International Business Review 19 (2010) 562–574

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Does multinationality lead to value enhancement? An empirical examination of publicly listed corporations from Germany

Stefan Eckert [a,*], Marcus Dittfeld [a], Thomas Muche [b], Susanne Rässler [c]

[a] International Management, International Graduate School Zittau, Germany
[b] Business Administration, Corporate Planning, and Energy Management, University of Applied Sciences Zittau/Görlitz, Germany
[c] Department of Statistics and Econometrics, University Bamberg, Germany

ARTICLE INFO

Article history:
Received 12 May 2009
Received in revised form 31 March 2010
Accepted 6 April 2010

Keywords:
Economies of scale
Geographical diversification
Germany
Industrial diversification
Intangible assets
MNCs
Shareholder value
Tobin's Q

ABSTRACT

We analyse the impact of multinationality on shareholder value in the case of German firms for the time span from 1990 to 2006. Based on a sample of 13,130 firm-year observations, we find that multinational companies perform worse in terms of shareholder value than domestic companies. This relationship remains stable even after controlling for industrial diversification. However, using a multivariate regression model, the impact of multinationality on shareholder value turns out to be positive. Obviously, the relationship between multinationality and shareholder value seems to be a classical example of Simpson's paradox. Therefore, bivariate analysis of the effects of multinationality on shareholder value must be considered as methodologically inappropriate.

We find that the effect of multinationality on shareholder value depends on the existence of intangible assets either related to research and development or on the existence of intangible assets related to marketing and management skills. Hence, our findings support the results of Morck and Yeung (1991). Furthermore, our findings tend to support the view that the effect of mulinationality depends on the potential to realize economies of scale. The implication is that multinationality is not a value in itself. The multinational company has to have either intangible assets that can be capitalized abroad or the potential to realize economies of scale through internationalization in order for multinationality to lead to value enhancement.

1. Introduction

In 2002, Peter Buckley raised the question whether the International Business research agenda would be "...running out of steam" (Buckley, 2002, 365). Two years later Mike Peng replied, "What determines the international success and failure of firms?' has always been the core question of International Business (IB) that has served to unite most (...) IB researchers and to delineate IB's boundaries relative to other fields" (Peng, 2004, 102). The questions whether multinational companies do perform better than national ones and which conditions have to be met in order to realize performance increases through firm internationalization have always been at the heart of International Business research (Verbeke & Brugman, 2009; Verbeke, Li, & Goerzen, 2009). Hymer (1976) asked why multinational firms are able to compete against domestic competitors that are more familiar with the business environments of their home countries. Aharoni (1966) examined whether foreign direct investment decisions are the outcome of rational decision-making, a condition which can be supposed to contribute significantly to successful internationalization. In the 1970s Johanson and Vahlne (1977) argued that decisions to internationalize are taken in order to maintain a certain performance level, not to maximize profits (see also

* Corresponding author. Tel.: +49 3583612776; fax: +49 3583612734.
E-mail address: eckert@ihi-zittau.de (S. Eckert).

0969-5931/$ – see front matter © 2010 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ibusrev.2010.04.001

Johanson & Vahlne, 1990, 2009). On the other hand, famous scholars like Dunning (1977), Dunning (1980), Dunning (1998) or Buckley and Casson (1976) argued that multinationality is the consequence of rational decision-making, where firms optimize the geographical configuration of their different value chain activities, and define the borders between them and their respective markets in the most efficient manner (Hennart, 2009). Hence, according to these rational decision-making approaches, multinationality should lead to increases in firm performance. Nevertheless, empirical efforts to clarify the relationship between multinationality and performance have been rather inconclusive up to now leading some scholars to assume that there is no generalizable relationship between multinationality and performance at all (Hennart, 2007).

The solutions to the questions whether multinational companies do perform better than national ones and which conditions have to be met in order to realize performance increases through firm internationalization are essential for decision makers in firms. The answers to these questions may provide managers with guidance regarding whether and in which way to expand activities beyond the borders of their own home country market. In the meantime, two different streams of research have emerged with regard to these questions. One stream of research focuses on accounting-based measures of performance and the other focuses on the relationship between multinationality and value.

The latter has been the subject of a number of empirical studies. However, the results have been quite contradictory up to now. Whereas some authors find that multinationality increases value (Bodnar, Tang, & Weintrop, 1997; Dastidar, 2009; Gande, Schenzler, & Senbet, 2009), others come to the opposite conclusion, i.e., that multinationality destroys value (Click & Harrison, 2000; Denis, Denis, & Yost, 2002; Kim & Mathur, 2008). And still others find that multinationality leads to increased value if certain conditions are fulfilled and it does not increase value or even reduces value in the absence of these conditions (Markides & Ittner, 1994; Mishra & Gobeli, 1998; Morck & Yeung, 1991). A common element of these studies is that they are almost all based on samples consisting exclusively of US MNCs.[1]

In this paper we analyse the impact multinationality has on value for German firms. In regard to the relationship between multinationality and value, companies from the USA may be a very special case due to the size of their home market. Given the size of the US market, the multinationality of US companies may indeed be evaluated differently from the multinationality of companies from other countries not quite as large as the USA. In order to gain insight into this, we replicate the empirical research undertaken by US researchers for German companies.

This contribution is organized as follows. In the following section, we will present a short review of the theoretical and empirical literature concerning the effect of multinationality on value. Based on that, we deduce hypotheses guiding this research. In Section 3, we will describe the methodology employed and the sample on which our analysis is based. In the Section 4, we present the empirical findings and discuss the results. In the final section, we summarize our findings, discuss implications for executives, and briefly outline directions for future research.

2. Theory and literature review

2.1. Theoretical arguments

There is a plurality of theoretical arguments contributing to the explanation of the relationship between corporate multinationality and shareholder value. Despite this plurality of theoretical arguments, many theorists base their line of argumentation on the assumption that corporate multinationality implies certain costs that a firm only present on the domestic market might not incur. Such additional costs of multinationality may on the one hand arise from the liabilities of foreignness and newness (Hymer, 1976; Zaheer, 1995). Firms entering foreign markets may have to convince potential customers to choose them as new suppliers (Johanson & Vahlne, 2009). These efforts cause costs that firms already "in the market" do not incur (at least not to the same extent). Furthermore, firms operating abroad are confronted with business environments, political and economic systems as well as cultural systems that are different from the ones they are familiar with. These differences may lead to unexpected costs due to erroneous decisions, which are taken by managers not being (fully) aware of the specifics of the foreign market. Consequently, foreignness and newness can be expected to lead to a value discount for multinational companies (MNCs).

However, managers at multinational companies (MNCs) may be able to learn from previous mistakes and may therefore be able to reduce the liabilities of foreignness and newness with increasing international experience (Zaheer & Mosakowski, 1997). Nevertheless, international expansion may nevertheless imply overall increasing costs due to increasing costs of coordinating and controlling a geographically dispersed value chain (Lu & Beamish, 2004). Summarizing these difficulties, it seems rather plausible to assume that multinationality might lead to decreases in value.

The fact that companies pursue internationalization despite these costs of expanding abroad is explained by agency theory, through the separation of ownership and control and the divergence of interests between shareholders and managers (Amihud & Lev, 1981; Denis, Denis, & Sarin, 1997; Morck, Shleifer, & Vishny, 1990). Internationalization decisions may be driven more by the personal interests of managers for growth, diversification, prestige, or simply higher remuneration, than sound economic motives (Aharoni, 1966).

On the other hand, there are theoretical arguments that support the idea that multinationality leads to value enhancement. These arguments are based on the presumption that capital markets, factor markets, and/or product markets are imperfect (Caves, 1971; Hymer, 1976; Kindleberger, 1969).

[1] Exceptions known to the authors are Fauver, Houston, and Naranjo (2004), Lee and Makhija (2009), and Lu and Beamish (2004).