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Three Essays on Conformity and Corporate Governance in Multinational Enterprises

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ABSTRACT

Multinational companies are faced with the decision of what strategy to employ when undertaking value adding activities outside their home country in order to remain competitive. In addition, they also confronted with what governance structure they need to put in place for effective strategic decision making. In this thesis, we attempt to establish how the governance of the firm affects firm strategy implementation, and performance. Three papers provide the avenue for us to investigate this.

In the first paper, we draw on imitation theories to examine how uncertainty idiosyncratic to the firm in its multinationality engagement affects its decision to conform to the multinationality posturing of successful rivals. We incorporate governance arguments to see how corporate governance can shape this strategic decision-making process. We found that firms would conform to the multinationality posturing of successful peers when faced with uncertainty about its multinationality decisions, and that this conforming behavior is shaped by the governance mechanism available.

In the second paper, the concept of corporate governance deviance which was recently conceptualized by some scholars is put to test. The paper investigates the performance implications of multinationals conforming or deviating from the institutionalized corporate governance practice in their country. We found that the decision to conform or deviate from governance practices that has been institutionalized has performance implications for multinational firms.

In the last paper, we examine what the extant literature has said about the phenomenon of conformity in multinationality since it has gained significant attention from international business scholars. Different theoretical views have been adduced by scholars in their attempt to comprehend this phenomenon, in this study we consolidate the views expressed by various

authors and offer some framework to enhance our understanding of the phenomenon. From this framework, we highlight areas that would be of significant scientific enquiry.

DEDICATION

I dedicate this work to my parents and siblings

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Abstract

Information-based theories of imitation suggest that firms would imitate others they perceive as possessing superior information when they are faced with uncertainty regarding a course of action. We draw on these theories to examine how uncertainty idiosyncratic to the firm in its multinationality engagement, i.e. 'firm-level uncertainty in multinationality', affects its decision to (non)conform to the multinationality decisions of the most successful industry peers, the market leader in particular. We then proceed by bringing information-processing theory into our framework to investigate how firm governance mechanisms shape the above relationship. This follows the views shared by some scholars that firm governance 'institutions' play a critical role in influencing a firm's information-processing capacity, and then the way it strategizes when coping with uncertainty. More specifically, we employ an important governance 'institution', i.e. the board, and examine how two of its important characteristics, i.e. the amount of equity owned by a firm's board members ('board equity ownership') and a firm's board size, shape its conforming behavior when faced with uncertainty. The results of our study show that the relationship between firm-level uncertainty in multinationality and conformity in multinationality to the market leader is positive. In addition, we also found that this relationship is positively and significantly moderated by board equity ownership whiles the size of the board does not significantly affect this relationship. We test our hypotheses using data on 58 Italian ceramic tile manufacturers within the 2005-2009 timeframe.

Introduction

A fundamental question in strategy is why firms differ (Deephouse, 1999; Rumelt, Schendel, & Teece, 1995). An equally important question though, is why firms imitate (Lieberman & Asaba, 2006). Despite the established tenet in strategy thinking that superior performance stems from distinct competitive positions, empirical research shows that firms rely also on imitative processes to survive and prosper within the industry (e.g., Giachetti, Lampel, & Li Pira, 2017; Giachetti & Spadafora, 2017; Haveman, 1993; Lee, Smith, Grimm, & Schomburg, 2000). Lieberman and Asaba (2006) in their review of the imitation literature identify two theories that explain firms' imitative behaviour, i.e. rivalry-based theories and information-based theories of imitation. They suggest that the rivalry-based theories focus on how firms imitate industry peers to remain competitive or limit rivalry (e.g., Smith, Grimm, Gannon, & Chen, 1991), whiles the basic premise of the information-based theories is that environmental uncertainty leads firms to follow the action of others perceived as possessing superior information, for example, the best performing rivals (e.g., Haveman, 1993), in an attempt to mitigate the uncertainty related to the likely outcome of their strategic actions, and legitimate their actions in uncertain environments in the eyes of stakeholders (Haunschild & Miner, 1997).

The general proposition of the information-based theories of imitation has been tested empirically in various industries and with the lens of different strategy variables, like market diversification strategies of US firms (Fligstein, 1991; Haveman, 1993), investment bank selection by US firms doing acquisitions (Haunschild & Miner, 1997), total quality management initiatives by US hospital (Westphal, Gulati, & Shortell, 1997), Japanese and South Korean firms' entry decisions into foreign countries (Chan, Makino, & Isobe, 2006; Delios, Gaur, & Makino, 2008; Guillen, 2002, 2003), Portuguese bank branching decisions (Barreto & Baden-Fuller, 2006), new product technology adoption decisions by UK mobile

phone vendors (Giachetti, Lampel, & Li Pira, 2017; Giachetti & Lanzolla, 2016), US aircraft manufacturers (Greve & Seidel, 2015) and US radio broadcasting firms (Greve, 1996). In all these contexts, the studies have shown that firms perceive imitation of industry peers, most successful others in particular, as a powerful means to cope with uncertainty.

Multinationality, a complex strategic decision, is also another context where firms face uncertainty (Henisz & Delios, 2001). The complexities emanate from the fact that firms need to deal with different institutional environments (Khanna & Palepu, 2010), and have the capability to coordinate as well as integrate the geographically dispersed activities (Kim & Mauborgne, 1993). With all these complexities, firms may not be able to easily predict the likely outcome of value adding activities outside their home countries, and this would lead to uncertainty, one we refer to as 'firm-level uncertainty in multinationality', arising, for example, from a firm lack of previous experience with multinationality decisions. If information-based motives for imitation hold also in the case of multinationality decisions, we should expect that multinationality decisions of successful industry peers can present the avenue for firms to mitigate the uncertainty associated with these strategic decisions. This imitative process is what some authors have recently conceptualized as 'conformity in multinationality' (Giachetti & Spadafora, 2017). This leads us to our first research question: do firms conform to the multinationality posturing of successful peer(s) when faced with uncertainty about possible outcomes of multinationality actions? By bringing information-based theories of imitation into studies about the uncertainty firms face when operating internationally, we argue that the market leader is indeed a reference target firms follow when making multinationality decisions, especially when the uncertainty they have about these decisions is high.

Similar to information-based theories of imitation, also information-processing theory (Tushman & Nadler, 1978) has examined how firms strategize when uncertainty limits a

firm's ability to collect and elaborate the necessary information to make adequate decisions. Some information-processing theorists have suggested that a firm's multinationality process is particularly critical and requires greater attention from decisions makers, since its performance outcome is inherently uncertain (Carpenter & Fredrickson, 2001; Egelhoff, 1982, 1991; Elango, 2004). More specifically, authors from this literature have argued that a multinational company (MNC) information-processing capacity, i.e. its ability to gather data, transform it into information, communicate and store it, and as well make it useful to pursue effective strategic decisions, has profound impact on how a firm strategizes when moving internationally (Egelhoff, 1982, 1991). Sanders and Carpenter (1998) lay more emphasis to this claim by putting it that, more importantly, a firm's governance structure plays a very critical role in forming and shaping its information-processing capacity, and then in determining the success of firms in its multinationality endeavors. Against this backdrop, we seek to explore the possibility of incorporating information-processing theory and corporate governance arguments in a bid to better understand how firms deal with uncertainty in multinationality. The governance role brings an interesting twist to the arguments we have advanced so far. This follows the views shared by some scholars that mechanisms related to the governance structure of the firm should be examined in contexts where firms experience uncertainty, because is when firms make strategic decisions whose outcomes are inherently uncertain (like in the case of multinationality decisions) that the information-processing capacity of decision makers within the firm is particularly needed (Strange, Filatotchev, Buck, & Wright, 2009). To that effect, we focus on an important 'governance institution' i.e., the board (Van Ees, Gabrielsson, & Huse, 2009), and proceed to ask our next research question: what is the role of the board on firms' conforming behaviour to the multinationality posturing of the market leader when faced with firm-level uncertainty in multinationality? Our choice of the board is influenced by the role that board members play in a firm's

decision making and strategy formulation especially when faced with uncertianty (Goodstein, Gautam, & Boeker, 1994).

To that effect, two main characteristics of this *institution* that has gained particular attention from scholars would be the focus of our study, i.e. the board equity ownership (Hambrick & Jackson, 2000) and the board size (Staikouras, Staikouras, & Agoraki, 2007). With the former, some scholars have adduced arguments that during periods of uncertainty, the board members' propensity to influence a firm's strategic decision is further heightened if these organizational actors have significant equity stake in the firm (Hambrick & Jackson, 2000). We argue that although uncertainty inherent in multinationality decisions urges board members to exploit their information-processing capacity, the greater their equity stake in the firm, the more they would want to safeguard this wealth by supporting multinationality decisions aimed at firm risk reduction (Booth, Cornett, & Tehranian, 2002), and therefore will be more likely to pursue conformity of successful others, while avoiding 'unconventional' strategies that deviate from industry norms. Whiles for the latter, it has been argued by information-processing theorists that large board size does increase the information-processing capacity of directors thanks to the heterogeneous competences that several board members are likely to bring at the service of the firm's decision making process (Tushman & Nadler, 1978; Sanders & Carpenter, 1998), thereby making it easier for the firm to deal with uncertainties independently, without necessarily relying on the experience of others (Pearce & Zahra, 1992). We thus contend that as firm-level uncertainty in multinationality increases, a large board size should result in lower conformity to successful peers. More specifically, we bring information-processing theory of MNC (Egelhoff, 1982, 1991) and studies on the role of how governance institutions shape strategy (Barroso, Villegas, & Perez-Calero, 2011; Goodstein et al., 1994; Sanders & Carpenter, 1998) into information-based theories of imitation (Lieberman & Asaba, 2006), and we develop

hypotheses on how board equity ownership and board size moderate the relationship between firm-level uncertainty in multinationality and conformity in multinationality to the market leader.

Our study complements the extant literature on imitation and corporate governance of MNCs in various ways. First, while earlier information-based imitation literature has examined how firms' conforming actions are influenced by uncertainty emanating from changes in the firms' external environment, like the volatility of demand or industry profits (Haunschild & Miner, 1997), product diffusion (Giachetti & Lanzolla, 2016), the pace of technological evolution (Giachetti, Lampel, & Li Pira, 2017), and changes in the institutional environment (Henisz & Delios, 2001), we examine firm-level uncertainty in multinationality, an idiosyncratic type of uncertainty, arising from a firm lack of experience with multinationality decisions. Second, this study is the first that examines the interplay between information-based motives for imitation and the information-processing capacity of decision makers within an organization, the board in the specific case of our study. In fact, whether granting equity to boards of directors or expanding their number leads to changes in their strategic involvement relative to industry peers (i.e. imitation as opposed to deviation from industry norms) has not been directly studied in the extant strategy and international management literature. Third, while previous studies in the international management literature that investigated the antecedents of conformity in multinationality did so by identifying various reference targets for this strategic behavior, such as home country rivals, industry rivals in general, and business group members (see Table 1 for a review), no studies have examined the role of market leaders in driving industry members multinationality decisions. This is surprising since, as noted before, successful peers have been the reference target in many imitation studies within the broader strategy literature.

The rest of the paper is organized as follows. First, we develop hypotheses about the effect of firm-level uncertainty in multinationality, board equity ownership and board size on conformity in multinationality to the market leader. Next, we report the sample characteristics, the methodology, and the variables used. Subsequently we present the results of the empirical analysis. In the final section, we discuss the implications of our findings for future theoretical and empirical research, along with the limitations of the current study.

Hypotheses Development

Firm-level Uncertainty in Multinationality and Conformity in Multinationality to the Market Leader

Scholars have argued that *uncertainty* reflects the absence of information or the lack of knowledge preventing a fully rational assessment of current and future scenarios (Beckman et al., 2004; Henisz & Delios, 2001). A MNC faces a myriad of uncertainties, that can be divided in two macro categories: environmental-systematic uncertainty and firm-unsystematic uncertainty. The former refers to the macroeconomic factors that affect not just a single firm but other firms like it and greater markets and economies as well. The latter, also called idiosyncratic uncertainty, is endemic to a particular strategy, such as a firm's multinationality decisions, and may emanate, for example, from the firm's lack of past *experience* in dealing with the complexities associated with this strategic action (Erramilli, 1991; Henisz & Delios, 2001; Sanders & Carpenter, 1998). In fact, various authors have suggested that the experience with foreign markets a firm has cumulated over time plays a significant role in shaping its multinationality decisions (Chang, 1995; Eriksson et al., 1997; Guillen, 2002, 2003; Majocchi et al., 2005). Since experience emanates from a firm's ability to develop routines and internal organizational arrangements that reinforce an adopted course of action (Henisz & Delios, 2001), a great cumulated past experience with foreign markets should lead to much confidence in the firm's ability to gauge the demands of foreign

customers, and evaluate costs and returns of operating abroad (Erramilli, 1999). By contrast, the lack of experience makes it difficult for firms to easily predict the likely outcome of their multinationality decisions thereby heightening uncertainty (Henisz & Delios, 2001). Since this uncertainty emanates from the firm's internal environment and affects its ability to predict the likely outcome of multinationality decisions, we conceptualize it as 'firm-level uncertainty in multinationality'.

The information-based theories of imitation (Lieberman & Asaba, 2006), arising from the fields of economics and sociology, provides the avenue for us to better comprehend how firm-level uncertainty in multinationality affects the way a firm strategizes when operating internationally relative to the other firms in the industry. The basic argument of information-based theories of imitation is that, when there is a blurring between actions that firms take and its possible outcome due to the lack of information and ambiguity, firms are motivated to conform to the behavior of other firms. These theories are (a) neo-institutional theory (DiMaggio & Powell 1983), whose key argument is that firms tend to resemble one another because of their uncertainty about how to gain legitimacy for their behavior; (b) information cascades (Bikhchandani et al., 1992, 1998), that describe situations of perceived information asymmetry, where imitation should reduce the threat of making poor autonomous decisions; (c) organizational learning (Levitt & March 1988), whose perspective suggests that imitation might be a powerful way for organizations to capture the experience of other organizations, especially when the uncertainty about the outcome of many strategic alternatives is high (Baum et al., 2000). Therefore, according to all these streams, when uncertainty is high, firms follow others, and in particular those they believe to be possessing superior information (Lieberman & Asaba, 2006).

The above theories of imitation have been tested under various empirical settings, with few studies examining the *antecedents* of the imitation of multinationality decisions. For

example, Delios et al., (2008) found support for this information-based perspective of imitation in their study of Japanese firms making foreign direct investments, by showing that the likelihood of a focal firm entering a foreign market is greater if direct rivals have undertaken similar actions in the past. The authors argued that this is particularly so because, entry mode strategies by rival firms convey information that can reduce uncertainty inherent in this strategy. Similarly, Guillén (2002, 2003) found support for the information-based argument by showing that a firm's propensity to enter a foreign market is influenced by the previous entry of business group members, who are imitated by the firm in a bid to reduce uncertainty about its entry decisions.

In this paper, we focus on the role of the market leader as a reference target regarding imitation of multinationality decisions, as the literature has pointed out the role that this actor plays in the mimetic processes (e.g., Giachetti & Spadafora, 2017; Haveman, 1993). We argue that conforming to the multinationality decisions of the market leader, which is usually perceived as more capable to deal with the uncertainty related to multinationality decisions given the size and experience it has achieved vis-à-vis the other industry members, may allow focal firms to mitigate the uncertainty surrounding their multinationality actions. As noted by various authors, multinationality presents a bundle of complexities (Sanders and Carpenter, 1998), but market leaders are better positioned to deal with these complexities (Giachetti & Spadafora, 2017) since they have built enough experience, e.g. managerial experience, industry specific experience and foreign market experience (Autio et al., 2000), that facilitates easy expansion into uncertain and risky markets.

Thus, in the eyes of smaller rivals, the market leader tends to have developed capabilities regarding multinationality decisions that reinforces an adopted course of action over time, making it easier for it to predict the likely outcome of its multinationality actions. To that effect, less experienced firms with higher levels of uncertainty about the outcome of

multinationality actions, and lacking the competencies of the market leader, may observe multinationality actions of the market leader believing that adopting a similar course of action would lead to a more predictable outcome of their multinationality decisions.

In sum, we expect that the higher a firm-level uncertainty about its multinationality decisions, the more the firm will try to reduce the hazards of conducting business internationally by conforming to the international posture of the market leader. The above arguments lead to the following hypothesis:

> **Hypothesis 1**: *There is a positive relationship between firm-level uncertainty in multinationality and a firm's conformity in multinationality to the market leader.*

Impact of Board Equity Ownership on the Relationship between Firm-Level Uncertainty in Multinationality and Conformity in Multinationality

Information-processing theory of MNCs (Egelhoff, 1982, 1991) suggests that the information MNC is capable to utilize in its efforts to devise actions that enable it to prosper and remain competitive internationally, depends on its information-processing capacity. And a firm can make effective strategic choices when its information-processing capacity supersedes or is at par with its information-processing needs (Tushman & Nadler, 1978). Information-processing theorists argue also that a firm information-processing capacity is particularly important when the firm has to cope with uncertainty, as in the case of multinationality decisions (Carpenter & Fredrickson, 2001). In fact, in the case of multinationality decisions, given their complexity, information-processing requirements are often not adequately understood by decision makers within the organization, with a high risk of strategic mistakes (Egelhoff, 1991).

Boards are important corporate governance institutions (Van Ees et al., 2009) that are actively engaged in the decision-making processes which leads to the design and implementation of firm strategy (Golden & Zajac, 2001; Goodstein, Gautam, & Boeker,

1994). The information-processing capacity of a firm is thus clearly influenced by its board members (Carpenter & Fredrickson, 2001), especially when a firm is faced with uncertainty about the likely outcome of its strategic actions (Goodstein et al., 1994). When the perceived uncertainty is high, significant emphasis is laid on the strategic choices made by the firm, and the strategic function that corporate boards play should facilitate the firm's adaptation to important changes in the environment, whiles enhancing organizational-wide resource allocation decisions in the best interest of the firm (Goodstein et al., 1994; Judge & Zeithaml, 1992).

Still, we argue that the information-processing capacity of a firm's board members can be biased by the equity they have invested in the company. In fact, although on the one hand empirical studies have shown that board members' interest in the running of a firm is heightened when they have significant stake in the firm (Brickley, Lease, & Smith, 1988; Hambrick & Jackson, 2000) since equity ownership prompts directors to safeguard their wealth in the firm (Booth, Cornett, & Tehranian, 2002; Desai, 2016; Hambrick & Jackson, 2000), on the other hand, when firm-level uncertainty is high, board equity ownership triggers cognitive processes that are not fully rational (Rindova, 1999). That is because directors' 'fear' for their equity, may reduce their rational ability to process information. This limits the information-processing capacity of the company, which remains an intra-organizational aspect and, therefore, an alternative to an inter-organizational mechanism such as imitation of successful others perceived as having more information. We argue that the information-processing capacity that is reduced by the cognitive bias that emanates from board equity ownership is likely to result in greater imitation of the market leader.

In a nutshell, when directors have significant equity in a firm, they are less likely neither to let the firm implement risky strategies, nor to strategize independently and thus make strategic actions that deviate from industry norms. Risky, unconventional strategies are likely

to be avoided because the firm's success or failure directly affects the wealth they have invested in the firm. From an information-processing perspective we could say that, when a firm is in the process of making decisions that are inherently uncertain, greater board equity ownership leads to cognitive processes that distort board members information-processing capacity, while alerts them that information should be processed in a way to not make inherently uncertain decisions that would put their wealth at stake.

Since firm-level uncertainty in multinationality can have dire consequences for organizational performance and can ultimately threaten the survival of a firm (Song, 2013), a performance dip can directly affect the significant stake that board members hold in the firm (Carpenter & Fredrickson, 2001). With this imminent threat to their wealth, the board's strategic role is enhanced to deal with the uncertainty inherent in the firm. As already established, the litereature proposes that, one notable mechanism by which firms can address uncertainty is through imitative behavior (Henisz & Delios, 2001), with information-based theories of imitation (Lieberman & Asaba, 2006) suggesting that actions of rival firms perceived as possessing superior information can serve as an avenue to reduce the uncertainty. To that effect, when decision makers such as board members who as well hold significant equity in the firm are faced with increasing firm-level uncertainty about multinationality decisions, on the one hand they feel the firm would need their information-processing capacity to cope with uncertainty, on the other hand they feel their wealth is at stake. In this scenario, conforming to the multinationality decisions of the market leader, who is perceived as having sophisticated information-processing capacity, may provide a more viable solution with little expense and risk.

We therefore argue that, when firm-level uncertainty about multinationality decisions is high, board members with significant equity in the firm would favor modelling their

multinational strategies to those of the best performing firm i.e., the market leader, to mitigate risk and protect their wealth in the firm. Hence, we posit:

> **Hypothesis 2**: *Board equity ownership positively moderates the relationship between firm-level uncertainty in multinationality and a firm's conformity in multinationality to the market leader.*

Impact of Board Size on the Relationship between Firm-Level Uncertainty in Multinationality and Conformity in Multinationality

The size of a board has been described as a well-studied variable in the corporate governance literature (Van den Berghe & Levrau, 2004), with scholars suggesting that it is a significant attribute that ultimately affects the basic functioning of the board (Chaganti, Mahajan, & Sharma, 1985). In the view of some authors the size of the board does play a critical role in the provision of strategic direction as well as the overall survival of the firm (Pearce & Zahra, 1992), and thus serves as an important signal of firm quality (Musteen, Datta, & Kemmerer, 2010). Although what constitutes the optimal board size (whether large or small) needed for effective strategic decision making remains a debate in the extant literature (e.g., Forbes & Milliken, 1999; Golden & Zajac, 2001; Goodstein et al., 1994; Zahra & Pearce, 1989), various authors have argued that a large board size provides the firm with an increased hoard of expertise (Pfeffer, 1972), with various knowledge backgrounds and skills sets which are at the disposal of the organization (Van den Berghe & Levrau, 2004), leading to superior organizational decision outcomes (Musteen et al., 2010). The diversity of the large board view emanates from the fact that most board members have a variety of backgrounds, such as current and former CEO's of other firms, lawyers, bankers, academics and professional managers (Rindova, 1999). Their varying industry experience can help firms deal with organizational challenges in a more effective manner (Sullivan, 1990). This is because they can draw on a variety of perspectives on firm strategy (Pearce & Zahra,

1992) to deal with complexities emanating from the firm's task environment (Sanders & Carpenter, 1998).

Sanders and Carpenter (1998) attribute the ability of MNCs to deal with such complexities to the greater information-processing capacity of larger groups of decision makers within the organization relative to smaller ones, where information-processing refers to the MNC's gathering of data, its transformation into information, communication and storage, as well as its effective use in making multinationality decisions (Egelhoff, 1982). From an empirical standpoint, Sanders and Carpenter (1998) employed the information-processing arguments in examining the relationship between the size of a board and multinationality decisions, and found that a firm's degree of internationalization is positively associated with its board size. They argued coherently that, since internationalization is a complex phenomenon, higher information-processing capacity is needed to deal with the complexities associated with it, and this information-processing capacity is more likely to be found in boards of a large size. This is because the larger the board, the higher the likelihood for it to be made of professionals with heterogeneous competences that can be made available to the company's way of strategizing independently, especially when uncertainty is high. Hence, making it easier for boards to make effective decisions on multinationality issues. In a similar vein, Pearce and Zahra (1992) suggest boards of a large size seem to be feasible ways by which firms mitigate uncertainty surrounding their strategy development and execution with their own resources, without the need to rely on external partners to gather additional information on how to make strategic decisions, such as resource allocation.

We contend that when firms are faced with uncertainty about the likely outcome of their multinationality actions i.e., firm-level uncertainty in multinationality, a large board size provides the avenue for the firm to deal with this uncertainty and strategize independently. This follows the arguments advanced by Tushman and Nadler (1978) and Egelhoof (1991)

that improving the information-processing ability of a firm helps reduce uncertainty, and a large board size affords the opportunity to increase firm's information-processing ability (Sanders and Carpenter, 1998). To that effect, firms may not necessarily imitate the multinationality actions of the market leader, largely because they have the required expertise and personnel in numbers to provide the requisite strategic directions to surmount the uncertainties the firm encountered. This line of logic leads to our final hypothesis:

> **Hypothesis 3**: *Board size negatively moderates the relationship between firm-level uncertainty in multinationality and a firm's conformity in multinationality to the market leader.*

Figure 1 provides a visual representation of our theoretical framework.

Please insert Figure 1 here

Methodology

Setting and Sample

We test the above proposed hypotheses using a sample of 58 Italian ceramic tile manufacturers located in the industry cluster of Modena and Reggio Emilia, two neighboring towns in Northern Italy. Our sample of firms accounts for over 90% of Italian ceramic tile production and thus can be representative of the domestic industry. The time window for the collection of our data spans from 2005 to 2009.

With the quantitative data collected from secondary sources (that we used to develop a set of variables to be included in the econometric analysis we present later in the paper) we also performed a series of in-depth interviews with industry experts to gather additional information about the internationalization strategies of industry players, and to get feedback on the validity of the indicators used in the econometric models. Experts that agreed to share

their opinion on the project were the following: (a) managers of Confindustria Ceramica, the trade association of Italian tile manufacturers, (b) managers of tile manufacturers, (c) industry experts working at the University of Modena and Reggio Emilia, a research institution located within the industry cluster. Relevant quotes from the interviews are included in the rest of the Methodology section.

Our setting is particularly suitable for testing our hypotheses for several reasons. First, the geographic proximity and the abundant flows of knowledge makes strategic actions within the cluster visible to members of the cluster (Audretsch & Feldman, 1996; Guillén, 2002). Accordingly, cluster members can gain information regarding the strategic posturing of their peers, including their multinationality decisions. It is pertinent to note that the cluster is regarded as an international center of excellence for the production of ceramic tiles and has gained a reputation as the largest exporter of ceramic tiles in the world. Consequently, Italian ceramic tile manufacturers tend to focus on the strategic actions of one another rather than the actions undertaken by other foreign clusters that are seeking to catch up (Giachetti & Spadafora, 2017). As indicated by an industry expert we interviewed:

> "By the end of the 1970s, the Italian ceramic industry accounted for over 55% of European production and 40% of world production. […] Italy was the first exporting country in the world. […] The Sassuolo area was where the industry concentrated the most with nearly 75% of the national ceramic tile production. […] The 90s saw a consolidation of Italian leadership on the international scene. […] Italian exports reached almost 70% of production. The industry then achieved product leadership thanks to the definitive affirmation of 'gres porcellanato' which represents the second technological revolution in the sector. […] In the 2000s, although competition increased at the global level, Italian ceramic tile manufacturers maintained their global leadership thanks to the experience cumulated over the previous decades."

Second, it is worthwhile noting that, since cluster members are mono-industry firms, they produce similar products and compete for similar factors of production. Third, since cluster members have their headquarters located in Italy, most of their multinationality

decisions and performance are influenced by same country environmental factors, such as the institutional distance from the host countries, local demand, government funds for FDI, and taxation (Guillén, 2002; Kostova & Zaheer, 1999).

Dependent Variable

Conformity in Multinationality to the Market Leader. To measure conformity in multinationality to the market leader, we first began by identifying the market leader in our setting. The extant literature refers to the market leader as the firm with the largest market share (e.g., Giachetti & Lanzolla, 2016). Consistent with measures proposed by recent studies (Giachetti & Spadafora, 2017), a firm 'market leadership' was measured by means of a composite indicator, which includes firms' total sales and total foreign sales.[1] The two measures were divided by their maximum values in the sample in order to normalize their range between 0 and 1. For each firm, the mean of the two ratios were computed. The final composite indicator takes values ranging from 0 to1. This led to the identification of the tile manufacturer Marazzi as the market leader over the observation period. Even when we then included return on assets (ROA) as a third indicator in our composite measure, Marazzi still emerged as the market leader throughout the whole observation period. It is worth noting that we found confirmation of Marazzi's leadership and then greater visibility throughout our observation period also in the interviews we conducted and from an extensive search in special interest magazines for the ceramic tile industry. In 2005, the beginning of our observation period, Marazzi was the world leading producer of ceramic tiles, with a total revenue nearly double the one of the second largest firm within the cluster. It exported to nearly 130 countries and had nearly 6,000 employees. Its products were made in 20 factories

[1] It is worth noting that this measure of market leadership was used only to identify the market leader in our sample, and not as a variable in the econometric analysis.

in Italy, Spain, the US, France and Russia, and they were displayed in dozens of showrooms all over the world.

We then employed twelve strategy variables which were used as proxies of tile manufacturer multinationality; the foreign sales to total sales (FSTS) and the number of foreign showrooms to total showrooms (FShTSh) were used to indicate a firm's propensity to expand its sales activities outside the domestic market; the number of units (i.e., tiles) produced abroad (i.e., foreign production) to the total number of units produced (FPTP) was used to indicate a firm's propensity to internationalize manufacturing activities; the number of countries where a firm has production plants was used to capture firms' country scope; the showrooms as well as the warehouses in (a) Europe, (b) North America, (c) China and (d) the rest of the world were used to capture the extent to which a firm expands its value chain activities into those geographic areas. Data on firms' multinationality were collected mainly from 'CER–il Giornale Della Ceramica', a special interest magazine for the Italian ceramic tile industry from 2005 to 2009. CER annually publishes firm-level data on Italian tile manufacturers' multinationality. Additional data were collected from Ceramic World Review and firms' annual reports. The measure of conformity used in this study is similar to that used by Chen and Hambrick (1995) and Deephouse (1999), and is computed as follows: for a given year, each firm's strategy was compared with the strategy of the market leader and expressed as units of standard deviation. The absolute values of the units of standard deviations for the twelve strategy variables were then totaled for each tile manufacturer and multiplied by -1 in order to obtain larger values as conformity in multinationality increases. The equation below illustrates the calculation of the conformity in multinationality to the market leader (CIM) of tile manufacturer i in year t, where $S_{a,i,t}$ is strategy a for tile manufacturer i in year t, $S_{a,j,t}$ is the strategy a of the market leader j in year t, and $sd(S_{a,t})$ is the standard deviation of the strategy a in year t.

$$(1) \quad CIM_{i,t} = -\sum_{a=1}^{12} \left| \frac{S_{a,i,t} - S_{a,j,t}}{sd(S_{a,t})} \right|$$

The range of conformity in multinationality ($CIM_{i,t}$) includes all numbers lower than or equal to zero. Conformity in multinationality equals zero if a firm's strategy $S_{a,i,t}$ perfectly equals the strategy of the market leader, namely $S_{a,j,t}$.

Independent Variables

All independent variables and controls were standardized for easy interpretation of their coefficient and to limit multicollinearity. The independent variables were also lagged one year to make realistic assumptions about their effect on the CIM.

Firm-level uncertainty in multinationality. International business literature suggests that organizational age has an effect on multinationality, this is because firms accumulate experience with foreign markets as their age increases (Eriksson et al., 1997). This presupposes that, the older a firm, i.e. the more experience it has acquired over time, the lower the uncertainty it faces when strategizing, which includes multinationality (Majocchi et al., 2005), and in turn the better its ability to undertake multinationality decisions independently, and predict the likely outcome of these decisions. This is particularly true in the Italian ceramic cluster of Modena and Reggio Emilia, where firms relied heavily on export since their inception. As noted by the CEO of a firm we interviewed:

> "I believe that when we established we exported 85% of our products, just because our products were well accepted by the German and English market. Now our export share is around 72-73%, and the export share of all firms within the cluster is about 68%."

This point was also echoed by an industry expert we interviewed:

> "A significant number of the companies go abroad from their inception. Bear in mind that, the propensity to export has always been historically very high, since the 60s. After the 60s it was mostly above 50%. This is because these companies have always gone abroad immediately with agents, which was a fairly flexible approach to internationalization, even for small businesses. […] This has been the

> most prevalent model, except perhaps for very small niche businesses. In addition, almost all companies in the district go to CERSAIE, the International Exhibition of Ceramic Tile and Bathroom Furnishings, which started in the early 80s, and this event also exposes them quite naturally to foreign customers."

Another manager remarked on how ceramic tile manufacturers relied on channels that helped the internationalization process to expand rapidly since their inception:

> "The ceramic tile companies have internationalization systems that are hyper-destructured, since they often went abroad with multi-firm agents. So, they do not need to have large commercial structures to support the foreign market expansion. So even the small firms could immediately enter foreign markets."

Based on the considerations above, we measured firm-level uncertainty in multinationality (*FUM*) of ceramic tile manufacturers by computing the natural logarithm of the firms' age (*AGE*) since inception, multiplied by (-1).

(2) $FUM = -\ln\ (AGE_{i,t})$

We multiplied the logarithm of age by -1 to have larger values for firm-level uncertainty when the age is low, i.e. when experience is low, and vice versa.

Board equity ownership. For the measure of *board equity ownership* (BEO), consistent with the extant literature (Denis, Denis, & Sarin, 1997), we used the percentage of shares owned by board members. Data for this variable was collected from the annual reports of the firms under investigation. The average percentage of equity owned by board members of firms in our sample was 54.1%.

Board size. Consistent with the extant literature (Goodstein et al., 1994; Sanders & Carpenter, 1998) we measured board size as the number of directors on the board for every given year. Information for this variable was collected from the firms' annual reports.

Control Variables

The study included various controls. *Firm size* is measured by the natural logarithm of revenues to control for economies and diseconomies of scale (Gomes & Ramaswamy, 1999).

Foreign sales to total sales (*FSTS*), was used to control for the firm's dependence on sales in foreign countries (Allayannis & Weston, 2001). *Profitability,* measured as the firms' return on asset (ROA), was also used as a control, because a firm's ability to enter into new markets is likely to be, or at least partially, an outcome of its financial performance (Hitt, Hoskisson, & Kim, 1997; Yu, Gilbert, & Oviatt, 2011). *Average selling price*, computed as the ratio between total revenue and total units (squared meters) sold in year *t*, was used to control for economies of scale and price competition, given that price competition plays a role in firms' level of engagement in multinationality activities (Pieray, 1981). *Board turnover*, measured as the percent of the board members that has turnover over since the prior year (Desai, 2016), also served as a control, since the rate at which directors turnover has both strategic and performance implications (Golden & Zajac, 2001; Liu, Wang, Zhao, & Ahlstrom, 2013). Lastly, we controlled for the presence of *family* controlled firms in our sample, with a dummy that takes value of one if within the board there is at least one member of the founding family, and zero otherwise.

Table 2 summarizes the variables used in the study, and the sources that were used to compute them. The descriptive statistics, i.e. means, standard deviations and correlations, are reported in Table 3. We calculated the variance inflation factors (VIFs) to check whether there is multicollinearity among our independent variables. The VIFs for Models 1, 2, 3, 4 and 5 were 1.24, 1.25, 1.27, 1.34 and 1.64 respectively, which is less than the recommended minimum threshold of 10 for standardized data (O'Brien, 2007), suggesting that multicollinearity is unlikely to affect our results.

Please insert Table 2 and 3 around here

Results

Hypotheses Tests

Our empirical model was estimated using robust fixed-effects regression (Cameron & Trivedi, 2009). A Hausman test was conducted to check if a fixed-effects model was better suited than a random-effects model, and the result proved that the fixed-effects model was the appropriate estimator for the panel data we have. Table 4 presents the results of the regression analysis. In Model 1, the effect of the control variables on conformity in multinationality to the market leader is examined. In Model 2, firm-level uncertainty in multinationality was added to test the relationship predicted in Hypothesis 1. Model 3 contains board equity ownership whiles In Model 4 the board size is introduced. Finally, in Model 5 we present the full model, which includes the interaction terms of board equity ownership and board size with firm-level uncertainty in multinationality to predict Hypothesis 2 and 3.

Please insert Table 4 here

In Hypothesis 1, it was proposed that high firm-level uncertainty in multinationality will be positively related to the degree of conformity in multinationality to the market leader. As observed in Model 5, we find support for this hypothesis, with firm-level uncertainty in multinationality loading positively on the degree of conformity in multinationality to the market leader ($\beta = 17.103$, $p < 0.001$). Hypothesis 2 proposed that board equity ownership positively moderates the relationship firm-level uncertainty in multinationality and a firm's conformity in multinationality to the market leader. As shown in Model 5, when the interaction effect was added, we find the interaction term to load positively on the dependent variable ($\beta = 2.815$, $p < 0.05$), thus providing support for Hypothesis 2. To better understand and visualize the nature of our interaction term we plot the interaction using the procedure

outlined by Aiken, West, and Reno (1991), illustrated in Figure 2. With Hypothesis 3 we suggested that board size would negatively moderate the relationship between firm-level uncertainty in multinationality and conformity in multinationality to the market leader. The interaction term between board size and firm-level uncertainty in multinationality loads negatively on the dependent variable as predicted but is not significant (β = -0.066, $p > 0.10$), hence Hypothesis 3 is not supported.

Please insert Figure 2 here

Robustness Tests

To ensure the results reported are stable and to increase confidence in our findings, we undertook additional steps. More specifically, we repeated the analysis using four alternate indicators for the measure of conformity in multinationality to the market leader (Table 5: Models 6-9). Since multinationality is a multidimensional construct, we repeated the analyses by focusing on two key individual dimensions of the construct (Models 6-7), i.e. the 'extent' of expansion, which involves foreign market penetration, foreign production presence and country scope (e.g., Sullivan, 1994; Tallman and Li, 1996), and 'where' to expand abroad, that refers to location choices (e.g., Mudambi, 2008). The 'extent' of expansion was computed using FSTS, number of showrooms in Europe, North America, China and the rest of the world (FShTSh), number of countries where the firm has production plants (FPTP), while 'where' to expand abroad was computed using the number of warehouses and showrooms in Europe, North America, China and the rest of the world. In Models 8-9, we repeated the analysis using two other measures of conformity in multinationality to the market leader which we computed in terms of sales-based strategy variables (i.e., FSTS, FShTSh, the number of showrooms in Europe, North America, China and the rest of the

world) and production-based strategy variables (i.e., FPTP, number of countries where the firm has production plants, the number of warehouses in Europe, North America, China and the rest of the world).

Please insert Table 5 here

As seen in Table 5, all subsample models apart from Model 6, show firm-level uncertainty in multinationality has coefficient signs and significance which were consistent with results in Model 5 (Table 4), indicating some stability in the findings of our baseline hypothesis, i.e. Hypothesis 1. Similarly, for Hypothesis 2 which is the interaction term of board equity ownership and firm-level uncertainty in multinationality, all models in the subsample except Model 6 show coefficient signs and significance which again validate our predictions. Model 6 does not offer any statistical support for Hypothesis 1 and 2, thus requires some further investigation, but a post hoc explanation could be that the 'extent' of multinationality of the market leader, may not be of significant interest to firms. But rather 'where' the market leader operates, as well as its 'sales' and 'production' based strategies better serves the interest of the firm and equity holders on the board when the firm is faced with firm-level uncertainty in multinationality. Lastly, the effect of the board size on the baseline hypothesis remained insignificant across all the sub sample Models (6-9), again showing some consistency.

Discussion

Implications

By drawing on information-based theories of imitation (Lieberman & Asaba, 2006) and information-processing theory of MNCs (Egelhoff, 1982, 1991), the purpose of this study was to examine how firm-level uncertainty in multinationality affects the extent to which a

firm conforms to multinationality decisions of the market leader, and how board equity ownership and board size shape this relationship. The results from the study show that, first, uncertainty about multinationality outcomes encourages firms to conform to the multinationality posture of the market leader. Second, we found that board equity ownership positively moderates the relationship between firm-level uncertainty in multinationality and conformity in multinationality to the market leader, such that when board equity ownership is high and firm-level uncertainty in multinationality is high, the higher the propensity for a focal firm to confirm to the multinationality of the market leader. Third, we found that a firm board size had no significant effect in moderating the relationship between firm-level uncertainty in multinationality and the extent to which the firm conforms to the multinationality posture of the market leader.

This study contributes to the extant literature in diverse ways. First, we bring information-processing theory of MNCs (Egelhoff, 1982, 1991) into information-based theories of imitation (Lieberman & Asaba, 2006), with the specific aim to examine how a firm's governance, board charateristics in particular, affect a firm's decision to imitate multinationality decisions of the market leader. We found that as firm-level uncertainty in multinationality increases, if board members own a large percentage of a firm's equity, the firm is more prone to conform to the multinationality actions of the market leader; this strategy is driven by the board members priority to mitigate the firm uncertainty with multinationality decisions and protect their wealth in the firm. On the one hand, this is consistent with the arguments made by various authors (Desai, 2016; Hambrick and Jackson, 2000) that significant equity in the hand of board members leads them to have greater attention devoted to strategies that are inherently less risky for the firm. On the other hand, we add to this literature by showing that, when firm-level uncertainty is high, board equity ownership triggers cognitive processes that are not fully rational, and that limit the

information-processing capacity of the company, giving more emphasis on an inter-organizational mechanism such as imitation of successful others.

Second, while most of the studies on conformity in multinationality have looked at uncertainty with respect to the external environment in which firms operate, i.e. environmental uncertainty (Delios et al., 2008; Henisz & Delios, 2001), in this study, we argue that the extent to which a firm (non)conforms to the multinationality decisions of its rivals is influenced not only by the uncertainty in the external environment, but is also a function of uncertainty idiosyncratic to the firm, i.e. firm-level uncertainty in multinationality, that is a function of the firm cumulated experience in international markets. This revelation thereby adds a new layer to the debate about the antecedents of inter-organizational imitative behavior of MNCs (Delios et al., 2008; Gullen, 2002; Lu, 2002).

Our results offer no support for our hypothesized moderating effect of board size on the firms' conforming behavior when faced with firm-level uncertainty in multinationality. Ex-post, this result is not particularly surprising given how the literature is fragmented on the effect of the size of the board on strategic behavior of firms (Sherman, Kashlak, & Joshi, 1998; Sanders & Carpenter ,1998; Golden & Zajac, 2001; Goodstein et al., 1994). Perhaps the context and setting becomes more important when examining board size and its impact on strategic outcomes. In fact we noticed that most of studies on how a firm's board size affect the way it strategizes were conducted with samples of large firms, while our research setting includes also mid-size firms. As noted by various scholars, governance structure of Italian firms is characterized by informal shareholders meeting and family councils, that sometimes may have more importance than boards (Montemerlo, Gnan, Schulze, & Corbetta, 2004). Perhaps, this renders the key role played by large boards less significant in providing strategic direction for the firm, particularly when the firm is faced with uncertainty about the outcome of its multinationality actions. However, it is interesting to note that our results are

in line with the study of some authors (Compagno, Pittino, and Visintin, 2005) who found that the number of board members has no significant impact on multinationality decisions of Italian small and medium enterprises. Our attempt to study the role played by boards in firms' strategic behavior does not only contribute to the current discussion regarding the strategic importance that boards play in organizations (Pugliese et al., 2009), but also extends earlier studies that have examined how the role played by equity ownerhsip and the relative size of the baord leads to various multinationality decisions (Compagno et al., 2005; Desai, 2016; Sanders & Carpenter, 1998).

Limitations and Avenue for Further Research

Our study is not without limitations. First, given that the setting for the study was a mono-industry located in Italy, our results cannot be generalized to all industries and all countries. This is because corporate governance mechanisms are hugely influenced by country laws and industry practices. Future studies could repeat our analysis in different countries and industries to see if the patterns observed in the Italian ceramic tile industry exist also elsewhere. Second, our study was limited to one governance institution, i.e. the board. Other corporate governance institutions apart from the board, for example, the ownership structure and institutional ownership (Van Ees, Gabrielsson, & Huse, 2009) can also be examined to see how they affect firms' conforming behavior when faced with firm-level uncertainty. We contend that adding more governance variables could help improve the explanatory power of corporate governance antecedents of conformity in multinationality of firms. Third, the study considered uncertainty at the firm-level. But uncertainty at the country-level could also be key in affecting firm's conforming behavior in multinationality. This could be a very interesting area for future studies to consider, since country level uncertainty can be a determining factor for firm's multinationality decision. Fourth, given that our data covered a relatively short window span, future studies could collect data for a

longer timeframe to critically assess how the governance variables impact on conformity in multinationality over the industry life cycle.

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Table 1. Review of Studies on the Antecedents of Conformity in Multinationality[a]

Authors(s)	Setting (industries, countries and observation period)	Theory background	Antecedents of CIM (*Level of analysis*)	Key Findings
Anand and Kogut (1997)	Various manufacturing industries; Germany, UK, and Japan (1974–1991)	Resource-based view and theories of FDI	Home industry concentration (*Industry-level*)	Home-country industry concentration positively influences the firm's propensity to conform to home-country rivals in foreign entry decisions.
Flowers (1976)	Various industries; Western Europe and North America (1945–1975)	Oligopolistic reaction theory	Home country industry concentration (*Industry-level*)	Home-country industry concentration positively influences firms' propensity to conform to first investing firm's FDI decisions.
Delios, Gaur, and Makino (2008)	Various manufacturing industries; Japan (1980-2002)	Information-based and rivalry-based theories of imitation	Home industry concentration (*Industry -level*)	The competitive context in the home industry influences the propensity of a focal firm to conform to actions of rival firms.
Gimeno, Hoskisson, Beal, and Wan (2005)	Telecommunication industry; US (1985-1995)	Competitive dynamics	Home industry concentration / market share (*Industry-level*)	Conformity to entry moves was more likely when both a focal firm and prior movers have large shares in the same domestic markets. Specifically, conformity occurs among oligopolistic firms than among monopolistic firms. Thus, conformity of international entry was linked to the structure of domestic competition.
Chan, Makino, and Isobe (2006)	Electronics industries; Japan (1989–1998)	Institutional and Organizational ecology theory	Past foreign entry / exit by other MNC (*Rivals-level*)	Multinationals market entry decision is positively influenced by the prior entry and exit decisions of other multinational at the local industry level than the prior entry and exit decisions of other multinational at the host country and global industry.
Fernhaber and Li (2010)	Various industries; US (1999-2000)	Neoinstitutional and Learning theories	Past foreign entry by home country rivals (*Rivals-level*)	New ventures conform to the multinationality activities exhibited by all firms within their home country industry.
Li and Yao (2010)	Various industries; China and other Emerging markets (1979- 1996)	Institutional theory	Past FDI decisions by home and foreign firms. (*Rivals-level*)	Firms from emerging economies conform to the FDI entry decisions of peers from their home country.

Lu (2002)	Various industries; Japan, (1999)	Transaction cost and Institutional theories	Past entry mode choice by the firm itself, other firms, successful firms, and subsidiaries at both industry and country level respectively. (*Rivals-level / Focal firm-level*)	Past foreign entry mode choices by the firm itself, other firms and subsidiaries in the home country influences its propensity to conform to home country firms' foreign entry mode decision.
Henisz and Delios (2001)	Various manufacturing industries; Japan (1990–1996)	Neoinstitutional theory	Past plant location by business group members, home industry rivals and all other home firms. (*Rivals-level / Focal firm-level*)	Conforming to plant location decisions by firms is positively influenced by prior plant locations of industry rivals, other home country firms and business group members respectively.
Guillén (2002)	Various manufacturing industries; South Korea, (1987–1995)	Organizational ecology and Neoinstitutional theories	Past foreign entry by business group members and home country rivals (*Rivals-level / Focal firm-level*)	Firms propensity to conform to business group members and home country rivals' foreign entry decision is positively influenced by the past foreign entries of business group members or home country rivals.
Guillén (2003)	Various manufacturing industries; South Korea, (1987–1995)	Neoinstitutional theory	Past foreign entry mode choices by business group members and home country rivals. (*Rivals-level / Focal firm-level*)	Firms in the same business group are found to conform to each other's choice of joint ventures and wholly owned plants. Firms in the same industry conform to each other's choice of wholly owned plants, though not of joint ventures.
Chang (1995)	Electronics industry; Japan, (1976-1989)	Resource and capabilities-based theories	Business group membership (*Focal firm-level*)	Vertical or horizontal business group membership positively influences the firm's propensity to conform to business groups members' foreign entry decisions.

[a] Studies presented in the table are ordered on the base of type of antecedent: industry-level, rivals-level and firm-level antecedents.

Table 2. Definition of the variables and sources

Variable Name	Abbreviations	Definition	Source
Conformity in Multinationality to Market leader	CIM	Composite indicator based on twelve strategy variables, each variable used as a proxy for a multinationality decision. Imitation is computed with the absolute distance between the focal firm's strategy variable and the respective strategy variable pursued by the market leader.	CER–il Giornale Della Ceramica, Ceramic World Review
Firm-level Uncertainty in Multinationality	FUM	Logarithm of the firm's age multiplied by (-1).	Firms' annual report
Board Equity Ownership	BEO	Equity stake of directors / Total firm equity	Firms' annual report
Board Size	BS	Number of directors on the board for every given year	Firms' annual report
Firm size	FS	Logarithm of a firm revenue	Firms' annual report
Foreign sales to Total sales	FSTS	Foreign sales / total sales	CER–il Giornale Della Ceramica
Profitability	Profitability	Return on asset (ROA) measured as EBIT / Total assets	Firms' annual report
Average selling price	AVS	Total revenue / total units measured in squared meters	CER–il Giornale Della Ceramica
Board turnover	BT	% of directors who left the firm in year *(t)* / Total number of director in year *(t)*	Firms' annual report
Family firm	Family firm	Dummy variable equal to one if within the board there is at least a member of the founding family, while equal to zero otherwise.	Firms' annual report

Table 3. Descriptive statistics: Mean, standard deviation and correlations

Variables	Mean	S. D	1	2	3	4	5	6	7	8	9	
1. CIM	-40.445	5.458	1.000									
2. FUM	-3.014	0.729	0.020	1.000								
3. Board equity ownership	0.539	0.400	-0.003	-0.247***	1.000							
4. Board size	4.213	2.388	0.114+	-0.177**	0.282***	1.000						
5. Firm size	17.387	1.440	0.227***	-0.179**	-0.050	0.506***	1.000					
6. Average selling price	14.940	12.676	-0.041	0.027	0.052	0.165*	-0.061	1.000				
7. Profitability	0.016	0.089	0.064	-0.284***	0.167*	0.130+	0.284***	-0.035	1.000			
8. FSTS	0.490	0.236	0.217**	0.056	-0.056	0.238***	0.525***	0.049	0.079	1.000		
9. Board turnover	0.084	0.215	-0.048	0.193**	-0.241***	-0.094	-0.120+	0.104	-0.335***	0.006	1.000	
10. Family firm	0.791	0.407	0.028	-0.174**	0.286***	0.159*	0.151*	-0.088	0.160*	-0.005	-0.188**	1.

N=225; Significance + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4. Results of robust fixed-effects regression analysis for the effect of board equity ownership and board size on the relationship between firm-level uncertainty in multinationality and conformity in multinationality to the market leader.

	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**
Firm-level Uncertainty in Multinationality (FUM)		16.289***	16.310***	15.761***	17.103***
		(3.679)	(3.711)	(3.602)	(4.523)
Board Equity Ownership (BEO)			-0.826		0.039
			(1.250)		(1.088)
Board size				3.157	3.417
				(2.244)	(2.101)
FLU x BEO					2.815*
					(1.347)
FLU x Board size					-0.066
					(2.873)
Firm size	-11.166	-4.895	-4.995	-7.255	-7.672
	(8.629)	(4.962)	(5.056)	(4.571)	(4.688)
Average selling price	1.240	2.189*	2.083+	2.486*	2.648*
	(1.475)	(1.021)	(1.041)	(1.066)	(1.174)
Profitability	1.447	-0.558	-0.546	-0.405	-0.317
	(1.467)	(1.062)	(1.072)	(0.958)	(0.931)
FSTS	-0.597	-0.691	-0.767	-0.649	-0.728
	(1.146)	(0.886)	(0.901)	(0.878)	(0.819)
Board Turnover	-0.109	-0.244	-0.244	-0.363	-0.333
	(0.384)	(0.420)	(0.420)	(0.429)	(0.399)
Family Firm	-4.838***	-4.119***	-4.102***	-4.602***	-4.615***
	(0.372)	(0.265)	(0.270)	(0.379)	(0.567)
Constant	-40.568***	-41.781***	-41.798***	-41.530***	-40.981***
	(0.261)	(0.365)	(0.369)	(0.372)	(0.422)
Observations	225	225	225	225	225
R-squared	0.074	0.291	0.293	0.305	0.332

All independent variables were lagged 1 year; estimates are based on standardized variables; significance $^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; robust standard errors in parentheses.

Table 5. Robustness checks: subsample analyses

	Model 6 Extent	**Model 7** Where	**Model 8** Sales	**Model 9** Production
Firm-level Uncertainty in Multinationality (FUM)	-0.419	17.521***	12.328***	4.775**
	(0.390)	(4.809)	(2.973)	(1.639)
Board Equity Ownership (BEO)	0.201	-0.162	0.171	-0.133
	(0.128)	(1.158)	(0.715)	(0.464)
Board Size (BS)	-0.373	3.789	2.106	1.310
	(0.273)	(2.275)	(1.341)	(0.865)
FLU x BEO	-0.150	2.964*	1.945*	0.870+
	(0.116)	(1.413)	(0.897)	(0.486)
FLU x Board Size (BS)	-0.085	0.019	0.450	-0.516
	(0.206)	(2.983)	(1.833)	(1.105)
Firm size	0.503	-8.174	-4.568	-3.103+
	(0.438)	(4.930)	(3.050)	(1.756)
Average selling price	-0.200	2.848*	1.686*	0.963*
	(0.148)	(1.227)	(0.755)	(0.471)
Profitability	0.088	-0.405	-0.461	0.144
	(0.146)	(0.995)	(0.617)	(0.350)
FSTS	0.384+	-1.112	-0.191	-0.537
	(0.203)	(0.935)	(0.504)	(0.397)
Board Turnover	0.029	-0.362	-0.170	-0.163
	(0.031)	(0.409)	(0.239)	(0.174)
Family Firm	0.233**	-4.848***	-2.729***	-1.886***
	(0.076)	(0.609)	(0.372)	(0.223)
Constant	-12.599***	-28.382***	-19.095***	-21.886***
	(0.063)	(0.455)	(0.266)	(0.166)
Observations	225	225	225	225
R-squared	0.096	0.330	0.375	0.219

All independent variables were lagged 1 year; estimates are based on standardized variables; significance + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; robust standard errors in parentheses.

Figure 1. Conceptual framework

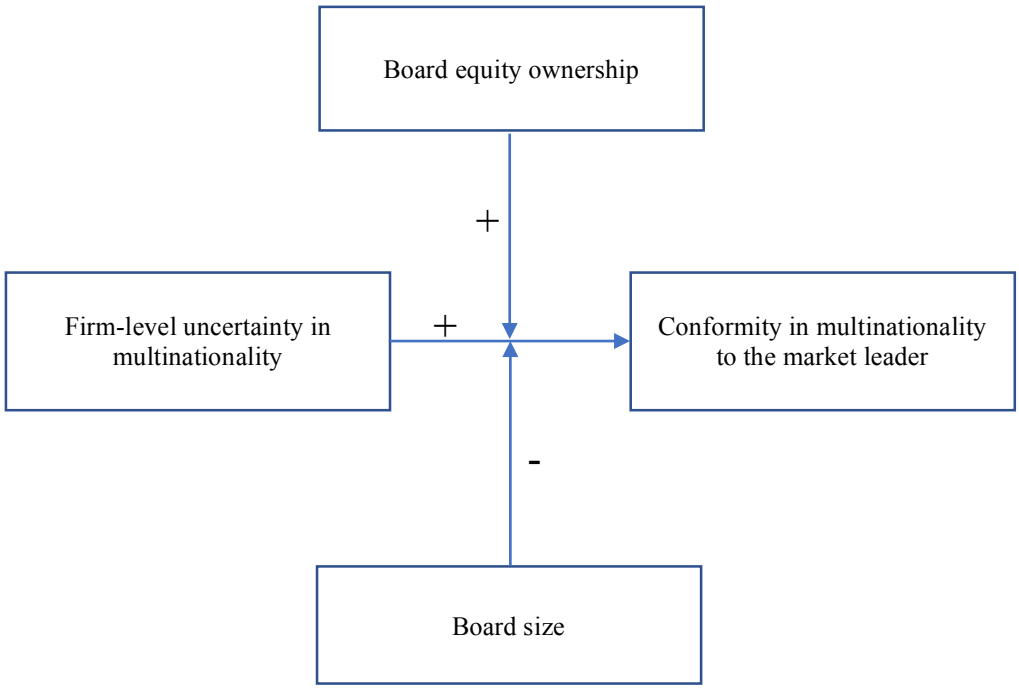
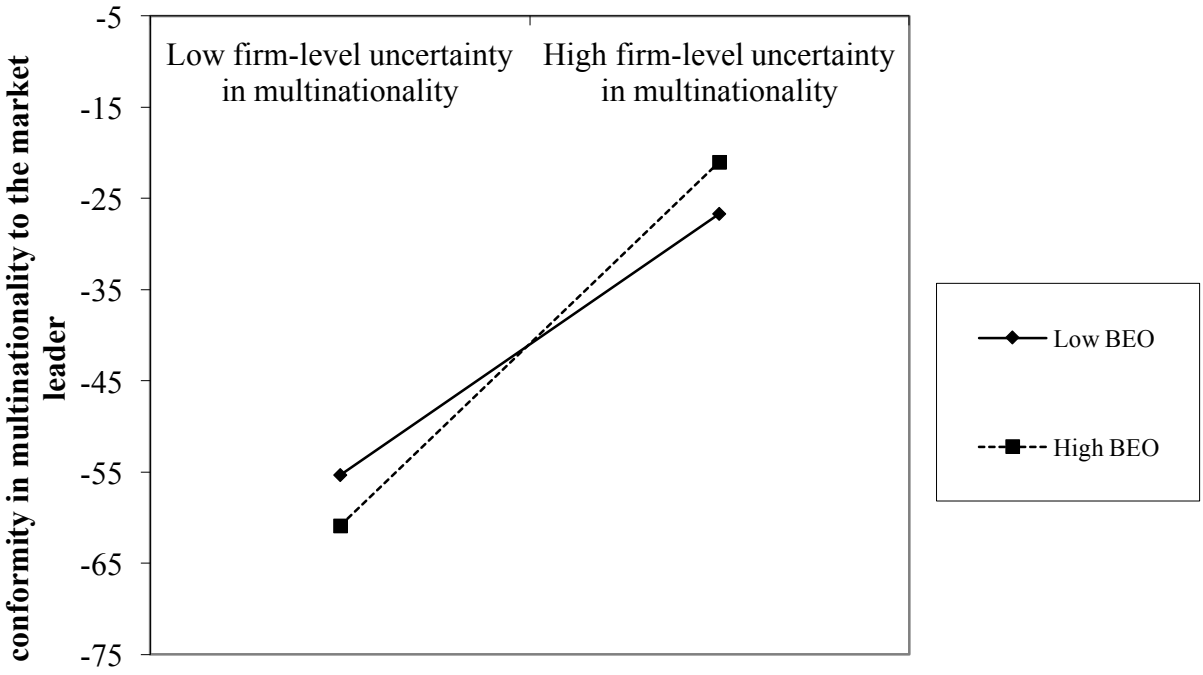


Figure 2. Moderating effect of board equity ownership on the relationship between firm-level uncertainty in multinationality and conformity in multinationality to market leader



Chapter 2 Corporate Governance Deviance and Firm Performance

Abstract

Despite the institutional pressure on firms to adopt governance practices that are regarded as dominant practices in the institutional domain they find themselves, the literature suggests some firms do not. This non-conformance to the institutionalized corporate governance practices has recently being conceptualized as 'corporate governance deviance'. This paper draws on the institutional logic theory and corporate governance literature to test the performance implications of such governance deviance by firms. First, we explore the underlying conditions under which firms would deviate from an institutionalized governance practice. We then proceed to examine the performance outcome of such deviant behavior. The paper employs two governance mechanisms i.e. the board size and board independence to test the hypothesis that firms would deviate under various conditions from an institutionalized practice. Using a sample of 1,126 listed US firms we find support for this deviant behavior. In addition, we found that the type of deviant behavior adopted by a firm has a consequential outcome on its performance. Our findings add to our understanding of the corporate governance deviance concept.

Introduction

Corporate governance has gained significant attention over the last four decades particularly because of the corporate scandals that rocked the corporate world during the 1990s and 2000s. This attention has not escaped the lens of academics, with a large number of existing studies in the broader literature assessing the governance concept (see Daily, Dalton, & Cannella Jr, 2003 for a review). In spite of the plethora of studies that have examined corporate governance, there exist disagreements on how good or bad corporate governance is (Shleifer & Vishny, 1997). Following this lack of consensus, some scholars have suggested that the field of corporate governance is presently at a crossroad, since our knowledge of what we know about governance mechanisms is rivalled by what we know not (Daily et al., 2003). It is against this backdrop that there has been a heightened call for more studies to be undertaken to shed light on this concept. So that, we can enhance our understanding of corporate governance and its associated mechanisms at both the theoretical and empirical forefront (Daily et al., 2003).

In response to the above call, Aguilera, Judge, and Terjesen (2018) proposed a middle range theory of governance deviance by drawing on institutional theory, entrepreneurship and corporate governance. The motive was to understand why firms would adopt governance practices that do not conform to an existing dominant governance practice, and the conditions under which such governance practices are adopted. Their theorising lead them to introduce the concept of 'corporate governance deviance', which they defined as "*the intentional deviation from standards set by the legitimate practices and normative expectations advanced by the dominant national governance logics*" (Aguilera et al., 2018 p. 2).

To better understand the concept of corporate governance deviance, Aguilera et al. (2018) explore the concept of 'dominant governance logics' which is rooted in 'institutional logics' (Thornton & Ocasio, 2008). Institutional logics is loosely defined as the socially

constructed beliefs, values, formal and informal rules as well as assumptions and practices which aids organisations in their decision making (Aguilera et al., 2018), or simply, the way a particular society work (Thornton & Ocasio, 2008). Some authors have suggested that institutional logics hands organisations the tools that shape their experiences, and directs their attention to choices they have to make thereby defining future goals that need to be achieved (Friedland & Alford, 1991; Thornton, Ocasio, & Lounsbury, 2012). Thornton and Ocasio (2008) further suggest that logics can occur at different levels, but a more macro national institutional level logics is the key factor that defines normative and regulative governance practices seen in a particular society (Aguilera et al., 2018). To this end, organisations may employ nationally scripted practices, and take actions which tends to situate them in an acceptable zone of governance conformity as a way of gaining legitimacy in the institutional context that they find themselves.

Aguilera et al. (2018) suggest that the zone of conformity within a dominant governance logics is where most firms would aspire to be as a means of gaining institutional legitimacy. Having said that, there is an equal tendency for some firms to deviate from such zones of conformity and pursue governance practices which are alien, but is well within the regulative framework of that environment (Aguilera et al., 2018). This deviation from the dominant governance practice is what some authors have recently conceptualised as '*corporate governance deviance*' (Aguilera et al., 2018). From the above conceptualisation, it can be inferred that the concept of governance deviance is not one that subscribes to actions that violates social norms or rules. But rather, one which demonstrates the firm's ability to act differently within an institutionalised setting or governance logics due to the firms' entrepreneurial ability (Aguilera et al., 2018).

In this paper, we empirically put the proposition of corporate governance deviance to test, by first asking the following research questions: do firms deviate from the dominant

corporate governance practices within the institutionalised governance logics they find themselves? The next question that we ask is what then is the performance implication of such deviant behaviour. This follows the suggestion by some authors that the governance system a firm adopts plays a key role in its performance outcome (Guest, 2009). In order for us to answer the research questions that we have posed, we direct our attention on an important governance institution, i.e. the board (Hermalin & Weisbach, 2001). Our choice of the board as the focus of this study is influenced by the thought of some scholars that corporate boards are important institutional arrangements (Baysinger & Butler, 1985), that can play key organisational roles such as effective monitoring and control (Jensen & Meckling, 1976), provision of resources (Pfeffer & Salancik, 1978) and engagement in firm strategy (Baysinger & Hoskisson, 1990; Pugliese et al., 2009). Following the key contributions that boards play in various organisations they have been the centre of attention for both academics and the business press (Johnson, Daily, & Ellstrand, 1996). Inspite of this significant interest by various stakeholders there is an absolute lack of convergence on the roles that corporate boards play. Having settled on this important governance institution, we proceed to examine how a deviation from the institutionalised dominant governance practice in terms of its composition, i.e. size and independence impact on firms' performance. In this paper, we refer to a deviation of the dominant governance practise in terms of the size and independence as board size deviance and board independence deviance respectively. Our choice of these variables, i.e. the board size and board independence, is influenced by earlier studies that have suggested that these variables are perhaps the most important and studied variables in the corporate governance literature (Denis & McConnell, 2003). In addition, it has also been suggested that the size of the board as well as its independence play key roles in firms' strategic decision-making process and consequently its performance outcome (Golden, & Zajac, 2001; Guest, 2009).

The paper contributes in diverse ways to the corporate governance literature. First, this would be one of the first studies to the best our knowledge that puts to test the concept of corporate governance deviance, a novel concept in the corporate governance literature (Aguilera et al., 2018). Second, we show empirically the conditions under which firms would undertake such corporate governance deviance behaviour. Third, we contribute to the institutionalised logics and firms' agentic behaviour literature by examining the performance implication of firms' non-conformance to a prevailing dominant governance logics.

We organize the rest of the paper as follows. In the next section, we provide some theoretical background for the paper and proceed to develop two hypotheses around the subject matter. Next, we report the setting, sample characteristics, the methodology, and the variables used. Subsequently, we present the results of the empirical analysis and further show how robust our findings are. In the final section, we discuss the implications of our findings for future theoretical and empirical research, along with the limitations of the current study.

Theory Background

Institutional Logics Building Blocks of National Governance Logics

For one to properly understand the corporate governance deviance concept as suggested by Aguilera et al. (2018) it is important to comprehend the theoretical foundation employed in advancing this middle range theory of governance deviance. The theoretical foundation of the deviance concept is deeply rooted in the institutional logics literature which emerged as part of the development of institutional theory (Thornton & Ocasio, 2008). The concept of institutional logics has been deployed in an impressive variety of empirical contexts such as health care organization's deployment of IT systems (Currie & Guah, 2007), academic restructuring in universities (Gumport, 2000), stock market (Zajac & Westphal, 2004), the

French cuisine sector (Rao, Monin, & Durand, 2003), and mutual funds' establishment of contracts with money management firms (Lounsbury, 2007).

Following the plethora of studies that have employed institutional logics as the theoretical foundation for their studies, it is imperative on our part in a brief and coherent manner attempt to shed some light on the concept of institutional logics. Some authors have provided some definition of what institutional logics is, for example, Friedland and Alford (1991: 248) defines it as "sets of 'material' practices and symbolic constructions which constitute a field's organising principles and which are available to organisations and individuals to elaborate". In a different conceptualisation of institutional logics, Jackall (1989: 121) defined it as "the complicated, experimentally constructed and therefore contingent, set of rules, premiums, and sanctions that men and women in a particular context create and re-create in such a way that their behaviour, and accompanying perspectives are to some extent regularised and predictable". To put it in a simplistic way for easy comprehension, it is just how a particular societal world works (Jackall, 1989). Thornton and Ocasio (2008) who built on the earlier works of both Jackall (1989) and then Friedland and Alford (1991) defined institutional logics as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organise time and space and provide meaning to their social reality" (Thornton & Ocasio, 1999: 804). Thus, it can be suggested that institutional logics attempts to link individual agency, cognition, and socially constructed institutional practices and rule structure. Therefore, for one to fully comprehend the individual and organisational behaviour it must be rightly situated in a socially or institutionalised context.

Governance Deviance from a Dominant National Governance Logics

The literature on institutional logics as a meta theory as earlier stated has been employed to develop theory across multiple levels such as organisations, markets, industries and at the

community level (Thornton & Ocasio, 2008). But our attention would be on the societal level logics (Friedland & Alford, 1991), and the role they play in shaping various organisational outcomes. For example, Bhappu (2000) draws on the societal level institution to suggest that Japanese families provide an institutional logic for Japanese corporate networks and Japanese management practices. Simarly, Scott (2000) examined how at the societal level, professional, government and managerial market logics shape the transformation of the health care field.

Employing the meta theory of institutional logics at the societal level (in this case national institutional logics), and literature from political economy along with economic sociology (Smelser & Swedberg, 2010), Aguilera et al. (2018) derive four types of national governance logics. This national governance logic elaborates how firms' resources and authority is created, retained and distributed, i.e. the corporate governance system within a national setting. The four-main national governance logics are namely; shareholder oriented governance logics, stakeholder oriented governance logics, relational oriented governance logics and statist oriented governance logics. The shareholder oriented governance logics is the governance logics witnessed in liberal economies such as the US, or UK, where the market tends to define the goal of the firm and maximisation of the shareholder value tends to provide legitimacy. Whiles the stakeholder oriented governance logics mostly seen in social rights countries like Germany and Scandinavian economies, is the governance logics where firms pursue governance systems that seeks to find an optimal balance of the interest of all the firms' stakeholders. The relational oriented governance logics mostly seen in developing economies is observed when firms attempt to incorporate both shareholder and stakeholder perspectives in their governance approach example, Brazil. Lastly, the statist oriented governance logics often found in socialist economies, where the fundamental goal of the firm is to advance state power and authority as seen in China for example (Aguilera et al., 2018).

Aguilera et al. (2018) further suggest that though nations may operate with a multiplicity of logics, there is usually one that is domineering, i.e. a 'dominant governance logics'. Which is loosely referred to as the way firms conduct themselves so as to gain legitimacy through both their internal and external corporate governance mechanisms. Generally, most firms that are operating in a country may attempt to conform to a dominant governance logics. This is due to the institutional pressure exerted on them to pursue actions that would let them gain some legitimacy (Zimmerman & Zeitz, 2002). Interestingly, not all firms would strive to conform to some dominant logics as a way of seeking legitimacy (Aguilera et al., 2018; Oliver, 1991), but some may as well practice governance systems that do not conform to the prevailing governance logics (Aguilera et al., 2018).

For firms to deviate from a dominant governance logics, and practice governance systems alien to the institutional context they find themselves, it must first have the governance discretion to be able to undertake such actions (Aguilera et al., 2018). The governance discretion comes from the firm's entrepreneurial identity, i.e. the firm's ability to scan and identify alternate governance practices that are beyond the existing dominating governance practice. Firms that possess a lot more governance discretion are the firms that are likely to deviate from a prevailing dominant governance logics (Aguilera et al., 2018). The propensity for a firm to deviate from some existing dominant governance practice given that it has enough governance discretion is further attenuated by the level of regulatory enforcement within the existing governance logics (Aguilera et al., 2018). Where the extent of regulatory enforcement is broadly defined as:

"All activities of state structures (or structures delegated by the state) aimed at promoting compliance and reaching regulations' outcomes – e.g. lowering risks to safety, health and the environment, ensuring the achievement of some public goods including state revenue

collection, safeguarding certain legally recognised rights, ensuring transparent functioning of markets" (OECD, 2014).

Or in another view, what Banerjee (2011) refers to as the extent to which the monitoring mechanism by the government is consistent with the severity of punishment for violating rules. If the rules prescribe enough punitive mechanisms that would punish firms in the event that such governance rules are broken, firms would generally conform to the prevailing governance practice. A classic example is the very strict and stringent punitive measures of the Sarbanes Oxley Act on the need for independence of the audit committee and other regulations. The strict penalties for non-compliance to various sections of the act is punitive enough to prevent firms from deviating from the prescribed practice. On the contrary, in contexts where there is some laxity in the enforcement of the laws, or the regulatory enforcement is characterised by numerous regulatory voids, firms are more likely to consider adopting governance practices that are different from what the rules prescribe (Aguilera et al., 2018).

The last factor that can influence firms' adoption of deviant practices is the existence of the governance capacity to do so. Firms may be aware of the opportunity to adopt governance practices different from the prevailing dominant logics i.e. have a high governance capacity, be lucky to find themselves in institutional contexts where regulatory enforcement is lax. But in order to undertake this non-conformist attitude they should also have access to the necessary resources both tangible (financial capital and human capital), and intangible (social and moral capital) (Aguilera et al., 2018). This means firms must first have the necessary human resource or personnel that would be able to spot and implement the deviant corporate governance practise which alien to the prevailing dominant practise. Second, it should have the financial outlier or capital to roll out such practise. And lastly, the firm must possess the

moral capital to deviate from the existing governance practise whether it is focused on a common good or an immoral practise (Aguilera et al., 2018).

Hypotheses Development

After laying the theoretical foundation on which this paper is built, we now proceed to our hypotheses development. We discuss the conditions under which we expect firms to deviate from an existing dominant governance practise be it regulated or an acceptable norm. We focus our attention on corporate governance mechanisms related to the board in particular. As we have already discussed the rational for this preference, and stated why we think examining firms' deviance behaviour using this variable would be of significant interest.

Board Independence Deviance and Firm Performance

The main purpose of the existence of a board is to effectively monitor how firms are managed (Dalton, Hitt, Certo, & Dalton, 2007; Finkelstein, Hambrick, & Cannella, 1996; Zahra & Pearce, 1989). Some scholars do suggest that the board's ability and willingness to undertake this monitoring role can be related to the members' independence (Dalton et al., 2007). This makes the independence of the board arguable one of the most studied corporate governance mechanism (Bhagat & Black, 2001). Board members have generally been classified into those inside the organisation referred to as inside directors, then non-executive directors /affiliate directors who are not employees of the firm but are linked with the firm in one way or another, and lastly those who have no relationship with the firm aside their role as directors referred to as outside directors (Daily, Johnson, & Dalton, 1999). The general notion is that inside directors and the affiliate directors are not independent, whiles outside directors are independent. But in recent times, there have been numerous attempts to put a proper working definition on who an independent director is, and this largely varies under different contexts. The contexts range from the national legal or regulatory environments,

listing requirements, codes of best practices, and in certain cases companies ascribing their own definition. This has led to the absence of a common consensus on the definition of an independent director (Brennan & McDermott, 2004). For example, under the NYSE listing company manual section 3031.02, it is stipulated that "no director qualifies as an 'independent director' unless the board of directors affirmatively determines that the director has no material relationship with the listed company". Whiles the Sarbanes-Oxley Act and the Securities and Exchange act of 1994 defines an independent director as one who accepts no compensation or so ever from the firm other than being the directors and is not affiliated in person with the company or its subsidiaries (Weil & Manges, 2012: 30). For the purpose of our discussion we refer to independent directors as outside directors with no affiliation or so ever with the firm they are serve as directors (Bhagat & Black, 2001).

Notwithstanding the lack of a general consensus on the definition of independent directors and by extension an independent board, there is a consensus on their governance role. It is often argued that, they are better monitors of managers thereby providing the oversight responsibility of boards more effectively. This line of reasoning is obviously rooted in agency theory, which seeks to address the inefficiencies that emanates from the separation of firm's ownership and control (Eisenhardt, 1989; Fama & Jensen, 1983; Jensen & Meckling, 1976). It is against this backdrop that there has been a clarion call in the last few decades for boards to be more independent, i.e. having over 50% of independent director representation called *majority independent boards,* or in other cases only one or two insider representation called *supermajority independent boards* (Bhagat & Black, 2001). If the agency argument holds, then the justification for a lot more independent director representation on boards becomes valid. Since it does serve as a mechanism for principals to ensure that agents act in their interest. Meaning that, firms with more independent directors

are likely to be managed well in the interest of shareholders, thereby an overall better performance outcome.

Despite the sound theoretical grounding for higher independence of boards and the call for higher independence of boards, the literature suggests its impact on firms' performance are quite varied. For example, some authors report a modest relationship (if any at all) between board independence and some aspect of financial performance (Dalton, Daily, Ellstrand, & Johnson, 1998; Rhoades, Rechner, & Sundaramurthy, 2000; Wagner III, Stimpert, & Fubara, 1998). Other scholars showed that there is a very weak empirical evidence to convince one that higher independence leads to an overall better firm performance (Bhagat & Black, 2001). Klein (1998) found little association between the composition of the board and performance of the board, but rather found that a positive relationship exists between the representation of inside directors on finance and investment committees on firm performance. With Agrawal and Knoeber (1996), they documented that greater outsider representation actually led to poorer performance (using Tobin Q). Whiles Hermalin and Weisbach (1991) found that there is no relationship between the board composition and firm performance (using Tobin Q). But were quick to point out that, though this can be linked to the lack of powerful test to establish a relationship, their results indicate that even if the relationship existed it is small and of weak economic significance. Using a relatively large sample of American firms, and arguable the most comprehensive study on board independence and firm performance Bhagat and Black (2001) found that firms with large independent directors did not have superior performance (using Tobin Q, ROA, ROS and Stock returns) than those with less independent directors. Whiles in the post Sarbanes Oxley Act era where board independence became a legal requirement for audit committees, as well as the new NASDAQ and NYSE listing requirement that advocates for a more majority outsider board representation, Bhagat and Bolton (2008) found that board

independence was negatively correlated with contemporaneous and subsequent performance outcome (Operating performance). In a more recent study Duchin, Matsusaka, and Ozbas (2010) found consistent results with previous studies and concluded that greater board independence does not necessarily affect performance (Tobin Q) on average. But rather, the cost of information does plays a role in determining whether the independence of the board leads to better performance. Similarly, in a meta analytic review of board independence and firm performance Dalton et al. (1998), found that board independence cannot be consistently linked with the performance of the firm. Bhagat and Bolton (2013) concluded that the overwhelming majority of studies find that having a majority independent board does not lead to a better corporate performance but may even lead to worse performance outcomes.

Anecdotal evidence though mixed, lends support to the ineffective role of majority independent boards on firm performance, e.g. Enron's board was filled predominantly with outsiders with equity stake in the firm, but failed to properly undertake its oversight role leading to the collapse of the firm. In fact, Bhagat and Black (2001) report that IBM, Kodak, Chrysler, Sears, Westinghouse performed badly for years despite having majority independent boards. Lehman brothers for example had a 10-member board of which 8 were independent directors based on the listing requirement of the NYSE which defines an independent director as any person standing 'outside the interest of the company' as defined in Section 2(a) (19) of the Act of Investments Company Act (1940) (NYSE, 2003), but yet the firm falsified accounting information when performance outcomes where undesirable (Larcker & Tayan, 2010). Lastly, Carillion, a construction and support service firm in the UK with over 50,000 employees did struggle to churn out better performance despite having a majority independent board which comprises of 4 independent directors, 2 executives and a chairman constituting its 7-member board (Bloomberg, 2007) before finally going bankrupt.

Following the argument that we have advanced so far, we argue that having a highly

independent board, i.e. a board with only one or two inside directors, or what Bhagat and Black (2001) refer to as a 'super majority' board, does not necessarily lead to a better performance outcome. As evident in a shareholder oriented governance logics, the prevailing governance practise is having a highly independent board which is particularly required by listing requirements or codes of good practices. But we suggest that having a considerable number of inside directors who are better at strategic planning decisions, because of their internal knowledge of the firm, may augment the strategic function of the board better than highly independent boards.

This line of logic is rooted in the resource-based view (Barney, 1991). Barney (1991) suggests that, one means by which firms can attain competitive advantage is by the training, experience, judgement, intelligence, relationships and insights of individuals within the organisation, which is in reference to insiders in the organisation. These insiders do have the necessary firm and industry specific knowledge or information which they can bring to the fore to enhance effective strategizing of the firm to enhance performance outcomes. For example, their experience regarding previous firm decisions can prove very vital for the firm's strategic decision-making process. Insiders on the board with significant knowledge of the firm's activities over the years can help in formulating strategies better than those without the firm's specific knowledge. Outsiders may not be preview to some information and this can affect their decision-making process. Thus, we expect that having a considerable number of insider directors on the board would inure to a better performance outcome than having a lot more outsider representation.

The above discussion lead to our first hypothesis:

Hypothesis 1: *Board independence deviance from a prevailing dominant governance logic of highly independent boards would lead to positive performance outcome.*

Board Size Deviance and Firm Performance

Another very important board variable that has attracted significant attention of both scholars and practitioners is the size of the board. But a very contentious debate in the extant literature is what constitutes an ideal size for effective governance of the firm, and consequently its performance (Raheja, 2005). The varying views is evident in the different theoretical arguments advanced, and rightly emphasised by Dalton, Daily, Johnson, and Ellstrand (1999: 676) that, "A host of theory driven rationales thus suggest a relationship between board size and firm performance, but the literature provides no consensus about the direct relationship".

For example, proponents of large boards employ resource dependency theory (Pfeffer & Salancik, 1978, 2003) to suggest that having relatively large boards is of significant interest to the firm. Large board size brings benefits to the firm in the form of the following; (a) enough information in the form of advice, (b) access to a lot more channels of information (c) preferential access to resources, and lastly (d) legitimacy to firms (Pfeffer & Salancik, 1978). Goodstein, Gautam, and Boeker (1994) confirms the views of Pfeffer and Salancik (1978) by suggesting that the size of the board is a measure of the organisations ability to form environmental links to gain access to critical resources.

On the contrary, some scholars have argued that large board size increases the agency problem (Jensen, 1993). This is because, as boards become large they become captives to the CEO making the CEO powerful during the decision-making process, hence the CEO's ability to influence and control the boards decisions (Jensen, 1993). Others have advanced group dynamic problems as the rational why large board sizes may not be effective, they suggest that issues such as coordination (Forbes & Milliken, 1999), in fighting (Zahra & Pearce, 1989), organisational loafing (Golden & Zajac, 2001) may be more pronounced in large boards. When boards become large, arranging meetings and reaching consensus becomes

very difficult resulting in less efficient and slower decision-making processes (Cheng, 2008). For example, Theodore Solso the then chairman of General Motors in 2012 when he became the fourteenth member of the board is quoted as saying that "having a 14-member board makes managing board meetings tough" (Wall Street Journal, 2014).

Key findings of the relationship between the size of the board and firm performance has revealed a negative association (Hermalin & Weisbach, 2001). Using a dataset that consists of 452 large US industrial firms from 1984-1991, Yermack (1996) for example found a negative association between board size and firm performance (Using Tobin's Q), after controlling for the size of the firm, insider stock ownership and growth opportunities. Guest (2009) also found a strong negative relation between board size and firm performance (Using Tobin's Q) for 2746 listed UK firms from 1981-2002. The results of Cheng, Evans, and Nagarajan (2008) was consistent with the ones reported earlier.

From a practitioner's stand point the Wall Street Journal (2014) for example, suggest that for firms with market capitalisation of about 10 billion those with smaller boards of around 9.5 members outperformed their peers by 8.5 percentage points. Whiles those with larger board sizes of about 14 members underperformed their peers by 10.85 percentage points. A classic example in this case is Apple Inc. which has maintained a relatively smaller board size of 8 (Bloomberg, 2018) and has consistently recorded performance outcomes that is unquestionable.

Since an increment in the size of the board has been suggested to increase agency problems (Jensen, 1993), and also affects the effectiveness of the board by stifling communication and coordination (Forbes & Milliken, 1999), then, the overwhelming potential advantage that can be derived from the resource provision argument by large boards would be lessened, thereby leading to a relatively lower corporate performance (Jensen,

1993). Thus, we expect that firms that move away from the prevailing practise of having relatively large board sizes should have better performance outcomes.

The arguments above lead to the hypothesis:

Hypothesis 2: *Board size deviance from the prevailing dominant governance logic of large board sizes would lead to positive performance outcomes.*

Methodology

Data

The sample selection began with the selection of 1500 large US listed firms in the NRG metric database from the year 2009-2015. The NRG database publishes the corporate governance reports for over 5000 listed firms across the globe, this report covers over 50 corporate governance variables of which some were of significant interest to us in testing our hypotheses. Having retrieved the corporate governance data from the NRG database we complemented the corporate governance data with financial data from the Bloomberg database which is also an accurate provider of firm's financial and accounting information. Data from the two databases were merged to give us our complete dataset. We followed the procedure by prior authors (Yermack, 1996) and excluded firms that belong to the financial and utility sector from out dataset, since these sectors are heavily regulated and more often than not have unique governance structure. Our dataset consists of an unbalanced panel of 1,126 firms for the years 2009-2015 window of observation.

Variable Operationalisation

Dependent Variable

Consistent with previous studies (Agrawal & Knoeber, 1996; Bhagat & Black, 2001; Bhagat & Bolton, 2008; Coles, Daniel, & Naveen, 2008; Yermack, 1996) we use Tobin's Q, a common market based measure of performance as our primary performance measure. This was computed as the sum of the market value of common stock and the book value of

preferred stock and total debts, divided by the total assets (Choi, Park, & Yoo, 2007). Prior scholars who employed this market based measure of performance suggest that it incorporates current operations and potential growth. To access the robustness of our results we also used an accounting based measure of performance return on assets (Bhagat & Bolton, 2008).

Independent Variables

Following a method used in the extant literature to compute firm deviation (e.g., Deephouse, 1999) we compute corporate governance deviance of the board size and board independence as follows:

*Board size deviance***:** to compute the board size deviance we first identified the total number of board members i.e. board size for every firm for every year (t). After, for every given year the board size for each firm in the year was compared to the dominant board size in that institutionalised setting and expressed as units of standard deviation. We considered the average board size in the country as the dominant board size of which all firms may aspire to adhere to. The information about the average board size was derived from reports that suggest that the average board size in the US over the past decade has been 11 as reported by the Spencer Stuart US Board index (Spencer, 2017). The absolute value of the result was then computed. The equation below illustrates the calculation of board size deviance.

$$\text{Board Size Deviance } (i,t) = \left| \frac{\text{BS}(i,t) - \text{BS}(d,t)}{sd\ (\text{BS}t)} \right| \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where BS*(i,t)* is the board size for a specific firm *i* at time *t* whiles BS*(d,t)* is the average institutionalised board size in the year *t* considered as the dominant practise, and sd (BS*t*) is the standard deviation of the size of the board in the year *t.* We then computed a dummy 0 when a firm deviates positively or overconforms and 1 when this deviation is negative or underconforms to the dominant practise.

*Board independence deviance***:** Board independence was first measured as the proportion of independent directors to total directors of the board. The board independence deviance was then computed using the same approach enumerated in formula 1, i.e., for every given year the board independence for each firm in the year was compared to the dominant board independence practise in the country for that year and expressed as units of standard deviation, after which the absolute value was computed. Once again, the average board independence in the country was considered the dominant practise in terms of the outsider representation. Based on the reports that we evaluated we approximated the average board independence to be 80 % over the past decade (Spencer, 2017). The equation below shows the calculation.

$$\text{Board Independence Deviance } (i,t) = \left| \frac{\text{BI}(i,t) - \text{BI}(d,t)}{sd\ (\text{BI}t)} \right| \quad \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where BI*(i,t)* is the board independence for a specific firm *i* at time *t*, whiles BI*(d,t))* is the average institutionalised board independence in the year *t* considered as the dominant practise and sd (BI*t*) is the standard deviation of the board independence in the year *t.* We then computed a dummy 0 when a firm deviates positively or overconforms and 1 when this deviation is negative or underconforms to the dominant practise.

Control Variables

Following prior studies, we included numerous control variables that we perceive as having an influence on the firms' performance in our models. *Board size***,** we measured the size of the board as the number of board members on the board for every given year (Cheng, 2008).

Board independence, this was measured as the ratio of independent directors on the board to the total number of members of the board (Osma, 2008) independent director here is referred to board members who have no substantial direct business relationship with the firm, either

personally or through employment (Cheng et al., 2008). *Board Compensation*, we measured board compensation as the total compensation package given to board members which includes bonuses and shares. *Management compensation*, was measured as the total compensation package given to management which includes bonuses and shares (Hartzell & Starks, 2003). *CEO duality,* was also included to measure the power of the CEO in influencing and controlling board decision (Westphal & Zajac, 1995) which can affect performance. It was measured as a dummy, 1 when the CEO is the same as the board chairman and 0 otherwise (Boyd, 1995). *Firm size,* we as well controlled for the size of the firm, measured as the natural logarithm of the total assets of the company (Cheng et al., 2008). This follows the view by some authors that large firms easily generate funds internally and gain access to external funds which can have an impact on the performance of the firm. *Sales growth*, it was measured as the ratio of the current year's sales minus the immediate past year sales divided by the immediate past year sales. Sales growth has been suggested to enhance the capacity utilisation rate of a company, thereby spreading fixed cost over more revenue which results in higher performance outcomes (Brush, Bromiley, & Hendrickx, 2000). *Firm leverage*, computed as the firm's long-term debt to equity ratio (Zahra, 1996), this was considered and included because it has been suggested that firms that are deemed to be heavily levered have limited slack resources (Zahra, 1996), which can affect the firm's investment decisions thereby profitability. *Growth opportunities***,** measured as the capital expenditure to total assets (Balakrishnan & Fox, 1993) it was included to control for the growth opportunities.

Table 1 summarizes the variables used in the study. The descriptive statistics, i.e. means, standard deviations and correlations, are reported in Table 2. We calculated the variance inflation factors (VIFs) to check whether there is multicollinearity among our independent variables. The mean VIFs for Models 1,2,3 and 4 are 1.61, 1.86, 1.70, 1.93 respectively,

which is less than the recommended minimum threshold of 10 for standardized data (O'brien, 2007) suggesting that multicollinearity is unlikely to affect our results.

Please insert Table 1 and 2 around here

Results

Hypotheses Tests

To test our hypotheses, we used the robust fixed-effect regression (Cameron & Trivedi, 2009). We conducted a Hausman test to check if the fixed-effects model was appropriate than the random-effects model, the results show that the fixed effect models was appropriate. The fixed-effects models help in avoiding spurious estimated relationships between the corporate governance deviance variables and firm performance. In addition, the fixed-effect models will also control for other unobservable firm-level characteristics that can affect the performance of firms a common way of controlling for omitted variables in panel data (Guest, 2009; Yermack, 1996).

Table 4 presents the results of our regression analysis. With Model 1 the effect of the various controls with firm performance i.e. Tobin's Q is examined. In Model 2 we examined the effect of board independence deviance on firm performance to test Hypothesis 1. With model 3 the board size deviance is loaded to assess its performance implication which tests Hypothesis 2. Model 4 is the last model and full model where we evaluate both board size deviance and board independence deviance on firm performance.

Please insert Table 4 here

In Hypothesis 1, we predicted that firms that deviate from a prevailing dominant governance logic of super majority independent boards would have positive performance outcome. As observed in model 2 and the full model we find support for this hypothesis. We find that board independence deviance loaded positively significantly on performance i.e. Tobin's Q ($\beta = 0.110$, $p < 0.05$). This means that firms that deviate from having the dominant practice of super majority boards have performance outcome which is 11% better. In Hypothesis 2, we predicted that firms that deviate from a prevailing dominant governance logic of large board size would have a positive performance outcome. Evidently in model 3 and 4 we find support for this hypothesis ($\beta = 0.109$, $p < 0.05$). Meaning that firms that over underconform to prevailing governance logic out performed those that overconformed by 10.9%.

Robustness

To ensure the results that we have are stable, and ensure our findings are consistent we as well took steps to run additional analysis. We repeat our analysis using an alternate measure of performance i.e. return on assets. The return on assets which is an accounting based measure of performance has been suggested by some authors to be historical hence is regarded as backward with an inward-looking focus (Kiel & Nicholson, 2003). In spite of this, it is a commonly used measure of performance in the corporate governance literature (Hoskisson, Johnson, & Moesel, 1994). The results as shown in Table 5 of this alternate measure of performance (ROA) is consistent with the previous results using Tobin Q, hence supporting the hypotheses we stated and making our results robust.

Discussion and Conclusion

The study sought to examine governance deviance behaviour among firms as suggested by (Aguilera et al., 2018), and its consequential performance implication. The results of the study do indicate that firms do deviate from an institutionalised governance logic that is they either overconform or underconform to what has been institutionalised. The study employed

two governance variables that has been extensively used in the governance literature that is the board size and board independence and investigated whether a deviance from what constitutes the most acceptable behaviour would lead to a certain performance outcome.

Our study found that firms that deviate from a dominant governance practise of having super majority independent boards performed better. Meaning that, having a reasonable number of insider directors on the board leads to better performance outcome. This argument is deeply rooted in the resource based argument (Barney, 1991) which suggests that, insiders can help firms attain competitive advantage since they have experience which has been acquired over time through training. They also have gained enough firm and industry specific knowledge which they can bring to fore to help the firm strategize properly leading to better performance outcome. We find our results consistent with previous studies that have examined the board independence and firm performance relationship, and found that more outsider representation leads to relatively bad performance (Agrawal & Knoeber, 1996; Bhagat & Bolton, 2013). It is important to note that our study does not call for corporate boards to be filled wholly with insiders, we only suggest that having a board extensively dominated by outsiders might not be in the best interest of the firm. But rather, some optimal representation of insiders could be of enormous benefit to the firm in terms of strategizing leading to better performance.

The study also found that firms that deviate from having larger boards churned better performance outcomes supporting earlier studies that large board sizes leads to poorer performance outcomes (Hermalin & Weisbach, 1991; Yermack, 1996). Boards which are relatively large have been suggested to suffer group dynamics problems (Forbes & Milliken, 1999; Pearce & Zahra, 1992) and consensus building is much difficult within the groups (Cheng, 2008). These problems lead to improper functioning of boards hence making them less efficient in properly undertaking taking their effective governance roles. It stands to

believe that an optimal board size is the one that lies below the dominant board size of the institutionalised setting of our study which is less than 11.

The study makes several contributions to the extant literature. First, this is one of the first studies that have tested the corporate governance deviance concept, and indeed we did find support for this governance deviance behaviour among firms. We therefore make a meaningful contribution to this type of corporate governance literature. Second, we bridge the institutional logic literature (Thornton et al., 2012) and the corporate governance literature by undertaking this study, and have as well shown that not all firms may conform to what has been institutionalised as suggested by Aguilera et al. (2018).

Limitations and Avenues for Further Research

Our study is not without limitations, we do acknowledge that the study has some limitations which could also be avenues for further studies. One limitation of the study is that we situate our governance deviance in the US corporate governance environment which is a shareholder oriented governance regime. This makes generalisation of our findings particularly difficult since other governance regimes such as the stakeholder oriented or the statist oriented governance regimes may provide different empirical results. Further studies could possibly explore this avenue by replicating the study in other governance regime to see if results would be consistent. Another limitation of the study is we considered only two governance variables which are the board size and the board independence. Further studies could explore the possibility of considering other governance variables such as equity ownership by directors, CEO duality, Audit committee composition etc. And ascertain whether there is some convergence or divergence of firms on governance practise and its consequential performance outcome. Lastly, exploring other performance measurements such as stock market return and firms' deviation or convergence from an institutionalised governance practice could also be of significant interest.

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Table 1. Variable description

Variable	Operationalisation
Tobin's Q ratio	The sum of market value of common stock and the book value of preferred stock and total debts, divided by the total assets.
Board independence deviance	The absolute difference between a firm's board independence and the dominant board independence scaled by the standard deviation of board independence for every firm (i) and time (t). Then converted to a dummy 1 when deviation is negative and 0 otherwise.
Board size deviance	The absolute difference between a firm's board size and the dominant board size scaled by the standard deviation of board size for every firm (i) and time (t). Then converted to a dummy 1 when deviation is negative and 0 otherwise.
Board size	Number of the members on the board
Board Independence	Ratio of independent directors on the board to the total number of members of the board
CEO Power	Dummy 1 if CEO is board chairman and 0 otherwise
Firm size	Natural logarithm of the total assets of the company
Growth opportunity	Capital expenditure to total assets
Sales growth	Ratio of the current year's sales minus the immediate past year sales divided by the immediate past year sales.
Firm leverage	Long-term debt to equity ratio
Management compensation	Total compensation package given to management which includes bonuses and shares
Board compensation	Total compensation package given to board which includes bonuses and shares

Table 2. Summary statistics of variables

	Count	Mean	SD	Min	Max
Tobin's q	8634.000	2.015	1.289	0.249	20.923
Board independence deviance	7879.000	0.354	0.478	0.000	1.000
Board size deviance	7906.000	0.155	0.362	0.000	1.000
Board size	7906.000	9.272	2.181	4.000	18.000
Board independence	7879.000	80.397	11.436	0.000	100.000
CEO duality	7902.000	0.478	0.500	0.000	1.000
Firm size	8985.000	7.732	1.665	-0.453	13.590
Growth opportunity	8977.000	-0.049	0.055	-0.704	0.000
Sales growth	8955.000	0.219	9.599	-0.997	885.119
Firm leverage	8776.000	121.714	2391.557	0.000	211853.844
Management Compensation	7926.000	16879576.721	20933712.177	65242.000	5.828e+08
Board Compensation	7736.000	1931157.646	16645514.030	0.000	1.455e+09

Table 3. Correlations

Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**12**	**13**
1.Tobin's q	1.000											
2.Board independence deviance	-0.051***	1.000										
3.Board size deviance	0.071***	-0.025*	1.000									
4.Board size	-0.096***	0.706***	-0.100***	1.000								
5.Board independence	-0.043***	0.049***	-0.810***	0.137***	1.000							
6.CEO duality	-0.006	0.058***	-0.091***	0.014	0.105***	1.000						
7.Firm size	-0.199***	0.442***	-0.103***	0.606***	0.107***	0.096***	1.000					
8.Growth opportunity	0.055***	0.021+	-0.010	0.054***	0.018	0.008	-0.051***	1.000				
9.Sales growth	0.020+	-0.049***	0.046***	-0.088***	-0.064***	-0.013	-0.021*	-0.007	1.000			
10.Firm leverage	-0.006	0.007	0.011	0.022+	-0.006	-0.012	0.027*	0.000	0.000	1.000		
11.Management Compensation	0.010	0.320***	-0.043***	0.387***	0.062***	0.075***	0.578***	-0.009	-0.003	0.039***	1.000	
12.Board Compensation	0.040***	0.030*	0.009	0.040***	0.008	0.012	0.067***	-0.006	0.012	0.000	0.096***	1.00

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4. Results of robust fixed-effects regression analysis board size deviance and board independence deviance on firm performance using Tobin's q.

	Model 1	Model 2	Model 3	Model 4
Board independence deviance		0.115*		0.110*
		(0.054)		(0.054)
Board size deviance			0.114*	0.109*
			(0.051)	(0.051)
Board size	0.005	0.005	-0.029	-0.027
	(0.026)	(0.026)	(0.033)	(0.033)
Board independence	-0.044	0.004	-0.044	0.002
	(0.035)	(0.040)	(0.035)	(0.040)
CEO duality	0.029+	0.029+	0.029+	0.029+
	(0.017)	(0.017)	(0.017)	(0.017)
Firm size	-0.770***	-0.769***	-0.765***	-0.764***
	(0.116)	(0.116)	(0.116)	(0.116)
Growth opportunity	0.047*	0.047*	0.046*	0.046*
	(0.022)	(0.022)	(0.022)	(0.022)
Sales growth	0.254	0.254	0.249	0.249
	(0.801)	(0.800)	(0.801)	(0.800)
Firm leverage	0.036	0.037	0.033	0.035
	(0.026)	(0.026)	(0.025)	(0.025)
Management compensation	0.113*	0.114*	0.113*	0.114*
	(0.047)	(0.047)	(0.046)	(0.046)
Board compensation	0.019***	0.018***	0.019***	0.019***
	(0.003)	(0.003)	(0.003)	(0.003)
Year dummies	YES	YES	YES	YES
Constant	1.776***	1.735***	1.757***	1.718***
	(0.026)	(0.035)	(0.028)	(0.036)
Observations	6772	6772	6772	6772
R-square	0.084	0.085	0.085	0.086
F-static	27.444	25.748	25.820	24.311
	0.000	0.000	0.000	0.000

independent variables were lagged 1 year; estimates are based on standardized variables; significance $^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; robust standard errors in parentheses

Table 5. Robustness check: results of robust fixed-effects regression analysis board size deviance and board independence deviance on firm performance using return on assets (ROA)

	Model 5	**Model 6**	**Model 7**	**Model 8**
Board independence deviance		1.196*		1.137*
		(0.548)		(0.549)
Board size deviance			1.353**	1.298**
			(0.478)	(0.479)
Board size	-0.083	-0.087	-0.489+	-0.476
	(0.251)	(0.251)	(0.293)	(0.293)
Board independence	-0.273	0.222	-0.275	0.195
	(0.217)	(0.304)	(0.217)	(0.305)
CEO duality	0.363	0.362	0.355	0.354
	(0.224)	(0.224)	(0.223)	(0.224)
Firm size	-10.976***	-10.970***	-10.920***	-10.917***
	(1.256)	(1.248)	(1.255)	(1.248)
Growth opportunity	0.081	0.081	0.068	0.068
	(0.394)	(0.394)	(0.394)	(0.394)
Sales growth	46.212***	46.208***	46.147***	46.146***
	(10.617)	(10.619)	(10.605)	(10.607)
Firm leverage	0.234+	0.249+	0.205	0.220+
	(0.138)	(0.137)	(0.134)	(0.133)
Management compensation	0.583*	0.598*	0.582*	0.596*
	(0.253)	(0.254)	(0.248)	(0.249)
Board compensation	0.147***	0.142***	0.149***	0.144***
	(0.017)	(0.017)	(0.016)	(0.016)
Year dummies	YES	YES	YES	YES
Constant	3.925***	3.497***	3.693***	3.296***
	(0.283)	(0.359)	(0.301)	(0.369)
Observations	6801	6801	6801	6801
R-square	0.109	0.110	0.110	0.111
F-static	16.669	15.650	15.837	14.922
p	0.000	0.000	0.000	0.000

All independent variables were lagged 1 year; estimates are based on standardized variables; significance $^{+}p < 0.10$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$; robust standard errors in parentheses.

Chapter 3 Antecedents of Conformity in Multinationality: A Systematic Review of the Literature and A New Research Agenda

Abstract

Conformity in multinationality, i.e. the phenomenon where the multinationality of a focal firm resembles those of other industry rivals, *has gained significant attention in the international business literature in recent years. But, numerous gaps exist in comprehending firms' conforming behaviour in multinationality. A fragmented array of theoretical perspectives has been adduced by various scholars in their attempt to investigate firms' engagement in value adding activities abroad relative to industry peers. In this paper, we attempt to consolidate the state of academic research on this phenomenon by reviewing the literature on conformity in multinationality, and offer a framework to enhance our understanding of this strategic behaviour among firms. The review reveals that a macro-level perspective of the drivers of firm conformity in multinationality has been the dominant approach used in examining the antecedents of this strategic behaviour of firms. We propose that future research may consider the examination of micro-level antecedents of the strategic behaviour of firms.*

Introduction

Multinationality is a key phenomenon that has attracted considerable attention in the international business literature in recent years. This is because multinationality of firms critically interacts with the structure, strategy, functioning, and performance of the firms (Kirca, Hult, Deligonul, Perryy, & Cavusgil, 2012). Firms engaging in multinationality (i.e. exploring value-adding activities outside their home country) encounter different types of cost. Examples of such costs incurred by firms include, liability of foreignness (Zaheer & Mosakowski, 1997), liability of newness (Lu & Beamish, 2004), the cost of coordination as well as the complexity of managing such multinational enterprises (Kostova & Zaheer, 1999) among others. In order to engage in successful multinationality activities, prior literature suggests that firms going multinational may decide to '*conform in multinationality'* (Giachetti & Spadafora, 2017) to the decisions of industry rivals to reduce the risk and uncertainty associated with this strategic decision (Guillén, 2002; Haveman, 1993; Henisz & Delios, 2001).

Our reference to '*conformity in multinationality*' is the phenomenon where the multinationality of a focal firm resembles those of other industry rivals (Giachetti & Spadafora, 2017). It is important to point out that, conformity in multinationality as a strategic behaviour has increasingly become important to international business scholars. A preliminary scan of top tier management and business journals reveals a total of (50) studies that have attempted to look at the conforming behaviour of firms when they engage in multinationality (e.g. Chan, Makino, & Isobe, 2006; Delios, Gaur, & Makino, 2008; Giachetti & Spadafora, 2017; Greve, 1998; Guillén, 2003; Henisz & Delios, 2001; Lu, 2002). This scan points to the fact that quite a considerable amount of studies focus on firms' conforming behaviour in multinationality, which is the foremost element warranting a literature review.

These studies adopt various theoretical lens which cuts across various disciplines such as economics, organisational ecology, sociology, among others (Lieberman & Asaba, 2006) to address this relevant question of how and why firms imitate multinational decisions of rivals. For example, some scholars drew on institutional theory (e.g. Davis, Desai, & Francis, 2000; Henisz & Delios, 2001), resource-based view (e.g. Chang, 1995), learning theory (e.g. Fernhaber & Li, 2010), legitimacy theory, and competitive dynamics (e.g. Gimeno, Hoskisson, Beal, & Wan, 2005) among others to examine the phenomenon of conformity in multinationality. It is therefore evident that the discussion on firms' conforming behaviour in multinationality is largely driven by varying contextual factors and alternate theoretical perspectives. This therefore warrants the need for a deeper and careful analysis of the factors which underpins this strategic behaviour.

Although a recent review by Lieberman and Asaba (2006) provides some understanding of what drives firms' imitative behaviour in general, what drives firms imitative behaviour in multinationality remains loosely understood, given the varying contextual factors and alternate theoretical views advanced so far. This therefore provides the avenue for a deeper and fine grain analysis of the factors underpinning this strategic behaviour of firms. The review therefore seeks to address the question, what are the drivers of firms' conforming behaviour in multinationality and at what level (industry, rival or firm-level) do firms engage in this behaviour? Undertaking this review would afford us the opportunity not to only answer the above question, but to as well direct some attention to this strategic behaviour of firms.

In the end, this paper contributes in to the literature on multinationality and firm imitation, by drawing on the theoretical pluralism and diverse empirical settings in the extant literature to understand the main drivers of firms' conforming behaviour in their quest to undertake value-adding activities outside their home country.

After setting the tone for this review, the paper is structured as follows. Section one describes the methodological approach i.e. how the journals were selected, the determination of the sample of 30 articles to be included in the review. Next, section two presents the general outcome of the review, it illustrates the dominant theories as well the contextual settings employed by various scholars to examine this phenomenon. In addition, we also review the main drivers of firms' conforming behaviour in multinationality. In the final section, we synthesize extant findings and propose a new theoretical perspective that considers how organisational decision makers can influence this strategic behaviour of firms, and provide some avenue for future studies on conformity in multinationality.

Methodological Approach

A literature review helps map relevant literature to specify a research question with the aim of developing the knowledge base of the field. A systematic literature review deviates from the traditional narrative exposition which often lacks scientific rigor to a more detailed, scientific and transparent assessment of the existing state of studies (Tranfield, Denyer, & Smart, 2003). In addition, it also seeks to avoid biases usually associated with the narrative form of literature review. To conduct a successful systematic review, we follow the approach outlined by Tranfield et al. (2003). The authors suggest that once the rationale for the literature review has been adequately satisfied, a three-stage framework can be adopted in undertaking the review. The stages are:

- Stage 1, Planning the review
- Stage 2, Conducting the review
- Stage 3, Reporting

During the planning stage, scoping studies can be done to know the relevance and size of the literature and to set boundary conditions for the subject area and topic. Particularly, the scoping can include an overview of the theoretical, practical and methodological history of

the extant literature on the subject matter. Based on this scoping, a review protocol is then designed to set the direction of the study (Tranfield et al., 2003). The second stage entails an unbiased search of the literature for relevant studies based on the protocol designed. The reviewer initially conducts a review of the potential studies in the literature search. Those studies deemed relevant are retrieved for more detailed evaluation of the text from which more important ones would be selected for the review. The number of studies included and excluded are documented with some justifications provided for the excluded studies (Tranfield et al., 2003).

Lastly, the third stage which is the reporting stage synthesises the outcome of the review based on the protocol that was designed at the genesis of the review. A 'thematic analysis' of the review should be reported. The review report can focus on the extent to which some consensus is reached across various themes or identify emerging themes in the extant literature (Tranfield et al., 2003). Since this review seeks to reconcile the diverse theoretical views of the main drivers of firms' conforming behaviour in multinationality than just presenting the findings of empirical studies, only literature contributions with important theoretical components were considered.

Definition of Boundaries and the Selection Criteria

A great deal of the management literature in general has given considerable attention to the concept of imitation though it is conceptualised from different theoretical perspectives. But it is important to point out that only a sizeable number of these literature streams directly deal with imitation with a vast majority indirectly addressing the phenomenon of imitation (Ordanini et al., 2008). In our bid to better position this study and conduct a review that is meaningful, we ought to define the conceptual boundaries i.e. the theoretical and empirical frontiers within which this review is conducted. This is suggested by Tranfield et al. (2003) as the premier activity to be considered when one decides to undertake a review. With this

consideration in mind we would define the conceptual perimeter of our focal concept *conformity in multinationality*. In this study, we define *conformity in multinationality* as a firm-level construct where a firm's multinationality resembles the multinationality posturing of other industry rivals at one point in time (Giachetti & Spadafora, 2017).

We take cognisance of the fact that, the phenomenon of conformity in multinationality can be influenced by other variables at the firm level such as the size and age of the organisation, as well as other exogenous environmental factors (Giachetti & Spadafora, 2017). But our focus would be on the set of broad decisions that are deliberate in firms' conforming actions which has broad impact at the organisational level (Rivkin, 2000). Thus, our conceptualisation of conformity in multinationality means it is an intended strategic decision, where a firm receives some impetus of multinationality actions from rival firms, and then decides to conform to multinationality decisions of these rivals. With this approach, we are able to delineate this strategic behaviour from the more general isomorphic phenomenon which emphasises a similarity in organisational forms due to the emergence of same shock or the convergence to similar behaviour due to some common external source (Lieberman & Asaba, 2006).

Having sufficiently defined the scope within which this review is undertaken, we proceed to establish some guidelines to complete the review protocol of the analysis. The literature review would attempt to shed some light on what the extant literature says about the drivers of conformity in multinationality i.e. what are the underlying factors enhancing the propensity for firms to conform in multinationality. After providing the scope for the review, we advance to the selection criteria that was employed in selecting the papers for the review. To retrieve the papers that formed the nucleus of this review, first, EBSCO which provides access to comprehensive literature search was used in retrieving articles. The key words imitation, mimicry, and copy were used to capture conformity whiles internationalisation,

entry mode, FDI, international expansion captured multinationality, given that the concept of multinationality is a multi-dimensional construct. Second, we then retrieved other papers that have been cited as dealing with the same phenomenon to be included in our literature review once it meets the boundary conditions that is stipulated above. Those that did not meet the criteria set up were excluded from the review, in the end a total of 30 articles is settled on. Further detail of the selection process is highlighted in the appendix A.

Broad Outcomes of the Literature Review

After carefully going through the selection process to select the relevant papers that would help us attain our objectives, we proceed to present the results of our initial assessment of the various articles for our review analysis. Various contributions made by different scholars on the imitation of multinationality strategies were classified into the dominant theoretical perspectives that were highlighted in these studies. Our review showed that more than one theoretical perspective provided the basis for the conforming behaviour of firms as they engage in multinationality. It is important to point out that these theoretical perspectives were not mutually exclusive in how we categorised them. In such cases where more than one theoretical view was espoused, we decided the classification based on the dominant theoretical approach adopted in providing explanation for this phenomenon. Although we do admit some of the papers do show some significant link between the varying theoretical views used in explaining the phenomenon, we opine that our method of classification affords us the opportunity and possibility to properly categorise the papers. This would significantly aid in our reporting outcome since we can thematically map out the findings of our study and adequately identify areas where further scientific inquiry would be of essence.

Conformity in Multinationality: Main Theoretical Perspectives

Neo-Institutional Perspective

Neo-institutional theory (NIT) is a well-established theory emanating from institutionalism (Selznick, 1949), with Meyer and Rowan (1977) and DiMaggio and Powell (1983) providing some very strong theoretical and empirical contributions. The basic argument of neo-institutional theory is that organisational behaviour occurs as a response to some social pressure emanating from the environment created by other organisations (Suddaby, Seidl, & Lê, 2013). DiMaggio and Powell (1983) suggest that organisations converge in structure and process when the organisational fields within which they exist become more structured i.e. institutionalised. They proposed that, three main institutional forces shape the organisational field which leads to isomorphism. First, the one that emanates from political influences (coercive isomorphism); second, responses to uncertainty (mimetic isomorphism), and last, the ones associated with professionalization (normative isomorphism) (DiMaggio & Powell, 1983). The literature point to the fact that with mimetic isomorphism uncertainty is the predictor of such isomorphic behaviour (DiMaggio & Powell, 1983). Thus, when organisational goals are blurred leading to some form of symbolic uncertainty organisations model themselves onto others (imitate) as a response to this uncertainty (DiMaggio & Powell, 1983).

The general thesis of mimetic isomorphism has been employed by scholars in the international business literature to study firms' conforming behaviour in multinationality i.e. the extent to which a firm's multinationality resembles those of other industry rivals. Lu (2002) in her study of Japanese firms' entry mode choices found support for memetic isomorphism by showing that later entrants tend to follow the entry mode choices of earlier entrants, with uncertainty about the market playing a key role in this conforming behaviour. Similarly, Henisz and Delios (2001) also employed the neo-institutional argument to explain

FDI decisions and plant location choices by Japanese firms, and consequently found support for firms' conforming behaviour. Guillén (2003) also found that business group association did play a role to the extent that firms conform to the multinationality posturing of group members. Haunschild and Miner (1997) employed the institutional argument to offer explanations for firm's imitative action in multinationality. Similarly, the institutional perspective was used to explore the driving force for internationalisation by Li and Ding (2013), who found that mimetic isomorphic pressure plays a role in firms' internationalisation intensity. De Beule, Somers, and Zhang (2018) in their study of Chinese location decision of greenfield investment into Europe found that Chinese firms follow other Chinese firms in the same industry thereby giving credence to the neo-institutional perspective. In all these studies uncertainties about the outcome of such multinationality actions seem to be the motivation for such conforming behaviour in multinationality.

Organisational Learning Perspective

Organisational learning theory (Levinthal & March, 1993) has also contributed to studies of inter-organisation imitation by suggesting that firms may be able to leverage on the experiences of other organisations to make decisions. The literature suggests that firms observe the experimentations made by other organisations and are guided by key lessons that emanate from such experimentations in their decision-making process (Levinthal & March, 1993). Dutton and Freedman (1985) emphasise that, the motivation for firms imitating others is letting other firms incur the cost and risk of implementation. This becomes more prominent when uncertainty is high and alternatives to be considered are most of the time ambiguous (Levitt & March, 1988). When firms find themselves in conditions where organisational outcomes are particularly blurred due to uncertainty, then they could at relatively low-cost exploit the routines, competencies, and advances made by others in the environment they find themselves (Baum & Ingram, 1998). Here firms deliberately observe the action undertaken

by other firms, they then carefully evaluate the drawbacks of the action and then decide whether imitating becomes the right strategic action to undertake (Ordanini et al., 2008).

Learning for multinational firms is particularly important in multinationality because of the risk and failures associated with this strategic action. When firms decide to increase their commitment abroad it as well increases the organisational and environmental complexity that they need to deal with. This complexity increases the information processing demand on the firm (Ruigrok & Wagner, 2003) making their ability to easily evaluate possible outcomes of their multinationality decisions a daunting task. Learning from others that have undertaken such strategic decisions is a less risky option for the focal firm. This is because the focal firm can observe the possible outcomes of multinationality actions undertaken by other firms evaluate them and then decide if undertaking a similar course of action would lead to better multinational outcomes.

Recent studies have found support for firms imitating the multinational strategy of other firms employing the organisational learning argument. For instance, Oehme and Bort (2015) found that firms imitate the internationalisation mode of peers that are located within their network. And the propensity to imitate is contingent on two main factors, namely, the firm's past experience and its position in the network it is embedded in. The authors, in addition, found that firms use this conforming approach to multinationality as a shortcut to the otherwise known planned, or experience-driven approach to firm multinationality (Oehme & Bort, 2015). In another study to examine the location choices of manufacturing ventures in China by US firms, Li, Qian, and Yao (2015) also found that organisation learning by firms engaged in foreign direct investment was quite prominent. In their study, they showed that when firms are undertaking location decisions, such decisions are very much influenced by learning from a reference group. They pointed out that, in their context, firms do not imitate

what stands to be the most frequent practice but rather they tend to learn from more experienced firms.

Mixed Theoretical Perspectives

Some scholars advanced more than one theoretical perspective in trying to understand firms conforming behaviour in multinationality. For example, Henisz and Delios (2001) employed institutional perspective and political institution to understand firms' conforming behaviour in multinationality. Although they employ two different literature streams the dominant one used to understand firms' conforming behaviour is the institutional perspective. In their study of over 2000 plant location decisions of Japanese firms located across 155 countries, they established that prior decisions and actions undertaken by other firms provide legitimacy and information for other firms. This becomes more important if the decision to be made by the focal firm is marked by uncertainty due to the firms' lack of experience in a market. Similarly, Yuan and Pangarkar (2010) who studied the determinants of Chinese firms' FDI location decisions by employing both institutional and ecology arguments found results not different from those of Henisz and Delios (2001). They established that when firms are engaging in multinationality their past multinationality decisions and the past choices made by rivals was key in their choices of location for FDIs.

Introducing a different dimension to the discussion of firms' conforming behaviour in multinationality, Li and Parboteeah (2015) explored how cultural dimensions play a key role in firms' mimetic tendencies. Their results suggest that culture plays a key role in how firms respond to mimetic pressures regarding foreign expansion. More precisely, firms emanating from collectivist societies were more responsive to mimetic forces than those from individualistic societies when they expand abroad. In addition, they also found that the decision to imitate the location decision of peers was stronger in high power distance societies because of the acquiesce to authoritative patterns. Employing competitive rivalry

arguments with institutional arguments Delios et al. (2008) examined firms' conforming behaviour to understand which better explains this phenomenon. They established that firms from highly concentrated industries imitate their rivals' multinationality moves particularly during the initial stage of their own entry move into new markets. Hence, in a concentrated industry conforming to rivals plays out significantly in the early stages of geographic expansion unlike in less concentrated industries. The authors concluded that the two theoretical perspectives are complementary, since international expansion decisions are influenced by the organisational environment of home and host country of the focal firm hence the need to integrate the two theoretical perspectives.

Antecedents of Conformity in Multinationality

In unravelling the main antecedents of conformity in multinationality, authors have enumerated various factors at the industry level, the rivals-level and lastly the focal firm-level as the key drivers of imitative actions. At the industry-level, referring to the structural characteristic of the industry, some authors for example found that home country industry concentration influences a firm's propensity to conform to multinationality decisions of rivals (e.g. Anand & Kogut, 1997; Delios et al., 2008; Flowers, 1976; Gimeno et al., 2005). When the industry is concentrated, firms' conforming behavior becomes more pronounced. Firms can easily engage in conforming behavior as a strategic move to minimize the perceived threat that is emanating from both the home market and the international market (Delios et al., 2008). Flowers (1976) for example suggests that when a firm is unable to match the expansion strategy of rivals it may lose competitive ground as rivals may gain new competencies and capabilities by engaging in value-adding activities abroad. When more players get involved in the market the literature suggests it becomes increasingly difficult to readily and quickly respond to the collective strategic actions of rival firms (Chwo-Ming &

Ito, 1988). Thus, firms' ability to conform to the multinationality moves of rivals can be largely driven by the nature of the industry structure.

At the rival's level, which is the strategic actions undertaken by rival firms, some studies found that the amount and type of past entries or exits of a foreign market by rival firms influence a focal firm's propensity to conform to rivals' multinationality decisions (e.g., Chan et al., 2006; Fernhaber & Li, 2010; Li & Yao, 2010). When rival firms enter new markets or seek new market opportunities it sends signals to focal firms, particularly when focal firms perceive some uncertainty about the likely outcome of their own multinationality engagements (Guillén, 2002). The uncertainty emanates from the situation where the focal firm lacks the information and the cognitive capacity needed to forecast the potential market conditions of the host country. Firms can avoid running the risk of making costly mistakes when choosing markets to enter by carefully assessing the multinationality decisions of rivals and undertake similar courses of action as a way of mitigating the risk. In that case, the exit and entry decisions of rivals send signals of market conditions to focal firms who can then incorporate this information into their decision-making calculus and deduce whether to undertake a similar course of action.

The focal firm-level antecedent of conformity in multinationality reveals that a firm's association with business groups, as well as firms' prior multinationality engagements influences the focal firm's propensity to conform in multinationality (Chan et al., 2006). Firms can as well follow their prior multinationality engagements once it is consistent with their broader multinaiotnality strategy. They learn from their previous foreign investment decisions and based on that previous history conform to its own present multinationality strategy (Chang, 1995). Association with the business group has also been suggested to be a driver of firms' conforming behaviour (Guillén, 2002). Information flow between business group members may create the awareness of existing foreign market opportunities and how it

can be explored. The fact that one business group member has undertaken a strategic action produces some legitimising effect for other business group members to do same. This is particularly so because the channels for information sharing, experience, and resources are closely linked among business group members making an imitation of strategic decisions such as multinaitonality much easier.

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Discussion and Future Research Implications

This study reviewed the literature on conformity in multinationality with the objective of understanding the antecedents of this strategic behaviour of firms. These antecedents where explored by using different theoretical perspectives such as institutional theory, learning theory, resource based-view, and competitive dynamics. The theories where not mutually exclusive in explaining firm's conforming behaviour, and in some context mixed theoretical perspectives were used in understanding the phenomenon of conformity in multinationality. This goes to shows that imitation is a complex phenomenon with multiple origins and different levels of analysis. In general, the review points out two main reasons account for firms' conforming to the multinationality posturing of others, the first being uncertainty reduction, and secondly ways of being effective in their multinationality engagements.

The review of the literature shows that prior studies that have examined conformity in multinationality have done so at the more macro-level i.e. at the industry-level, focal firms' rivals-level and at the firm-level. At the industry level home and host industry characteristics played a key role in firms' conforming behaviour in multinationality, whiles at the focal firms' rival level we found that past entry and exists from certain markets influenced a focal firms' decision to conform in multinationality. At the firm-level we observed that firms can

conform in multinationality to their previous multinationality posturing or those of business group members.

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In suggesting some avenues for further research, it is important to point out that the review reveals that a lot of attention has been given to macro-level antecedents, with no attention given to micro-level antecedents such individual characteristics and group characteristics at the firm level. We opine that considering the micro-level antecedents is equally important. This follows the view of some scholars that studying the international business phenomena at different levels helps in understanding the factors that shape, constrain, and describe the international business process (Kirca et al., 2012). The above views are not far from those shared by Ramanujam and Varadarajan (1989), who suggest that firms' decision to diversify is largely determined by various multiple levels of analysis. Against this backdrop, we suggest that firms' conforming behaviour in multinationality too can be influenced at multi levels. Hence, the need to examine the micro-level antecedents as well.

Our view is that some individual and group-level management literature and theories such as upper echelon, and cognitive theory (Hambrick & Mason, 1984) can provide some theoretical justification for what may drive firms' conforming behaviour in multinationality at the micro-level. We opine that, upper echelon theory provides the appropriate theoretical lens to be used to unravel micro-level antecedents of firms' conforming behaviour in multinationality. The theory suggests that, some demographic characteristics or traits of the top management can be used to predict organisational outcomes (Hambrick & Mason, 1984). Some of the traits that have been used to explain the upper echelon perspective and how it influences organisational outcomes include; age of members, top management size, tenure,

international exposure, international experience, education, functional heterogeneity among others (Belso-Martínez, 2006; Hambrick & Mason, 1984; Sambharya, 1996; Tihanyi, Ellstrand, Daily, & Dalton, 2000). Agnihotri and Bhattacharya (2015) emphasise that these traits are used to predict organizational outcomes because they can influence the communication, and information processing competences of top management teams, especially in a volatile and unpredictable international business environment. This therefore points to the existence of some relationship between the cognitive competences of top managers and demographic characteristics (Hambrick & Mason, 1984). Das and Teng (2001) emphasise this point by suggesting that, when firms engage in aggressively risky strategic actions, for example, exploring new capabilities or when they engage in risk conservative strategic actions such as exploiting existing capabilities or competencies the demographic nature of the top management team plays a very key role. Thus, the capabilities and competencies of senior executives can provide firms with potential sustained competitive advantage since they can serve as valuable, rare, unimitable resources for the firm (Barney, Wright, & Ketchen Jr, 2001). This position underpins the basic arguments advanced by the upper echelon or top management theory. We suggest that the extent to which firms may conform to the multinationality posturing of others that they perceive as better informed (Lieberman & Asaba, 2006) can be influenced by the characteristics of the top management team as argued by the upper echelon theory. More specifically, we argue that firm's conforming behaviour in multinationality can be influenced by characteristics at individual level and group level of the top management team. For example, traits such as, age international experience, tenure, functional heterogeneity and size could play key roles in pursing this strategic action as suggested by the upper echelon theory.

Another avenue for further investigation is to examine conformity in multinationality from the viewpoint of both the imitator and the one being imitated employing mutual

forbearance hypothesis. With this approach, we can understand the mechanisms that underpins this process and the consequences of undertaking this conforming behaviour from both a theoretical and empirical view point. Lastly, we opine that employing cognitive theory to understand the mechanisms involved when decision makers want to embark on imitation as a strategic action in multinationality could also be an area of interesting scientific enquiry.

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Appendix A. Review Conduction: The Selection Process Underlying the Execution of the Review

As discussed earlier, given the subject of the review i.e. conformity in multinationality we focused our attention on EBSCO business source complete and ABI/Informs database in retrieving articles to be considered for the review. They are considered the most complete scholarly business sources for business related journals (peer reviewed). We also double checked with other database sources such as JSTOR and SSCI and included articles that were missing in the EBSCO database. Using key word searches such as imitation, copy, mimicry and replicate we captured the phenomenon of conformity. With multinationality, key words such as FDI, international expansion, internationalisation, entry mode captured the concept of multinationality given that it is a multi-dimensional construct. We retrieved 70 articles containing such key words in the title and abstract. Then narrowing down to relevant searches in the abstracts and titles we then arrived at 50 articles.

We defined our criterion for inclusion for the review process i.e. '*conformity in multinationality'* which is a set of deliberate actions in which a focal firm receives some impetus of multinationality actions from rival firms, and then decides to conform to multinationality decisions of these rivals. This criterion is very significant since it helps us exclude studies that consider general isomorphic phenomenon which emphasises a similarity in organisational forms due to the emergence of same shock or the convergence to similar behaviour due to some common external source (Lieberman & Asaba, 2006). This leaves a total number of 30 studies that was finally considered for this review at the final stage of our selection process.

Table 1. list of journals and the number of studies included in the review

Journal	Number of Studies
Journal of International Business Studies	7
Academy of Management Journal	5
Strategic Management Journal	7
Journal of Management Studies	3
Management International Review	2
Entrepreneurship Theory and Practice	1
Administrative Science Quarterly	1
Organisation Science	1
Journal of World Business	1
Asia Pacific Business Review	1
Journal of International Management	1

Table 2. Sample of studies on the antecedents of conformity in multinationality

Authors(s)	Setting (industries, countries and observation period)	Theory background	Antecedents of CIM (*Level of analysis*)	Key Findings
Anand and Kogut (1997)	Various manufacturing industries; Germany, UK, and Japan (1974–1991)	Resource-based view and theories of FDI	Home industry concentration (*Industry-level*)	Home-country industry concentration positively influences the firm's propensity to conform to home-country rivals in foreign entry decisions.
Flowers (1976)	Various industries; Western Europe and North America (1945–1975)	Oligopolistic reaction theory	Home country industry concentration (*Industry-level*)	Home-country industry concentration positively influences firms' propensity to conform to first investing firm's FDI decisions.
Delios et al. (2008)	Various manufacturing industries; Japan (1980-2002)	Sociological-based information theory and Competitive rivalry theory	Home industry concentration (*Industry -level*)	The competitive context in the home industry influences the propensity of a focal firm to conform to actions of rival firms.
Gimeno et al. (2005)	Telecommunication industry; US (1985-1995)	Competitive and Institutional explanations	Home industry concentration / market share (*Industry-level*)	Conformity to entry moves was more likely when both a focal firm and prior movers have large shares in the same domestic markets. Specifically, conformity occurs among oligopolistic firms than among monopolistic firms. Thus, conformity of international entry was linked to the structure of domestic competition.
Chan et al. (2006)	Electronics industries; Japan (1989–1998)	Institutional and Organizational ecology theory	Past foreign entry / exit by other MNC (*Rivals-level*)	Multinationals market entry decision is positively influenced by the prior entry and exit decisions of other multinational at the local industry level than the prior entry and exit decisions of other multinational at the host country and global industry.

Fernhaber and Li (2010)	Various industries; US (1999-2000)	Neo institutional and Learning theories	Past foreign entry by home country rivals (*Rivals-level*)	New ventures conform to the multinationality activities exhibited by all firms within their home country industry.
Gielens and Dekimpe (2007)	European grocery; Europe (1989-2002)	Organizational learning	Past foreign entry by rivals (Rivals-level)	Firms conform the multinationality approach largely adopted by the industry.
Li and Yao (2010)	Various industries; China and other Emerging markets (1979- 1996)	Institutional theory	Past FDI decisions by home and foreign firms. (*Rivals-level*)	Firms from emerging economies conform to the FDI entry decisions of peers from their home country.
De Beule et al. (2018)	Manufacturing firms China, (2003-2012)	Neo institutional theory	Past foreign entry decision by rivals. (Rivals-level)	Conforming to investment decisions made by private owned enterprises rather than state owned enterprises is influenced by the prior investment decision compatriot firms.
Lu (2002)	Various industries; Japan, (1999)	Transaction cost and Institutional theories	Past entry mode choice by the firm itself, other firms, successful firms, and subsidiaries at both industry and country level respectively. (*Rivals-level / Focal firm-level*)	Past foreign entry mode choices by the firm itself, other firms and subsidiaries in the home country influences its propensity to conform to home country firms' foreign entry mode decision.
Henisz and Delios (2001)	Various manufacturing industries; Japan (1990–1996)	Neo institutional theory and Political institutions	Past plant location by business group members, home industry rivals and all other home firms. (*Rivals-level / Focal firm-level*)	Conforming to plant location decisions by firms is positively influenced by prior plant locations of industry rivals, other home country firms and business group members respectively.
Guillén (2002)	Various manufacturing industries; South Korea, (1987–1995)	Ecological and Neo institutional theories	Past foreign entry by business group members and home country rivals (*Rivals-level / Focal firm-level*)	Firms propensity to conform to business group members and home country rivals' foreign entry decision is positively influenced by the past foreign entries of business group members or home country rivals.

Oehme and Bort (2015)	Biotechnology firms German, (1996-2012)	Institutional and Organizational learning theories	Network position and past experience. (*Rivals-level / Focal firm-level).*	Firms propensity to conform to the multinational strategy of peers is influenced by the firms past multinationality experience and its position in the network it finds itself.
Guillén (2003)	Various manufacturing industries; South Korea, (1987–1995)	Neoinstitutional theory	Past foreign entry mode choices by business group members and home country rivals. (*Rivals-level / Focal firm-level*)	Firms in the same business group are found to conform to each other's choice of joint ventures and wholly owned plants. Firms in the same industry conform to each other's choice of wholly owned plants, though not of joint ventures.
Chang (1995)	Electronics industry; Japan, (1976-1989)	Resource and capabilities-based theories	Business group membership (*Focal firm-level*)	Vertical or horizontal business group membership positively influences the firm's propensity to conform to business groups members' foreign entry decisions.

Figure 1. Diagram showing the conceptual model of the antecedents of conformity in multinationality from a macro level to a micro level and its performance implication