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Home Country Institutional Effects on the Multinationality–Performance Relationship: A Comparison Between Emerging and Developed Market Multinationals

José-Mauricio G. Geleilate [a], Peter Magnusson [b], Ronaldo C. Parente [c,e,*], Marcelo J. Alvarado-Vargas [d]

[a] *University of Massachusetts Lowell, Management Department, 1 University Avenue, Lowell, MA 01854, United States*
[b] *The University of Alabama, Department of Marketing, 127 Alston Hall, Box 870225, Tuscaloosa, AL 35487, United States*
[c] *Florida International University, MIB Dept., College of Business, 11200 SW 8th Street, , RB 339B, Miami, FL 33199, United States*
[d] *University of Toledo, College of Business and Innovation, 2801 W. Bancroft Street, Mail Stop 103, ST-S2019, Toledo, OH 43606, United States*
[e] *Fundação Getúlio Vargas, EBAPE*

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A B S T R A C T

The question of how institutional aspects can shape multinational enterprises' (MNEs) operations abroad and overall performance has received increasing attention in the international business literature. We address this issue by meta-analyzing the effects of home country formal institutions on MNEs' multinationality–performance (M–P) relationship using data from 170 independent studies covering over 54,600 firms from 26 countries. By focusing on specific policies such as capital market development, labor market flexibility, regulatory quality, control of corruption, and trade openness, we provide evidence that home country institutions can significantly influence MNEs' M–P relationship. From a multilevel approach, our findings indicate that a stronger institutional environment not always positively affects the M–P relationship. For developed market firms, the M–P relationship gets stronger with an improved institutional environment. However, in emerging markets, we find that the M–P relationship is actually weaker in cases of higher levels of home country labor flexibility and control of corruption. We discuss the implication of these findings showing that home country institutions have a significant and contrasting role in shaping MNEs' capacity to increase performance from their multinational investments.

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1. Introduction

One of the most debated issues in the international business literature revolves around the investigation of how firms are capable of reaping the benefits of their international activities. Over the past four decades, the multinationality–performance (M–P) relationship has been studied across multiple countries and from various theoretical and methodological perspectives.

* Corresponding author.
E-mail addresses: josemauricio_geleiate@uml.edu (J.-M.G. Geleilate), rcparent@fiu.edu (R.C. Parente), marcelo.alvaradovargas@utoledo.edu (M.J. Alvarado-Vargas).

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Early assessments of the M–P relationship relied mainly on transaction costs economics and internalization theory arguing that a positive relationship between multinationality and performance was expected due to MNEs' monopolistic advantages (Hymer, 1976; Porter, 1990), risk reduction (Agmon and Lessard, 1977), accumulation of market power and economies of scale (Kogut, 1985), and knowledge acquired from abroad (Kogut and Zander, 1993).

On the other hand, a competing argument suggests that firms with a higher degree of multinationality also face significant challenges due to, for example, cultural differences and coordination challenges across multiple markets (Andersen and Foss, 2005; Contractor, 2012). Given the divergent theoretical predictions on the M–P relationship coupled with heterogeneous firm- and country-specific factors, it is not surprising that empirical findings have been inconclusive. In attempts to bring further theoretical clarity to the M–P relationship, several meta-analytic studies addressing this relationship have been published recently (e.g. Marano et al., 2016; Kriauciunas and Kale, 2006; Kirca et al., 2011, 2012; Yang and Driffield, 2012). These studies have found a slight positive relationship between multinationality and performance. Further, the meta-analytic evidence suggest that the M–P relationship is moderated by contextual factors, such as industry type and firm size, by firm-specific assets, such as R&D and advertising intensity and by home country institutions. However, most of these studies have heavily focused on developed market (DM) MNEs and firm-specific factors without an explicit account for the institutional environment and its effects on MNEs' behavior and capabilities.

Institutional theory suggests that home country institutions play a key role in shaping firms' strategic decisions (DiMaggio and Powell, 1983; Kostova et al., 2008; Murtha and Lenway, 1994), including international activities and performance (Chacar et al., 2010; He and Cui, 2012; McGahan and Victer, 2010). Nonetheless, there is a dearth of research on how home country institutions influence the M–P relationship (Chao and Kumar, 2010; Hoskisson et al., 2013; Luo and Wang, 2012), particularly in the case of emerging market (EM) MNEs (Cuervo-Cazurra, 2015). In response to this, the objective of this study is to examine the M–P relationship from an institutional theory perspective and to attempt to answer the following research questions: (1) How do home country institutions affect the M–P relationship? (2) Do home country institutions affect the M–P relationship of MNEs from emerging and developed markets in the same way?

This study aims to fill an important research gap in the M–P literature by shifting the focus from internal firm-specific factors to an examination of how the home country institutional environment affects the M–P relationship. Moreover, considering that EM MNEs are characterized by their inception in weaker institutional environments (Khanna and Palepu, 1997), which are transitioning to greater levels of trade openness, industrialization, and economic growth (Hoskisson et al., 2000, 2013), this study addresses how emerging home country institutions influence MNEs' capacity to improve performance from their multinational investments.

We conceptualize the institutional environment based on Khanna and Palepu's (1997) seminal framework of the institutional environment, which includes 1) capital markets, 2) labor markets, 3) product market laws and regulations, 4) control of corruption and 5) trade openness. We empirically test the effect of these dimensions on MNEs' capacity to improve performance from increased multinationality using a state of the art multivariate meta-analytical technique (Van Essen et al., 2012). The final sample comprises 170 independent studies encompassing over 54,600 firms from 26 countries, which is split between 12 EMs and 14 DMs. The findings indicate that the M–P relationship is influenced significantly by home country institutional factors, and that there is a significant difference on these effects between emerging and developed markets. Most importantly, a stronger institutional environment generally leads to a more positive M–P relationship for firms from developed markets. However, the effect is not nearly as conclusive in emerging markets. In fact, we find a negative effect on the M–P relationship in emerging markets for labor flexibility and control of corruption.

This study makes several novel contributions to the literature. Most M–P meta-analyses (e.g. Kirca et al., 2011, 2012 Yang and Driffield, 2012) have focused almost exclusively on studies based on DM firms. Since we add a significant sample of studies from EMs, we are better able to compare how institutions affect the M–P relationship across different national settings. Therefore, this study provides evidence that MNEs from emerging economies have a different reaction to home country institutional developments in comparison to MNEs from developed countries, providing an important complementary perspective to the recent meta-analysis developed by Marano et al. (2016). These findings also support recent theoretical developments on institutions, which argues that countries possess different institutional settings capable of, either positively or negatively, affecting wealth creation (Judge et al., 2014). Our focus on Khanna and Palepu's (1997) set of relevant institutions capable of influencing MNEs' M–P provides a relevant contribution to the literature by showing that stronger home country institutions not always lead MNEs to a position of advantage in reaping the benefits from increased internationalization.

Providing a view of institutional characteristics' influence on the M–P relationship can help managers better understand how MNEs develop their international business activities, especially considering EM MNEs and their more unstable economic and political environments. Thus, this study provides relevant information to policy makers by revealing which home country institutional dimensions are more effective in enhancing MNEs' capacity to reap superior performance from international operations. A meta-analysis is also useful to shed light on current theoretical disputes (Hunter and Schmidt, 1990) given its capacity to aggregate many years of research. In this case, this meta-analysis improves our theoretical understanding of the M–P relationship by drawing attention to the importance of institutions as crucial environmental moderators. Our findings should also be valuable for managers and policy

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