a vulnerable situation that makes firm susceptible to process discontinuities (Jain and Singal, 2014). Secondly, the DOI of mid-size Indian firms is negatively related to the degree of family control. The finding is similar to Liu *et al.* (2011). Because of the concentration of wealth in a single business, family-controlled businesses are cautious of internationalizing and want to conserve their wealth. Ownership structure and concentration of decision making with family may moderate the gain from international strategy (Ray *et al.*, 2018). Family members may lack international exposure and management capability to carry out international business as a whole. They have a conservative approach to funding expansion into new markets.

The negative association of firm age with internationalization reflects that older firms that were in operation before liberalization (1990-1991) is rigid in adopting new operating systems and governance modes required for success in international operations. These may continue to focus on domestic markets. In comparison, firms incorporated after the economic liberalization are able to tap the opportunities available because of open markets.

The results for industry effects are mixed. The positive relationship for Healthcare and FMCG industry is because FSTS for these firms is dominated by exports income rather than income from foreign subsidiaries. Because of relationships and networks developed during the exports phase may help later in increasing commitment (Vahlne and Johanson, 2013). Hence, they are unlikely to incur steep governance costs associated with managing overseas operations. These firms enjoy economies of scale associated with stage II of internationalization.

We expected a significant amount of variation in the performance to be explained by the dummy variables for the eight years. These variables, as a group, were insignificant, possibly, because the impact of the global economic slowdown on different industries is not concentrated on a single period and may not be uniform across all industries. Since we used pooled data across four industries and the eight years, the coefficient of year variables is insignificant.

## 6. CONCLUSION

Indian firms started internationalization in the year 1992, after the onset of economic liberalization and promulgation of pro-market reforms. And from thereafter, the period was watershed for the Indian economy so as to provide an opportunity to older firms to conceptualize their operations to

face expected increase in the race of foreign competitions. Since Indian firms are facing competition from foreign firms even in their domestic fields, as well as in home markets, they are required to become reliably competitive to compete more effectively with the well-established and larger Western and/or Asian multinational entrepreneurs. The tendency to internationalize is quite predominant in newer firms that have been set up and incorporated recently. However, in mid-size firms, which have started to gain rapid expansion gradually in the international arena, mostly belong to the first or second generation family-controlled firms. Therefore, governance systems, managerial capabilities, international credentials, etc. seem to be lacking in such types of firms, and are unable to manage the complexities of international business. Only if the initial negative performance implications and risk factors are controlled and overcome by these firms, then their survival, competitiveness, stability and growth would be considered as essential aspects towards success in the long run.

On the whole, we assume that our study contributes essentially to the body of research on international expansion of Indian firms, since it heavily stresses upon the role of family ownership and their management capabilities. The findings have some implications for the managers in mid-size firms, which have been running around for internationalizing, just in pursuit of higher profits and even faster growth. Moreover, managers in these firms need to assess their capabilities with regards to managing international operations adequately and more carefully. The enhancement in capabilities could be improved by the induction of those board members who possess much international exposure and repute. Besides this solution, it is also suggested that a firm should prefer to build capabilities instead of expanding its size. Given that firms are neither large nor possess superior capabilities, they should first build capabilities and then turn towards the expansion of size (Singal and Jain, 2012). If firms do not prefer to enhance or build their management capabilities, then their international growth, reputation and competitiveness could be affected badly and severely hampered,

We acknowledge a few limitations for this study, since its focus specifically remained on mid-size Indian firms only, and the findings may not be quite generalizable. Secondly, due to the non-availability of data, ownership control was proxied by percentage of domestic promoters' shareholdings, which may not be appropriate, because family-ownership and family-control create different situations in firms. Thirdly, the study had been carried out during the economic slowdown period in India. Hence, it is admitted that some dip in performance could be due to the overall slump in the business environment. For future research, this study can be generalized by focusing reasonably on mid-sized firms in other emerging economies. Another direction of research could also be adopted if precise emphasizing on management/board capabilities required for effective international business operations, is well focused.

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