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경영학 석사 학위논문

**Who Goes More Global?:
Effects of Disparate Ownership on
Corporate International Diversification**

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ABSTRACT

Who Goes More Global?: Effects of Disparate Ownership on Corporate International Diversification

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This paper examines the influence of disparate ownership on corporate international diversification. Specifically, this study argues that institutional investors classified by identity have different impacts on corporate decision making. According to shareholding ratio data by shareholders and KOTRA directory of Korean companies entering foreign markets data, ownership concentration of controlling shareholders is negatively associated with corporate decisions on international diversification. Furthermore, this study finds that while foreign institutional investors' ownership concentration is positively related to global expansion, ownership concentration of domestic institutional investors has no impact on it. As a result, these findings demonstrate that disparate ownership may influence differently on companies implementing an international diversification strategy.

Keywords: Corporate governance, Ownership concentration, International diversification, Controlling shareholders, Institutional investors

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INTRODUCTION

Corporate governance research spans many areas, including management, economics, and finance. The paradigm mainly covered in these fields is agency theory. Nevertheless, studies dealing with the agent theoretical point of view in corporate governance are incomplete (Kim et al., 2008). This view, in particular, tends to miss conflicts among principals under the governance structure of emerging countries (Dharwadkar et al., 2000; Kim et al., 2008). Douma et al. (2006), for example, note that foreign and domestic owners in India have different interests, which results in different performance depending on who the owner is. It follows that owners may affect the process and outcome of a company's decision-making as well. More recently, Gaur and Delios (2015) propound that increase in foreign and domestic ownership in India have an impact on a high level of international diversification.

Agency theorists argue that conflicts among principals become larger when the ownership concentration of certain shareholders increases (Morck et al., 2005). Principal-principal conflicts may result in different preferences in implementing international diversification. The conflicts among principals may become evident in determining new or additional international diversification of companies. Viewing international diversification as a potential source of agency problems (Baysinger and Hoskisson, 1990), some researchers argue that it contains considerable risks, promotes owners' risk-averse behavior, and makes owners take a negative view on international diversification (Doukas and Travlos, 1988). On the other hand, international diversification provides firms with additional resources and opportunities for corporate growth, thereby leading owners to take more risks

(Carpenter et al., 2001). Although the perspective of international diversification differs, this study mainly focuses on the risks of international diversification.

Korea provides an environment for empirical evidence of corporate governance and international diversification research. There are several reasons to choose Korea as the country to be analyzed in this study. First, after the IMF financial crisis, there was a change in the structure of the internal shareholdings. While the shareholding ratio of controlling shareholders and their related persons such as relatives have declined, the control of them rather increased as the stakes of affiliates and treasury shares increase (Lee and Lee, 2003). Second, changes in the distribution of shares by the owner based on market capitalization occurred after the financial crisis. An increase in the shareholding ratio of foreign institutional investors has prompted calls for a transparent corporate governance structure (Lee and Lee, 2003). Third, Korean companies have paid attention to overseas markets to overcome the limited domestic market early on. This attribute makes it inevitable for Korean companies to consider and implement an international diversification strategy. Due to these changes and characteristics of Korea, the research was conducted on Korean companies.

Korean companies mainly run by family members are more likely to have executive position and power to monitor managers closely (Anderson and Reeb, 2003). As such, controlling shareholders, such as family members and their related persons, can alleviate the agency problem that is claimed by the general agency theorists, but another problem among various owners can arise (La Porta et al., 1999). In other words, in Korea, principal-agent problems arising between shareholders and managers may be replaced by principal-principal conflicts

between inside shareholders and outside shareholders (Kim et al., 2008). Furthermore, outside shareholders including foreign and domestic institutional investors are more likely to influence corporate decision making on international diversification. Lee et al. (2017), for example, insist negative relationship between ownership of the largest shareholders and chaebol and international diversification by considering the agency cost of international diversification. According to a more recent study of Kim (2018), he argues that a negative relationship exists between ownership concentration of the largest shareholders and international diversification in the context of Korea. He also says that ownership concentration does not significantly affect the decision of establishing foreign subsidiaries.

Underlying this debate regarding international diversification of Korean companies assumes that different owners have the same risk preferences on the global expansion of companies. Little research has been conducted on the composition of internal and external shareholders and their impacts on organizational choices to international diversification. This raises the question of how different types of shareholders affect corporate international diversification if their heterogeneous interests and different risk preferences were taken into account. This study tries to fill the gap by focusing on the ownership concentration of controlling shareholders and institutional investors through agency theory and corporate governance perspective.

This study argues that the level of controlling shareholders' ownership and heterogeneous investment interests between institutional investors specifically influence the degree to which companies implement international diversification as follows. This study examines the effect of controlling shareholders' ownership on

international diversification. Agency theory argues that the more shareholders have ownership, the more likely they pursue private interests and take the more risk-averse attitude to protect existing private interests. This study also asserts that the non-financial interests of shareholders holding large stakes as well as financial interests and the influence of corporate failures on such shareholders may keep a firm from implementing the global expansion. In addition, based on the institutional investors' identity (Douma et al., 2006; Gaur and Delios, 2015), some researchers classify them into foreign and domestic investors. Two types of investors tend to differ in risk preferences, monitoring ability, and interests of international diversification. Therefore, this study expects that foreign institutional ownership positively influences international diversification, while domestic institutional ownership influences opposite due to their particular ties with companies.

In order to empirically test these arguments, this study uses ownership data by various owners from KISVALUE and TS 2000. This study then combines data related to companies' global expansion that compiles information on foreign subsidiaries and countries in which companies entered from the KOTRA directory of Korean firms entering foreign markets. Lastly, this study uses a one-year time lag data for independent and control variables to prevent the problem of reverse causality. The final sample consists of 505 Korean non-financial firms in 2004.

THEORY AND HYPOTHESES

Agency Theory Perspective on Principal-Agent Relationship

General agency theory assumes that individuals are self-interested, bounded rationality, and have different levels of risk tolerance. According to agency theory, the conflict of interests and goals between principals and agents leads to 'agency problem'. While principals attempt to maximize their interest, agents try to maximize other objectives such as high compensation, low effort, and expense preference. When principals delegate works to agents to act for the interest of principals, they are more likely to monitor agents or increase incentive alignment by giving managerial ownership or stock options (Beatty and Zajac, 1994; Tosi et al., 1997). Based on this assumption, agency theory has been applied to various corporate activities such as performance, diversification, acquisition (Amihud and Lev, 1981), and R&D (Lee and O'Neill, 2003).

In agency theory, principal-agent relations are explained in two problems (Eisenhardt, 1989). The first is the agency problem caused by conflicts of (a) interests and (b) information asymmetries between principals and agents. The former is that agents want to fulfill their desire for stability, strong power, and high salary rather than maximizing shareholders' value. The latter arises when agents are exposed to an environment where it is easier to obtain key information about the company than principals. The second is the problem of risk sharing which means that differences in risk preferences of principals and agents result in their different strategic behaviors.

Solving agency problems and risk sharing problems have become a major concern for scholars researching agency theory. In order to resolve these two

problems, methods such as giving managers stock options (Haugen and Senbet, 1981; Rajagopalan, 1997), increasing shares held by managers (Abrahamson and Park, 1994), emphasizing managers' ethical behavior (Noreen, 1988), monitoring through the board of directors (Bonazzi and Islam, 2007) or institutional investors (Chung et al., 2005), and improving accounting transparency have been studied. These diverse studies not only provide a link between corporate governance and performance but also show that corporate governance influences corporate strategic decision making for better performance.

Heterogeneity of Principals and International Diversification

Unlike the general agency theory, in which principals and agents are considered as separate entities, there are many cases where dominant shareholders actively participate in the management of the firm, often resulting in principals and agents match. Some studies assume that, in contrast to the basic assumption about substantive homogeneity of the existing agency theory, different types of owners have disparate expectations in corporate strategies (David et al., 2010; Ramaswamy et al., 2002; Thomsen and Pedersen, 2000; Tihanyi et al., 2003). While ownership concentration is regarded as a solution to principal-agent conflicts (Sauerwald and Peng, 2013), the concentrated ownership, on the other hand, may lead to frequent conflicts between the shareholders holding large stakes and shareholders holding relatively smaller ones, which is known as principal-principal conflicts (Morck et al., 2005).

Korean companies subject to this study often take a different form from U.S. corporate structures, where individual shareholder ownership and management are

completely separated. In particular, many Korean companies exist in the form of family ownership in which ownership and management are consistent by the controlling shareholders. In addition, it often exists in the form of business groups, rather than as a single entity (La Porta et al., 1999). In this corporate structure, exploitation of the controlling shareholders against outside shareholders is considered another agency problem (Faccio et al., 2001; How et al., 2008). Fan and Wong (2002) argue that reporting accounting information to satisfy the controlling owners' self-interest creates agency problem between the controlling shareholders and outside investors.

There are studies on the impact of owner types on strategic decision making, including diversification. Miller et al. (2010) insist that family ownership has an impact on more diversifying acquisitions to reduce the risk of their portfolio. Gomez-Mejia et al. (2010) assert that family firms tend to less diversify domestically and internationally and prefer culturally similar regions if they pursue diversification abroad. Despite various research, David et al. (2010) argue that the link between ownership and diversification is 'incomplete' because different kinds of owners may pursue different strategic goals.

Among various strategic decisions that firms are making, this study focuses on corporate international diversification. Agency theory, which has become the dominant theory in corporate governance studies (Shleifer and Vishny, 1997) can be explained why international diversification is affected by corporate governance. Much research has been done on the impact of international diversification on corporate performance (Contractor et al., 2003; Gomes and Ramaswamy, 1999; Grant et al., 1988; Hitt et al., 1997). It suggests that international diversification is

one of the factors influencing corporate performance. Despite the importance of international diversification, little research has been conducted on the factors that influence international diversification. In addition, the benefits and risks of international diversification are important for different shareholders to participate in and affect decisions on the global expansion (Carpenter et al. 2001; Sanders and Carpenter 1998; Tihanyi et al. 2003). Not only can companies achieve economies of scale and scope through international diversification, but they can also benefit from learning and share core competencies across different business segments and geographic markets. While international diversification may have a positive impact on a company, it may also have a negative impact on the fact that it contains many risks. Despite this importance, there is not much research done on the factors affecting international diversification, so it is necessary to look at it.

Many studies on corporate governance focus on ownership concentration because of its importance in that it can control the power that owners have in making decisions about the company (Ma et al., 2010). And they found that the higher the ownership concentration of controlling shareholders, the less international diversification firm executes (Chen et al., 1997; Zhang, 1998). This is because the higher the ownership concentration of the controlling shareholders, the more active the monitoring agents as the risk of international diversification increases. International diversification involves considerable ambiguities, complexities and risks (Jones and Hill, 1988; Reeb et al., 1998). Also, increasing international dispersion leads to management difficulty resulting from liabilities of foreignness and foreign exchange exposure (Hennart, 2007). However, limited research has been investigated on how to view international diversification in terms

of agency conflicts (Ellstrand et al., 2002; Majocchi and Strange, 2012; Sanders and Carpenter, 1998), as well as how ownership structure affects a firm's international diversification (Singh and Gaur 2013; Zahra 2003).

Ownership of Controlling Shareholders and International Diversification

The portfolio of minority shareholders is more diversified than the majority shareholders, which is more likely to make them to take a risk and switch out of the company at the start of a decline in firm performance (Ishak and Napier, 2006). Their risk-taking propensity may want companies to achieve higher international diversification involving many risks. In contrast, controlling shareholders have control in excess of shareholdings by locating above governance structure and often participating in management (La Porta et al., 1999). The controlling shareholders, who may not easily switch out and bear a significant portion of corporate failures, are less likely to have diversified portfolios because of their concentrated ownership in the company (Ishak and Napier, 2006; Zhang, 1998).

In order to take and maintain their private benefits, controlling shareholders may take the risk-averse behavior. Substantial ownership makes controlling shareholders to pursue their private interest (Wiwattanakantang, 2001). The private financial interests of the controlling shareholders include above-market salaries, unfair self-dealing transactions¹⁾, and insider trading (Coffee, 2001). In addition, since the controlling shareholders have a lot of control over the company and they

¹⁾ Self-transaction, also known as tunneling, refers to the controlling shareholders' exploitation of the company's resources and the transfer of wealth from non-controlling shareholders to the controlling shareholders.

are directly or indirectly involved in management, they are more likely to preserve corporate reputation (Deephouse and Jaskiewicz, 2013), status (Gómez-Mejía et al., 2007; Gomez-Mejia et al., 2010), and legitimacy (Berrone et al., 2010). In order to maintain these financial and nonfinancial benefits, controlling shareholders may take risk-averse behavior, which is little incentive to implement international diversification containing risks. Zhang (1998) argued that the controlling shareholders have less diversified portfolio than other shareholders, so they are more susceptible to risks, and the difference in diversification leads to different risk preferences. He also insisted that controlling shareholders would prefer less risky decisions because they absorb much of the company's risk and they are less tolerant towards risky decisions, which could lead to underinvestment or rejection of international diversification.

Some studies argue that risk-averse behavior can promote international diversification in order to reduce and disperse the risk of the focal firm (Casson, 1999; Roe, 1990), while others insist that risk-taking behavior will increase international diversification (Oesterle et al., 2013). There are mixed findings on the impact of risk preferences on international diversification and there is a need for retesting. This subsequently leads to the following hypothesis:

***Hypothesis 1 (H1):** There is a negative relationship between the ownership concentration of the controlling shareholders and corporate international diversification.*

Foreign Institutional Investors and Preference of International

Diversification

General agency theory suggests that increasing ownership of principals provides motivation to monitor agents' behavior and activities (Jensen and Meckling, 1976). However, if the controlling shareholders also play the role of manager, it is necessary to monitor the controlling shareholders. I pay attention to institutional investors as the supervisors of these controlling shareholders.

As shareholders who hold a large block of shares internalize their profits through monitoring activities, they have a stronger need to monitor than shareholders who hold less. This has been supported by several studies. Shleifer and Vishny (1986) found that shareholders with large stakes are monitoring to find improvements in their existing operating strategies, while shareholders with smaller equity stakes have relatively low monitoring motivation. Galen (1989) argued that shareholders with large shares could press on managers to disclose negative information by closely monitoring to detect concealment and punish managers. Villalonga and Amit (2006) suggested that principals with larger shares can alter the firms' decisions in their favor at the expense of principals with smaller ones.

Most of these shareholders who hold a block of shares and have greater monitoring needs are the controlling shareholders. However, controlling shareholders, who often exist within the firm and engage actively either directly or indirectly in the management, are more likely to have incentives to meet their private interests and thus the monitoring motivation may be reduced. Therefore, I will further classify shareholders existing inside the company (controlling shareholders) and shareholders present outside the company (institutional

investors). Shareholders existing inside the firm refer to blockholders that are controlling shareholders or have a special relationship with the controlling shareholders including the relatives of the controlling shareholders or group affiliated firms. Shareholders locating outside the firm, on the other hand, have no special relationship with the controlling shareholders. They have both positive and negative effects on companies (Becht et al., 2002). The positive side is to limit managerial discretion through internal monitoring, but the negative side is to exploit other shareholders with specific information and control only they have. Similar to internal larger shareholders, institutional investors also participate in the process of corporate decision making through engagement mechanisms (Connelly et al., 2010) such as the threat of exit and exercising their votes. The former is explained by the impact of institutional investors' exit on the reduction of firms' value (Parrino et al., 2003). Management, therefore, becomes more attentive to the interests of institutional investors. The latter indicates that institutional investors can influence the strategies that the firm undertakes by participating in the vote. According to agency theory, institutional investors counterbalance the myopic view of agents (Connelly et al., 2010).

Since different types of shareholders have different goals and different attitudes to risks, the ownership structure is likely to influence corporate strategy (Datta et al. 2009; Goranova et al. 2007). Institutional investors who influence the company from outside of it do not have the same interests for influencing corporate strategic decisions (Ramaswamy et al. 2002; Tihanyi et al. 2003). Even if they do not have a special relationship with the controlling shareholders, there may be a specific type of institutional investors who have close relations with the controlling

shareholders: domestic institutional investors. According to Porter (1992), institutional investors take different approaches toward risks and investment style. This paper classifies institutional investors according to their identities and analyzes their impact on the corporate international diversification.

Foreign and domestic shareholders are more likely to have different levels of risk tolerances, motivations of monitoring and interests associated with international diversification (Gaur and Delios, 2015). Foreign investors provide companies with deep knowledge of foreign markets (De la Torre, 1974) and network to global markets (Chhibber and Majumdar, 2005), unlike companies without the benefits of foreign ownership. They not only have an impact on managerial risk-taking by improving corporate governance (Doidge et al., 2009; John et al., 2008) but prefer risky investment resulting in higher firm value (Denis and McConnell, 2003). As a result, this study renders the following hypothesis:

***Hypothesis 2 (H2):** There is a positive relationship between the ownership concentration of foreign institutional investors and corporate international diversification.*

Coalition between Domestic Institutional Investors and Management

Domestic institutional investors may have different benefits than foreign institutional investors. They are more likely to be affected by companies they invest in than foreign institutional investors. An informal channel between a company and domestic institutional investors may be the means by which domestic institutional investors influence the company or vice versa. As such, domestic

institutional investors may have to accept the influence that firms have on them. In other words, domestic institutional investors may have a purpose or interest that is equal or does not deviate significantly from that of the company.

Domestic institutional investors are pressured by companies to have stable trading behavior, which results from long-term relationship with firms (Lee and O'Neill, 2003). This relationship might disturb domestic institutional owners' ability to function as active monitors (Baek et al., 2004) and influencers. These pressure-sensitive investors are more likely to be obligated to support the managerial agenda (Connelly et al., 2010; Tihanyi et al., 2003). And they are more liable to form a coalition with controlling shareholders who are risk-averse and have a significant influence on managers (Filatotchev et al., 2007), which result in compelled loyalty to management (Aggarwal et al., 2011). Consequently, this study hypothesizes:

***Hypothesis 3 (H3):** There is a negative relationship between the ownership concentration of domestic institutional investors and corporate international diversification.*

Moderating Effect of Foreign Institutional Ownership

Institutional investors may have incentives to monitor managers as well as controlling shareholders who have a strong influence on managers or sometimes match managers. As the ownership concentration of controlling shareholders increases, they are more likely to exploit the value of returning to other shareholders by enforcing their strong power (Gadhoun, 2006). On the other hand,

as the concentration of ownership by institutional investors increases, the need for monitoring may increase to keep an eye on the exploitation of controlling shareholders. In addition, the stronger the monitoring of institutional investors to controlling shareholders, the more likely they may be able to prevent the risk avoidance of controlling shareholders.

Foreign institutional investors are more likely to monitor the companies than domestic institutional investors because of smaller chance of having a vital business connection with the companies and their independent status (Kim, 2011). These attributes encourage controlling shareholders to take risky strategic decisions that increase corporate value (Kim, 2011) or may mitigate risk-averse behavior of controlling shareholders. According to Lien et al. (2005), foreign investors have a positive effect on managerial risk-taking and the degree of corporate internationalization entering in emerging countries.

Also, foreign institutional investors have a positive impact on corporate foreign investment by providing access to resources necessary to restructure and develop corporate internationalization (Filatotchev et al., 1996; Filatotchev et al., 2008). Therefore, this study hypothesizes as follows:

Hypothesis 4 (H4): *The ownership concentration of foreign institutional investors will positively moderate the relationship between controlling shareholders' ownership concentration and corporate international diversification.*

METHODS

Sample and Data Collection

The sample of this study is for Korean stock market (KOSPI) listed companies and examined non-financial companies that were closed at the end of December to minimize the possibility of analysis errors due to differences in the settlement period. The reason for choosing listed companies is not only because it is easy to obtain company-related information of listed companies because of the obligation to disclose information, but also companies that are making some progress by carrying out international diversification strategy, which is the dependent variable, are more likely to be listed (Kim and Seo, 2011).

I first identify the total number of 563 non-financial companies among KOSPI listed companies in 2004. The main source of the data was collected from the KOTRA directory of Korean firms entering foreign markets, which provides data about the number of countries entering overseas and the number of overseas subsidiaries by company. The data extract from the KISVALUE database provided by Korea credit rating companies, which reports firm profile, financial information, and ownership information. Specifically, data on ownership concentration by owners is collected from distribution by type of ownership in KISVALUE. In addition, through the TS2000 database, if the controlling shareholders include institutional investors, their shareholding ratios were removed to deduplicate data. As a result, the final sample includes 505 firm-year observations.

This study takes a one-year time lag between independent and control variables, and the dependent variable to prevent the reverse causality problem. As such, the period of the independent and control variables covers 2003 while the

period of the dependent variable covers 2004. The hypothesis test was analyzed using the OLS regression model and utilizing the 14 version of the Stata program.

Dependent Variable

International diversification. The definition of international diversification refers to expanding corporate activities to other markets in different geographic locations beyond borders (Hitt et al. 1997). The measure of international diversification includes an international depth component and an international breadth component. The former is the weight of foreign markets in the global market of companies and the latter is the dispersion of corporate international activities across various markets. According to the recent trend of international diversification literature, the influence of international depth and breadth is acknowledged separately (Hitt et al., 1997).

Following Strike et al. (2006), I measure international depth from two aspects: foreign market penetration measured by the percentage of overseas sales in the company's total sales (Capar and Kotabe, 2003; Grant et al., 1988) and foreign market presence measured by the number of foreign subsidiaries held by the company. In terms of international breadth, I measured international dispersion as the total number of foreign countries in which the company have foreign subsidiaries (Eden et al., 2003).

The final measure of international diversification is the factor scores obtained from the factor analysis through the principal component analysis of the three indicators mentioned above (Eden et al., 2003; Strike et al., 2006). All three indicators were standardized before doing factor analysis, and the eigenvalue of the

unique factor is 2.01. The Cronbach's alpha for the three indicators is 0.7449, suggesting a proper level of reliability. The skewness and kurtosis of this index measure were checked and are acceptable. The combined value of the standardized three indicators is used in the following empirical analysis.

Independent Variables

Ownership concentration of controlling shareholders is regarded as an internal equity ratio, which includes the equity ratio of the largest shareholders and related persons (i.e. family members) (Kang, 2012; Lim and Choi, 2012). In Korea, most companies are controlled by their owner-managers, and professional managers often have special relationships with their owner-managers (Kang, 2012). According to Palmer (1973), companies were classified as a strong owner-controlled firm with more than 30 percent of shares, as a weak owner-controlled firm holding 30 percent to 10 percent, and as a management-controlled firm that owns less than 10 percent of shares. However, since Korean companies have significantly higher equity ratio for the largest shareholders and their families than those of other countries, applying the classification method of the preceding study carries the risk of bias estimation (Lim and Choi, 2012). Therefore, in this study, not only the largest shareholders but also related persons are regarded as controlling shareholders. Internal ownership also includes the shares of the same group's non-financial affiliates (Chang, 2003). As a result, the controlling shareholders' ownership is calculated as the sum of their shareholding ratio.

Ownership concentration of foreign institutional investors was measured as the ratio of shares held by foreign institutional investors. Foreign investors

investing in Korea can be classified as institutional investors because investment in the form of institutional investors is generally dominant (Lee and Lee, 2004).²⁾ Accordingly, this study also considers foreign investors as foreign institutional investors.

Ownership concentration of domestic institutional investors was calculated as the percentage of total equity holdings of domestic institutional investors. Domestic institutional investors include banks, securities, insurance, securities investment trusts, pension funds, private equity funds, and other finance. Accordingly, I measured the ratio of shares in domestic institutional investors by the sum of the shares of each institutional investor provided by the KISVALUE database.

Control Variables

This study includes various control variables that might affect international diversification. *Firm size* is measured as the logarithm of total assets (Hitt et al., 2006). Larger firms make it easier for them to compete in the international market because they are more likely to have more financial and management resources (Harris and Li, 2008). *Firm year* is measured by the total number of years a firm had been in existence because the age of a firm may affect the ability to collect information related to international operations and the formation of infrastructure for internationalization (Zahra, 2003). *Debt to asset ratio* is controlled in terms of

²⁾ According to the Financial Supervisory Service's 2003 Trend on Foreign Investment in Korea, the number of foreign investment registrants at the end of 2003 is composed of 34.2 percent of individuals and 65.8 percent of institutions. In addition, institutional investors accounted for 99.4 percent of the total number of shares held by foreigners, and accounted for 99.7 percent of the total market capitalization at the end of 2003.

the need for financial support in international diversification (Tihanyi et al., 2003). *Return on assets (ROA)* is also controlled since this may affect corporate ability to cover costs for global expansion (Tihanyi et al., 2000). *Advertising intensity* is controlled and measured as the ratio of advertising expense to total sales since firms have a different impacts of marketing skills on the international expansion (Herrmann and Datta, 2005). *Growth* is controlled because of its relevance to the degree of internationalization (Brock and Jaffe, 2008).

To estimate the corporate international diversification, this study applies ordinary least squares regression that indicates the effect of the independent variables to the dependent variable.

RESULTS

The descriptive statistics of the variables and correlations used in the analysis of the model are shown in Table 1. Correlation analysis is used to analyze the degree of relevance between variables and is usually used as the Pearson correlation coefficient. As shown in Table 1, the results showed that there is a significant correlation between some variables and verified the existence of multicollinearity through the VIF score, which is a variance inflation factor. All of the VIF scores are below 5 and the mean VIF score is 2.06. The analysis in this study is unlikely to have a serious problem with multicollinearity among variables because the VIF scores were less than 10, which is the criterion for which it is judged to be multicollinearity (Cohen et al., 2014). Therefore, all variables were

included in the OLS regression analysis.

Insert Table 1 about here

The result of the analysis is shown in Table 2. The effect of control variables is tested in Model 1. While firm size is positively associated with international diversification, firm year and advertising intensity show a negative association. And debt to asset ratio, ROA, and growth are not statistically significant. Model 2 to Model 4 represent the individual effect of independent variables on international diversification. Model 6 to Model 8 represent the stepwise effect. Model 5 represents the interaction effect between ownership concentration of controlling shareholders and foreign institutional investors.

Hypothesis 1 predicts that the ownership concentration of controlling shareholders has a negative relationship with international diversification. Model 2 in Table 2 reports the regression results that test this relationship. Consistent with prior studies (Gomez-Mejia et al., 2010; Hautz et al., 2013; Sánchez-Bueno and Usero, 2014), the coefficient for controlling shareholders' ownership concentration is negative and statistically significant ($p < 0.05$) supporting hypothesis 1. Hypothesis 2 postulates a positive relationship between foreign institutional investors' ownership concentration and international diversification. Model 3 and Model 6 bolster statistically significant ($p < 0.05$ and $p < 0.1$, respectively) positive relationship meaning that ownership concentration of foreign institutional investors is positively associated with the global expansion of companies. Thus, hypothesis 2 is supported. Hypothesis 3 examines the ownership effect of domestic institutional

investors on international diversification. Model 4 and Model 7 show inconsistency in the result that domestic institutional investors influence the less risky organizational decisions of firms. Also, it does not show any statistical significance, thereby hypothesis 3 was rejected. Finally, hypothesis 4 focuses on the interactive effects of ownership concentration of controlling shareholders and foreign institutional investors on international diversification. Model 5 is statistically insignificant thereby rejecting hypothesis 4. This means that the interactive effects of controlling shareholders' ownership concentration and foreign institutional ownership concentration will be no impact on international diversification.

Insert Table 2 about here

Robustness of Results

This study considers the factor scores obtained from factor analysis of three indicators as the dependent variable. The effects of independent variables on each of the three indicators that make up the dependent variable were also checked, thereby further identifying the unexplained parts through the factor analysis. Table 3 and Table 4, respectively, are the results of Poisson regression by setting the number of foreign subsidiaries and the number of countries in which the company has foreign subsidiaries as the dependent variable. In both experiments, Hypothesis 1 was not supported because of the statistically insignificant result. Hypothesis 2 was supported when the number of foreign subsidiaries is set as a dependent variable, which is the same as the result of the analysis by setting the factor scores

as the dependent variable. Yet, it was not supported when the number of countries companies entered was set as a dependent variable. Hypothesis 3 was rejected in both experiments because it showed statistically insignificant results same as the result of factor analysis. Hypothesis 4 in both experiments is statistically significant due to the stronger interactive effect of the ownership concentration of controlling shareholders and foreign institutional investors and demonstrates a positive relationship, which better describes the interactive effect than the result of factor analysis. In addition, Table 5 demonstrates the result of regression using the generalized linear model (GLM) by considering the percentage of overseas sales to total sales as the dependent variable. Unlike previous results, all hypotheses were not supported because they were not statistically significant. As a result, it was confirmed that both preceding experiments, except one that set the proportion of overseas sales as the dependent variable, not only had the same results in Hypothesis 2 and 3 as those obtained by doing factor analysis, but they are explaining Hypothesis 4.

Insert Table 3, 4, 5 about here

DISCUSSION AND CONCLUSION

This study aimed to answer the primary research question of whether the ownership structure significantly influences companies' conduct of international

diversification. First, this study examined the effect of controlling shareholders' ownership concentration. This study found that the more ownership controlling shareholders have, the less tendency it has toward implementing international diversification. Despite the benefits of international diversification such as economies of scale and scope, corporate learning perspective, and sharing core competencies across diverse business domains and countries, the controlling shareholders with high levels of ownership are less capable of implementing global expansion, perhaps not to take risks. Second, this study investigated how different institutional ownership influences the corporate choice for international diversification. The results demonstrate various responses contingent on the influence of institutional investors and their level of ownership. This study concludes that foreign institutional ownership concentration was positively related to the expansion of companies into foreign markets. However, the hypothesis that domestic institutional ownership concentration would be negative for international diversification through a coalition with controlling shareholders who own internal ownership was not supported. In other words, domestic institutional ownership concentration may not affect companies' international diversification.

This study hypothesized that the interactive effects of controlling shareholders' ownership concentration and foreign institutional ownership concentration would have a positive effect on international diversification in terms of the independent status of foreign institutional investors and their roles of providing the resources necessary for international diversification. However, regression analysis using factor scores as the dependent variable did not yield statistically significant results. Rather, it was confirmed that statistically significant

results were obtained when the number of foreign subsidiaries and the number of countries companies entered were set as a dependent variable, respectively. It is likely that foreign market presence may be better explained by the international depth than foreign market penetration. Although no statistically significant results were found for the moderating effects, this study is meaningful in that it analyzes the various indicators that constitute international diversification at the same time.

This study contributes to several research streams. First, this study attempts to add to strategic management research. In most previous studies, institutional investors were regarded as one group. Some studies considered them collectors of short-term investment profits, while others viewed institutional investors as long-term investors in terms of monitoring management or counterbalancing myopic decisions by management. Yet, this study argues that different preferences in risk and relationship with companies exist between institutional investors classified as identity and that their impact on international diversification is also varying. The result of this study showed that while foreign institutional investors have the effect on international diversification, domestic institutional investors do not have any impact on corporate international diversification resulting in similar results from the existing studies that showed that they had different tendencies (Douma et al., 2006).

Second, this study adds on to the international management research as well. The extent to which a company's international diversification is determined by its ownership structure and corporate governance mechanisms as well as its resources and capabilities. The results of this study suggest that the degree of ownership by disparate owners significantly influences the organizational decisions. This is

noticeable in that the preceding studies on the relevance of the ownership structure to business diversification (Jang et al., 2016; Kim et al., 2008) are extended to the relationship between ownership structure and corporate international diversification.

Third, this study also adds to the literature on agency theory. This study attempts to explain the corporate decision-making process at the level of ownership of the controlling shareholders, taking into account the heterogeneous ownership structure and disparate risk preferences of shareholders. Whereas the general agency theory views ownership concentration as a solution to principal-agent conflicts (Sauerwald and Peng, 2013), principal-principal conflicts assume that concentration of ownership causes conflicts between shareholders (Morck et al., 2005). Principal-principal conflicts not explained in general agency theory typically argue that heterogeneity of owners has different expectations in corporate strategy (David et al., 2010). The results of this study demonstrate that the various interests of principals and the distribution of power between them can also influence decisions for global expansion at some extent through an additional robustness check.

This study is not free from limitations. It is virtually difficult to access information on domestic institutional investors after 2003 since the published information on domestic institutional investors exists until 2003. Since then, only 5 percent and 10 percent of major shareholders are required to be disclosed, making it difficult to grasp the specific ownership structure as it has been in the past. Moreover, as this research is based on the context of Korea, there is a limit to generalizing the results. In the case of a study of Indian companies, the results

showed that the increasing ownership leads to an increase in international diversification (Gaur and Delios, 2015), but in the case of Korean companies, the internal owners of companies regard international diversification as the perspective of risks and agency costs, and that a strengthened governance structure reduces international diversification. A comparative study that includes both national and firm-level governance attributes may be a valuable field for future research. In addition, institutional investors may do more than just act as investors in its relationship with companies (Brickley and Smith, 1988). In situations in which the relationship between companies and institutional investors cannot be completely free, there is a limit to dividing the institutional investors merely foreign and domestic ones. Future research will be meaningful if they classify institutional investors not only as identities, but also according to the degree to which they respond to corporate pressures (pressure-sensitive, pressure-resistant, and pressure-indeterminate institutional investors) (Brickley and Smith, 1988), and look at the different impacts of investors on international diversification. In addition, this study looked at international diversification as factor scores obtained by factor analysis of three indicators. In addition to factor analysis, there are diverse measures of international diversification such as the ratio of foreign to the total employee (Chan Kim et al., 1989), the ratio of foreign assets to total assets (Lee et al., 2017), and entropy measures (Dagnino et al., 2018; Hitt et al., 1997). Future research may be carried out by applying various ways to measure international diversification and find the best way to apply the measure of international diversification in general.

In sum, this study makes contributions to the management literature by

analyzing the relationship between different ownership and the international diversification of companies. Also, the findings of this study embodied the phenomenon of conflicts among principals, a part not explained in general agency theory. When controlling shareholders exist, conflicts among principals become an important source of agency problems. Different shareholders often have different monitoring capabilities, the ability to control corporate management, and the risk preference attitude. These differences may also affect the decision of international diversification. Since international diversification can be explained by various factors, this study incorporated three indicators that may explain international diversification and used factor analysis as an analytical method. As a result, there was a negative relationship between the ownership concentration of controlling shareholders and international diversification and a positive relationship between the ownership concentration of foreign institutional investors and international diversification. But the moderating effect of foreign institutional investors was found to be insignificant. Through further analysis, this study found that foreign institutional ownership concentration positively moderates the relationship between controlling shareholders' ownership concentration and international diversification when the number of foreign subsidiaries and the number of countries companies entered are set as a dependent variable, respectively. Future research could explore deeper how different ownership influences corporate decision-making process in the diverse arena such as corporate reputation, innovation, M&A, and strategic alliances.

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TABLES

Table 1. Descriptive statistics and correlation matrix

	N	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10
1. International diversification	505	0.046	1.52	-0.521	14.778	1									
2. Controlling shareholders' ownership	505	37.25	19.726	0	79.98	-0.1242*	1								
3. Foreign institutional ownership	505	8.999	15.494	0	92.43	0.2809*	-0.0188	1							
4. Domestic institutional ownership	505	10.437	13.984	0	84.91	0.1956*	-0.1890*	0.0736	1						
5. Firm size	505	26.12	1.451	22.715	31.665	0.4804*	-0.0305	0.4561*	0.3577*	1					
6. Firm year	505	33.76	15.316	1	107	-0.0381	0.1144*	-0.0404	-0.0042	0.1499*	1				
7. Debt to asset ratio	505	147.9	302.82	2.03	4952.83	0.0456	-0.1484*	-0.0722	0.1956*	0.0468	0.033	1			
8. ROA	505	0.033	0.1004	-0.879	0.364	0.0468	0.0814	0.2097*	0.0266	0.1834*	-0.1063*	-0.05	1		
9. Advertising intensity	505	0.0104	0.022	0	0.139	-0.0727	0.0076	0.1130*	-0.0316	0.0474	0.1068*	-0.0288	0.0901*	1	
10. Growth	505	16.377	91.412	-80.37	1106.75	0.0141	-0.0221	-0.0175	-0.0424	-0.02	-0.0725	-0.0434	0.0306	0.0218	1

Table 2.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Controlling shareholders' ownership		-0.00709** (0.00308)			-0.00624* (0.00336)	-0.00697** (0.00307)	-0.00695** (0.00312)	-0.00620* (0.00342)
Foreign institutional ownership			0.00868** (0.00439)		0.0122 (0.00829)	0.00847* (0.00437)	0.00849* (0.00440)	0.0123 (0.00835)
Domestic institutional ownership				0.00106 (0.00464)			0.000165 (0.00471)	0.000305 (0.00472)
Controlling shareholders' ownership × Foreign institutional ownership					-0.0000981 (0.000184)			-0.0000988 (0.000184)
Firm size	0.534*** (0.0422)	0.528*** (0.0421)	0.492*** (0.0471)	0.530*** (0.0454)	0.482*** (0.0479)	0.487*** (0.0470)	0.486*** (0.0506)	0.481*** (0.0516)
Firm year	-0.0113*** (0.00407)	-0.0100** (0.00409)	-0.0103** (0.00409)	-0.0112*** (0.00408)	-0.00900** (0.00411)	-0.00902** (0.00411)	-0.00901** (0.00412)	-0.00899** (0.00412)
Debt to asset ratio	0.0000971 (0.000195)	0.00003 (0.000196)	0.000134 (0.000195)	0.0000883 (0.000199)	0.0000725 (0.000197)	0.0000671 (0.000197)	0.000066 (0.000200)	0.0000705 (0.000200)
ROA	-0.750 (0.606)	-0.608 (0.606)	-0.886 (0.608)	-0.744 (0.607)	-0.758 (0.610)	-0.744 (0.609)	-0.744 (0.609)	-0.758 (0.610)
Advertising intensity	-5.605** (2.705)	-5.717** (2.694)	-6.181** (2.713)	-5.581** (2.709)	-6.269** (2.704)	-6.278** (2.702)	-6.275** (2.706)	-6.264** (2.708)
Growth	-0.000131 (0.000650)	-0.000165 (0.000648)	-0.0000936 (0.000649)	-0.000126 (0.000651)	-0.000124 (0.000647)	-0.000128 (0.000646)	-0.000127 (0.000647)	-0.000122 (0.000648)
Constant	-13.45*** (1.084)	-13.06*** (1.092)	-12.45*** (1.192)	-13.36*** (1.150)	-12.00*** (1.212)	-12.10*** (1.197)	-12.08*** (1.266)	-11.97*** (1.283)
Observations	505	505	505	505	505	505	505	505
R-squared	0.252	0.260	0.258	0.252	0.266	0.266	0.266	0.266

Notes. Standard errors in parentheses *** p < 0.01, ** p < 0.05, * p < 0.1

Table 3.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Controlling shareholders' ownership		0.000875 (0.00361)			-0.00737* (0.00444)	-0.00656 (0.00468)
Foreign institutional ownership			0.00763* (0.00408)		-0.00670 (0.00625)	-0.00552 (0.00661)
Domestic institutional ownership				0.00194 (0.00394)		0.00254 (0.00434)
Controlling shareholders' ownership × Foreign institutional ownership					0.000406*** (0.000127)	0.000391*** (0.000130)
Firm size	0.727*** (0.0346)	0.733*** (0.0407)	0.682*** (0.0422)	0.722*** (0.0366)	0.717*** (0.0484)	0.707*** (0.0512)
Firm year	-0.0131*** (0.00435)	-0.0134*** (0.00447)	-0.0125*** (0.00442)	-0.0127*** (0.00441)	-0.0112** (0.00449)	-0.0108** (0.00453)
Debt to asset ratio	0.000244 (0.000188)	0.000245 (0.000189)	0.000322* (0.000185)	0.000224 (0.000191)	0.000271 (0.000192)	0.000256 (0.000192)
ROA	0.0228 (0.819)	-0.0160 (0.836)	-0.335 (0.836)	0.0653 (0.818)	0.0654 (0.855)	0.0617 (0.852)
Advertising intensity	-10.83** (4.883)	-10.80** (4.881)	-12.14** (4.995)	-10.73** (4.881)	-11.04** (4.822)	-11.06** (4.824)
Growth	-0.00149 (0.00143)	-0.00151 (0.00143)	-0.00135 (0.00142)	-0.00145 (0.00143)	-0.00158 (0.00149)	-0.00150 (0.00149)
Constant	-19.99*** (0.982)	-20.16*** (1.191)	-18.87*** (1.141)	-19.88*** (1.012)	-19.63*** (1.344)	-19.45*** (1.378)
Observations	505	505	505	505	505	505

Notes. Standard errors in parentheses *** p < 0.01, ** p < 0.05, * p < 0.1

Table 4.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Controlling shareholders' ownership		0.000471 (0.00382)			-0.00810* (0.00464)	-0.00722 (0.00488)
Foreign institutional ownership			0.00581 (0.00443)		-0.0105 (0.00691)	-0.00919 (0.00728)
Domestic institutional ownership				0.00302 (0.00415)		0.00284 (0.00455)
Controlling shareholders' ownership × Foreign institutional ownership					0.000452*** (0.000137)	0.000435*** (0.000141)
Firm size	0.696*** (0.0371)	0.699*** (0.0430)	0.662*** (0.0453)	0.687*** (0.0394)	0.699*** (0.0515)	0.688*** (0.0546)
Firm year	-0.0160*** (0.00469)	-0.0161*** (0.00482)	-0.0156*** (0.00474)	-0.0153*** (0.00476)	-0.0139*** (0.00483)	-0.0134*** (0.00489)
Debt to asset ratio	0.000230 (0.000208)	0.000231 (0.000209)	0.000288 (0.000207)	0.000201 (0.000210)	0.000230 (0.000215)	0.000213 (0.000214)
ROA	0.0405 (0.878)	0.0201 (0.895)	-0.212 (0.895)	0.107 (0.874)	0.189 (0.907)	0.194 (0.904)
Advertising intensity	-16.51*** (6.014)	-16.49*** (6.013)	-17.59*** (6.132)	-16.35*** (6.009)	-15.93*** (5.888)	-15.96*** (5.894)
Growth	-0.00131 (0.00150)	-0.00131 (0.00150)	-0.00119 (0.00148)	-0.00124 (0.00150)	-0.00146 (0.00157)	-0.00136 (0.00157)
Constant	-19.13*** (1.047)	-19.22*** (1.250)	-18.29*** (1.220)	-18.94*** (1.080)	-19.09*** (1.424)	-18.89*** (1.462)
Observations	505	505	505	505	505	505

Notes. Standard errors in parentheses *** p < 0.01, ** p < 0.05, * p < 0.1

Table 5.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Controlling shareholders' ownership		0.000187 (0.000491)			0.000105 (0.000537)	0.000201 (0.000546)
Foreign institutional ownership			0.000887 (0.000698)		0.000405 (0.00133)	0.000536 (0.00133)
Domestic institutional ownership				0.000569 (0.000737)		0.000728 (0.000754)
Controlling shareholders' ownership × Foreign institutional ownership					0.0000127 (0.0000293)	0.0000111 (0.0000294)
Firm size	0.0339*** (0.00669)	0.0341*** (0.00671)	0.0296*** (0.00750)	0.0319*** (0.00719)	0.0304*** (0.00766)	0.0274*** (0.00825)
Firm year	-0.000891 (0.000645)	-0.000924 (0.000652)	-0.000784 (0.000650)	-0.000855 (0.000647)	-0.000822 (0.000657)	-0.000783 (0.000658)
Debt to asset ratio	-0.00000251 (-0.000031)	-0.00000752 (-0.0000313)	0.00000124 (-0.0000311)	-0.0000072 (-0.0000316)	0.00000245 (-0.0000315)	-0.00000236 (-0.0000319)
ROA	-0.187* (0.0962)	-0.191** (0.0967)	-0.201** (0.0967)	-0.185* (0.0963)	-0.204** (0.0975)	-0.203** (0.0975)
Advertising intensity	-1.917*** (0.429)	-1.914*** (0.430)	-1.976*** (0.431)	-1.905*** (0.430)	-1.975*** (0.432)	-1.962*** (0.432)
Growth	0.0000234 (0.000103)	0.0000243 (0.000103)	0.0000273 (0.000103)	0.000026 (0.000103)	0.0000277 (0.000103)	0.0000318 (0.000103)
Constant	-0.711*** (0.172)	-0.721*** (0.174)	-0.609*** (0.190)	-0.664*** (0.182)	-0.632*** (0.194)	-0.567*** (0.205)
Observations	505	505	505	505	505	505

Notes. Standard errors in parentheses *** p < 0.01, ** p < 0.05, * p < 0.1

Who Goes More Global?: Effects of Disparate Ownership on Corporate International Diversification

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본 연구는 상이한 소유권이 기업의 국제 다각화에 미치는 영향에 대해 조사한다. 특히, 본 연구는 정체성으로 분류된 기관 투자자들이 기업의 의사결정에 서로 다른 영향을 미친다고 주장한다. 주주 별 주식 보유 비중 데이터와 코트라 해외 진출 한국 기업 디렉토리 데이터에 따르면, 지배주주의 소유권 집중도는 국제 다각화에 대한 기업의 결정과 음의 관계가 있다. 더 나아가 본 연구는 해외 기관 투자자의 소유권 집중도가 기업의 해외 확장과 양의 관계가 있지만, 국내 기관 투자자의 소유권 집중도는 그것에 영향을 미치지 않는다는 것을 발견하였다. 결과적으로 이러한 연구 결과는 상이한 소유권이 국제 다각화 전략을 시행하는 기업에 다르게 영향을 미칠 수 있다는 것을 보여준다.

주요어: 기업 지배구조, 소유권 집중도, 국제 다각화, 지배주주, 기관 투자자

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