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Within-country religious diversity and the performance of private participation infrastructure projects

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ABSTRACT

This paper investigates the impact of within-country religious diversity on the performance of private participation infrastructure projects. Our analysis of 8139 projects in 33 countries (1990–2014) shows that higher levels of within-country religious diversity are associated with a higher risk of project failure. This negative effect is exacerbated in greenfield projects and when a project's main sponsor is a foreign firm. In contrast, we find no moderation effect for local government ownership. The study contributes to the ongoing debate regarding the effects of within-country diversity on foreign business ventures.

1. Introduction

Scholarly interest in within-country diversity has increased in recent years in response to the critique that this type of diversity is ignored in studies of cross-country differences (Shenkar, 2001, 2012; Tung, 2008). Challenging the assumption of within-country homogeneity, recent studies have offered fine-grained insights into the effects of within-country diversity on foreign-investment decisions and performance (Beugelsdijk, Maseland, Onrust, van Hoorn, & Slangen, 2015; Beugelsdijk, Slangen, Maseland, & Onrust, 2014; Dow, Cuypers, & Ertug, 2016). However, the evidence to date has been mixed. Beugelsdijk et al. (2014) suggest that multinational enterprises (MNEs) are more likely to focus on culturally similar customer segments when within-country diversity is greater. On the other hand, Dow et al. (2016) maintain that within-country religious and linguistic diversity hampers information-gathering efforts in cross-border acquisitions, thereby increasing the potential problems of *ex-ante* information asymmetries and *ex-post* behavioral uncertainty. Moreover, while these studies have shown that within-country diversity has an effect on MNE affiliates' sales and decisions concerning the equity share in cross-border acquisitions, little is known about how within-country diversity affects business ventures in which local and/or foreign firms must work closely together.

Our study focuses on religion as one element of within-country diversity that affects local and foreign firm collaborations in the context of private participation infrastructure projects. Religion is a focal point of analysis in several papers that pay special attention to consumer and consumption behavior (Cleveland, Laroche, & Hallab, 2013; Engelland, 2014; Jamal & Sharifuddin, 2015; Minton, Kahle, & Kim, 2015; Montgomery, 2003). However, the extant literature has not considered the effect of religion at the presence of firm foreignness and inter-firm collaboration. Dow et al. (2016) analyzed the impact of religious beliefs on MNEs' decisions in relation to foreign acquisitions, but not inter-firm collaboration. Beugelsdijk et al. (2014) investigated the latter, but from a point of linguistic differences. Therefore, our study is the first to investigate within-country religious diversity effects in projects consisting of legally independent organizations.

Religion is a fundamental determinant of how a society communicates and interacts, and whether certain behaviors are acceptable (Dow & Karunaratna, 2006; Shenkar, 2001). Religion also has a significant impact on how corporate cultures evolve over time. In fact, the spirit of capitalism has shown to be deeply rooted in historical religious developments (Weber, 2011). Religious differences remain one of the main sources of political and civil conflicts, and they have had negative impacts on human and economic development in general (VanAlstine, Cox, & Roden, 2013). At the firm level, they are known to affect investment decisions (Martin & Drogendijk, 2014). While less studied than other cultural factors, religion is one of the most distinctive cultural features (Berry, Guillen, & Zhou, 2010; Castellani, Jimenez, & Zanfei, 2013; Dow & Karunaratna, 2006; Gomez-Mejia & Palich, 1997; Shenkar, 2001). Managers are keenly aware of differences in religion, as they more visible than other cultural components (Dow et al., 2016).

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Moreover, religious affiliation and diversity within a country have been found to be significant predictors of managerial decisions (Berry et al., 2010; Castellani et al., 2013; Dow & Karunaratna, 2006; Ghemawat, 2001; Jiménez & de la Fuente, 2016).

While religion broadly affects the organization of economic activity in society and various aspects of firm activity, this paper focuses on a particular phenomenon—partially privatized infrastructure projects. The World Bank uses the term "private participation projects" to refer to privatized infrastructure projects in which domestic firms and/or MNEs play a significant role as "sponsors"—private investors that have equity ownership in the project. While MNEs have been excluded from sponsoring infrastructure projects in the past (Henisz, Zelner, & Guillen, 2005), private ownership in infrastructure projects has increased significantly in the last two decades (Jiang, Peng, Yang, & Mutlu, 2015; Ramamurti & Doh, 2004).

Private participation projects typically involve a consortium comprised of multiple foreign and/or domestic sponsors that must engage in close collaboration to ensure their successful execution and completion. Given the characteristics of this kind of project, we follow previous studies (Jiang et al., 2015) in treating those projects that have completed the bidding process, fulfilled the legally binding agreements, raised the necessary funds, and have not been prematurely terminated by investors or the state as successful. These projects involve a wide range of stakeholders, such as local governments, suppliers, regulatory bodies, and consumer-advocacy groups. To accurately interpret the behavior of these stakeholders, private sponsors must understand the host-country idiosyncrasies, which are shaped, at least in part, by religious principles and doctrines.

The extant literature on infrastructure investments has studied various factors, including the privatization method (Djankov, 1999); state ownership (Doh, 2000; Doh, Teegen, & Mudambi, 2004; Inoue, Lazzarini, & Musacchio, 2013); policy reforms (Henisz et al., 2005); and host-country characteristics, such as political stability (Jiang et al., 2015) and government credibility (Ramamurti, 2003). However, the role of within-country heterogeneity has largely been neglected. We therefore extend previous research on infrastructure privatization by exploring the role of within-country religious diversity. More specifically, we aim to address the following research questions: (1) How does within-country religious diversity affect the performance of private participation projects? (2) How do various project-level characteristics moderate this relationship?

Private participation infrastructure projects serve as an ideal empirical setting for testing the performance implications of within-country diversity in the host country. The ubiquity of infrastructure projects implies that foreign sponsors encounter a wide range of cultural contexts with different levels of within-country diversity. At the same time, as infrastructure projects typically provide essential services to a wide range of users with different socioeconomic backgrounds, they are likely to be influenced by within-country diversity. By investigating the implications of diversity within the host country for the performance of private participation projects, our study complements previous studies and is, to the best of our knowledge, the first to explore the business-performance implications of within-country diversity in an international context.

In order to answer our research questions, we analyze a sample of 8139 private participation projects in 33 countries. Our theoretical predictions are based on two related premises. First, within-country religious diversity creates substantial informational complexity (henceforth: "complexity") for firms participating in private participation projects, leading to a poorer understanding of the environment. Second, private participation projects tend to serve a broad range of clients and involve a multitude of internal and external stakeholders. Therefore, we argue that sponsors of these projects will struggle to target and interact with specific segments within a country. Within-country religious diversity exacerbates information asymmetries and uncertainty, and makes it difficult to establish collaboration among different project stakeholders. We thus posit that within-country religious diversity has a direct, negative effect on the performance of private participation projects.

We also argue that various project characteristics may strengthen or weaken the negative impact of within-country religious diversity on project performance. We suggest that when a project's main sponsor is a foreign firm or when a project focuses on a greenfield investment (in contrast to a brownfield project that involves existing infrastructure), complexity increases, and sponsors will be poorly positioned to form relationships and connections with various stakeholders (e.g., suppliers, clients, governments) in the host country. We thus posit that these project characteristics will strengthen the negative effect of within-country religious diversity on project performance. In contrast, when a project includes some form of government ownership, ties with stakeholders in the local networks will be stronger and complexity will be reduced. This reduces the negative effects of within-country religious diversity on project performance.

Our paper contributes to the incipient but growing body of literature on within-country diversity, which includes the work of Beugelsdijk et al. (2014) and Dow et al. (2016), by focusing on private participation projects characterized by close embeddedness and collaboration with numerous stakeholders. Within-country religious diversity may put the success of an infrastructure project at risk. We add more nuanced insights into this diversity-performance relationship by empirically confirming the moderating effects of various project-level characteristics. Moreover, we emphasize the critical role of firms' abilities to segment the market as a boundary condition in the analysis of within-country diversity. While diversity may help make it possible for firms focused on local sales to prosper through market segmentation (Beugelsdijk et al., 2014; Wedel & Kamakura, 2002), this mechanism rarely materializes in cross-border M&A activity or in private participation projects in the infrastructure sector.

2. Literature review and hypotheses

The literature offers numerous definitions of religion as a socially embedded phenomenon. In this study, we adopt the broad definition presented by Abela (2014) and Cavanaugh (2007), and describe religion as "any world-view of ideology that makes or implies absolute claims or assumptions" (Abela, 2014, p. 51). Religion is seen as part of "culture," but the two differ in locus: cultures derive from specific locations while religions transcend geographic borders. Moreover, religious values and beliefs are typically rooted in religious scriptures, which make them consistent and stable over time (Minton et al., 2015). Recent studies have characterized cross-country differences in religious beliefs as a critical form of institutional distance that influences firms' internationalization decisions, cross-cultural negotiations, and foreign subsidiary development (Castellani et al., 2013; de Jong, van Dutd, Jindra, & Marek, 2015; Richardson, 2014; Richardson & Rammal, 2018). In addition, research indicates that religious distance between countries is a deterrent to international investment and trade (Ghemawat, 2001).

However, within-country religious diversity has received less scholarly attention and lacks a precise conceptualization and definition in the business literature. Usually, it has been defined by its operationalization. Dow and Karunaratna (2006) and Dow et al. (2016) measure diversity based on the incidence (as a percentage) of each major religion in a country, such that the presence of numerous religions within the same country expresses diversity. These authors also take relatedness or connectedness among different religious into consideration, classifying them into: a) families, 2) religions, 3) divisions, and 4) denominations (i.e., sects within divisions). Examples of families are monotheistic religions with a common Middle Eastern origin and cyclical/reincarnation-based religions originating from the Indian subcontinent. Religions like Judaism, Christianity, and Islam belong to the former family, while Sikhism, Buddhism, and Hinduism belong to the

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