Ownership and firm performance: In search of the missing link

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Abstract

This dissertation seeks to enquire the manner in which, the identity of the majority concentrated owner (hereinafter referred to as ownership category), influences firm performance, in an emerging market context. The theoretical and policy debate over the relative importance of public versus private ownership in enhancing firm performance has been the motivation behind this study. Although it is known that different owners are driven by distinct organizational goals, yet the manner in which these goals influence behavior and consequently performance is less well understood. In an effort to address this gap, I examine how in the face of an external environmental stimuli, different owners respond distinctly, resulting in assymetric firm performance. Collectively, the three essays seek to address the overarching research question of how and why firm performance differs across various ownership categories. Each essay examines the issue from a different theoretical perspective: agency theory, behavioural agency theory, and resource-based theory respectively.

The first essay is an exploratory study. It compares the performance of firms belonging to different owners, under the influence of pro-market reforms. The firms are classified, based on their ownership, as business group (BG) affiliated firms; state owned enterprises (SOEs); multinational (MNC) subsidiaries; and domestic stand alone private (DSAP) firms. A comparison on multidimensional performance metrics reveals sharp differences in performance across the ownership categories. It establishes across group (ownership category) heterogeneity in firm performance in the presence of an external stimuli. We discuss the results using an agency theory lens, suggesting that, the different owners face distinct agency problems, that change with the pro-market reforms.

The second essay is an explanatory study that investigates how the different owners respond distinctly to an external stimuli. I argue that owners differ in the extent of managerial discretion provided, which has an impact on corporate risk-taking. Concurrently, in line with behavioral agency theory, an increase in environmental uncertainty due to pro-market reforms, instils a loss frame in the minds of executives, thereby encouraging corporate risk-taking. Thus, I try to understand the moderating effect of pro-market reforms on the ownership, strategic choice relationship. I find that with increase in environmental uncertainty, the different owners respond distinctly, due to assymetric managerial discretion. It helps to establish across group (ownership category) heterogeneity in strategic choices adopted by firms in the presence of an external stimuli.

The third essay is an explanatory study that uses insights from resource-based theory and managerial cognition literature, to establish strategy as the missing link between ownership and firm performance. I argue that ownership is able to influence performance directly, due to its initial endowments. Each owner brings with it, unique initial endowments that ultimately shapes the performance of firms. Simultaneously, ownership is also able to influence performance indirectly through the strategic decision making process. Due to cognitive simplification by executives, firms in the same ownership category are treated as belonging to the same cohort and strategic group, resulting in within-group imitation in the

sensing and seizing of opportunities. Thus, the mediating effect of strategic choice between the ownership, performance relationship is evaluated.

Overall this study is aimed at establishing alternate pathways, through which ownership is able to influence firm performance. Through the three essays, I argue that ownership not only influences firm performance directly through its unique initial endowments as well as governance arrangements, but it is also able to influence performance indirectly through the strategic decision making process.