

Three essays on multimarket competition

RUPANWITA DASH

Abstract

Multimarket competition refers to instances where firms compete against each other simultaneously in several markets. This increased market overlap widens the scope of retaliation, therefore leading to reduced rivalry and mutual forbearance among firms. We review the extant literature on multimarket research and identify three broad gaps to address in this dissertation. First, we propose to extend multimarket research by examining market exit in detail which is one of the less researched outcomes of multimarket competition in our first essay. Second, we examine the drivers of multimarket contact at firm and dyad levels. Specifically, in the second essay, we study the effects of firm ownership on its multimarket contact. Finally, we explore the role of firms' social and institutional contexts as drivers of multimarket contact between two firms in our third essay. For the three empirical studies, we study firms selling cardiovascular drugs in India within the period of 2001-2011. Essay 1 seeks to analyze the joint effect of multimarket contact and firm characteristics (such as multinational vs. local firm), and market characteristics (such as price regulated vs. non-regulated market), on the likelihood of market exit for pharmaceutical companies. Past research on the relation between multimarket contact and exit has established that multimarket contact leads to mutual forbearance, which reduces the likelihood of exit. We propose to examine the same link between multimarket contact and exit with three extensions: first, explaining the role of inter-firm coordination resulting in a U-shaped relationship between multimarket contact and exit; second, the differences in exit likelihood between MNCs and domestic firms at similar levels of multimarket contact; and third, the differences in exit likelihood between markets with presence or absence of regulation. Our finding shows that multimarket contact has a U-shaped relation with exit likelihood of firms, and this likelihood varies for the multinationals and the local firms. In Essay 2 we study the effect of a firm's ownership structure on its multimarket contact. The ownership structure of a firm consisting of various shareholder groups reflects a multitude of underlying preferences for how the firm should operate, including the extent to which it should pursue multimarket contact. We argue that there is a need to unpack the varying motivations of shareholder groups associated with multimarket contact and to discern the internal dynamics within the firm concerning these preferences. We draw on agency theory's perspectives on goal incongruence when multiple principals are involved to explain how groups of owners within a firm may differ in terms of their investment orientation, monitoring disposition, and access to information, which collectively influence each shareholder group's preference for multimarket contact. Our findings suggest a novel dichotomy in that the relational owners of a firm are more likely to prefer multimarket contact, while the transactional owners are more likely to negatively influence the multimarket contact of a firm. Essay 3 explores the role of four inter-firm exchanges such as board interlocks, geographical proximity, social proximity, and strategic proximity, as the drivers of multimarket formation between the two firms. We argue that the dyadic interaction between firms shape their competitive perceptions of each other, and alter the potential cost and benefit of multimarket contact, thereby influencing a dyad's multimarket

contact. The findings indicate that board interlocks between two firms negatively influence dyadic multimarket contact. We do not find support for an effect of geographical proximity. Both social and strategic proximity between two firms positively influence the level of dyadic multimarket contact, and the effect of social proximity is stronger as compared to strategic proximity. By examining these antecedents, we advance the literature on multimarket rivalry by revealing the role of inter-firm exchanges in shaping firms' dyadic multimarket contact.