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# A Tale of Two Concepts

Exploring the Relationship between  
Firm Performance and Multinationality

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### **Abstract**

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Despite being a pivotal topic over the past 50 years, the benefits and costs of internationalization are not well understood. A substantial body of research in international business, strategy, and general management is devoted to understanding firm internationalization and its connection to a firm's financial performance; however, results are inconclusive.

This thesis explores firm performance in relation to internationalization processes and, consequently, a firm's degree of multinationality. The aim is to critically assess the extant literature, evaluate prevailing underlying assumptions, and investigate the causal direction between the two key concepts: firm performance and multinationality. A sequential, multiphase research approach divides the research process into three consecutive phases – exploratory, confirmatory, and explicatory – allowing for a combination of methods, including a systematic literature review, fixed effects logistic regression on 13 years of unbalanced panel data, curvilinear OLS regression on panel data, and content analysis of pilot case studies. Together, this provides a holistic response to the research question: What role does firm performance play in relation to multinationality?

Findings reveal a paradigmatic bias in previous research, where authors propagate the ubiquitous causal assumption that multinationality affects firm performance. Instead, this thesis finds solid statistical support for a reversed causal relationship – firm performance drives multinationality. The theoretical arguments are derived from behavioral theories, including the resource-based view, the internationalization process model, and prospect theory. This thesis bridges organizational-level with individual-level theories, contributing to the discussion on managerial decision-making in the internationalization process.

*Keywords:* multinationality, firm performance, paradigmatic bias, performance-multinationality relationship, resource-based view, prospect theory, internationalization process model

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*To Benjamin, Joshua, and Joram*

Keep asking “why” questions



# List of Papers

This thesis is based on the following papers, which are referred to in the text by their Roman numerals.

- I. **Schmuck, A.**, Lagerström, K., and Sallis, J. (2022) Patterns of Inconsistency: A Literature Review of Empirical Studies on the Multinationality-Performance Relationship. *Critical Perspectives on International Business*  
A previous version of this paper was presented at the 43rd Annual Conference of the European International Business Academy, December 2017, Milan, Italy
- II. **Schmuck, A.**, and Hamberg, M. (working paper) International Activities and Corporate Performance in Founder-Controlled Firms.  
A previous version of this paper was presented at the 45th Annual Conference of the European International Business Academy, December 2019, Leeds, United Kingdom
- III. **Schmuck, A.**, Lagerström, K., and Sallis, J. (2022) Turning the Tables: The Relationship between Performance and Multinationality. *Management International Review*  
A previous version of this paper was presented at the 79th Annual Meeting of the Academy of Management, August 2019, Boston, Massachusetts, USA
- IV. Dredge, J. M, **Schmuck, A.**, and Park, C. (working paper) Reversing Tradition: The Impact of Performance on Internationalization Decisions in South Korea and Canada.  
A previous version of this paper was presented at the 44th Annual Conference of the European International Business Academy, December 2018, Poznań, Poland



# Contents

1. Introduction.....	11
1.1. Inconclusiveness in Previous Research.....	13
1.2. Causal Implications and Replication Studies .....	16
1.3. Purpose and Research Question .....	17
1.4. Research Approach .....	19
2. Theoretical Foundations.....	21
2.1. Behavioral Perspectives of the Multinational Firm.....	23
2.2. Managers as Decision-Makers under Uncertainty and Risk .....	26
2.3. Reflections on the Theoretical Foundations.....	28
3. Research Methods.....	31
3.1. Research Context.....	31
3.2. Operationalization of the Main Concepts.....	31
3.2.1. Multinationality .....	32
3.2.2. Firm Performance .....	34
3.3. Research Design.....	36
3.3.1. Exploration .....	36
3.3.2. Confirmation.....	37
3.3.3. Explication.....	39
3.4. Reflections on the Research Process.....	40
4. Summary of the Papers .....	43
Paper I – Patterns of Inconsistency: A Literature Review of Empirical Studies on the Multinationality-Performance Relationship .....	43
Paper II – International Activities and Corporate Performance in Founder-Controlled Firms.....	44
Paper III – Turning the Tables: The Relationship between Performance and Multinationality .....	45
Paper IV – Reversing Tradition: The Impact of Performance on Internationalization Decisions in South Korea and Canada.....	46
5. Conclusions and Contributions .....	49
5.1. Paradigmatic Bias in Academic Research.....	50
5.2. The Performance – Multinationality Relationship .....	52

5.3. Bridging Resource-Based View with Prospect Theory .....	53
5.4. Managerial Implications .....	54
5.5. Limitations and Directions for Future Research .....	55
Acknowledgements .....	59
References .....	63



# List of Tables

Table 1. *Overview of Research Questions* .....20

Table 2. *Summary of findings* .....48



# 1. Introduction

Concepts play a vital role in social sciences, as they are critical to the functioning and development of the field (Gerring, 1999, p. 359). Humans seek to understand reality through concepts that undergo continuous reconstruction (Weber, 1949, p. 105), as they allow translating a complex phenomenon into an abstract notion. It is through the use of concepts that one can analyze the phenomenon because concepts facilitate theory development (Suddaby, 2010) and theory testing (Sartori, 2009). By labeling the different aspects of an observed phenomenon and developing them into concepts, they become researchable (Sartori, 2009, p. 98). It is only by identifying the key elements of an idea, event, or phenomenon that researchers can propose or hypothesize about them and understand relationships between concepts, their underlying rationale, and basic assumptions (Tähtinen & Havila, 2019).

Multinationality and firm performance are two central concepts in the international business, strategy, and general management literature and are often used for theory building and theory testing. A substantial body of research in international business, strategy, and general management is devoted to understanding firm internationalization and its connection to a firm's financial performance. Within the literature, several researchers argue for international expansion, enabling firms to acquire cheaper resources, reduce capital costs, and diversify operations geographically (Benito, 2015; Dunning, 1993; Sapienza et al., 2006). This, in turn, reduces risk and increases leverage, which positively affects firm performance since they lower the total costs and increase productivity (Yang & Driffield, 2012). Researchers also discuss the adverse effects on firm performance. International expansion is risky and requires costly investments with high learning costs (Eriksson et al., 2015). In addition, it generates a more complex and culturally diverse organization that is difficult to manage (Lu & Beamish, 2004) and requires additional resources. Despite considerable attention over the past 50 years, the benefits and costs of internationalization are not well understood (Nguyen & Kim, 2020), and debates about an optimal level or degree of internationalization, also referred to as multinationality, are still ongoing.

*Multinationality (M)*, which is often used synonymously with a firm's degree of internationalization, can be defined as an umbrella term, indicating the degree of a company's multinational business (Annavarjula & Beldona, 2000). It is a frequently used concept in the international business, finance,

and management literature. As a result, several different labels<sup>1</sup> have emerged in the extant literature, all referring to and describing the same concept multinationality (Berry & Kaul, 2016; Kirca et al., 2011). The multinationality concept can be defined in terms of operations, ownership, and orientation. An operational classification, for example, refers to the extent to which a firm has its core operations outspread over multiple countries by basing production, sales, service, or R&D activities outside of the home country (Annavarjula & Beldona, 2000). An ownership classification refers to the number of assets (e.g., real estate, land, stock in other foreign companies), more specifically value-generating assets, owned by the company outside of its home country. Finally, an orientation classification refers to the attitude of the company and its management regarding vision, strategy, and structure. This variety of labels fosters conceptual confusion (Tähtinen & Havila, 2019), which is detrimental to theory development (Suddaby, 2010). In this thesis, the term multinationality refers to *the extent of a firm's operations outside its home country to carry out value-adding activities* (cf. Annavarjula & Beldona, 2000; Hitt et al., 2006; Lu & Beamish, 2004).

*Firm performance (P)* or corporate performance is a relatively uniform concept, in terms of labels. It refers to a firm's financial and operational development over a period of time (Richter et al., 2017). However, the concept is ambiguous, in terms of basic terminology and definitions (Venkatraman & Ramanujam, 1986, p. 801). Although firm performance is a central concept in international business and organizational research, it lacks rigorous application (Miller, Washburn, & Glick, 2013). There is a long and ongoing discussion amongst researchers that centers around conceptual and measurement problems of firm performance (see, for example, Chakravarthy, 1986; Eccles, 1991; Fryxell & Barton, 1990; Goodman & Pennings, 1977; Kanter & Brinkerhoff, 1981; Miller, Washburn, & Glick, 2013; Morgan & Strong, 2003; Richter et al., 2017). In this thesis, the term firm performance refers to *firm-level financial performance*, allowing for consistent longitudinal objective measures (cf. Hult et al., 2008).

It is a general underlying, and until now, rarely questioned assumption that there is a direct link between multinationality and firm performance (Contractor, Kundu, & Hsu, 2003). Several researchers claim that the association between multinationality and firm performance is the backbone of research within International Business (Glaum & Oesterle, 2007; Verbeke, Li,

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<sup>1</sup> Those labels include, for example, degree of internationalization (Sullivan, 1994), geographic diversification (Tan & Chintakananda, 2016), regional diversification (Qian et al., 2008), global diversification (Kim, Hwang, & Burgers, 1989), international geographic diversification (Outreville, 2012), scope of foreign operations (Thomas & Eden, 2004), international expansion (Hitt et al., 2006), international diversification (Benito-Osorio et al., 2016), and transnationality (Buckley & Tian, 2017).

& Goerzen, 2009). For example, the topic of multinationality and firm performance is considered as “one of the mainstays of studies of multinational enterprises and their strategies” (Tallman & Pedersen, 2012, p. 313). Interest in the two concepts is far from subsiding. Numerous conceptual papers (e.g., Contractor, 2012; Hitt, Hoskisson, & Ireland, 1994; Richter et al., 2017), several literature reviews (e.g., Cardinal, Miller, & Palich, 2011; Li, 2007; Nguyen & Kim, 2020), multiple meta-analyzes (e.g., Bausch & Krist, 2007; Kirca et al., 2011; Marano et al., 2016), and a plethora of empirical research findings<sup>2</sup> have been published on the topic of multinationality and firm performance. Despite this wealth of internationalization research, a consensus regarding the multinationality-performance relationship remains elusive (cf. Verbeke & Brugman, 2009). The results are diverse, complex, and often contradicting. They are described as “mixed” (Hitt, Hoskisson, & Kim, 1997, p. 768; Thomas & Eden, 2004, p. 89), “a failure to uncover a consistently signed relationship” (Bowe, Filatotchev, & Marshall, 2010, p. 440), “perplexing” (Hitt et al., 2006, p. 849; Tallman & Pedersen, 2012, p. 315), “inconclusive” (Nguyen, 2017, p. 312; Tallman & Li, 1996, p. 180), “inconsistent” (Ruigrok & Wagner, 2003, p. 64), “conflicting” (Annavarjula & Beldona, 2000, p. 48), “contradictory” (Batsakis et al., 2018, p. 152; Contractor, Kumar, & Kundu, 2007, p. 405), and “disappointing” (Hennart, 2007, p. 424; Tallman & Pedersen, 2012, p. 315). Even replication studies could not confirm previous results (e.g., Berry & Kaul, 2016). Nevertheless, researchers continue to contribute to this stream of literature, following the underlying assumptions of their predecessors. Hence, conclusions on whether it pays to be multinational cannot be drawn (Pisani, Garcia-Bernardo, & Heemskerk, 2020).

## 1.1. Inconclusiveness in Previous Research

Although the multinationality-performance relationship is one of the most researched and debated topics in the international business domain (Click & Harrison, 2000; Doukas & Kan, 2006), previous research has produced many disparate empirical findings. Since international diversification represents one of the key growth strategies of firms (Ansoff, 1965), most previous research focuses on the causal relationship between multinationality and firm performance. Anchoring in several theoretical explanations and empirical observations (Li, 2007), a multitude of different shapes for the multinationality-performance relationship are observed, identified, and argued for.

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<sup>2</sup> Appendix C in Paper I gives an overview of empirical studies on the multinationality-performance relationship.

Some authors find a *positive linear relationship* (e.g., Grant, 1987; Kotabe, Srinivasan, & Aulakh, 2002; Morck & Yeung, 1991). Although all of the authors utilize different analytical methods and underlying theoretical perspectives to explain their findings, their empirical investigations conclude that an increase in multinationality, meaning an international expansion, has a positive linear effect on the firm's performance. The intensity of R&D and the intensity of marketing moderate the slope of the multinationality-performance relationship (Kotabe, Srinivasan, & Aulakh, 2002). Moreover, an increase in multinationality positively affects firm performance because it increases market power and diversifies risk (Kim, Hwang, & Burgers, 1989).

Other authors find the opposite relationship between multinationality and firm performance, namely a *negative linear relationship* (e.g., Chen & Tan, 2012; Kim, Hoskisson, & Wan, 2004; Siddharthan & Lall, 1982). Foreign direct investment negatively impacts firm performance because of additional costs associated with staffing, establishing an internal management system, and facilitating an external business network (Singla & George, 2013). Arguments around the additional costs of doing business abroad, often called the liability of foreignness (cf. Hymer, 1960), are highly represented amongst scholars from the finance literature (e.g., Click & Harrison, 2000; Michel & Shaked, 1986).

When utilizing an analysis method that allows for curvilinear relationships, researchers find a *U-shaped relationship* (e.g., Capar & Kotabe, 2003; Contractor, Kumar, & Kundu, 2007; Lu & Beamish, 2001) between the internationalization process and firm performance. This is explained as being due to increased learning and organizational efforts, resulting in additional costs to overcome unfamiliar problems (Ruigrok & Wagner, 2003) that decrease initial returns. However, later on, the favorable economies of scale overshadow this adverse effect (Qian, 1997).

An *inverted U-shaped relationship* has also been found in previous research (e.g., Daniels & Bracker, 1989; Qian et al., 2008; Tallman & Li, 1996). While the establishment of international operations generates costs in the U-shaped model, in the inverted U-shaped model, the increased need for coordination activities creates the costs. Geringer, Beamish, and daCosta (1989) define this as the "threshold of internationalization," above which the threats to performance start to intensify, and hence, a negative slope is induced. The curvilinear effect that starts positive and then turns negative fits the theoretical arguments, partly from the transaction cost theory and partly from the resource-based view of the firm (Hitt, Hoskisson, & Kim, 1997).

These two models (the U-shaped model and the inverted U-shaped model) and their underlying arguments complement each other (Contractor, Kundu, & Hsu, 2003) and, therefore, can be combined in an overall *S-shaped relationship* (e.g., Hitt, Hoskisson, & Ireland, 1994; Lu & Beamish, 2004; Ruigrok, Amann, & Wagner, 2007). This S-shaped association between multinationality and firm performance is based on the idea that the positive effects

of internationalization (e.g., increased revenues or economies of scale) are reduced in the early stages of internationalization due to the firm's learning costs, the establishment in its new institutional setting (Contractor, Kumar, & Kundu, 2007), and due to other market barriers in the form of liability of foreignness (Johanson & Vahlne, 1977, 2009). Hence, the increase in costs resulted in an initial negative slope. In the next stage, the slope turns positive because previously made investments and costs now turn into the hoped-for benefits (Contractor, Kundu, & Hsu, 2003). Nevertheless, the slope turns negative again because when a certain threshold of internationalization is reached (Geringer, Beamish, & daCosta, 1989), the costs for strategic control increase to the extent that they exceed the benefits derived from shared resources and market opportunity exploitation (Gomes & Ramaswamy, 1999; Hitt, Hoskisson, & Kim, 1997).

An *M-shaped relationship* between the degree of internationalization and firm performance has been found (Almodóvar, 2012; Almodóvar & Rugman, 2014; Lee, 2013). The theoretical rationale argues for the relationship to undergo four phases. The first phase is referred to as the born-global illusion, characterized by opportunism and the illusion that foreign markets are assumed to be similar to home country markets (Lee, 2010). In the second phase, the liability of foreignness reduces firm performance. Next, in a third phase, the firm benefits from economies of scale since they have expanded into, and gained a knowledge of, foreign markets, which, in turn, reduces the liability of foreignness and increases performance. In the final fourth phase, drawbacks from internationalizing into too many foreign markets result in diseconomies of scale and also generate the liability of interregional foreignness (Lee, 2013).

In summary, there are several arguments for different shapes of the multinationality-performance relationship and the underlying theories in previous research. However, there is a tendency within previous research to utilize theories in various ways to explain diverse findings with the same arguments. For example, Morck and Yeung (1991) used internalization theory to explain the positive linear relationship between multinationality and firm performance, arguing that intangible assets are necessary for direct foreign investment to make sense. On the other hand, Capar and Kotabe (2003) used the same theory (together with the resource-based view and transaction cost theory) to explain the opposite, a U-shaped relationship. In this case, an increased level of multinationality would initially have a negative effect on performance until a certain point, where internalization effects would kick in and result in a positive effect on performance again. Although both studies utilized quite different research contexts and measurements that might explain the different outcomes, they nevertheless contribute to the inconclusiveness of previous research.

## 1.2. Causal Implications and Replication Studies

Most previous research focuses on the performance outcomes of multinationality, with scant attention being paid to empirically investigating performance as the antecedent of multinationality. The idea of a reverse relationship is discussed by, for example, Dowell, Hart, and Yeung (2000); Grant (1987); Lu and Beamish (2001, 2004); Morck and Yeung (1991), without further investigation. Although some studies have utilized appropriate methods to analyze causality between the two key concepts (e.g., Garbe & Richter, 2009), so far, there is only a limited amount of empirical studies that investigated and tested for either *simultaneous* (Grant, Jammine, & Thomas, 1988; Hong Luan, Singh, & Hua, 2013) or *reversed causality* (Jung & Bansal, 2009; Sun & Lee, 2013), revealing a bias towards the assumption of firm performance being an outcome of multinationality.

Replication studies do not bring clarity; rather, they create additional puzzles. To illustrate, Lu and Beamish (2004) are two of the most prominent empirical advocates for an S-shaped relationship, which is a combination of previously contradicting empirical findings of a U-shaped relationship (Lu & Beamish, 2001) with an inverted U-shaped relationship (Geringer, Beamish, & daCosta, 1989; Gomes & Ramaswamy, 1999; Hitt, Hoskisson, & Kim, 1997). They argued that the relationship is U-shaped for newly internationalizing firms that face liabilities of foreignness and newness but inverted U-shaped for well-established multinationals that face diminishing returns to multinationality and increasing coordination costs.

Lu and Beamish's 2004 study became widely cited and was replicated by Berry and Kaul in 2016. Berry and Kaul (2016) found no evidence of an S-shaped relationship, only supporting a marginally significant U-shaped association between multinationality and firm performance for the subsample of manufacturing firms. The different samples used by Berry and Kaul (2016) can explain the different results (Bettis, Helfat, & Shaver, 2016). However, their results suggest "that the search for a generalizable aggregate effect of multinationality on performance is open to debate" (Bettis, Helfat, & Shaver, 2016, p. 2199).

Abdi and Aulakh (2018) published an empirical study, where they also re-examined the empirical findings by Lu and Beamish (2004) and complemented it with their analysis using the sophisticated technique of propensity score estimators. For both sets of data, they found a primarily negative relationship between multinationality and firm performance, in contrast to what was argued by Lu and Beamish.

Pisani, Garcia-Bernardo, and Heemskerk (2020) conducted a large-sample, cross-national replication of both Lu and Beamish's 2004 study and Berry and Kaul's 2016 study. They found no evidence of an S-shaped relationship, either in the large sample of 64 countries or in any of the single-country contexts. The primary purpose of replication studies is not to overturn prior studies but



to provide additional evidence (Bettis, Helfat, & Shaver, 2016). Findings by Berry and Kaul (2016), Abdi and Aulakh (2018), and Pisani, Garcia-Bernardo, and Heemskerk (2020) offer additional empirical support to the stream of literature questioning the existence of a causal effect of multinationality on firm performance (e.g., Hennart, 2011; Li, 2007; Rugman, Nguyen, & Wei, 2016; Shaver, 1998; Verbeke & Forootan, 2012).

Although previous literature has argued that multinationality facilitates the exploitation of economies of scale, opens access to resources, and provides more learning opportunities, a clear positive or negative connection to firm performance was not been established (Hennart, 2007). Instead, theories are weakly developed (Hennart, 2007) and have been purposefully selected to explain certain aspects of an assumed relationship. On a conceptual level, multinationality and firm performance remain unrelated (Hennart, 2011). Moreover, firms choose strategies based on their attributes and industry conditions, and any strategic decision is endogenous and self-selected (Shaver, 1998), that is, the strategic decisions are specific to the firms. Several empirical studies have *failed to find a systematic relationship* between multinationality and performance (e.g., Borda et al., 2017; Brock & Yaffe, 2008; Haar, 1989; Rugman, Nguyen, & Wei, 2016).

In sum, previous literature has produced inconclusive results based on an underlying assumption of a direct effect of multinationality on firm performance, resulting in various identified shapes. Replication studies fail to replicate initial empirical findings, and the causal implications of the relationship between multinationality and firm performance are questionable.

### 1.3. Purpose and Research Question

While the variety in the results from previous research is not a problem per se, the inconclusiveness is problematic. After five decades of research on this topic, there are still no generalizable findings or conclusions on the nature of the multinationality-performance relationship. Furthermore, there are no indications of a theoretical rationale that would explain a generalizable multinationality-performance relationship (Verbeke, Li, & Goerzen, 2009). Possible reasons for the variety in previous findings are attributed to underlying theories (Wiersema & Bowen, 2011), measurement of the key concepts (Rugman & Oh, 2010; Verbeke & Forootan, 2012), or a lack of diversity in the research context (Nguyen, 2017).

It is crucial to question why firm performance is seen as the de facto outcome of internationalization. Only through a deeper consideration of the causal link between multinationality and firm performance can the relationship between the two concepts be fully understood (Hennart, 2011; Tallman & Pedersen, 2012; Wiersema & Bowen, 2011). Very few researchers have considered this explicitly (e.g., Hong Luan, Singh, & Hua, 2013; Jung &

Bansal, 2009; Sun & Lee, 2013). From an economic theory point of view, when in a competitive market, the firm's objective is to maximize profits (c.f. Coase, 1937). Hence, firm performance by default becomes the dependent variable in a model with multinationality as the independent variable. This explains why studies using transaction-cost theory (e.g., Chang & Wang, 2007; Garrido-Prada, Delgado-Rodriguez, & Romero-Jordán, 2019; Hitt, Hoskisson, & Kim, 1997), portfolio diversification theory (e.g., Ioulianou, Leiblein, & Trigeorgis, 2021; Michel & Shaked, 1986), or the eclectic paradigm (e.g., Andersen, 2012; Jain & Prakash, 2016; Riahi-Belkaoui, 1998), have followed the prevailing assumption. However, behavioral theories originating in the Carnegie School (Cyert & Marsh, 1963; March & Simon, 1958; Simon, 1957) recognize that managers may have other motives than profit maximization in their strategic decision-making. Nevertheless, firm performance has remained the dominant outcome variable in studies grounded in behavioral theories. Neglecting to investigate reverse or simultaneous relationships results in causal claims that are, in fact, only correlations. As a result, researchers are unconsciously biased towards confirming previous findings.

Another caveat is to remember that firms do not perform better simply because their multinationality has increased. Being multinational creates both benefits and costs. Firms attain better financial performance if they can take advantage of the benefits of multinationality and transfer them into something valuable (cf. Hult, 2011). At the same time, additional costs and financial risks are associated with internationalization (Barney, Wright, & Ketchen, 2001). Hence, benefits and costs must be critically assessed against possible risks. Although firms have developed several risk management systems to help managers (Hartmann et al., 2020, p. 393-410), they are still subject to risk perceptions (Kahneman, 2003). Managers' risk perceptions are likely to affect the strategic decisions concerning internationalization strategies and, in turn, the firm's future financial performance. Even if firms perform poorly, there are incentives for internationalization as a means of resource-gaining (Barney, 1991). Previous research has not addressed this phenomenon adequately, resulting in a need for further investigation.

The purpose of this thesis is to explore the financial performance of firms in relation to internationalization processes and to question the assumptions upon which the two concepts are most often related to each other. This leads to the following overarching research question:

What role does firm performance play in relation to multinationality?

The theoretical starting point is behavioral theory (Cyert & Marsh, 1963) because it takes an individualistic approach to economic phenomena (Gavetti, 2012). Behavioral theory focuses on managers and their decision behavior within the firm by emphasizing managerial thought processes. Since no single theory can fully explain all aspects of internationalization (Monaghan,

Tippmann, & Coviello, 2020), it is through theoretical pluralism (Lowe, Magala, & Hwang, 2012) and cross-level theorization (Cowen et al., 2022) that we can gain novel insights on the role of firm performance in relation to multinationality. The resource-based view emphasizes a strategic combination of tangible and intangible assets that allows the firm to create a sustainable competitive advantage, leading to increased profitability (Barney, Wright, & Ketchen, 2001). The internationalization process model emphasizes performance implications that play an essential role in firm resources when internationalizing. Although the resource-based view and the internationalization process model explain the rationale for resource-based decision-making, they do not account for the human complexities of decision-making under uncertainty and risk. To overcome this shortcoming, prospect theory (Kahneman & Tversky, 1979) explains managerial behavior in decision-making processes under high-risk conditions. Specifically, prospect theory describes human behavior when evaluating potential risks versus potential rewards. Combining the different theories allows for testing both directions of a causal relationship between multinationality and firm performance and contributes to the aim of developing a better understanding of the two main concepts, their relationship, and consequently a better view on the role of firm performance in an internationalization process.

## 1.4. Research Approach

In order to gain a comprehensive picture of the role of firm performance in relation to multinationality, it requires a research approach that allows for investigating the relationship from different perspectives. A sequential, multi-phase research approach (cf. Tashakkori & Teddlie, 2003) divides the research project into multiple consecutive phases that provide a holistic answer to the research question. Additionally, multiple data sets allow for triangulation (Brewer & Hunter, 1989, p. 83).

The first phase was exploratory, where previous research was scanned and analyzed to explore previous findings. With a search protocol similar to Sinkovics and Reuber (2021), Paper I presents a systematic literature review, utilizing content analysis and cross-tabulation using chi-square tests. It provides an overview of previous empirical research on the multinationality-performance relationship and lays the foundation for the subsequent papers in the thesis. The systematic comparison of findings from previous research concerning the nature of the multinationality-performance relationship allowed for identifying gaps and shortcomings in previous research. This exploratory research phase also permitted the investigation of multiple theories to develop a theoretical foundation for further research.

The second phase was more confirmatory as it facilitated theory testing within the predominant causal multinationality-performance relationship. As

founder-controlled firms perform better than other firms (Anderson & Reeb, 2003), Paper II investigates multiple aspects of multinationality with respect to firm performance for founder-controlled firms.

Revising findings from phases one and two led to the insight that causality has not been adequately addressed in the research process. Paper II contributes to the predominant causality of multinationality leading to firm performance, without questioning the underlying assumption about causality. Hence, to counteract the prevalent view that multinationality determines firm performance and gain a more holistic understanding of the interaction between firm performance and multinationality, the last research phase was dedicated to investigating reverse causality.

The third and final phase of the research journey was explanatory, where the reversed causal relationship between firm performance affecting multinationality was tested and explained. Paper III uses a competing model approach to test for causality. Finally, Paper IV further develops the findings of a reversed relationship into a conceptual discussion on the reasons behind the causal link.

In combination with the thesis summary, all four papers help fulfill the overarching purpose of this thesis, that is, to investigate the role of firm performance in multinationality. Table 1 provides an overview of the specific research focus of each paper and their relation to each other in the research process.

Table 1. *Overview of Research Questions*

Phase in the Research Process	Paper	Research Question
1 Exploratory	Paper I	Are there any patterns in the findings of previous literature that could explain certain shapes of the M-P relationship?
2 Confirmatory	Paper II	How do founder-controlled firms internationalize, and what effect does an increase in internationalization have on the performance of founder-controlled firms?
3 Explicatory	Paper III	What is the causal relationship between the two concepts multinationality and firm performance?
	Paper IV	How does performance influence decisions on internationalization strategy?
<b>Overarching Research Question:</b>		<b>What role does firm performance play in relation to multinationality?</b>

## 2. Theoretical Foundations

Whether gradual or fast, internationalization requires managerial decision-making (Schweizer, 2015; Schweizer & Vahlne, 2022; Vahlne & Schweizer, 2022). The existing mainstream theories in international business (e.g., foreign direct investment theory, resource-based view, eclectic paradigm, internationalization process model, internalization theory) leave our understanding of firm internationalization incomplete, as they do not sufficiently consider the manager's role. Hence, a behavioral approach contributes to a more holistic understanding of internationalization because managers' behavior within the firm is acknowledged and highlighted in the decision-making process (Surdu, Greve, & Benito, 2021).

With foundations in assumptions and concepts that emphasize managers' behavior in general and decision-making in particular, the Carnegie School and its behavioral theory of the firm (Cyert & Marsh, 1963; March & Simon, 1958; Simon, 1957) provides an important starting point. The term behavioral refers to the "psychological underpinnings of a given phenomenon" (Gavetti, 2012, p. 267). In other words, it emphasizes the mental processes within individuals and thereby takes an individualistic approach to economic phenomena.

Decision-making is often subject to bounded rationality (Simon, 1957), meaning that the rationality of the individual is limited in the decision-making process. Contrary to the rational choice model in neoclassical economics, behavioral theorists recognize that managers pursue other self-interest motives than pure firm profit maximization (Williamson, 1979). However, profitability remains one of the main goals of a firm (Cyert & March, 1992). Hence behavioral theory has its foundations in a bounded rationality view on decision-making and organizational behavior (Argote & Greve, 2007), where boundedly rational decision-makers seek satisfactory results (Aharoni, Tihanyi, & Connelly, 2011) in addition to maximizing profits. During this process, managers use heuristics that might lead to less-optimal decisions to cope with information overload (Bazerman & Moore, 2009). An ability to overcome bounded rationality problems results in a strategic advantage for the individual managers. Consequently, a strategic advantage for the firm as an organization arises, which can positively influence firm performance (Gavetti, 2012).

To fully understand internationalization, there is a need for cross-level theorization (Cowen et al., 2022) and theoretical pluralism (Lowe, Magala, & Hwang, 2012), as no single theory can fully explain all aspects of internationalization (Monaghan, Tippmann, & Coviello, 2020). The two central behavioral theories in this thesis are the resource-based view and the prospect theory. Combining those theories allows for a better understanding of resource-allocation decisions under uncertainty in internationalization processes, as well as for risk-evaluation as critical mental processes within individuals that influence firm behavior.

The resource-based view (Barney, 1991; Teece, Pisano, & Shuen, 1997; Wernerfelt, 1984) is one of the most prevalent descendants of behavioral theory. According to resource-based theorists, the strategic allocation of resources drives a firm's financial performance (Barney, 1991). By strategically combining tangible and intangible assets, which include the firm's processes, routines, information, knowledge, and management skills, the firm creates a sustainable competitive advantage, which, in turn, contributes to the financial performance of the firm (Barney, Wright, & Ketchen, 2001). However, the resource-based view does not explicitly claim previous experience and market knowledge affecting the internationalization process. Building on the theoretical resource-allocation arguments in the resource-based view, the internationalization process model (Johanson & Vahlne, 1977; Vahlne & Johanson, 2017) introduces and emphasizes previous experience and market knowledge as two crucial resources in the internationalization processes. Furthermore, the model suggests taking small and incremental steps in the internationalization process to avoid risks. Hence, it contributes to a more precise picture with theoretical foundations for resource allocation in an internationalization process with theoretical implications on an organizational level.

Prospect theory (Kahneman & Tversky, 1979; Tversky & Kahneman, 1992), on the other hand, addresses the human complexities of decision-making, ambiguity, and risk perception on an individual level. Initially developed in the field of psychology, it helps explain managerial behavior when confronted with evaluating risks versus rewards (Tversky & Kahneman, 1992). Risk perceptions of managers and their mental processes influence the performance outcomes of the firm. According to prospect theory, there is a more significant impact on the decision-maker for losses than gains (Barberis, 2013), which influences the decisions made in connection with internationalization (Levy, 1992).

While multiple economic and behavioral theoretical perspectives offer notable arguments for both benefits and shortcomings of internationalization and their effects on firm performance, it is through the combination of a resource-based view with prospect theory that theoretical advances can be made (cf. Coleman, 1990; Cowen et al., 2022). This combination of theories allows for a deeper understanding of the underlying individual mental processes of risk evaluation when decisions on resource allocation at an organizational level

need to be made in the internationalization process. Subsequently, introducing individual-level prospect theory to the organizational-level resource-based view broadens the understanding of the underlying mechanisms behind the multinationality – firm performance relationship.

## 2.1. Behavioral Perspectives of the Multinational Firm

In the *resource-based view*, the firm is seen as a collection of resources (Penrose, 1959). There is a higher focus on resource heterogeneity than on the external environment by exploiting a firm's internal strengths (Barney, 1991), which, in turn, reflects on a firm's competitive advantage. A resource-based view enables an understanding of the decisions made within firms to ensure their survival and future growth (Barney, 1991). The managers' task is to identify a firm's internal capabilities, competencies, and assets and make a strategic decision on resource allocation. When internationalizing, these tasks contribute to a competitive advantage in an international arena.

One of the main benefits of internationalization lies in the exploitation of firm strategic advantages, as well as assets in international markets. When actively internationalizing, firms critically evaluate their resources, and foreign market entries can be pursued due to firm-specific advantages or be induced by resource capabilities that present themselves in the international market (Barney, Wright, & Ketchen, 2001). Those resource capabilities are a unique combination of tangible and intangible resources, capabilities, skills, and know-how and come with a certain cost when being transferred (Kraaijenbrink, Spender, & Groen, 2010). Firms urgently need to attain resources and allocate them strategically because the initial steps of internationalization result in higher costs and risks (Barney, Wright, & Ketchen, 2001). One way to solve this is to finance the internationalization internally, using financial slack resources. This operational flexibility allows for increased revenues or economies of scale and scope. Any resource-gaining opportunity is of high value to a firm, furthering international expansion, which, in turn, allows for risk diversification.

From a resource-based perspective, the firm has to evaluate its current position in the market and strategically assess future moves in case of scarce resources. However, an allocation of new resources is also cost-intensive, and a primary objective for the firm is to sustain current operations. Therefore, the firm most likely delays any further steps for internationalization until slack resources become available (cf. Wernerfelt, 1984).

The link between resources and performance is theoretically flawed (Ketchen, Hult, & Slater, 2007) without considering a value-adding process. Resources and their allocation need to be converted into something valuable with the help of actions or behavior (Hult, 2011) before they can affect performance. The same goes for the concept of multinationality. Utilizing the

resource-based view in connection with multinationality would mean that resource allocation on a multinational level has to be transformed into something valuable first, which, in turn, has an effect on performance. The resource-based view argues that the configuration of a firm's idiosyncratic resources is related to competitive advantage but not necessarily to value appropriation or financial performance (Powell, 2014). Previous research investigating the relationship between multinationality and firm performance using the resource-based view mainly found a positive linear relationship (Fuad & Akbar, 2018; Kotabe, Srinivasan, & Aulakh, 2002; Li & Yue, 2008; Ramírez-Alesón & Espitia-Escuer, 2001; Tashman, Marano, & Babin, 2019) or an inverted U-shaped relationship (de Jong & van Houten, 2014; Pattnaik & Elango, 2009; Qian et al., 2008; Tallman & Li, 1996) between the two concepts.

Despite all the benefits that have been attributed to multinationality, an increase in internationalization is also associated with additional costs, which can result in a negative effect on firm performance (Gomes & Ramaswamy, 1999; Hitt, Hoskisson, & Kim, 1997; Michel & Shaked, 1986). Usually, additional costs due to internationalization result from liability of foreignness (Zaheer, 1995) that many firms are a victim of when internationalizing on a new and foreign market. Moreover, additional costs can also arise because of coordination difficulties and incentive misalignment in product diversification that also apply to internationalization (Bobillo, López-Iturriaga, & Tejerina-Gaite, 2010). All the additional costs connected to internationalization taken together can result in diseconomies of scale and can overshadow the positive effects of internationalization (Hitt, Hoskisson, & Kim, 1997; Tallman & Li, 1996).

Besides financial resources, experience and knowledge are seen as crucial resources for successful internationalization. This is particularly prominent in the (Uppsala) *internationalization process model* (Johanson & Vahlne, 1977, 2009; Vahlne & Johanson, 2017), where resources are created through a gradual and incremental internationalization process. A firm needs to perform well in one market before extending into a new market as a next step. The experiential knowledge developed through the internationalization process contains not only knowledge on the firm's international operations, but it also has the embedded capability to take advantage of this knowledge in an effective way (Brock & Yaffe, 2008). While the internationalization process might create instability, the gradual process allows for maintaining control over corporate resources and activities (Johanson & Vahlne, 1977).

The original internationalization process model from 1977, which suggests that the firm acquire knowledge and experience step-by-step before increasing foreign commitment in order to reduce firm-specific risk resulting in an incremental internationalization process, can be seen as the traditional theory for the internationalization of family firms (cf. Bobillo, Rodríguez-Sanz, &



Tejerina-Gaite, 2013; Claver, Rienda, & Quer, 2007). To increase firm-specific competitive advantage, a firm gathers deeper understanding and experiential knowledge about the new market, where it slowly builds up commitments, resulting in an underlying learning process before exports are made (Johanson & Vahlne, 1977). This is done to cope with a reality that is constantly changing, which induces ambiguity, uncertainty, complexity and risk to the decision-maker (Schweizer & Vahlne, 2022; Vahlne & Johanson, 2017, 2020).

Over the past four decades, Johanson and Vahlne have incorporated theoretical developments and acknowledged organizational and environmental change (Monaghan, Tippmann, & Coviello, 2020). As a result of this strong scholarship (Verbeke, 2020), the original 1977 model underwent two rounds of theoretical revisions: one in 2009 and one in 2017. There are two sets of variables in all three versions of the internationalization process model: state variables (describing observable conditions at a certain point in time) and change variables (describing actions happening between two different states). State variables affect change variables and vice versa, resulting in an iterative process. While the labels of the different concepts within the two variable categories have changed over the years, the fundamental interaction effects between the concepts remain the same.

In 2009, the internationalization process model shifted toward relationships and networks (Johanson & Vahlne, 2009). Consequently, Johanson and Vahlne updated the 1977-label “market commitment” to “network position” in 2009 to emphasize a firm’s position in the network of marketplaces. In 2017, the authors re-updated it to “commitments/performance” to emphasize the effects on the degree of foreign commitment and, in turn, on firm performance. “Commitments” in the 2017-model refer to the distribution of resources, the product line, countries, and relationships in which the firm has invested (Vahlne & Johanson, 2017). In the 2017-model, it becomes more apparent that performance implications have an essential influence on firm resources, as Vahlne and Johanson (2017, p. 1092) see capabilities and performance “as the ultimate outcomes of change.” An effect on firm performance, in turn, leads to an effect on operational and dynamic capabilities being available, and those state variables, taken together, become an outcome of the change process. Thereby, the internationalization process continues.

Despite the frequent updates, the internationalization process model does not cover whether the effects between the variables are positive or negative. To illustrate, previous research relying on the internationalization process model found a positive linear (Väätänen, Podmetina, & Pillania, 2009), negative linear (Chen & Tan, 2012), as well as M-shaped (Almodóvar, 2012) relationships between multinationality and firm performance. Moreover, it is not possible to make assumptions about specific causal relationships between the concepts in the internationalization process model, thereby losing the fundamental characteristics of a model (Håkanson & Kappen, 2017). Although

some might argue that the internationalization process model has transformed into a paradigm immune to empirical refutation (Håkanson & Kappen, 2017), it offers helpful theoretical argumentation and foundations for the internationalization process where experience and knowledge are considered essential resources besides financial resources for successful internationalization.

In sum, within the resource-based view and the internationalization process model, internationalization is seen as a resource-gaining opportunity. Good performing firms have the necessary slack resources to internationalize (Barney, Wright, & Ketchen, 2001). Consequently, financially better performing firms are able to reach higher levels of multinationality. Simultaneously, financially poorer performing firms do not have slack resources to allow internationalization (Tseng et al., 2007). A firm's performance is highly influenced by the quality and utilization of internal resources that can be either tangible or intangible to the firm (Annavarjula & Beldona, 2000). By carefully evaluating and allocating key resources, such as product diversity, knowledge, experience, financial resources, skilled labor, and organizational structure, entry barriers can be created that prevent competitors from entering the international market. Consequently, an internationalization process generates additional resources that in turn have a positive influence on the firm's overall financial performance.

## 2.2. Managers as Decision-Makers under Uncertainty and Risk

With a higher degree of internationalization comes higher risks and uncertainty. However, diversifying across different markets and increasing the level of multinationality also reduces risks, since the firm is less vulnerable to country-specific shocks (Hitt, Hoskisson, & Kim, 1997). In a similar vein, a high level of multinationality makes the firm less receptive to threats by competitors since it has multiple locations from which it can react (Kim, Hwang, & Burgers, 1989). However, to fully understand the strategic choices within firms' internationalization processes, a deeper understanding of the individual decision-makers and all behavioral responses to risks and opportunities is needed. After all, any decision made at the firm-level derives from the people comprising the organization (Coviello, 2015).

While the resource-based view is crucial in understanding the rationale for resource-based decisions made within firms to ensure viability, *prospect theory* (Kahneman & Tversky, 1979) can help explain the human complexities of decision-making and risk perception. As a behavioral theory from the field of psychology, it takes the manager's mind and biases into consideration and proposes an evidence-based explanation for choices under risk. As the first theory explicitly incorporating irrational behavior into a formal descriptive

theory (Kahneman, 2003), it is seen as “the first rational theory of irrational behavior” (Wakker, 2010, p. 2).

While risks can be seen as known probabilities (Knight, 1957), the unknown probabilities in the form of uncertainty and ambiguity required further attention. Tversky and Kahneman (1992) extended prospect theory from risk to uncertainty, making the theory well suited for analyzing uncertainty and ambiguity in a decision-making process (Wakker, 2010).

The core idea of prospect theory suggests that managers’ decisions arise from the potential value of losses and gains rather than the outcome (Kahneman & Tversky, 1979). Decision-makers are reference-dependent and loss-averse (Kahneman, 2003), meaning that their perception of potential gains or losses is dependent on their reference point. Like all other human beings, managers are more sensitive to losses than to gains of the same magnitude (Barberis, 2013). The sensitivity to losses is also present when the loss is relatively small – a human being is still more sensitive toward the possibility of a loss than the option of a possible gain. Thereby, prospect theory allows for the full spectrum of human complexity in a decision-making process under uncertainty, naturally integrating risk and ambiguity (Wakker, 2010).

Acknowledging that the individual decisions made by managers and their risk behavior are transitioned into decisions affecting the whole firm (Clarke & Liesch, 2017), prospect theory is helpful in studying risk-return relations at a firm level (Jegers, 1991). In general, firms in trouble are prone to take more significant risks than firms doing well (Fiegenbaum & Thomas, 1988), simply because the possibility of a loss is higher for a well-performing firm than for a troubled firm. Similarly, a financially profitable firm is less likely to engage in risky activities, such as seeking new strategic challenges, performing mergers and acquisitions, and investing in foreign markets (Hong Luan, Singh, & Hua, 2013; Singh, 1986). Firms take any further steps with caution, and they are less interested in seeking new strategic challenges (Barberis, 2013; Ketchen & Palmer, 1999). From a managerial perspective, there is no need for the firm to change a successful strategy as long as it does well (Hambrick, Geletkanycz, & Fredrickson, 1993). Consequently, the firm becomes subjected to the status quo bias, supposing that people adhere to status quo choices more frequently (Levy, 1992; Samuelson & Zeckhauser, 1988). As a rule of thumb in prospect theory, risk-averse behaviors are present at high levels of firm performance, while risk-seeking behaviors are present at low (including negative) levels of firm performance (Fiegenbaum & Thomas, 1988).

That a poorly performing firm shows risk-seeking behavior may seem counter-intuitive, but it may be a strategic move to improve the current position by adopting new, unproven, and risky strategies (Fiegenbaum & Thomas, 1988; Ketchen & Palmer, 1999; Wakker, 2010) and thereby gain competitive advantage. When confronted with only bad options, people become risk-seeking (Kahneman, 2011, p. 280), and consequently, the firm acts more daring.

Thus, the firm has not much more to lose, and the stakes of performing better outweigh the risks.

Focusing on internationalization as a strategic maneuver for a firm is risky (Caves, 1996). It is not only a time-consuming and costly process, but the firm also has limited knowledge of new international markets and would have to gain experiential knowledge in order to succeed. Moreover, the likelihood of failure due to lack of knowledge is always a dominant and considerable risk that firms experience (Hong Luan, Singh, & Hua, 2013; Jung & Bansal, 2009). Those risks, taken together, may make the possible gains of an internationalization non-existent or negative (Mtigwe, 2006). Hence, prospect theory helps to understand the behavior of a firm performing at low or negative levels and, nevertheless, invests highly in internationalization. Previous research utilizing prospect theory to theorize about the relationship between firm performance and multinationality argued for an antecedental role of firm performance and found an inverted U-shaped effect (Jung & Bansal, 2009).

Contrary to the resource-based view and the internationalization process model, prospect theory sees internationalization as a risky endeavor, instead of a resource-gaining opportunity (Jung & Bansal, 2009). Hence, a financially better performing firm acts at lower levels of multinationality to minimize possible risks associated with the internationalization process. Furthermore, if the firm is satisfied with the existing performance, it avoids additional risk-taking to conserve earned gains (Sitkin & Pablo, 1992).

### 2.3. Reflections on the Theoretical Foundations

As the resource-based view with the internationalization process model, and the prospect theory rest upon common underlying assumptions and share the same behavioral foundations, they are considered to be compatible (Okhuysen & Bonardi, 2011, p. 7). However, combining theories with two different levels of analysis is not unproblematic. The resource-based view and the internationalization process model make theoretical assumptions at an organizational level, while prospect theory has theoretical assumptions at an individual level. However, it is essential to remember that it is not a firm that is the decision-maker (although it is portrayed, communicated, and empirically measured in that way). Instead, managers (either individually or in a team) make decisions for the firm that have implications on an organizational level. Thus, while the organizational level presents a research problem that requires further investigation, it is only on an individual level that we can make observations that help us understand the organizational level (Coleman, 1987, p. 153-154).

Several calls for micro-foundations for the resource-based view have been made previously (e.g. Foss, 2011; Foss & Linder, 2019), asking for bridging the organizational with the individual level. Thereby, there is a potential for a better understanding of complex challenges (Cowen et al., 2022).

The resource-based view explains the relationship between resources and firm performance. However, it operates best in low uncertainty markets, as managers can leverage from strategically valuable resources from current markets (Furr & Eisenhardt, 2021). Moreover, uncertainty is nevertheless a crucial boundary condition for the resource-based view (Furr & Eisenhardt, 2021) that requires more attention.

Admittedly, the internationalization process model has room for decision-making under uncertainty (Vahlne, Hamberg, & Schweizer, 2017) and risk (Schweizer & Vahlne, 2022). For the first time, the 2017- version of the internationalization process model explicitly addresses risk, uncertainty, and partial ignorance. However, it nevertheless remains a model at the firm level. *“In our model, we consider knowledge to be vested in the decision-making system. We do not deal explicitly with the individual decision-maker”* (Johanson & Vahlne, 1977, p. 26). This statement has not been refuted in the revisions of the model, although the model implicitly deals with the individual manager’s role as an essential element of learning and trust (Vahlne & Schweizer, 2022).

Risk perception and uncertainty operate on an individual level. When internationalizing, genuine uncertainty is present, which cannot be overcome by collecting more information or gaining more experience (Hilmersson & Jansson, 2012), as suggested by the internationalization process model. Therefore, the managers’ risk perception needs to be considered when discussing the internationalization processes of firms since managers’ risk perception and risk-averse or risk-seeking behavior highly influence strategic decision-making (cf. Figueira-de-Lemos, Johanson, & Vahlne, 2011). Hence, prospect theory facilitates a better understanding of the dynamics on an individual level, while the resource-based view and the internationalization process model help explain the effects on the internationalization process. The authors themselves (Vahlne & Johanson, 2020, p. 8) make room for assumptions of prospect theory in the 2017-version of the internationalization process model.

Monaghan, Tippmann, and Coviello (2020, p. 20) said that “the nature of internationalization is that no one theory or set of arguments is fully explanatory.” There is a need for theoretical pluralism (Lowe, Magala, & Hwang, 2012) and cross-level theorizing (Cowen et al., 2022) to understand the internationalization process. Combining the resource-based view with prospect theory allows for new assumptions on the relationship between multinationality and firm performance, advocating for treating firm performance as the antecedent to multinationality. Previous research has mainly treated performance as the outcome variable in an internationalization process. Although resources are the crucial factor for decision-making on internationalization, the financial performance of a firm still remains the outcome, instead of the antecedent variable.



### 3. Research Methods

To identify what role firm performance plays in relation to multinationality, the research project relied on a sequential, multiphase research approach (cf. Tashakkori & Teddlie, 2003), consisting of three consecutive phases: exploration, confirmation, and explication. This allowed for investigating the overarching research question from different angles, permitting for triangulation (see Brewer & Hunter, 1989, p. 83). These three phases resulted in four academic papers with specific research questions and individual method descriptions. This chapter focuses on the overall research process for the development of this thesis, aiming to provide a comprehensive overview and discussion of the general research design.

#### 3.1. Research Context

The main empirical context in this research is multinational firms, since the concept of multinationality is not relevant to domestic companies. A multinational firm, also referred to as a multinational enterprise, is defined as “an enterprise which owns and controls activities in different countries” (Buckley & Casson, 1976, p. 33). It is also referred to as “a firm with value-added activities in at least two countries” (Rugman & Verbeke, 2001). Building on these definitions, I consider a multinational firm to have several facilities pursuing value-added activities in at least one other country than its home market.

The nature of the multinational firm has been extensively investigated (e.g., Forsgren, 2017; Ghoshal & Bartlett, 1990). Previous research on the multinationality-performance relationship has focused on multinational firms of all sizes, from international new ventures to small- and medium-sized firms to large publicly listed firms. Hence, this thesis has not only focused on one specific size of firm, but also investigated a variety of different sizes.

#### 3.2. Operationalization of the Main Concepts

Before investigating how multinationality and firm performance are related to each other, the concepts needed to be turned into measurable observations to ensure comparability and reliability. Both concepts needed to be empirically

operationalized in a way to warrant validity and appropriateness to the research question (Hambrick, 1980). Although no generally accepted approach for measuring multinationality or firm performance has been developed, various researchers have agreed on best practice measurements to allow comparability with previous research. The ratio of foreign sales to total sales is the most frequently used single measurement for multinationality, while firm performance is most often measured as the return on assets (see Paper 1). However, both concepts deserve a deeper discussion of their operationalization.

### 3.2.1. Multinationality

As a consequence of the variety in labels, the concept of multinationality has been operationalized and measured in multiple ways, mainly depending on the definition of the concept used by the authors.<sup>3</sup> In general, there are three types of classification in previous literature: operational, ownership, and orientation (Annavarjula & Beldona, 2000).

The *operational perspective* refers to the extent to which a firm has its core operations outspread over multiple countries. This predominant view in previous literature has resulted in various suitable measures, depending on the definition of multinationality. For example, a sales-based understanding of multinationality demands taking the ratio of foreign sales to total sales as a suitable measurement (e.g., Ruigrok & Wagner, 2003). On the other hand, defining multinationality as “[the] extent to which firms operate beyond their national border and benefit from product and geographical diversifications through economies of scale and scope” (Kotabe, Srinivasan, & Aulakh, 2002, p. 80) would demand different measurements, such as the ratio of foreign income to total income (e.g., Kotabe, Srinivasan, & Aulakh, 2002), the ratio of foreign employees to total employees (e.g., Contractor, Kundu, & Hsu, 2003), or the ratio of foreign offices to total offices (e.g., Singla & George, 2013). Counting the number of foreign subsidiaries (e.g., Ral-Treback, Eckert, & Dittfeld, 2018) is another prominent count-based measurement for multinationality.

The *ownership perspective* refers to the amount of value-generating assets owned by companies outside their home country. The ratio of foreign assets to total assets (e.g., Kirca, Fernandez, & Kundu, 2016) is a prominent measure for this type of operationalization.

The *orientation perspective* refers to the attitude of the company and its management regarding vision, strategy, and structure. Measuring this conceptualization can be tricky; therefore, it is not surprising that the first two kinds

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<sup>3</sup> A detailed account of measurements for multinationality in previous research can be found in Appendix C in Paper 1.



of classifications are more dominant. However, strategic orientation also affects the likelihood of a firm being multinational or increasing an already existing degree of multinationality (Liu, Li, & Xue, 2011).

In addition to the three classification types, the measurements of multinationality can be divided into two broad categories: scale measures and scope measures (Rugman & Oh, 2011). *Scale measures* capture the ratio of foreign to total, presenting a clear indicator of international activity that is separate from domestic activity (Rugman & Oh, 2011). They include the ratio of foreign sales to total sales, the ratio of foreign income to total income, as well as the ratio of foreign assets to total assets. The ratio of foreign employees to total employees provides information about the labor market and can be seen as a relevant scale measure. *Scope measures*, however, can be misleading. They rely on counts of the number of foreign countries a firm has operations in, treating each country of equal size and thereby do not account for the depth or extent of multinationality (Rugman & Oh, 2011). For example, the number of foreign subsidiaries, the ratio of foreign subsidiaries to total subsidiaries, and the number of countries in which a firm has subsidiaries are typical scope measures applied in previous research. On the other hand, scope measures are helpful to capture the breadth of multinationality (Thomas & Eden, 2004), capturing the geographic range of a firm's international presence (Goerzen & Beamish, 2003).

Although scope measures are pervasive in previous research, most of the previous research has used the ratio of foreign sales to total sales as the single measure for multinationality, simply because of its availability, objectivity, and replicability. However, this single measure only captures a part of the key concept, which might result in a concept validity problem (Sullivan, 1994). To counteract sample, systematic, and random bias, Sullivan (1994) proposed a multidimensional measure for multinationality. His multidimensional measure added attitudinal attributes to scale and scope measurements, which caused more confusion than clarification (Nguyen & Kim, 2020). It consists of the ratio of foreign sales to total sales, the ratio of foreign assets to total assets, the ratio of overseas subsidiaries to total subsidiaries, the psychic dispersion of international operations, and the top managers' international experience. It was not very successfully employed in the studies that followed and was highly criticized for its lack of standardization and marginal evidence of reliability, content validity, and criterion validity (Ramaswamy, Kroeck, & Renforth, 1996).

Another theme for critique concerns the lack of measuring the direct effects of multinationality. Multinationality is a multi-faceted concept that has many benefits and disadvantages for a company. Assuming but not measuring nor accounting for the type of benefits or drawbacks multinationality has on the company should be considered a shortcoming in every empirical study (Verbeke & Forootan, 2012, p. 335).

The multitude of different definitions and measurements creates a problem for the comparability of findings. Firstly, since multinationality is a concept with many facets, understanding it and its implications on firm performance becomes challenging. Especially concerning that different measures leads to a difficulty in validating previous research (i.e., are we measuring what we hope to measure and what we think we are measuring?). Since much of the previous research has focused on using single measures for multinationality and mostly ignored the multidimensional measures suggested by Sullivan (1994), it becomes difficult to judge if multinationality has been measured and not just one aspect. Yes, Sullivan received critique for his multidimensional measures, but besides the critique, literature so far has failed to establish standardized measures that capture all the aspects of multinationality.

Although scope measures are easily attained from, for example, annual reports, they lack theoretical justification (Rugman & Oh, 2011) and fail to capture the breadth and dispersion of multinationality (Nguyen & Kim, 2020). Scale measures, on the other hand, present a clear differentiation between international and domestic activities and are relatively accessible (Rugman & Oh, 2011). Consequently, in this thesis, I follow the example of previous research and rely on the ratio of foreign sales to total sales as a mainstream scale measurement for multinationality, focusing on the depth of multinationality over the breadth. Applying multidimensional measures for multinationality would be preferable to capture all dimensions connected to the concept. For reasons related to accessibility and comparison, I limit my operationalization to mainstream scale measurements in this thesis.

### 3.2.2. Firm Performance

The multifaceted nature of firm performance requires measurements that capture the spectrum of the concept – a shortcoming in previous literature (Hult et al., 2008). Ideally, researchers should use both primary and secondary data sources, measure multiple performance types, and utilize a longitudinal approach for data collection (Hult et al., 2008). This suggestion, however, can be challenging to implement since data availability more often navigates the researcher toward easily accessible accounting-based measures. Moreover, previous research primarily relied on overall financial performance measures, missing out on capturing operational performance (Richter et al., 2017).

A broad range of *accounting-based measures* (e.g., return on assets, return on sales, return on equity) have been employed in previous studies. Building on accounting principles, accounting-based measures often refer to profitability ratios and are past-oriented (Dittfeld, 2017). Although they are criticized for the possibility of managerial manipulation (Morck & Yeung, 1991), they nevertheless are the most commonly used measures in previous literature (Nguyen & Kim, 2020).

*Market-based measures* (e.g., risk-adjusted returns, Tobin's Q) are future-oriented and take the view of the investors with a focus on risk considerations (Nguyen & Kim, 2020), making them a poor and inadequate proxy of true performance (Verbeke & Brugman, 2009).

*Operational measures* (e.g., sales growth) focus on key determinants of success that might lead to financial performance (Venkatraman & Ramanujam, 1986), failing to capture the actual financial performance of a firm. Together with *overall effectiveness measures* (e.g., reputation, survival, and a firm's performance relative to competitors), which are strategic in nature, they have been less used in previous empirical research on the multinationality-firm performance relationship (Li, 2007; Nguyen & Kim, 2020)

In the majority of previous studies, it was an either-or decision between accounting-based measures and market-based measures, although accounting-based measures proved to be the more favored. Studies that used both accounting-based and market-based measures for performance in one study are criticized for not taking into consideration the idiosyncratic differences between the measures for each individual firm (Verbeke & Brugman, 2009). In the majority of previous studies, only accounting-based measures were used, mainly due to the availability of data.<sup>4</sup> One might argue that this would facilitate the comparison between studies and findings. However, those accounting-based measures displayed a huge variety (including return on assets, return on assets pre-tax, return on assets after-tax, return on sales, return on sales after tax, return on equity, ratio of operating costs to sales, ratio of sales to operating costs, return on net assets, operating costs to total sales, operating profit margin) which increased the difficulty of comparing findings and results between studies. This leads to the problem of heterogeneity among the accounting-based measures and an increased difficulty in comparing different studies. Only a few scholars have relied on survey data with Likert-scales as a measurement for firm performance (e.g., Lu et al., 2015). However, those measures are highly subjective and may lead to a common method bias problem, wherefor financial measures are preferable to ensure objectivity and avoid common method bias.

In this thesis, I use the term firm performance to refer to firm-level financial performance. Treating firm performance as an aggregate construct would be preferable (cf. Miller, Washburn, & Glick, 2013) because it would allow to acknowledge the complexity of the construct due to multiple components that need to be considered. However, this holistic view would have been difficult to compare to the definitions and concepts used in previous research. For the sake of comparison, I therefore limit my operationalization to accounting-based measures of financial performance in this thesis.

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<sup>4</sup> A detailed account of measurements for firm performance in previous research can be found in Appendix C in Paper I.

### 3.3. Research Design

The nature of the overarching research question in this thesis suggested both exploratory and causal research designs. A sequential mixed model design (Tashakkori & Teddlie, 2003, p. 687) allowed for different angles to investigate the relationship between multinationality and firm performance. Like other multi-strand designs, the sequential mixed model design utilizes more than one research method or data collection procedure (Tashakkori & Teddlie, 2003, p. 685) and divides them into different strands or phases. The inferences of one phase in the research process allowed for developing questions that inspired the next phase. This enabled a more dynamic approach to the research design, permitting the use of quantitative and qualitative methods in three different, consecutive phases of the research process to influence each other (Newman & Ridenour, 2008; Tashakkori & Teddlie, 2009). Moreover, the chosen design acknowledged that the data collection and analysis are influenced by the previous phase in the research process, permitting continuous learning and flexibility in the research design.

The three consecutive phases in my research process were exploration, confirmation, and explication. Findings from the first exploratory phase laid the foundation for the second confirmatory phase. Consequently, the third and last explicatory phase in the research process tried to find explanations for the results of the previous two research phases.

Following a sequential mixed model design with three consecutive phases added to triangulation in the research design, which facilitated the investigation of the phenomenon of multinationality and firm performance from different angles (Bryman & Bell, 2015, p. 402). Consequently, another prerequisite of triangulation was satisfied, as the same research question was addressed with multiple data sets from various angles (Brewer & Hunter, 1989, p. 83).

#### 3.3.1. Exploration

The first phase of the research process was descriptive and exploratory. With an open mind and the help of a systematic literature review method<sup>5</sup> (Snyder, 2019), I explored previous literature in the search for a better understanding of the variation in results and findings. The systematic literature review allows for maintaining structure and transparency in examining the literature (Jones, Coviello, & Tang, 2011; Snyder, 2019). Findings from this quest for a better understanding of prior research resulted in several research gaps summarized in Paper I and addressed in the subsequent papers in this thesis.

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<sup>5</sup> A full description of the systematic literature review procedure, including a detailed account of search protocols and inclusion/exclusion criteria, is presented in Paper I.

This research phase aimed to understand prior research in-depth and identify possible reasons behind the conflicting findings. A thoroughly conducted systematic literature review also allows for identifying inconsistencies in previous research and can provide potential explanations (Palmatier, Houston, & Hulland, 2018). Thus, it has a high potential to substantially contribute to theoretical, conceptual, and methodological developments (Hulland & Houston, 2020).

Since the concepts of multinationality and firm performance are very prominent topics within international business, marketing, and strategy, a simple snowball sampling for a literature review would not do justice to a large amount of previous research. There would be a risk of only including the most cited papers, which would result in a bias toward the most popular stream of discourse within the literature. Moreover, there would be a risk of not detecting relevant research. Therefore, a systematic approach was chosen to guarantee the literature review's validity, reproducibility, and reliability (Tranfield, Denyer, & Smart, 2003). With a chosen set of inclusion and exclusion criteria, the systematic literature review allowed for a more structured and objective approach when searching for literature to be collected into a database (Snyder, 2019). It also provided "an integrated [and] synthesized overview of the current state of knowledge" (Palmatier, Houston, & Hulland, 2018, p. 2). The systematic literature review method also relied on a multi-step iterative process for data collection, ensuring robustness and rigor in the literature review by eliminating the subjectivity in data collection and analysis (Zahoor et al., 2020).

This method laid a strong foundation for exploring novel ideas, identified key variables for future analysis, and established necessary knowledge for planning the research design in the following phases. Hence, the literature review in Paper I identified inconsistencies, spotted gaps in previous research, and developed research questions aimed at the forefront of the field. It was the groundwork for the subsequent research phases and provided a platform for future research (Paul & Criado, 2020). It thereby contributed to developing a deeper understanding of previous research, both in-depth and breadth, while simultaneously responding to calls for strengthening the methodology of reviews in business and management studies (Child, Karmowska, & Shenkar, 2022; Keupp, Palmié, & Gassmann, 2012; Tranfield, Denyer, & Smart, 2003).

### 3.3.2. Confirmation

The second phase in the research process was confirmatory, in the sense that hypotheses following the assumption of a causal relationship between multinationality and firm performance were tested. Findings from the first exploratory research phase shifted the attention to investigating the multinationality-performance relationship in a previously unresearched context, namely founder-controlled firms. Paper II tested if the hypothetical causal relationship

holds for firms that are influenced by decision-makers with exceptionally strong personal motives and an overall better performance than other firms (Anderson & Reeb, 2003; Hamberg, Fagerland, & Nilsen, 2013; Isakov & Weisskopf, 2014; Villalonga & Amit, 2006).

Within the existing literature, there is a need to use longitudinal data with an adequate time frame over cross-sectional data (Contractor, 2012; Tallman & Pedersen, 2012). Therefore, the dynamic relationship between multinationality and firm performance is to be tested with longitudinal data, as cross-sectional data can only provide information on firms having specific levels of multinationality and certain levels of firm performance simultaneously, which does not allow for measuring the effects between multinationality and firm performance (Verbeke & Forootan, 2012), nor can any statements about causality be made. To test causality in the multinationality-performance relationship (cf. Nguyen, 2017; Verbeke & Forootan, 2012), panel data analysis was the most suitable one. Hence, Paper II and Paper III are based on an extensive longitudinal database that provides unbalanced panel data for Swedish publicly listed firms on the OMX Nasdaq Stock Exchange in Sweden between 2001 and 2013.

Data<sup>6</sup> was collected manually, and the methodology followed established protocols (see Vural, 2017). Briefly, manually collecting data from the annual reports ensured higher accuracy and control in defining variables and constructing measurements. Annual reports were obtained from the firms' websites and facilitated the collection of mainly two types of data: (1) data concerning the firm's international activities and (2) information about the firm's domestic and international acquisitions. The Compustat Global database served as the source for the accounting data, and the Thomson Reuters Eikon database provided capital market information. Moreover, ownership data was used in Paper II and was extracted from the annually prepared book *Ägarna och Makten i Sveriges Börsföretag* [Owners and Power in Sweden's Listed Companies], published by SIS Ägarservice AB.<sup>7</sup>

Firms from all industries were represented in the initial sample. However, financial, investment, and real estate firms were excluded since the other industries differ significantly from the business environment of those firms. In the next step, firms not domiciled in Sweden and firms with only non-Swedish operations were excluded. In some cases, there was missing data, or annual

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<sup>6</sup> Other aspects of the data in this thesis have been used in other research projects, see, for example, Cieslak, Hamberg, and Vural (2021); Frank (2017); Hamberg, Fagerland, and Nilsen (2013); Vural (2017).

<sup>7</sup> The book *Ägarna och Makten i Sveriges Börsföretag* [Owners and Power in Sweden's Listed Companies] was published annually by SIS Ägarservice AB between 1985 and 2015. Data collection was limited to the period 2001–2013 (Fristedt, Sundin, & Sundqvist, 2003; Fristedt & Sundqvist, 2004, 2005, 2006, 2007, 2008, 2009; Sundin & Sundqvist, 2001, 2002; Sundqvist, 2010, 2011, 2012, 2013).

reports were unavailable for different reasons. Those cases were excluded as well. The sample was also limited to firms that stated having Sweden as their home market. The final sample consisted of 2055 firm-year observations for 252 unique firms. There was a variation in the number of firms per year due to the unbalanced panel data. Possible reasons include new listings, delisting, bankruptcy, or acquisitions. In Papers II and III, the samples have been reduced even further due to specific data missing. Although the data is the same, it was not used the same way in the papers. In Paper II, the data was used for confirmation, while in Paper III, the data was used for explication.

### 3.3.3. Explication

The third phase in the research process was explicative, where a reversed causal relationship between firm performance and multinationality was tested and explained. The design of this phase was similar to a mixed-methods sequential explanatory design (Ivankova, Creswell, & Stick, 2006) since first quantitative and then qualitative data was collected and analyzed in two consecutive steps. This permitted a better understanding of the research problem (Creswell, 2005; Tashakkori & Teddlie, 2003). The main advantage of this explicatory research phase was that quantitative data analysis was followed by qualitative data analysis, which facilitated a more robust overall analysis when combined (Greene & Caracelli, 1997; Miles & Huberman, 1994).

After reviewing the previous literature in the first exploratory phase of the research process, a critical shortcoming emerged – a paradigmatic bias toward a causal relationship between multinationality and firm performance. To counteract this bias, the explanatory research design of the last phase in the research process started with recognizing the role of the manager through individual level theory, which changed the overall perspective on the relationship between multinationality and firm performance, in the sense that managerial level decisions about multinationality were driven by performance. Paper III tested for the reversed causal relationship between multinationality and firm performance, with the help of competing models, and a quantitative analysis of unbalanced panel data logistic regression fixed effects models. Adding a new theoretical lens, prospect theory, explained the findings of a reversed causal relationship, that is, of firm performance being the antecedent to multinationality. In the next step, two pilot case studies were conducted to illustrate conceptual arguments with practical examples (see Paper IV). Therefore, in this last phase of the research process, a between-method triangulation approach (Denzin, 1970) was utilized. Combining the quantitative research methods from Paper III with the qualitative research methods in Paper IV provided a complementary set of findings than would have been possible by only utilizing one set of methods. Thus, the validity of the findings is strengthened because the findings of the quantitative methods were cross-checked with and confirmed by the findings of the qualitative methods.

To arrive at the conceptual model and consequently postulate the proposition, it was necessary to understand the complex phenomenon (Yin, 1984). Hence, pilot case studies were a helpful tool if the phenomenon is not fully discovered or understood (Eisenhardt, 1989). Moreover, utilizing multiple case studies allowed for a between-case comparison (Eisenhardt, 1989; Yin, 1984). In the case of Paper IV, the two pilot case companies were used for illustrative purposes and to strengthen the arguments presented in the propositions. Choosing pilot case studies as a qualitative method was also necessary to make claims about managers' risk perception. The research focus in Paper IV is on a managerial level, with the aim of understanding the reasoning in strategic decision-making. Quantitative methods would not allow for capturing these processes and reasonings. Hence, a qualitative method in the form of a pilot case study was needed.

Due to the interpretive nature of case study data, careful considerations were employed concerning the data collection process (Gerring, 2007). The selection of suitable cases followed a theory-driven selection process (Fletcher et al., 2018), which made it possible to "... refine, enhance, advance, and generally stimulate theory by focusing on theory" (Schwarz & Stensaker, 2014, p. 479).

Based on the best fit with transparent observability of the topic of interest, the potential for learning, and the representativeness of the case (Eisenhardt, 1989), two SMEs were selected as suitable pilot cases. Data was collected through semi-structured interviews, accompanied by follow-up interviews. To capture emerging issues and avoid any potential bias through the interviewer in the data collection process, interview questions were kept open-ended (Silverman, 2012). At the beginning of the interviews, a researcher explained the purpose of the research to the initial company contacts, who then suggested suitable participants for the study. Moreover, there was a period of familiarization with the organization and the interviewees to understand the specificity and rationale for the data collection. Subsequently, subject reliability during the interview was increased (Randall & Gibson, 1990).

The systematic and objective analytical method of content analysis was used to test the propositions against the collected and compiled case study data. More specifically, the qualitative content analysis allowed for identifying patterns within the body of research (Harwood & Garry, 2003). Multiple researchers coded all interview data to assure the quality and reliability of the defined codes. Data analysis underwent several coding steps on an initial level and an aggregated level to finally arrive at first-level codes.

### 3.4. Reflections on the Research Process

The sequential mixed model design with three consecutive phases allowed for continuous learning throughout the research process. Findings, insights, and



questions that arose during the first and second phases impacted the final phase of the research process.

In the first exploratory phase, I developed a basic understanding of the research field. The magnitude of different research settings, theories, and shapes of the multinationality-performance relationship in previous literature was initially overwhelming, which led to the need for a structured overview in the search for possible patterns that would explain the variety in different findings (see Paper I). After completing the initial phase of the research process, I was equipped with more knowledge about the two key concepts, their definitions, and operationalization. However, I was still confused about their connection with each other, especially about why the relationship had so many different shapes.

In the search for more clarity, the second confirmatory phase aimed to test the theory in a previously unresearched context. Paper II investigated the multinationality-performance relationship for founder-controlled firms, in the hope of contributing to the commonly agreed upon causal relationship of multinationality affecting firm performance. Indeed, Paper II confirmed a positive linear relationship between multinationality and firm performance for founder-controlled firms. Although founder-controlled firms are less active internationally, when they do internationalize, they perform better than other firms. However, the findings of Paper II, as many other findings in previous research, are highly context specific. Admittedly, in hindsight, I realized that I myself became subject to a paradigmatic bias in previous literature and contributed to the predominant assumption of multinationality affecting firm performance without questioning the causal direction of the relationship. After all, it is human nature to prefer information that confirms the initial beliefs (Klayman & Ha, 1987; Trope & Bassok, 1982; Yin, Mitra, & Zhang, 2016). It was only after Paper II had been presented at conferences that I started to reflect more on the results in the literature review in Paper I. The only aspect almost all papers in the literature review had in common was their contributions to the predominant causal multinationality-performance relationship, which led me to question the causality assumption. I became aware of my own paradigmatic bias during the research process and tried to follow Karl Popper's call to falsify assumptions.

Hence, in the final explicatory phase, I became critical of the underlying assumptions of the multinationality-performance causality and started investigating deeper. Beginning with Paper III, I counteracted my paradigmatic bias and started to test for two different causal directions between the key variables, finding significant support for the reversed causal relationship. Paper IV developed further conceptual arguments and introduced practical examples from interviews, which strengthened the theoretical argumentation for a reversed causal relationship.



## 4. Summary of the Papers

This thesis consists of four papers, following the order of the research process. Paper I is a systematic literature review of 115 empirical articles that provides an overview of previous empirical research on the multinationality-performance relationship. Thereby, it makes the fundamental base for this thesis. Findings from the first paper laid the foundation for the subsequent empirical and conceptual papers. In Paper II, a new research context is introduced to the predominant multinationality-performance relationship by investigating founder-controlled firms in more detail. Paper III presents a competing model approach to Swedish publicly listed firms to test causality in both directions of the multinationality-performance relationship. Finally, Paper IV further develops conceptual arguments from Paper III. It examines the long-term nature of international strategies and advances a theoretical model incorporating the relationship between firm performance and internationalization strategy.

An overview of the four papers, their research approaches, research questions, and main findings is presented in Table 2.

### Paper I – Patterns of Inconsistency: A Literature Review of Empirical Studies on the Multinationality-Performance Relationship

The first paper in the research process explores previous research findings on the relationship between firm multinationality and performance in the search for reasons that could explain inconsistent results and a lack of consensus in the extant literature. Even though the multinationality-performance relationship has been of interest to numerous researchers over the past fifty years, empirical results have remained inconclusive (Tallman & Pedersen, 2012) and even contradictory (Contractor, Kumar, & Kundu, 2007). Contrary to existing literature reviews, this paper investigates key constructs, measures, samples, significant findings, and analytical methods to search for possible patterns in the previous findings. Moreover, it discusses and illustrates the influence of research settings, sample characteristics, measurements of key variables, theoretical approaches, and moderators regarding the different identified shapes of the multinationality-performance relationship. Furthermore, it summarizes

all moderators that have been introduced in the past 44 years to study the relationship between multinationality and performance.

Hence, this paper offers a systematic review, content analysis, and cross-tabulation analysis using chi-square tests of 115 empirical studies from over 40 major management, strategy, and international business journals between 1977 and 2021. All articles have been coded categorically and cross-tabulated with the different shapes of the relationship between multinationality and firm performance. A chi-square test for independence was applied to all possible two by two cross-tabulation tables, resulting in no statistically significant patterns between categories.

Overwhelmingly, the results point to a complete lack of patterns and consistency. The systematic literature review concludes that the prevalent assumption of a direct causal relationship between multinationality and firm performance is highly dubious. The context specificity of the relationship makes general declarations difficult, if not impossible.

Regarding the overarching research question in this thesis, it is essential to develop a deep understanding of extant literature to outline avenues for future research. Hence, Paper I lays the basic foundation for further investigation in the research process. In particular, Paper I suggests future research to acknowledge internationalization as a process that takes different forms at different times, with no specific dominant form. Consequently, the process of internationalizing deserves more attention rather than the outcome. Especially since 44 years of empirical research still has not found conclusive and coherent results. Moreover, Paper I advocates for a critical re-evaluation of the current oversimplification of the relationship between multinationality and firm performance.

## Paper II – International Activities and Corporate Performance in Founder-Controlled Firms

The second paper in the research process confirms the predominant assumption of a causal relationship between multinationality and firm performance for founder-controlled firms, that is, firms where the founder maintains substantial levels of ownership and is influential in decision-making processes. Given the difference in corporate governance for founder-controlled firms, they generally perform better than other firms (Anderson & Reeb, 2003; Isakov & Weisskopf, 2014). Moreover, they are subject to more cautious behavior, greater risk-avoidance and desire to maintain control. Given those peculiarities, the paper investigates the relationship between the firm's internationalization activities and its financial performance.

This paper uses hand-collected data for 2055 firm-year observations of Swedish publicly listed firms in the years 2001 to 2013. Various multiple regression models test for differences with other firms. First, we test whether founder-controlled firms differ in the extent and types of international activities. Second, we test whether founder-controlled firms perform better when they internationalize their activities and, consequently, if internationalization drives performance for founder-controlled firms.

The results confirm that founder-controlled firms perform better and are less internationalized than other firms. With the help of different measures for multinationality, this paper finds that founder-controlled firms are less internationalized than other firms. More specifically, they have a lower ratio of foreign sales to total sales, are less geographically diversified, and make fewer international acquisitions. However, as founder-controlled firms become more internationalized, their performance increases. The data support arguments by the internationalization process model, which suggests a gradual internationalization strategy (Vahlne & Johanson, 2017). It is possible that cautious internationalization strategies based on organic growth work better for founder-controlled firms. The data also support arguments from the finance literature, suggesting that large acquisitions create little value (Moeller & Schlingemann, 2005)

Regarding the overarching research question in this thesis, Paper II confirms the predominant causal relationship between multinationality and firm performance for the novel context of founder-controlled firms. It further is an illustration of a paradigmatic bias in academic research, as it follows the predominant assumption of causality without questioning or testing for a reverse causal relationship.

## Paper III – Turning the Tables: The Relationship between Performance and Multinationality

The third paper in the research process tests for and explicates the effect of firm performance on multinationality. Thereby, it questions the traditional causal relationship and presents empirical and theoretical arguments for a reversed causal relationship.

Drawing on resource-based view (Barney, 1991) and prospect theory (Kahneman & Tversky, 1979), this paper presents competing hypotheses for the impact of firm performance on multinationality. It uses a competing model approach with non-linear ordinary least squares regression on unbalanced panel data for 2066 firm-year observations of Swedish publicly listed firms over 12 years. In the competing model approach, the first model consists of the reversed causal firm performance-multinationality relationship, while the

second model covers the traditional causal direction from multinationality to firm performance.

The results find strong support for the argumentation that firm performance drives internationalization and shows a positive U-shaped relationship. Furthermore, the traditional causal relationship is found to explain less than half the variance, has marginal significance on the key variables, and has an illogical outcome.

Regarding the overarching research question in this thesis, Paper III presents both theoretical and empirical arguments for a reversed causal relationship, with firm performance being the antecedent to multinationality. Thereby, it highlights how risk-taking attitudes, in accordance with prospect theory, explain a high level of internationalization when performance is negative. As performance rises, internationalization drops to an inflection point near zero, where, in accordance with resource-based theory, the degree of internationalization begins rising.

## Paper IV – Reversing Tradition: The Impact of Performance on Internationalization Decisions in South Korea and Canada

The fourth paper in the research process further explicates the impact of firm performance on internationalization decisions. As a conceptual discussion with supportive arguments from two pilot case studies, it advances a theoretical model that incorporates the relationship between firm performance and internationalization strategies. It further highlights the moderating role of market orientation and entrepreneurial orientation on the relationship between firm performance and multinationality.

This paper uses two pilot case studies with in-depth, semi-structured interviews with managers of two firms at two locations in the Asia-Pacific region. Thereby, the pilot case studies examine the long-term nature of international strategies and help illustrate the theoretical argumentation based on the resource-based view (Barney, 1991) and prospect theory (Kahneman & Tversky, 1979) further.

Findings in this paper postulate that the financial performance of an organization influences future strategic internationalization decisions. Furthermore, it highlights the moderating impact that both market orientation and entrepreneurial orientation can have on the relationship between performance and internationalization.

Regarding the overarching research question in this thesis, Paper IV further develops theoretical arguments for a reversed causal relationship of the firm

performance affecting multinationality. Due to the scant amount of prior literature, this paper improves the understanding of how firm performance influences the decision-making processes concerning internationalization.

Table 2. *Summary of findings*

Paper	Title	Research Question	Methods	Main findings
I	Patterns of Inconsistency: A Literature Review of Empirical Studies on the Multinationality-Performance Relationship	Are there any patterns in the findings of previous literature that could explain certain shapes of the M-P relationship?	Systematic literature review, content analysis, cross-tabulation analysis on 115 empirical papers	There is an absolute lack of consistency in previous findings, in relation to the identified shapes of the M-P relationship. The prevalent assumption of a direct causal relationship from M to P is highly dubious.
II	International Activities and Corporate Performance in Founder-Controlled Firms	How do founder-controlled firms internationalize, and what effect does an increase in internationalization have on the performance of founder-controlled firms?	Unbalances panel data logistic regression fixed effects models for 2055 firm-year observations, with a subsample of 1923 firm-year observations for geographical segmentation and 1423 firm-year observations for international corporate acquisitions	Swedish founder-controlled firms are less internationalized than other firms. Specifically, they are less geographically diversified and make fewer international acquisitions. However, as they become more internationalized, they perform better, i.e., there is a positive association between multinationality and performance for founder-controlled firms.
III	Turning the Tables: The Relationship between Performance and Multinationality	What is the causal relationship between the two concepts multinationality and performance?	Unbalanced panel data non-linear ordinary least square regression fixed effects models for 2066 firm-year observations to test the performance-multinationality relationship, with a subsample of 1666 firm-year observations to test the multinationality-performance relationship	There is a causal relationship between performance and multinationality, as opposed to the prevailing dominant assumption that multinationality influences performance. Firm performance is an antecedent of multinationality, and the reverse P-M relationship has a positive U-shape.
IV	Reversing Tradition: The Impact of Performance on Internationalization Decisions in South Korea and Canada	How does performance influence decisions on internationalization strategies?	Conceptual analysis with supportive arguments from two pilot case studies	The paper advances a theoretical model incorporating the relationship between organizational performance and internationalization strategies. An organization's strategic orientation has a moderating impact on the relationship between performance and internationalization.



## 5. Conclusions and Contributions

This thesis explored the financial performance of firms concerning internationalization processes and, consequently, a firm's degree of multinationality. The aim was to critically assess the existing literature, evaluate prevailing underlying assumptions, and investigate the causal direction of the relationship between the two key concepts multinationality and firm performance. The overarching research question was: *What role does firm performance play in relation to multinationality?*

The sequential, multi-phased research design has allowed each of the four papers to address different aspects of this overarching research question. In addition, the thesis summary provides a thorough investigation and analysis of the two concepts and their operationalization. Based on the main findings of the four papers and the elaboration in the thesis summary, two main conclusions emerge.

First, the extant literature's mixed and contradicting results contribute to a disordered research field that suffers from a paradigmatic bias centered around the underlying assumption of multinationality influencing firm performance. Paper I shows that researchers have continued exploring novel contexts, adding new variables, and discovering innovative moderators influencing the multinationality-performance relationship without questioning the underlying causality. Almost all papers in the previous literature contribute to the predominant narrative, espousing the multinationality to the firm performance relationship. Paper II contributes to the paradigm by introducing a previously unresearched context and confirms a positive linear relationship from multinationality to performance for founder-controlled firms. Consistent with the prevalent bias, a causal link between performance and multinationality is not considered. Although founder-controlled firms are less active internationally, they perform better than other firms when they internationalize. However, like many other findings in previous research, the findings of Paper II are highly context specific.

Second, as causality is essential to fully understanding the role of firm performance as an antecedent or outcome of multinationality, this thesis presents both empirical (see Paper III) and theoretical (see Paper IV) support for a reverse relationship. Following Karl Popper's (1959) call to falsify assumptions, Paper III tested competing models, finding a substantially stronger causal re-

lationship from firm performance to multinationality than the dominant opposite view that firm performance is the outcome of multinationality. These findings are also supported in Paper IV. Hence, this thesis challenges the paradigmatic bias in the research field because it questions causality and finds empirical and theoretical support for a reversed causal relationship between firm performance and multinationality. These two main conclusions deserve further explanation and discussion.

## 5.1. Paradigmatic Bias in Academic Research

In the past 50 years, research has produced mixed and contradicting results concerning the relationship between multinationality and firm performance. Efforts by replication studies (e.g., Pisani, Garcia-Bernardo, & Heemskerk, 2020) only resulted in more incoherence in previous research, since they managed to replicate the studies but could not confirm previous results and findings. Nevertheless, the association between multinationality and firm performance is one of the central topics in international business research (Tallman & Pedersen, 2012). There is a large variety of different research contexts, inherent limitations in the conceptualization and measurements of multinationality and firm performance, and methodological choices (Nguyen & Kim, 2020). Although the academic research field aspires to build cumulative knowledge, the only common denominator is the underlying assumption that multinationality affects firm performance. This assumption has remained predominantly untouched, except for a few studies (e.g., Grant, Jammine, & Thomas, 1988; Jung & Bansal, 2009), and has developed into a paradigm (Elango & Sethi, 2007).

The paradigmatic bias in academic research manifests itself in new literature, striving to confirm previous knowledge. It can be defined as “the seeking or interpreting of evidence in ways that are partial to existing beliefs, expectations, or a hypothesis in hand” (Nickerson, 1998, p. 175). The reality of this bias is highlighted by several studies, which vividly illustrate that scientists prefer findings consistent with their prior beliefs over findings inconsistent with their prior beliefs (e.g., Epstein, 2004; Hergovich, Schott, & Burger, 2010; Koehler, 1993; Mahoney, 1977), and are even more resistant to change when beliefs based on a causal link are challenged (Masnick & Zimmerman, 2009). When scientists are unconsciously subject to bias (Brownstein & Saul, 2016), it has real effects on the trustworthiness of research (McSweeney, 2021b). The lack of questioning of the underlying assumption of the causal effects of multinationality on firm performance is a critical indicator for the research field suffering from a paradigmatic bias that enhances conformity. This is further illustrated by the number of moderators introduced to the mul-

tinationality-performance relationship. There are over 90 different moderators<sup>8</sup> that have been added to the causal multinationality-performance relationship, further entrenching the predominant biased logic.

Another indication of the paradigmatic bias is the variety of different contexts, measurements, methods, and theories utilized in previous research (Nguyen, 2017). It illustrates the authors' search for gap-spotting, which has become a disturbing problem in management studies (Alvesson & Sandberg, 2011). Instead of questioning the underlying assumptions within the paradigm, researchers focus on confirming the paradigm with the help of new contexts, theories, definitions, measurements, and methods; something Wason (1960) refers to as a positive test strategy, since their research design corresponds to the assumption of multinationality affecting performance. Myopia or blindness toward alternatives (Greenwald, 2012) reduces the trustworthiness of findings and conclusions in previous research (McSweeney, 2021b). Only a few researchers dared to apply a negative test strategy and questioned the paradigm by arguing for the absence of a relationship (e.g., Brock & Yaffe, 2008; Haar, 1989; Hennart, 2011; Rugman, Nguyen, & Wei, 2016).

The different measurements, diverse scales, missing construct clarity, and a lack of construct convergence have led to a replication crisis within the field. Researchers risk repeating methodological shortcomings from previous research by adding additional and new variables or moderators in the empirical studies. Construct clarity and coherence in definitions and transparency over measurements are of uttermost importance. The different definitions and measurements employed have led to an underestimated but negative effect on the results and conclusions. Uncertainty in the sample definitions leads to uncertainty in the results (Sumpter, Greenberg, & Kim, 2021). Without coherence in the definitions and measurements of the key concepts, future comparison among studies is complex and renders inconclusive results.

The paradigmatic bias within the research field affects scientists unconsciously, making them "both the victim and the perpetrator of what one does not realize is imagined or distorted" (McSweeney, 2021a, p. 851). One helpful route forward is to create awareness about the cognitive biases within scientists and research. Awareness of potential biases in research contributes to the critical evaluation of research designs and underlying assumptions. Aiming to falsify theories and assumptions instead of confirming them is the way forward (Popper, 1959).

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<sup>8</sup> Appendix D in Paper I presents an overview of the identified moderators in the previous literature.

## 5.2. The Performance – Multinationality Relationship

Although a few studies use causal analysis (e.g., Garbe & Richter, 2009), only a limited amount of empirical studies investigate and test for either simultaneous (Grant, Jammine, & Thomas, 1988; Hong Luan, Singh, & Hua, 2013) or reversed causality (Jung & Bansal, 2009; Sun & Lee, 2013). To not fall victim to the paradigmatic bias, causality issues need to be further addressed both conceptually and empirically. One main contribution of this thesis lies in the finding that firm performance, as an antecedent to multinationality, is an empirically much stronger relationship than the opposite (see Papers III and IV). Combining the resource-based view with prospect theory serves as a theoretical support for this finding and induces a change in the existing paradigm (Kuhn & Hacking, 2012). Together with other antecedents to the internationalization process (Hitt et al., 2006; Kirca et al., 2012), firm performance is crucial.

Although not always portrayed in the dominant theories in international business literature, managers are the decision-makers in internationalization processes. Under uncertain circumstances, managers are more sensitive to losses than to gains (Kahneman & Tversky, 1979). Therefore, prospect theory helps to explain the initial negative slope in the U-shaped relationship between firm performance and multinationality (see Paper III). Here, firm performance is seen as a presupposed resource, and the allocation of this resource is subject to managerial decision-making under uncertainty. Although internationalization is associated with additional risks, the possible losses of not internationalizing and thereby missing out on critical competitive advantages are perceived as higher than the potential financial losses (cf. Barberis, 2013). Hence, the “fear of missing out” drives internationalization activities at negative levels of firm performance (see Paper IV). Moreover, it has been previously documented that poorly performing firms tend to engage in more risk-taking than well-performing firms (Singh, 1986).

From a resource-based perspective (Wernerfelt, 1984), internationalization is seen as a resource-gaining opportunity, which explains the positive slope of the U-shaped performance-multinationality relationship. Hence, there is a drive toward pursuing internationalization to gain additional resources and sustain competitive advantages (Barney, 1991). However, this is only possible if slack resources are available, which indicates the need for additional resources for future growth.

While Paper III tests the performance-multinationality relationship on a sample of Swedish publicly listed firms, Paper IV advocates for the applicability of the findings to small and medium-sized enterprises. Therefore, the theoretical logic for the performance-multinationality relationship applies to all firms, regardless of size, since it emphasizes the importance of managers’ risk perception in the decision-making process.

### 5.3. Bridging Resource-Based View with Prospect Theory

This thesis contributes to the theoretical discussion about the relationship between multinationality and firm performance by questioning the predominating narrative and acknowledging and incorporating new insights, something Verbeke refers to as “strong scholarship” (Verbeke, 2020, p. 2). Consequently, essential and novel theoretical contributions are made.

The resource-based view (Barney, 1991) and the internationalization process model (Vahlne & Johanson, 2017) are prominent theories to explain basic firm behavior and resource allocation in the internationalization process. In this thesis, prospect theory (Kahneman & Tversky, 2017) was introduced as another behavioral theory to explain the individual-level decision-making that influences firm-level decisions (cf. Coleman, 1987) on resource allocation in the internationalization process. Consequently, this thesis contributes to prospect theory, as it extends the risk-seeking actions of individuals to an organizational level (Shimizu, 2007), and the explanatory power and applicability of prospect theory are demonstrated in Paper III and Paper IV.

Furthermore, this thesis strongly advocates for applying both the resource-based view and prospect theory as complementary behavioral theories to explain the role of firm performance in an internationalization process. Although previous research already has combined different theories to explain the relationship between multinationality and firm performance, the combined theories remained at an organizational level.<sup>9</sup> This thesis, however, is one of few studies (e.g., Jung & Bansal, 2009) to advocate for bridging organizational level resource-based view with individual-level prospect theory. Thereby, the two complementary level-bridging theories are constructive in explaining the reverse relationship between firm performance on multinationality (cf. Cowen et al., 2022). Using both theories allows for an investigation and explanation of the longitudinal process between firm performance and multinationality, while only using one theory would require focusing on one part of the particular relationship (cf. Glaum & Oesterle, 2007), resulting in an incomplete understanding.

Vahlne and Johanson (2020, p. 8), the founding fathers of the internationalization process model, have called for adding “modern psychological findings to the assumptions of the internationalization process model [which]

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<sup>9</sup> Some examples of combinations of organizational-level theories are: resource-based view and transaction cost theory (Borda et al., 2017; Garrido-Prada, Delgado-Rodriguez, & Romero-Jordán, 2019; Tallman & Li, 1996; Tan & Chintakananda, 2016); resource-based view, internalization theory, and transaction cost theory (Capar & Kotabe, 2003); foreign direct investment theory and internationalization process model (Väättänen, Podmetina, & Pillania, 2009); foreign direct investment theory and organizational learning (Zahra, Ireland, & Hitt, 2000); internalization theory and transaction cost theory (Powell, 2014).

might lead to exciting outcomes.” Even more specifically, Vahlne (2020) asked for theories from psychology to address dealing with uncertainty and biases in managers’ risk-taking behavior. This thesis attempts to fulfill that call by bringing in prospect theory as one theory borrowed from psychology to explain the risk-perception and biases in the risk-taking behavior of managers. Hence, the resource-based view and the internationalization process model benefit from including prospect theory, since it allows for taking a closer look at the individual risk-taking tendencies of managers and their dealing with uncertainty. It creates a better understanding of the behavioral aspects that underlie the decision-making process.

To conclude, in thoroughly investigating the nature of the relationship between multinationality and firm performance, this thesis suggests that researchers should be cautious not to fall into the paradigmatic bias trap and attribute positive or negative performance outcomes to internationalization processes. Conceptual and empirical analysis reveals strong support for firm performance being an antecedent to internationalization. Researchers should also consider the antecedent role of firm performance, where internationalization can occur at both negative and positive levels of firm performance.

## 5.4. Managerial Implications

The theoretical contributions of this thesis also offer some practical implications for managers. First, as illustrated with empirical evidence in Paper III, internationalization decisions can occur at positive and negative levels of performance. Prospect theory highlights individual decision-making biases toward fearing potential losses more than appreciating potential gains (Kahneman & Tversky, 1979). Those potential losses do not necessarily only need to be the financial investments required for internationalization but also the potential losses of not internationalizing and thereby missing out on potential gains. In this context, managers must be aware of how their performance biases may influence decisions. Thinking in terms of gains and losses should not override solid market analysis when debating internationalization.

Second, while there seem to be other aspects influencing risk-taking when performance is positive, prospect theory helps to explain managerial decision-making when financial circumstances are constrained. Hence, managers need to be aware of potential biases that might influence their decision-making (Bazerman & Moore, 2009) within the internationalization processes. Hence, careful strategizing and planning before or during an internationalization process and considering individual and personal biases are imperative.

Third, from a long-term perspective, multinationality does not necessarily lead to increased performance. Instead, any internationalization process is much more than a strategic decision to internationalize or increase the current

degree of internationalization. Short-term possibilities should not overturn long-term consequences when strategizing to internationalize.

Fourth, on some occasions, a “fear of missing out” drives poorly performing firms to seek further internationalization (see Paper III and Paper IV). This creates a risk for firms that might internationalize too quickly without establishing properly on a single market first. Although customer- or market orientation are crucial motives in the decision-making process for internationalization, a firm’s financial constraints should also be considered. Moreover, more focus should shift toward the global value chains of firms. An overall judgment on the suitability of an internationalization process should be made.

Fifth, as founders or their heirs take over managerial activities in founder-controlled firms, they tend to have higher levels of control. Consequently, those founder-managers need to be aware of their own imprinting effects on their organizations and their personal motives in their decision-making processes. The greater risk-avoidance and desire to maintain control in founder-controlled firms might lead to a more cautious behavior that, in some instances, can have positive effects but might be hindering in other fast-moving industries.

## 5.5. Limitations and Directions for Future Research

Indeed, this study is not without its limitations. To begin with, the definitions and operationalizations of the key concepts have influenced the findings in this thesis. Instead of selecting definitions and operationalizations that facilitate comparability between the findings in this thesis and previous research, a more holistic view of both concepts would have ensured capturing the full spectrum of both concepts. For multinationality, future research could use multidimensional measures to capture both the breadth and depth of multinationality. For firm performance, treating it as an aggregated construct would allow acknowledging the complexity of the concept, as it comprises multiple components. Consequently, oversimplification of reality would be avoided.

This thesis has used behavioral theories, such as the resource-based view and prospect theory, to explain managerial reasoning leading to internationalization decision-making. However, the actual decision-making process on a managerial level remains a black box. Instead, further investigating the managers’ role in the decision-making process would make it possible to measure the attitudinal attribute of the degree of internationalization. Since archival data usually does not account for psychometric attributes (Sullivan, 1994), a qualitative approach, such as inductive case studies, participant observations, in-depth interviews, and experiments, would be recommended. This would allow for three significant contributions to the existing literature. First, it would include managers’ limitations and cognitive biases in the analysis. Thereby, it is possible to generate measurements for specific variables that

previously have been difficult to account for with archival or financial data, for example, the international experience of the top management team. Second, an in-depth qualitative investigation of managerial decision-making allows for discovering which of the two concepts – multinationality or firm performance – is the antecedent in the decision-making process. Third, it also permits the investigation of managerial perceptions of the concepts and the environment in which the firm is active. This would allow for the development of the multinationality concept, taking it from pre-defined measures to a managerial understanding of multinationality. For example, Azar and Drogendijk (2019) have focused on the managerial perception of ‘distance divergence’ (the difference between a manager’s perception of distance from reality) and found that an increase in the divergence between managers’ perceptions of cultural distance and corresponding ‘objective’ distance has a negative effect on firm performance. At the same time, they found that over- or underestimation of cultural distance does not affect firm performance. Further investigation in this area would be advised.

A significant conclusion in this thesis is the role of firm performance as an antecedent to multinationality. This finding, however, only illustrates a part of the greater picture since many other drivers also play an important role and affect decisions on internationalization (Hitt et al., 2006). For example, top management team characteristics are significant determinants of firm multinationality (Kirca et al., 2012). In a similar vein, intangible resources provide ownership advantages that facilitate international expansion (Hitt et al., 2006). Other antecedents are organizational structure and size, strategic ownership elements, and other processes and resources (Hitt et al., 2006). To summarize, a plethora of different drivers affect firm multinationality and need to be considered when investigating the effects of firm performance on multinationality. This could be done by embedding them either as additional independent variables or as control variables into the model, that is, taking individual-level, group-level, firm-level, and industry- and country-level factors into consideration when developing a theoretical model.

Another limitation is the lack of investigation of the necessary conditions and configurational circumstances for the performance-multinationality relationship. Applying necessary logic in creating hypotheses, with the help of a necessary conditions analysis (Richter & Hauff, 2022), would help in identifying determinants that are necessary for the performance-multinationality relationship, but are not sufficient. To identify combinations of determinants that together are sufficient but not necessary for the relationship, future research should apply qualitative comparative analyses (Rihoux & Ragin, 2009).

Drawing on the logic of the triple-testing framework (Verbeke & Forootan, 2012), a systematic assessment of the quality of all empirical papers on the multinationality-performance relationship in previous literature would not only contribute to further clarity on previous findings but also allow for future



research to be more critical and cautious in research design and methods. The original triple-testing framework (Verbeke & Brugman, 2009) relied on nine quality subtests, with three tests in three categories addressing challenges related to conceptualization and operationalization of multinationality, firm performance, and the relationship between the two concepts. Verbeke and Forootan (2012) added three additional subtests to address issues when analyzing longitudinal data. Before conducting future research, researchers can use the latest triple-testing framework to assess the quality of conceptualization and operationalization of the key concepts and help prevent possible shortcomings or pitfalls. It would also allow for the establishment of standardized measurements in this particular research area.

A lesson to be learned from the existing research on multinationality and firm performance is the importance of replication studies. Although being considered the ugly duckling in research, replication studies fulfill a vital role in the advancement of a cumulative body of empirically supported research (Bettis, Helfat, & Shaver, 2016). Striving for novelty in research hinders the evaluation and confirmation of existing findings. The peer-review process utilized in scientific journals and conferences is a helpful tool to ensure scientific rigor, but it does not provide the full benefits of a replication study.

Finally, an emerging research theme is the role of time and speed in the internationalization process (e.g., Hilmersson & Johanson, 2016; Sadeghi, Rose, & Chetty, 2018; Trudgen & Freeman, 2014). Some interesting findings have already been made, for example, an inverted U-shaped relationship between speed of internationalization and long-term performance (García-García, García-Canal, & Guillén, 2017), or a general curvilinear relationship between internationalization speed and firm performance that is moderated by the geographic scope of firms' internationalization path and firms' international experience (Mohr & Batsakis, 2017). Future research could benefit from a systematic literature review of those existing findings. Moreover, a comparison between the effects of the speed of internationalization and the "traditional" concept of multinationality would be an outstanding contribution to the academic literature.



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— Charles Dickens, *A Tale of Two Cities*

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