



Does the meta-environment determine firm performance? Theory and evidence from European multinational enterprises

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ABSTRACT

We study an underrepresented area in the international business literature: the effect of the meta-environment on multinational enterprise (MNE) performance. A meta-environment is a symbiosis of all country environments where an MNE operates. This conceptualization of a firm's external context is important because country borders increasingly become permeable. The unique governance structure of the MNE allows to specialize in recombining and melding multiple country resources and institutions. At any given point in time, each MNE will explore and exploit its own company-specific meta-environment. We therefore argue that variations in the meta-environment determine variations in MNE performance because wherever a firm is located, whether it has one location or many, its presence in a geographic space positions it relative to others in a unique configuration. Our study is among the first to examine empirically the impact of the meta-environment on firm achievements with a unique panel dataset from European multinationals. The results provide convincing support for our approach to the study of MNE performance.

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1. Introduction

Multinational enterprises (MNEs) operate in multiple environments, each with its own path-dependent characteristics and this differentiates MNEs from domestic firms (Buckley & Ghauri, 1999; Dunning & Lundan, 2008). Research in international business has identified many drivers of superior MNE performance (see Buckley & Casson, 2009; Buckley & Ghauri, 1999; Glaum & Oesterle, 2007; Navaretti & Venables, 2004 for comprehensive reviews). Typical of MNEs is that firm-specific advantages are intertwined with country-specific advantages. Consequently, IB research has focused on country contexts, that is, on the geographic location of the headquarter and its sub-units (George & Zaheer, 2006; Hadjikhani & Ghauri, 2001). IB scholars have addressed the impact of single-country contexts (Wan & Hoskisson, 2003), the distance between home- and host countries (Dikova & van Witteloostuijn, 2007; Tihanyi, Griffith, & Russel, 2005), internationalization (Banalieva & Robertson, 2010; De Clercq, Danis, & Dakhli, 2010; Eckert, Dittfeld, Mueche, & Rässler, 2010) and diversification (Bobillo, López-Iturriaga, & Tejerina-Gaite, 2010) on MNE strategy and performance.

With a few exceptions, however, the authors of most prior studies assumed away the role of the meta-environment. The meta-environment is the unique geographic configuration of a multinational firm. When analysing the determinants of MNE performance, it can be argued that the unique organization structure of MNEs allows them to specialize in combining

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resources and institutions from multiple nation states (Almeida & Kogut, 1999; Anderson & Tushman, 2001; Bartlett & Ghoshal, 1989; Giroud & Scott-Kennel, 2009). MNEs are able to achieve above normal returns on national resources and to seek less expensive inputs and less price sensitive markets (Wan & Hoskisson, 2003). For example, when home country-level resource abundance is low, MNEs may create competitive advantages by leveraging resources from host countries that are more resource abundant. Hence, it is the MNE-specific symbiosis between country-specific advantages that fosters MNE performance (cf. George & Zaheer, 2006).³ Yet we lack systematic research that examines whether, and if so: how, variations in such meta-environments explain variations in the performance of MNEs. The study of the meta-environment is our first contribution to the recent contextual IB research that suggests to better account for the multi-faceted nature of country environments in which MNEs operate (Buckley, 2002; Peng, 2004).

The second contribution of this paper is that it provides a stepping stone for investigating in detail core aspects of the meta-environment. Although environments can be conceptualized in many different ways, advanced production factors and formal institutions are regarded as most important (Castrogiovanni, 1991; Wan & Hoskisson, 2003) since they determine the opportunity set that firms seek to capture (North, 1990, 2005). Regarding advanced production factors, alternative collections of countries will vary in their overall resource endowments (Dunning & Lundan, 2008). MNEs create value by converting input from their meta-environment into higher value output. We argue that a meta-environment with more advanced resources – in particular technological capabilities and the quality of the infrastructure – will foster MNE performance (cf. Koka, Madhavan, & Prescott, 2006). Regarding the institutional environment, the meta-environment of an MNE is constructed by different sets of formal national rules (North, 1990). Whereas national firms operate in one particular legal environment, MNEs are able to exploit alternative sets of formal rules. We argue that this meta-institutional environment shapes governance structures and behaviours and hence, the competitive advantages of MNEs (cf. Dunning & Lundan, 2008; Meyer & Peng, 2005).

To test the effects of our finely variegated conceptualization of the meta-environment, it is important to use a multi-level dataset with sufficient variation. This is our third contribution to the IB research. We test our propositions on a panel dataset that combines headquarter information of the largest European MNEs with a refined set of meta-national measures. Our variation in context measures is larger than found in previous munificence studies which typically apply single measures for either a home or a host country context (Dess & Beard, 1984; Goll & Rasheed, 2005; Rasheed & Prescott, 1992). We contribute to this literature by presenting six different measures that account for the variety in the meta-environment with respect to advanced resources and formal institutions.

The remainder of this paper is organized as follows: Section 2 develops theory and hypotheses. Section 3 details the data, method, and variables. Section 4 reports the main empirical findings, and Section 5 provides the conclusions.

2. Theory and hypotheses

2.1. Advanced production resources

In line with the munificence literature, the abundance of advanced production resources is the first element of the meta-environment. Variations in resource endowments have been a crux to understand MNE performance in the earlier IB literature (Dunning, 1998). The importance of advanced resources derives from the resource-based view of the firm (Mahoney & Pandian, 1992; Penrose, 1959).⁴ Studies taking a resource-based view emphasize the importance of firm capabilities in creating and sustaining competitive advantages (Barney, 1988; Verbeke & Yuan, 2007; Wernerfelt, 1984). As such, a firm has a competitive advantage if it implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitor. That is, a firm's competitive advantage is sustainable over a long period of time as long as it is not imitated by other firms (Reed & DeFillipi, 1990). The capabilities for creating and sustaining competitive advantage greatly depend on the availability of external resources. Innovation is one of the best ways for MNEs to maintain competitive advantages, and external resources are integral to the process of perceiving the opportunity for innovation and its successful implementation (Nooteboom, 2000). An advantage once gained is only sustained by a continuous search for different and better ways of operating and through ongoing modifications in firm behaviour (Nooteboom, 2009).

It is argued that particularly advanced resources are necessary for this 'upgrading' process (Dierickx & Cool, 1989; Nooteboom, 2004). Barney (1991), for instance, introduces the concept of a strategic factor market which is defined as a market where the resources necessary to implement a strategy are acquired. He asserts that this market is imperfectly competitive. In such a factor market, firms are able to generate above normal economic performance by acquiring strategic resources such as technology, which may only exist in countries with munificent resources (cf. Castrogiovanni, 1991; Grant, 1991).

Thus, we stipulate that the availability of advanced resources in the meta-environment of an MNE is highly relevant for creating and sustaining competitive advantage. The specific meta-environment of an MNE provides a more or less exclusive access to a firm-specific bundle of advanced resources. By exchanging resources between an organization's unit, MNEs are

³ Rugman and Oh (2009) show that MNEs predominantly operate in regional contexts (cf. Osegowitsch & Sammartino, 2008; Qian, Khoury, Peng, & Qian, 2010). Our research accounts for this region aspect because we determine the geographic location of each subsidiary and subsequently use this information to construct meta-environment measures. For example, if a Dutch MNE operates subsidiaries in, for example, Germany, Spain and France than the meta-environment indices for this MNE are constructed from these three countries.

⁴ During the past two decades, the number of studies that take a resource-based view perspective mushroomed. For excellent reviews see, for example, Kraaijenbrink, Spender, and Groen (2010) or Nooteboom (2004, 2009).

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