



Antecedents of MNE performance: blinded by the obvious in 35 years of literature

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Abstract

Purpose – The purpose of this paper is to summarize theoretical insights about key antecedents of multinational enterprise (MNE) performance and to review and synthesize empirically researched antecedents of MNE performance.

Design/methodology/approach – Dominant strategic management approaches to explaining the performance of firms in general are the market-based view and the resource-based view. The dominant theory of the MNE from the field of international business is internalization theory. Integrating these three perspectives, this paper elaborates where key antecedents of MNE performance can be expected. Furthermore, this paper reviews empirical research on antecedents of MNE performance published in three top business journals of major importance to the field of international business between 1976 and 2010, thereby synthesizing the most widely accepted knowledge about antecedents of MNE performance.

Findings – The paper reveals that theory suggests that key antecedents of MNE performance can be expected at the industry, country, and firm levels. Empirical research, however, hardly offers insights concerning antecedents at these three levels of analysis. Instead, empirical studies have predominantly focused on the intermediate variable of multinationality.

Originality/value – Previous research on antecedents of MNE performance has, by and large, been blinded by the obvious: multinationality has been researched innumerable times, without considering essential theories regarding performance and the MNE. This paper points out that there is much promise in going back to fundamental theories regarding performance and the MNE in order to advance our understanding of key antecedents of MNE performance.

Keywords Multinational enterprises, Multinational companies, Performance, Performance management, Market-based view, Resources-based view, Internalization theory, Industry effects, Firm effects, Country effects, Firm-specific advantages, Country-specific advantages

Paper type Literature review

Introduction

It is a main goal of modern business enterprises to maximize long-term performance (Buckley, 1993; Goerzen and Beamish, 2003; Itaki, 1991). The field of strategic management has emerged with the overarching theme of identifying antecedents of performance over the past 50 years (Hoskisson *et al.*, 1999; Nag *et al.*, 2007). There is one aspect that is not in the focus of the field of strategic management, however, and this aspect is at the core of the field of international business: the country dimension of business activity (Ronda-Pupo and Guerras-Martin, 2012).

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While dominant theories in strategic management focus on firms in general, internalization theory, as the dominant theory of international business, analyzes the particular case of multinational enterprises (MNEs). However, neither strategic management nor international business scholars have thus far offered satisfactory, comprehensive insights about the most important antecedents of MNE performance. In this context, the assertion of Kirca *et al.* (2011) that a huge research gap still exists around antecedents of MNE performance underlines the importance of the literature review that we offer in this paper as a summary of the existing empirical research and as a starting point for future studies.

The constitutive characteristic of an MNE, which differentiates it from purely domestic firms, is that the MNE conducts considerable value-added activities in at least two countries (Al-Obaidan and Scully, 1995; Caves, 1982; Dunning and Lundan, 2008). This brings about a number of derivative characteristics that distinguish MNEs from domestic firms. MNEs have to deal with multiple, heterogeneous country environments, which expose them to a multitude of risks and conflicts and thus increase complexity (Kostova and Zaheer, 1999; Makino *et al.*, 2004; Sundaram and Black, 1992). Furthermore, the questions how to configure the value chain across different countries and how to coordinate value-added activities across country borders only apply to firms that operate multinationally (Asmussen *et al.*, 2007; Morrison and Roth, 1992; Porter, 1986a). All in all, MNEs obviously face problems concerning strategy, structure, and management systems that domestic firms, which operate in only one country, do not face.

Solely relying on theories from the field of strategic management that fail to incorporate a country dimension would therefore inhibit a thorough explanation of antecedents of MNE performance; even though strategic management's irrevocable focus on performance is definitely an essential strength. Strategic management findings regarding antecedents of the performance of firms in general might not apply to MNEs in particular, or at least not with the same effect sizes. Even more importantly, the country dimension of MNEs most likely entails important antecedents of MNE performance that simply do not exist if effects at the country level are not explicitly considered in theoretical and empirical research. International business, on the other hand, focuses on the country dimension of business activity. Its dominant theory of the MNE – internalization theory – is primarily directed towards efficiency-seeking, not rent-seeking. Therefore, with the aim to improve our understanding of critical antecedents of MNE performance, we deem it fruitful to integrate strategic management with international business thinking.

In view of that, we address two research questions in this paper. First, we examine the question at which levels of analysis we can expect to find essential antecedents of MNE performance according to dominant strategic management and international business theories. Second, we investigate what the most widely accepted knowledge about critical antecedents of MNE performance is, by reviewing 35 years of empirical evidence.

In order to answer these two research questions, the remainder of this paper is organized as follows. In the next section, we elaborate that integrating the market-based view and the resource-based view from the field of strategic management with internalization theory from the field of international business suggests that antecedents of MNE performance exist at three levels of analysis. One

contribution of this paper is thus to point out that antecedents at the level of the individual firm are most likely of highest importance, but industry-level and country-level antecedents cannot be disregarded. Antecedents from the three different levels of analysis collectively explain the variance in performance between MNEs (McGahan and Victor, 2010). Subsequently, we review existent studies about antecedents of MNE performance published between 1976 and 2010 in three top business and management journals of major importance for the field of international business. Our discussion of these studies concentrates on three critical issues: the studies' theoretical arguments, their dependent variables, and their independent variables. We find multinationality-performance studies to dominate the research on antecedents of MNE performance, while other potentially essential antecedents have received incredibly little attention.

This leads to our penultimate section, in which we concisely summarize important work on the multinationality-performance relationship before attending to growing criticism of this stream of research. Recent criticism culminates in Rugman and Verbeke's (2008b) assertion that regressions with multinationality as an independent variable are mis-specified when performance is the dependent variable. Our findings suggest that research on antecedents of MNE performance has hitherto been blinded by the obvious: multinationality as the distinctive characteristic of MNEs has attracted the vast majority of attention in this area of study – with doubtful grounding in theory. In the final section of our paper, we offer a brief discussion of main findings, acknowledge the limitations of our work, and make meaningful suggestions for future research.

A second contribution of this paper is therefore to emphasize the huge research gap regarding systematically developed, comprehensive, and coherent theoretical and empirical research about antecedents of MNE performance; and to present a starting point for future research that intends to fill that gap.

Antecedents of MNE performance at multiple levels of analysis

Industry-level antecedents of MNE performance

With regard to the performance of firms in general, strategic management scholars ascribe a proportion of performance differences between firms to effects at the level of the industries in which the firms operate. Schmalensee (1985) is among the first to quantify the proportion of variance in firm performance that industry affiliation explains, and finds it to be at least three quarters. In contrast, Rumelt's (1991) results show that only about 4 to 8 percent of performance differences are due to industry effects. Further studies use different performance measures, more sophisticated statistical analyzes, and larger samples, as well as more recent data. Hawawini *et al.* (2003) present results that suggest that industry effects account for between 6 and 12 percent, McGahan and Porter (1997) find them to account for about 20 percent, and the results of Misangyi *et al.* (2006) suggest that they explain below 8 percent of the variance in performance. In sum, recent evidence corroborates the idea that industry effects do have an impact on firm performance, but this impact seems to be rather small (Short *et al.*, 2009).

The predominant theoretical explanation for industry-level effects on firm performance is offered by the market-based view of the firm. The market-based view is essentially a firm external perspective that has emerged from industrial

organization economics and the structure-conduct-performance paradigm (Bain, 1956, 1959; Chamberlain, 1932; Mason, 1939; Porter, 1981). The market-based view focuses on a firm's environment, especially on the final product market in which a firm competes. According to the market-based view, firms are homogeneous and industry characteristics determine firm performance (Caves and Porter, 1977, 1978). Of particular interest is a firm's market power, which is positively influenced by monopolistic situations, high entry barriers, and strong bargaining power (Makhija, 2003; Porter, 1985).

Even though the presented strategic management research from the market-based view refers to firms in general and not to MNEs in particular, two reasons strongly suggest that industry-level effects also have an influence on MNE performance. First, the samples of the empirical studies cited at the beginning of this subsection almost exclusively consist of large, established stock-listed corporations, the majority of which are usually MNEs, and Short *et al.* (2009) present evidence that industry-level effects matter more for established firms compared to new ventures. Second, international business research indicates that industries differ from one another with respect to their pressures to realize specific multinational strategies. In this context, Bartlett and Ghoshal (1989) as well as Prahalad and Doz (1987), for instance, elaborate on pressures for integration of value-added activities across countries and pressures for local responsiveness. The existence of important multinational competitors or customers and an industry's technological intensity are examples of significant drivers towards integration. On the other hand, different customer needs and different distribution channels across countries are examples of drivers towards local responsiveness (Devinney *et al.*, 2000; Ghemawat and Spence, 1986; Porter, 1986b; Prahalad and Doz, 1987; Roth and Morrison, 1990). Industry differences affect multinational strategies of firms, because they call for different configurations of an MNE's value-added activities across countries, require different coordination of these activities, and necessitate different cross-functional linkages of activities (Elango, 1998; Melin, 1992; Rosenzweig and Singh, 1991; Takeuchi and Porter, 1986). All this suggests that there are significant antecedents of MNE performance at the industry level.

Firm-level antecedents of MNE performance

For firms in general, recent strategic management research finds effects at the firm level to account for a much larger proportion of inter-firm variance in performance than effects at the industry level. In contrast to very early work by Schmalensee (1985), who concludes that firm-level effects on performance do not exist, more current studies find strong firm-level effects. According to Rumelt (1991), intra-industry effects explain more than three quarters of firms' variance in performance. Using superior statistical analyzes and a variety of performance measures, as well as more recent data from larger samples, Hawawini *et al.* (2003) find effects at the firm level to explain between 27 and 36 percent of variance in performance, McGahan and Porter (1997) find them to account for about 35 percent, and Misangyi *et al.* (2006) find them to explain almost 45 percent.

The major theoretical rationale behind firm-level effects on firm performance is offered by the resource-based view, a firm internal perspective that concentrates on resources and capabilities controlled by firms (McWilliams and Smart, 1993; White and Hamermesh, 1981). The resource-based view's key idea is that firms' endowments with

resources and capabilities are imperfectly mobile (Wernerfelt, 1984, 1995). Therefore, the resource-based view proposes idiosyncratic resources and capabilities to be the primary source of competitive advantage, which translates into above-average performance (Amit and Schoemaker, 1993; Crook *et al.*, 2008; Peteraf, 1993).

In order to be a source of competitive advantage, Barney (1991) explains that resources and capabilities must fulfill certain criteria. They must first of all be valuable. This means that they enable a firm to implement a value creating strategy that improves effectiveness and efficiency, either by exploiting opportunities or by neutralizing threats. Moreover, resources and capabilities must be rare, so that the strategy based on them is neither implemented by current nor by potential competitors. The thereby created competitive advantage is only sustainable if neither the strategy itself can be copied with other resources and capabilities (inimitable), nor the same benefits can be achieved with alternative resources and capabilities (non-substitutable). Non-substitutable is sometimes deemed as part of inimitable, and the organization of a firm in a way to fully exploit the potential of resources and capabilities is offered as a different fourth characteristic (Barney, 1997).

Although the portrayed strategic management research from the resource-based view concentrates on firms in general and not on MNEs in particular, two important arguments suggest that firm-level effects also have an impact on MNE performance. First, as we already pointed out for market-based view research above, resource-based view research also often relies on samples of large stock-listed companies, the majority of which are generally MNEs. Second, and more importantly, resources and capabilities are the origin of firm-specific advantages (FSAs), a core concept of internalization theory, which has been the dominant theory in international business for more than 30 years (Buckley and Casson, 1976; Hymer, 1976; Kindleberger, 1969; Rugman, 1981; Rugman and Collinson, 2009).

The concept of FSAs, which Hymer developed in his 1960 dissertation (Hymer, 1976) and which Kindleberger (1969) popularized, is central to internalization theory as developed by Buckley and Casson (1976). According to internalization theory, MNEs can compete abroad on the basis of FSAs. Without FSAs, liabilities of foreignness impede the competitiveness of MNEs in host countries *vis-à-vis* indigenous firms (Zaheer, 1995; Zaheer and Mosakowski, 1997). By and large, FSAs reflect resources and capabilities that can be typified as knowledge-based intangible assets. Because those assets possess characteristics of public goods to at least some extent, the markets for them are usually imperfect. Due to exogenous market imperfections, the internal organization of activities to explore and exploit FSAs via the MNE is efficient, while the external organization via the market is not (Buckley and Casson, 1976; Caves, 1982; Hennart, 1982; Rugman, 1981). Altogether, FSAs are indispensable for MNEs to successfully compete in a multitude of countries. This strongly suggests that there are very important antecedents of MNE performance at the firm level.

Country-level antecedents of MNE performance

As already pointed out, the country dimension of business activity is the *raison d'être* of the field of international business; and the decisive characteristic that distinguishes MNEs from domestic firms is that the former have value-added activities in at least two countries (Sundaram and Black, 1992). Consequently, the strategic management research on firm performance that we briefly sketched in the two previous subsections

is insufficient when the goal is to explain the most important antecedents of MNE performance. Neither the market-based nor the resource-based view put a strong emphasis on the country dimension to which MNEs are exposed. In a variance component analysis for a sample of MNEs, Makino *et al.* (2004) on the one hand corroborate the previously presented findings of strategic management researchers by ascribing about 40 percent of the variance in performance to effects at the firm level and about 5 percent to effects at the industry level. On the other hand, Makino *et al.* (2004) also find country effects to be of similar size as industry effects. Furthermore, McGahan and Victor (2010) point out that effect sizes differ between purely domestic firms and MNEs, and that firm level, industry level, and country level all matter.

Two theoretical notions expound why country effects exist and how they affect MNE performance. One is the notion of liabilities of foreignness (Zaheer, 1995; Zaheer and Mosakowski, 1997), the other one is the notion of country-specific advantages (CSAs) (Rugman, 1981). Liabilities of foreignness negatively influence MNE performance. They reflect disadvantages that MNEs face relative to local competitors when conducting business in a host country (Hymer, 1976). Liabilities of foreignness are closely linked to the compounded distance between an MNE's home and host countries, which *inter alia* consists of cultural, institutional, geographic, and economic distance (Ghemawat, 2001; Johanson and Vahlne, 1977; Rugman *et al.*, 2011). CSAs, on the other hand, have a positive impact on MNE performance. Rugman (1981) introduced CSAs as a complementary concept to FSAs and explained that both serve to overcome liabilities of foreignness. CSAs can result from, for example, natural resources, a particularly skilled workforce, or other factors of production in an MNE's home or host countries (Rugman *et al.*, 2011). On the whole, there are strong theoretical reasons, as well as significant empirical evidence, for essential antecedents of MNE performance at the country level.

Research on antecedents of MNE performance in top business and management journals

Antecedents of MNE performance have been the focus of many studies since the early days of MNE-centric theory (Agmon and Lessard, 1977; Michel and Shaked, 1986; Sambharya, 1995; Wan and Hoskisson, 2003). In a review of international management research in 20 top business journals, Werner (2002) identifies 12 distinct categories of international management. In almost all categories he finds research that is related to performance one way or another. Research related to performance is ubiquitous throughout the field of international business. The practical relevance explains this strong scholarly interest in understanding antecedents of MNE performance. A profound understanding of the most significant antecedents of performance and underlying mechanisms helps MNEs to attain their chief goal of performance maximization in the long run.

To gain a comprehensive overview of the most widely accepted knowledge about the most antecedents of MNE performance, we identified all articles that were published between 1976 and 2010 in three top business and management journals of major importance for the field of international business. The journal selection relies on work by Pisani (2009) and Werner and Brouthers (2002), who show that besides the *Journal of International Business Studies* the *Journal of Management Studies*, and the *Strategic Management Journal* are the most influential business and management journals publishing articles on MNEs. Regarding the time frame, we selected 1976 as

the starting point, because Buckley and Casson's (1976) seminal book *The Future of the Multinational Enterprise* was published in that year. The rise of internalization theory as the dominant theory of the MNE hence started in 1976, and most research that is relevant to our research question was published after 1976.

Based on titles and abstracts, we identified all articles that focus on MNE performance at the corporate level. Studies on subsidiary or joint venture performance were excluded for theoretical reasons. In sum, our search uncovered 63 articles that matched our searching criteria. Table I offers an overview of these articles and their theoretical perspectives as well as their key findings. Table II informs about the independent and dependent variables, as well as the samples of the 63 studies. While Tables I and II offer a number of insights, we concentrate on three vital issues that directly pertain to our research questions.

A first important point involves the theories that the studies make use of to explain antecedents of MNE performance (cf. second column of Table I). In most cases we find a variety of theoretical arguments. Commonly used arguments include economies of scale and scope, liabilities of foreignness, knowledge and learning, as well as costs of coordination and complexity, to name but a few. It seems that not a single study utilizes one comprehensive theoretical framework. As Hoskisson *et al.* (1999) suggest, an integration of different theories especially makes sense when complex multinational strategy issues are concerned, as long as underlying assumptions are not contradictory. However, Table I does not indicate a true integration of multiple theoretical perspectives in the sense of a meaningful and effective combination. The theory sections in many empirical studies rather resemble an *omnium-gatherum* of theoretical arguments, sometimes presenting contradicting and competing theories to substantiate the contended points. All this reinforces what Kirca *et al.* (2011) affirm: there is a huge gap in the literature with respect to consistent theorizing about the antecedents of MNE performance.

A second peculiarity concerns the dependent variables (cf. second column in Table II). Different studies use a variety of performance measures as their dependent variables. Combs *et al.* (2005) emphasize that accounting performance, growth performance, and stock market performance are three related, yet separate, dimensions of organizational performance. When deducing hypotheses from theory, researchers should consider the three distinct dimensions to test the boundaries of theory. Furthermore, divergent empirical results for different dimensions of organizational performance do not necessarily imply conflicts and inconsistencies between studies. The use of different performance measures pertaining to different dimensions of performance might partially explain differences among the studies' findings. On the whole, comparisons and summaries of previous studies about MNE performance that employ diverse dimensions of organizational performance as their dependent variables should be handled with care; and future work in this area could benefit from and become more precise by explicitly specifying the relevant dimensions of performance (Combs *et al.*, 2005; Hult *et al.*, 2008).

A third insight regards the independent variables (cf. third column in Table II). We can assign each independent variable to one of four mutually exclusive categories. Two of the categories reflect one of the most fundamental decisions of strategic management at the corporate level, i.e. which products or services to offer (product scope), measured by product diversification variables, and in which markets to offer

Studies	Main theoretical arguments	Key findings
Rugman (1976)	Portfolio; risk	Higher multinationality is associated with lower risk
Fowler (1978)	N/A	Transfer pricing is associated with MNE performance
Mikhail and Shawky (1979)	Portfolio; risk	MNEs outperform domestic firms
Aggarwal (1980)	Portfolio; risk	Higher multinationality is associated with higher performance
Kim and Lyn (1986)	FSAs; portfolio	Higher advertising intensity, higher multinationality, and higher R&D intensity are associated with higher performance
Michel and Shaked (1986)	Complexity; portfolio; risk	Domestic firms outperform MNEs, MNEs are associated with lower risk than domestic firms
Shaked (1986)	Portfolio theory; risk	MNEs outperform domestic firms; MNEs have lower risk than domestic firms
Bühner (1987)	Economies of scale/scope; life cycle; portfolio; risk	Higher multinationality is associated with higher performance; higher product diversification is associated with lower performance
Grant (1987)	Distance; economies of scale/scope; FSAs; market power; portfolio; risk; TCE	Higher multinationality is associated with higher performance
Geringer <i>et al.</i> (1989)	Complexity; control/coordination; distance; economies of scale/scope; FSAs; internalization; knowledge/learning; RBV	Multinationality is associated with performance in the form of an inverted U; higher product diversification is associated with higher performance
Kim <i>et al.</i> (1989)	Economies of scale/scope; internalization; life cycle; market power; portfolio; risk	Higher multinationality is associated with higher performance (for unrelated product diversifiers); related product diversification is associated with better performance (for low multinationality); related product diversifiers with high multinationality outperform unrelated product diversifiers with low multinationality; higher multinationality is associated with better performance stability (for related product diversifiers); related diversifiers with low multinationality have more stable performance than unrelated diversifiers with high multinationality
Collins (1990)	Portfolio; risk	Increasing multinationality via FDI into emerging economies is associated with lower performance and lower risk

(continued)

Table I.
Main theoretical arguments and key findings of literature on antecedents of MNE performance

Studies	Main theoretical arguments	Key findings
Kim and Lyn (1990)	FSA; internalization; OLI	MNEs outperform domestic firms (operating profit margin); domestic firms outperform MNEs (gross profit margin, ROE); MNEs' home countries are associated with performance
Habib and Victor (1991)	Complexity; contingency; information processing	Strategy-structure fit is associated with better performance (for manufacturing but not for service MNEs)
Roth (1992)	Configuration; control/coordination; CSAs; economies of scale/scope; FSAs; knowledge/learning	Multinational configuration and coordination of activities are associated with performance (selective globalization seems to be optimal)
Tsetsekos and Gombola (1992)	Arbitrage; economies of scale/scope; FSAs; internalization	Decreasing multinationality is not significantly associated with performance
Kim <i>et al.</i> (1993)	CSAs; economies of scale/scope; flexibility; knowledge/learning; market power; real options	Higher multinationality is associated with higher performance and lower risk; unrelated diversification is associated with lower performance and lower risk; related diversification is associated with higher performance and higher risk
Roth and Ricks (1994)	Complexity; configuration; conflict; contingency; FSAs; legitimacy; MBV; RBV; risk	Congruence between goal configuration and industry position is associated with performance in global and multifocal industry segments
Allen and Pantzalis (1996)	Agency; arbitrage; flexibility; real options; risk	Advertising intensity, multinationality, and R&D intensity are associated with performance
Donnelly and Sheehy (1996)	Risk	Exchange rate changes are associated with performance
Gómez-Mejía and Palich (1997)	Cross-subsidization; distance; economies of scale/scope; FSAs; internalization; market power; portfolio; risk	Higher advertising intensity and higher R&D intensity are associated with higher performance
Reuer and Miller (1997)	Agency; knowledge/learning; slack	Increasing multinationality is associated with higher performance (for firms with high inside ownership, high free cash flow, and high leverage)
Mishra and Gobeli (1998)	Agency; FSAs; internalization; knowledge/learning; portfolio; risk	Stronger FSAs are associated with better performance (multinationality positively moderates this relationship)
Morosini <i>et al.</i> (1998)	Distance; knowledge/learning; RBV	Higher cultural distance is associated with higher performance
Reeb <i>et al.</i> (1998)	Agency; portfolio; risk	Higher multinationality is associated with higher risk

Table I.

(continued)

Studies	Main theoretical arguments	Key findings
Delios and Beamish (1999)	Economies of scale/scope; internalization; knowledge/learning; market power; MBV; risk	Higher multinationality and higher R&D intensity are associated with higher performance (these effects are especially strong in the subsample with high product diversification)
Gomes and Ramaswamy (1999)	Arbitrage; complexity; control/coordination; distance; economies of scale/scope; slack	Multinationality is associated with performance in the form of an inverted U
Brouthers <i>et al.</i> (2000)	Contingency; cross-subsidization; CSAs; economies of scale/scope; FSAs; time	Better fit of price/quality strategy to home triad region is associated with higher performance
Geringer <i>et al.</i> (2000)	Arbitrage; complexity; control/coordination; economies of scale/scope; internalization; knowledge/learning; market power; RBV; risk; TCE	Product diversification is associated with performance in the form of an inverted U; higher multinationality is associated with lower accounting and higher growth performance; higher export sales ratio is associated with higher accounting performance; performance effects change over time
Kwok and Reeb (2000)	Agency; FSAs; portfolio; risk	Higher multinationality is associated with higher risk for US firms but lower risk for firms from other countries
Merchant and Schendel (2000)	Control/coordination; distance; economies of scale/scope; knowledge/learning; market power; risk	Increasing multinationality via IJVs with partners in related businesses is associated with higher performance
Reuer (2000)	Control/ coordination; distance; knowledge/learning; life cycle; real options; TCE	Higher multinationality is associated with higher performance; IJV termination is associated with better performance (for IJVs whose formation increased performance, that are internalized, and when equity stakes are sold to a third party)
Seth <i>et al.</i> (2000)	Agency; internalization; knowledge/learning; market power; portfolio; risk; TCE	Multinationality increases are associated with performance increases
Lu and Beamish (2001)	Complexity; control/ coordination; CSAs; distance; economies of scale/scope; FSAs; internalization; knowledge/learning; liabilities of foreignness; market power; RBV; risk; TCE	Higher multinationality is associated with performance in the form of an U (exporting activity negatively moderates this relationship); JVs with host country partners are associated with higher performance; JVs with home country partners are associated with lower performance

(continued)

Table I.

Studies	Main theoretical arguments	Key findings
Pantzalis (2001)	Agency; arbitrage; control/coordination; CSAs; economies of scale/scope; flexibility; FSAs; internalization; knowledge/learning; networks; real options; risk; TCE	Multinationality in developed countries is associated with lower performance; multinationality in developing countries is associated with higher performance (FSAs positively moderate this relationship)
Rugman and Verbeke (2001)	Control/coordination; CSAs; economies of scale/scope; FSAs; internalization; knowledge/learning; path dependency; RBV	Theoretical framework for explaining how subsidiary-specific advantages influence MNE performance
Kotabe <i>et al.</i> (2002)	Complexity; control/coordination; distance; economies of scale/scope; knowledge/learning; OLI; RBV	Higher multinationality is associated with higher performance (advertising intensity and R&D intensity positively moderate this relationship)
Seth <i>et al.</i> (2002)	Agency; internalization; knowledge/learning; portfolio; risk; TCE	Multinationality increases are associated with performance increases; intangible assets are associated with higher performance
Singh and Kundu (2002)	Economies of scale/scope; OLI; networks	Theoretical framework explaining growth dimension of organizational performance for e-commerce MNEs
Vermeulen and Barkema (2002)	Complexity; contingency; economies of scale/scope; internalization; knowledge/learning; market power; real options; TCE; time	Higher multinationality is associated with higher performance (geographic scope, irregular expansion over time, product diversification, and speed of foreign expansion negatively moderates this relationship)
Capar and Kotabe (2003)	Distance; complexity; control/coordination; economies of scale/scope; internalization; learning/knowledge; market power; RBV; TCE	Multinationality is associated with performance in the form of an U
Doukas and Lang (2003)	Internalization	Multinationality increases in related businesses are associated with performance increases; multinationality increases in unrelated businesses are associated with performance decreases
Goerzen and Beamish (2003)	Complexity; control/coordination; CSAs; distance; flexibility; FSAs; internalization; knowledge/learning; RBV; TCE	Higher multinationality is associated with higher performance (country environment diversity positively moderates this relationship); higher country environment diversity is associated with lower performance

Table I.

(continued)

Studies	Main theoretical arguments	Key findings
Goerzen and Beamish (2005)	Complexity; control/coordination; distance; economies of scale/scope; knowledge/learning; networks; RBV; risk; TCE	Higher alliance network diversity is associated with lower performance (at all but very high levels)
Tihanyi <i>et al.</i> (2005)	Complexity; control/coordination; distance; economies of scale/scope; internalization, portfolio; risk; TCE	Higher distance is associated with lower performance for investments into developing countries but with better performance for investments into developed countries
Berry (2006)	Complexity; control/coordination; CSAs; distance; economies of scale/scope; FSAs; internalization; knowledge/learning; market power; risk	Multinationality increases via FDI in developing economies are associated with performance increases (for firms in knowledge-intensive industries with medium and high levels of multinationality and for firms in low knowledge-intensive industries with low levels of multinationality); multinationality increases via FDI in developed economies are associated with performance increases (for firms with low levels of multinationality)
Doukas and Kan (2006)	Agency; risk	Domestic firms outperform MNEs (except for near-all equity firms)
Wooster (2006)	Entry mode; OLI; risk; TCE; time	Multinationality increases via FDI in transition economies are associated with performance increases (early entry, low equity entry, and more advanced transition economy positively moderate this relationship)
Goerzen (2007)	Control/coordination; distance; knowledge/learning; networks; path dependence; RBV; TCE; trust	Repeated relations with prior partners are associated with worse performance (technical uncertainty negatively moderates this relationship); higher multinationality is associated with higher performance
Zhou <i>et al.</i> (2007)	Economies of scale/scope; knowledge/learning; liabilities of foreignness; networks; risk; trust	Higher multinationality is associated with higher performance (<i>guanxi</i> networks partially mediate this relationship)
Hutzschenreuter and Voll (2008)	Complexity; control/coordination; distance; flexibility; FSAs; internalization; knowledge/learning; RBV	Multinationality increases with high added cultural distance are associated with performance decreases; irregularity in adding cultural distance when increasing multinationality is associated with decreasing performance

(continued)

Table I.

Studies	Main theoretical arguments	Key findings
Qian <i>et al.</i> (2008)	Arbitrage; complexity; control/coordination; cross-subsidization; CSAs; distance; economies of scale/scope; knowledge/learning; liabilities of foreignness; life cycle; market power; RBV; risk; TCE	Higher multinationality is associated with higher performance; regional diversification is associated with performance in the form of an inverted U; operating in a moderate number of developed country regions and a strictly limited number of developing country regions maximizes performance
Aybar and Ficici (2009)	Agency; arbitrage; complexity; control/coordination; cross-subsidization; distance; economies of scale/scope; flexibility; FSAs; internalization; knowledge/learning; liabilities of foreignness/newness; portfolio; risk	Multinationality increases via FDI in emerging economies are associated with performance decreases (bids for privately owned targets, diversified corporate structure, and relative size of the target positively moderate this relationship; high-tech acquirer and relatedness of target negatively moderate this relationship)
Bouquet <i>et al.</i> (2009)	Attention; bounded rationality; control/coordination; knowledge/learning; strategic leadership	International attention is associated with performance in the form of an inverted U (international assignment experience, independence of value-adding activities across country locations, and industry dynamism positively moderate this relationship)
Dastidar (2009)	Agency; control/coordination; economies of scale/scope; distance; internalization; liabilities of foreignness/newness; portfolio; risk; TCE	Higher multinationality is associated with higher performance
Filatotchev and Piesse (2009)	Economies of scale/scope; learning/knowledge; path dependency; RBV; slack	Higher multinationality, higher leverage, higher R&D intensity, and more intangible assets are associated with higher performance
Gande <i>et al.</i> (2009)	Agency; complexity; internalization; portfolio; risk	Higher multinationality is associated with higher performance (advertising intensity, R&D intensity, and stronger creditor rights in host country positively moderate this relationship); higher product diversification is associated with lower performance
Kumar (2009)	Control/coordination; economies of scale/scope; knowledge/learning; RBV; slack	Multinationality increases and product diversification increases are related to performance increases

Table I.

(continued)

Studies	Main theoretical arguments	Key findings
Lee and Makhija (2009)	Arbitrage; complexity; control/coordination; cross-subsidization; flexibility; real options; risk; TCE	Flexibility relating to exporting investments and flexibility relating to FDI are associated with higher performance in times of economic crisis
Gubbi <i>et al.</i> (2009)	CSAs; FSAs; internalization; knowledge/learning; liabilities of foreignness/newness; RBV	Multinationality increases and sophistication of host country environment are associated with performance increases
Hejazi and Santor (2010)	Arbitrage; cross-subsidization; economies of scale/scope; FSAs; knowledge/learning; liabilities of foreignness/newness; portfolio; risk	Higher multinationality is associated with higher performance (investments into less-developed countries and investments with higher risks drive this effect)
McGahan and Victor (2010)	Cognitive imprinting; CSAs; institutions; market-based view	MNEs outperform domestic firms; firm, home country, industry, and year effects as well interactions between them are associated with performance
Qian <i>et al.</i> (2010)	Control/coordination; CSAs; economies of scale/scope; flexibility; knowledge/learning; liabilities of foreignness/newness	Higher multinationality is associated with performance in the form of an inverted U; higher multinationality within the home region is associated with higher performance; higher multinationality beyond the home region is associated with performance in the form of an inverted U

Notes: Abbreviations: country-specific advantages (CSAs), firm-specific advantages (FSAs), resource-based view (RBV), transaction cost economics (TCE), ownership, location, internalization (OLI)

Table I.

them (geographic scope), measured by multinationality variables (Grant, 2010). The other two categories reflect the two fundamental kinds of factors on whose basis MNEs can compete: CSAs and FSAs (Rugman and Collinson, 2009).

The vast majority of the studies (50 of 63, or almost 80 percent) employ a measure of multinationality as an explanatory variable, e.g. foreign assets to total assets ratio, foreign sales to total sales ratio, a count measure of foreign subsidiaries or of countries with foreign subsidiaries, or some kind of composite or survey measure. Hitt *et al.* (2006) uncover a similar emphasis in their narrative review about antecedents, outcomes, and moderators in internationalization research. They reveal that MNE research which focuses on performance as a dependent variable often uses characteristics of multinationality as an independent variable. This extremely biased focus on multinationality warrants a more detailed examination of multinationality-performance research.

Summary and critique of multinationality-performance research

Global strategists share a general belief that the process of internationalization, i.e. increasing a firm's degree of multinationality, enhances the chances of enjoying

Table II.
Variables and samples of literature on antecedents of MNE performance

Studies	Dependent variables	Independent variables	Data/sample
Rugman (1976)	Variance in ROE	FS/TS	492 firms; USA; more than 19 industries; 1960-1969
Fowler (1978)	After-tax profit	Dividend payout ratio; effective marginal tax rate in home country; effective marginal tax rate in host country; level of ownership in subsidiary; tariffs on transferred goods	MNEs with Canadian subsidiaries
Mikhail and Shawky (1979)	Jensen's alpha; moving average return	Dummy for MNE versus domestic firm	30 MNEs; USA; 15 industries; 1968-1975
Aggarwal (1980)	Beta; P/E ratio	FA/TA; FI/TI; FS/TS	171 firms; USA
Kim and Lyn (1986)	Excess value	Advertising intensity; FS/TS; number of foreign subsidiaries; R&D intensity	154 firms; USA; 1974-1978
Michel and Shaked (1986)	Jensen's alpha; Sharpe ratio; Treynor ratio	Dummy for MNE versus domestic firm	58 MNEs, 43 domestic firms; USA; manufacturing industries; 1973-1982
Shaked (1986)	Beta; probability of insolvency	Dummy for MNE versus domestic firm	58 MNEs, 43 domestic firms; USA; manufacturing industries; 1980-1982
Bühner (1987)	Jensen's alpha; ROA; ROE	FS/TS; product diversification	40 firms; Germany; 13 industries; 1966-1981
Grant (1987)	ROE; RONA; RONA growth; ROS; sales growth	FS/TS	304 firms; UK; manufacturing industries; 1968-1984
Geringer <i>et al.</i> (1989)	Operating profit margin	Product diversification; FSSR	200 MNEs; USA, Europe; 1977-1981
Kim <i>et al.</i> (1989)	growth; operating profit margin; instability; ROA growth; ROA instability	Dummy for low versus high multinationality; dummy for related versus unrelated product diversification	62 firms; USA; multiple industries; 1982-1985
Collins (1990)	Jensen's alpha; Sharpe ratio; Treynor ratio	Domestic firm versus MNE in developing economies versus MNE in developed economies	133 firms; 21 industries; 1976-1985
Kim and Lyn (1990)	EPS; gross profit margin; market-to-book ratio; operating profit margin; P/E ratio; ROE; ROS; sales growth	Dummy for country of origin; dummy for foreign MNE versus domestic firm	108 foreign and matched US-owned firms; USA, various other countries; 35 industries

(continued)

Studies	Dependent variables	Independent variables	Data/sample
Habib and Victor (1991)	ROA; ROS; sales growth	Categorical measure of MNE structure; FS/TS; product diversification	144 MNEs; USA; service or manufacturing; 1987-1988
Roth (1992)	Earnings growth; EPS; foreign income growth; operating profit/total profit; net income; sales growth	Survey measures for configuration and coordination	126 MNEs; USA; nine global industries
Tsetsekos and Gombola (1992)	CARs	Event: foreign plant closing	49 plant closing announcements of 43 firms; 1980-1986
Kim <i>et al.</i> (1993)	Risk-adjusted ROA	Entropy measure of global diversification	125 MNEs; USA; multiple industries; 1982-1986
Roth and Ricks (1994)	Survey measure of performance	Goal configuration; industry position	171 firms; Japan, UK, USA; four global industries
Allen and Pantzalis (1996)	Excess value	Advertising intensity; breadth of multinationality; depth of financial dummy for ownership of financial subsidiary; leverage; log of number of foreign subsidiaries; R&D intensity; sales growth	363 MNEs; USA; manufacturing industries; 1991
Donnelly and Sheehy (1996)	CARs	Event: exchange rate changes	39 MNEs; UK; 1980-1992
Gómez-Mejía and Pallich (1997)	Market-to-book ratio; ROA	Nine different cultural diversity measures including FSSR	442 firms; 1985-1994
Reuter and Miller (1997)	CARs	Event: internalization of JIV; free cash flow of parent firm; leverage of parent firm; percentage of stock held by parent firm's officers and directors	75 internalizations of JIVs by parent MNEs; USA; 23 industries; 1988-1994
Mishra and Gobeli (1998)	Market-to-book ratio	FS/TS; managerial incentives alignment; number of foreign subsidiaries; R&D intensity	105 MNEs; manufacturing industries; 1986-1988
Morosini <i>et al.</i> (1998)	Sales growth	National cultural distance	52 MNEs; 1987-1992
Reeb <i>et al.</i> (1998)	Beta	FA/TA; FS/TS	844 MNEs; USA; 22 industries; 1987-1996

(continued)

Table II.

Studies	Dependent variables	Independent variables	Data/sample
Delios and Beamish (1999)	Composite measure of performance (ROA, ROE, ROS)	Advertising intensity; industry profitability; number of countries with foreign subsidiaries; number of foreign subsidiaries; product diversification; R&D intensity	399 firms; Japan; manufacturing industries; 1991-1995
Gomes and Ramaswamy (1999)	ROA	Composite index of multinationality (number of countries with foreign subsidiaries, FA/TA, FS/TS)	95 MNEs; USA; chemical, drug and pharmaceutical, computers, and office equipment industries
Brouthers <i>et al.</i> (2000)	ROA; ROS; sales growth	Fit of price/quality strategy to home triad region	46 firms; all three triad regions; consumer electronics, automobiles, tires, and beverages industries; 1982-1995
Geringer <i>et al.</i> (2000)	ROA; ROS; sales growth	Dummy for keiretsu membership, export sales/total sales; foreign subsidiary sales/ (foreign subsidiary sales + export sales); FSSR; product diversification	108 MNEs; Japan; manufacturing industries; 1977-1993
Kwok and Reeb (2000)	Total risk (standard deviation of monthly returns using 60 months of return data)	Country of origin (subsample excluding firms from USA); FA/TA	1,921 firms; various countries; non-regulated industries; 1992-1996
Merchant and Schendel (2000)	CARs	Event: IJV announcement; business relatedness; cultural distance; equity structure; firm-level competition; firm size; functional roles; host country political risk; previous JV experience; relative partner size	101 IJV announcements; USA; manufacturing; 1986-1990
Reuer (2000)	CARs	Event: IJV termination; subsamples for: ex-ante attractive, ex-ante unattractive, internalization of IJV, related business, unrelated business, withdrawal from IJV	215 IJV terminations by MNEs; USA; 39 industries; 1985-1995
Seth <i>et al.</i> (2000)	CARs	Event: acquisition of US corporation	100 acquisitions by MNEs; various countries; industrial; 1981-1990

(continued)

Studies	Dependent variables	Independent variables	Data/sample
Lu and Beamish (2001)	ROA; ROS	Export sales/total sales; index for alliance activities with home country partners; index for alliance activities with host country partners; number of countries with FDI; number of FDIs	164 SMEs; Japan; 19 industries; 1986-1997
Pantzalis (2001)	Excess value; market-to-book ratio	Multinationality in developed versus developing countries	420 MNEs; USA; mining and manufacturing industries; 1990
Rugman and Verbeke (2001)	N/A	N/A	N/A
Kotabe <i>et al.</i> (2002)	ROA	Advertising intensity; FI/TI; R&D intensity	49 firms; USA; 12 industries; 1987-1993
Seth <i>et al.</i> (2002)	CARs	Event: cross-border acquisition; categorical measure for synergistic, hubris, and managerialist acquisitions; intangible assets	100 acquisitions; various countries; 1981-1990
Singh and Kundu (2002)	N/A	N/A	N/A
Vermeulen and Barkema (2002)	ROA	Geographic scope of foreign expansion; number of foreign subsidiaries; product diversification; rhythm of foreign expansion; speed of foreign expansion	22 firms; The Netherlands; 1967-1992
Capar and Kotabe (2003)	ROS	FS/TS	81 firms; Germany; four service industries; 1997-1999
Doukas and Lang (2003)	Buy-and-hold returns; CARs; change in operating margin	Event: FDI announcement; subsamples for related business; unrelated business	156 FDI announcements by MNEs; USA; multiple industries; 1980-1992
Goerzen and Beamish (2003)	Jensen's alpha; market-to-book ratio; Sharpe's measure	International asset dispersion; country environment diversity	580 MNEs; Japan; multiple industries; 1999
Goerzen and Beamish (2005)	ROA; ROIC; ROS	Alliance network diversity	meta-analysis of 66 independent samples
Tithanyi <i>et al.</i> (2005)	Meta-analysis of studies with different performance measures	Meta-analysis of studies with different cultural distance measures	
Berry (2006)	Market-to-book ratio	Number of new subsidiaries in advanced economies; number of new subsidiaries in developing economies; technological know-how	191 firms; USA; manufacturing industries; 1977-2000

(continued)

Antecedents of MNE performance

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Table II.

Table II.

Studies	Dependent variables	Independent variables	Data/sample
Doukas and Kan (2006)	Excess value	Dummy for MNE versus domestic firm; dummy for related versus unrelated business	612 cross-border acquisitions by MNEs; USA; manufacturing industries; 1992-1997
Wooster (2006)	CARs	Event: announcement to expand into transition economy	144 firms; USA; manufacturing industries; 1987-1999
Goerzen (2007)	ROA; ROIC; ROS	Repeated partnerships; technical uncertainty	580 MNEs; Japan; 1995-1999
Zhou <i>et al.</i> (2007)	Survey measure of export growth; survey measure of profitability growth; survey measure of sales growth	Survey measure of <i>guanxi</i> networks; survey measure of inward internationalization; survey measure of outward internationalization	129 born global SMEs; China; 2003
Hutzschenreuter and Voll (2008)	ROA	Added cultural distance	91 firms; Germany; excluding financial services industries; 1985-2004
Qian <i>et al.</i> (2008)	ROA; ROS	Entropy measure for regional diversification	189 firms; USA; 1996-2000
Aybar and Fricci (2009)	CARs	Event: M&A announcement; dummy for diversified structure; dummy for high-tech acquirer; dummy for privately owned target; dummy for target in related industry; relative size of target	433 M&A announcements of 58 MNEs; developing countries; 1991-2004
Bouquet <i>et al.</i> (2009)	ROA; ROE; ROS	Composite measure of international attention (global scanning, globalization discussions, overseas communication)	135 MNEs; USA, Canada, France, Germany, UK, Japan; 2001-2005
Dastidar (2009)	Excess value	Dummy for MNE versus domestic firm	2,980 firm-year observations of single segment firms; USA; excluding utilities and financial services industries; 1990-1998
Filatotchev and Priesse (2009)	Sales growth	FS/TS; intangible assets; leverage; R&D intensity	1,110 IPO firms; France, Germany, Italy, UK; excluding regulated and financial services industries; 1985-2004
Gande <i>et al.</i> (2009)	Market-to-book ratio	Creditor rights in host country; FS/TS; product diversification	4,358 firms; USA; excluding utilities and financial services; 1994-2002
Kumar (2009)	Market-to-book ratio	Increase in FS/TS; increase in product diversification	690 firms; USA; manufacturing industries; 1993-1997

(continued)

Studies	Dependent variables	Independent variables	Data/sample
Lee and Makhija (2009)	Market-to-book ratio	Flexibility relating to exporting investments; flexibility relating to FDI; subsamples for time period of economic downturn; subsamples for time period of economic stability	459 firms; Korea; 1996-1998
Gubbi <i>et al.</i> (2009)	CARS	Event: acquisition; survey measure for sophistication of host country environment	425 cross-border acquisitions by firms; India; 2000-2007
Hejazi and Santor (2010)	Market-to-book ratio; ROA; ROE	Developed versus less-developed countries; FATA, risk	Big six Canadian banks; 1994-2004
McGahan and Victor (2010)	ROA	Dummy for firm; dummy for home country; dummy for industry; dummy for MNE versus domestic firm	1,562 firms; 43 countries; various industries; 1993-2003
Qian <i>et al.</i> (2010)	ROA	Entropy measure of geographic diversification in home region; entropy measure of geographic diversification in other regions	123 MNEs; USA; manufacturing industries; 1999-2005

Notes: Abbreviations: Cumulative abnormal return (CAR); Earnings per share (EPS); Foreign assets-to-total assets ratio (FA/TA); Foreign direct investment (FDI); Foreign income-to-total income ratio (FI/TI); Foreign sales-to-total sales ratio (FS/TS); Foreign subsidiary sales-to-total sales ratio (FSSR); International joint venture (IJV); Price-to-earnings ratio (P/E ratio); Research and development (R&D); Return on assets (ROA); Return on equity (ROE); Return on invested capital (ROIC); Return on net assets (RONA); Return on sales (ROS)

Table II.

numerous benefits associated with operating in multinational markets (Rugman and Verbeke, 2008a). Some of the prevailing theoretical arguments that explain why a firm benefits from broadening the geographic scope of its activities comprise economies of scale and scope, experience and learning, and more flexible access to possibly superior resources (Capar and Kotabe, 2003; Cohen and Levinthal, 1990; Contractor *et al.*, 2003; Johanson and Vahlne, 1977, 1990; Kogut and Zander, 1992; March, 1991; Pangarkar, 2008). In contrast, reasons for negative performance effects of multinationality predominantly include liabilities of foreignness as well as costs of coordination and complexity (Grant, 1987; Siddharthan and Lall, 1982; Zaheer, 1995; Zaheer and Mosakowski, 1997). In the end, the varying emphases that different authors place on the various arguments for positive and negative performance impacts of multinationality lead to dissent about the net performance impact and to competing hypotheses.

Besides non-significant findings (Bühner, 1987), four main research trends concerning the form of the multinationality-performance relationship have emerged over time. The first trend, with a peak in the 1970s, consists of studies that highlight the benefits of multinationality, advocating an overall positive multinationality-performance relationship (Agmon and Lessard, 1977; Grant, 1987; Hughes *et al.*, 1975; Rugman, 1979). The second trend developed during the 1980s and 1990s. More and more authors started to discuss negative effects associated with being multinational, raising the question whether the correlation between multinationality and performance might be negative (Al-Obaidan and Scully, 1995; Michel and Shaked, 1986).

Eventually this led to the third trend: work considering the trade-off between benefits and costs attributed to multinationality. Although the notion of a non-linear multinationality-performance relationship became widespread, the precise form remained unclear. A focus on liabilities of foreignness, which are mainly prevalent during early stages of multinational activity, suggests a U-shaped relationship (Lu and Beamish, 2001; Ruigrok and Wagner, 2003). Costs of coordination and complexity, on the other hand, rise with an increasing degree of multinationality, thus implying an inverted-U-shape (Geringer *et al.*, 1989; Gomes and Ramaswamy, 1999; Hitt *et al.*, 1997).

The multitude of conflicting and inconsistent results led to the most recent trend, which is characterized by the attempt to integrate previous work through polynomial regression. In this regard, Riahi-Belkaoui (1998), Contractor *et al.* (2003), and Lu and Beamish (2004) propose that multinationality is associated with performance in the form of a horizontal S-curve (Figure I). This implies that the multinationality-performance relationship is U-shaped for lower degrees of multinationality and takes on an inverted U-shape for higher degrees, thus forming a sigmoid shape. Conceptually the S-curve hypothesis is a three-stage model that tries to explain the internationalization process of a single firm (Contractor, 2007b). During an initial stage, liabilities of foreignness dominate the relationship, inducing performance to decrease when multinationality increases. Positive net effects of rising multinationality then distinguish the second stage, during which learning and the exploitation of economies of scale and economies of scope prevail. Finally, a point is reached from which further increases in multinationality reduce performance again. The driving forces during this third stage are costs of coordination and complexity that are often associated with distance (Ghemawat, 2001; Ruigrok *et al.*, 2007)[1].

The obviously inconsistent and partially contradictory results of multinationality-performance studies pose the question, what the true relationship

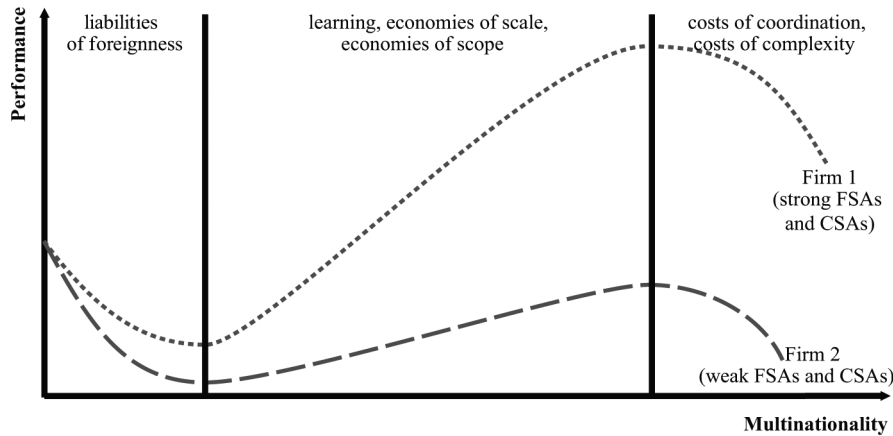


Figure 1.

between the two variables looks like. Meta-analysis can assist to detect this true relationship between variables, revealing reasons for conflicting findings of different studies, such as research artifacts or moderator variables (Dalton *et al.*, 1999; Hunter and Schmidt, 2004). This might be particularly promising because several studies find different CSAs and FSAs to moderate the multinationality-performance relationship (Elango and Sethi, 2007; Kotabe *et al.*, 2002; Lu and Beamish, 2004; Venzin *et al.*, 2008).

Bausch and Krist (2007) apply meta-analytical techniques to statistically integrate the results of 36 multinationality-performance studies. One of their main findings is that the overall multinationality-performance relationship is positive but very weak. Furthermore, only if firms have certain CSAs or FSAs is higher multinationality associated with superior performance. Kirca *et al.* (2011) find similar evidence in a very recent meta-analysis, indicating that multinationality is positively related to performance if a firm has strong FSAs. Altogether, results from meta-analyses suggest that findings of previous studies were inconsistent and contradictory because there is at best an extremely weak general multinationality-performance relationship. Additionally, MNEs with strong CSAs and FSAs seem to be able to realize net benefits of multinationality. Firms without advantages, in contrast, do not benefit from internationalization.

Criticism of the inconsistent and contradictory multinationality-performance research has grown recently, both from a methodological and from a theoretical point-of-view. Criticism from a methodological point-of-view challenges a variety of issues concerning, for instance, operationalizations of multinationality and performance variables or several commonly employed statistical methods that might entail biased results (Bowen, 2007; Contractor, 2007a; Sullivan, 1994; Verbeke and Brugman, 2009). Criticism from a theoretical point-of-view deals with the different arguments that researchers articulate for positive and negative performance effects of multinationality.

The key criticism of the theoretical background of multinationality-performance research is closely related to the important meta-analytic finding that MNEs need FSAs and CSAs in order to benefit from multinationality. This finding is in line with a very important but seemingly often forgotten point of internalization theory:

multinationality *per se*, i.e. in the absence of FSAs and CSAs, is not beneficial to performance (Verbeke and Brugman, 2009; Hennart, 2011). Furthermore, Hennart (2007) highlights that multinationality-performance research tends to over-generalize theoretical arguments. He elaborates, e.g. that the popular economies-of-scale argument is invalid under certain circumstances. If firms can reach minimum efficient scale within one country, increasing multinationality will only increase costs. Hennart (2007) offers similarly convincing claims for the theoretical arguments related to learning and to resource access. The essence is that the net effects of multinationality might be negative.

Consistent with this criticism, we contend that multinationality should be understood as the result of a specific strategic choice. CSAs and FSAs, on the other hand, should be regarded as factors that an MNE takes into account when devising its multinational strategy, in the sense of the strategic contingency approach (Donaldson, 2001; Ginsberg and Venkatraman, 1985; Harrigan, 1983; Hofer, 1975). Following this argument, MNE performance depends on a fit of multinational strategy with, *inter alia*, CSAs and FSAs, whereas a systematic uniform relationship between multinationality and performance can hardly be expected across a large number of firms with strongly differing CSAs and FSAs (Verbeke and Brugman, 2009; Verbeke *et al.*, 2009). Ultimately, it is FSAs and CSAs that determine whether or not the benefits of a multinational strategy outweigh its costs (Verbeke, 2009).

In terms of the S-curve, FSAs and CSAs determine slopes and inflection points. Figure 1 illustrates this point by depicting two different firms. For both firms, increasing multinationality is associated with the discussed effects that entail the sigmoid shaped relationship between multinationality and performance. However, Firm 1 has strong FSAs and CSAs and experiences its maximum performance at a substantial degree of multinationality. On the other hand, Firm 2 has very weak FSAs and CSAs and hence experiences its maximum performance if it remains domestic. The different S-curves in Figure 1 therefore illustrate that multinationality is only an intermediate variable, and the question if and to what degree multinationality is beneficial to firm performance depends on other antecedents (Rugman and Verbeke, 2008b).

Conclusions

This paper summarized the status quo of the most widely accepted knowledge about antecedents of MNE performance. In a first step, we indicated what theory tells us about the levels of analysis at which to expect the most important antecedents of MNE performance. While strategic management scholars focus on performance in general, the country dimension of business activity is of particular importance to international business scholars. We therefore integrated market-based view and resource-based view thinking from strategic management with international business's internalization theory. This integration led to the insight that essential antecedents of MNE performance can first and foremost be expected at the firm level, but the industry level and the country level of analysis must not be disregarded.

A second building block of this paper was our systematic review of the literature on antecedents of MNE performance published between 1976 and 2010 in three top business and management journals of major importance to the field of international

business. We emphasized that a huge research gap exists around antecedents of MNE performance by discussing three especially problematic issues:

- (1) an apparent lack of a consistent and coherent parsimonious theoretical framework for research on antecedents of MNE performance;
- (2) the diversity of performance measures that are utilized without consideration of potential implications of choosing one measure over another; and
- (3) the extremely narrow focus in terms of explanatory variables, dominated by multinationality variables.

Thorough analyses of key antecedents of MNE performance at the three levels of analysis that important theories predict are practically nonexistent.

Accordingly, we summarized and criticized multinationality-performance research in a third step. We demonstrated that this stream of research is very inconsistent and contradictory. Furthermore, we explicated that according to internalization theory it is incorrect to focus on multinationality *per se* as a key antecedent of MNE performance. To illustrate this point, we compared the S-curves of two different firms in Figure 1, one having strong FSAs and CSAs and the other one having weak FSAs and CSAs.

All things considered, previous research on antecedents of MNE performance has been blinded by the obvious to a large degree. Multinationality as the distinctive characteristic of MNEs has attracted the attention of innumerable researchers over the last 35 years. Unfortunately, multinationality-performance studies have by and large lost sight of the most important theories for explaining performance of firms in general and of MNEs in particular.

A limitation of this paper is that the scope of our literature review is limited. A broader scope or a different focus, e.g. on the three most important pure international business journals, might increase the confidence in our findings. However, the quintessential point that a huge research gap exists around antecedents of MNE performance, especially considering theory development, would most likely remain.

Future research should consequently aim at filling this gap by developing a comprehensive and coherent, yet parsimonious, theoretical framework for antecedents of MNE performance. Given that internalization theory has emerged as the dominant theory of the MNE since its inception in the 1970s, building such work on internalization theory instead of an *omnium-gatherum* of various inconsistent theoretical arguments appears to be particularly promising.

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Appendix

	1976-1980		1981-1985		1986-1990		1991-1995		1996-2000		2001-2005		2005-2010		Total	
	n	%	n	%	n	%	n	%	n	%	n	%	n	%	n	%
Number of studies	4		0		9		5		15		12		17		62	
Focus on multinationality	3	75	N/A	N/A	9	100	3	60	12	80	8	67	14	82	49	79
Referenced internalization theory	0	0	N/A	N/A	3	33	1	20	5	33	9	75	6	35	24	39
Sample from North America	4	100	N/A	N/A	5	56	3	60	6	40	3	25	9	53	30	48

Table A1.
Empirical studies on antecedents of MNE performance in JIBS, JoMS, and SMJ 1976–2010

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