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Multinational firms' pace of expansion within host countries

WIIW Seminar in International Economics

Vienna, 15:00-16:30, November 25, 2020; Thomas Lindner & Vera Kunczer

Agenda

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Introduction

2

Research Program International Expansion

3

Paper: Pace of Foreign Expansion

4

Discussion



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INTRODUCTION

Thomas Lindner

since 2016	Assistant Professor at IIB (WU)
since 2017	Visiting lecturer at Copenhagen Business School (ISUP)
2016 & 2018	Visiting researcher & assistant professor at NYU Stern
2013-2016	PhD student, and research and teaching associate at IIB (WU)
2011-2013	MSc in International Management and CEMS MIM at WU and Smurfit School (UC Dublin)
2008-2011	BSc in Economics and Social Sciences at WU and BSc in Physics at University of Vienna



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Vera Kunczer

Since 2016	Research and teaching associate at IIB (WU)
2016 – 2020	PhD in Economics and Social Sciences at WU
2020	Visiting researcher at University of Groningen
2014 – 2016	MSc in Economics at WU
2013 – 2014	Business and Development Studies at Copenhagen Business School
2009 – 2013	BSc in Economics and Social Sciences at WU, and BI Norwegian Business School (Oslo)



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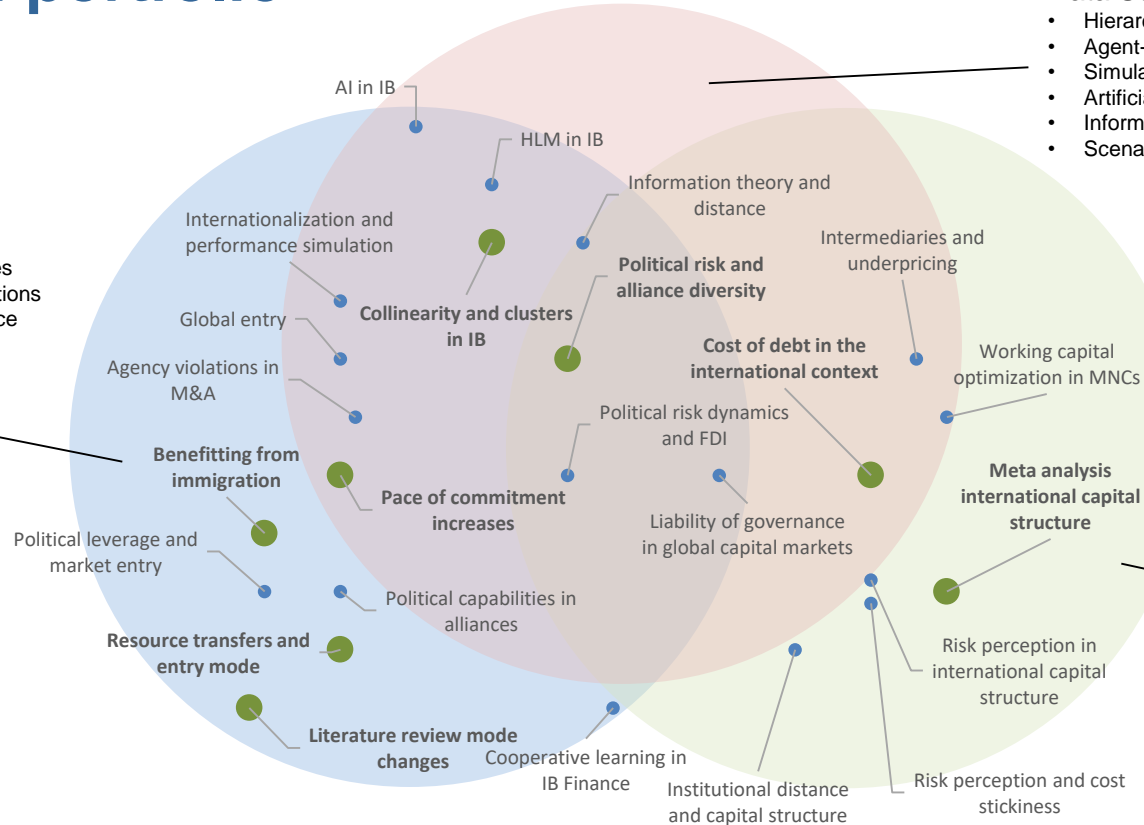
Research portfolio

Global strategy:

- International alliances
- International acquisitions
- Corporate governance
- Political strategy
- Location choice
- Entry mode

Data Science & AI:

- Hierarchical modelling
- Agent-based modelling
- Simulations
- Artificial intelligence
- Information theory
- Scenario modelling



International Finance:

- International capital markets
- Managerial accounting
- Working capital management
- Intermediation
- Capital structure

- Published paper
- Working paper



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RESEARCH PROGRAM INTERNATIONAL EXPANSION

Recent projects on companies' international growth

- International growth in the context of external risk
 - AMJ: Diversity as a risk-management strategy (Paper: <https://doi.org/10.5465/amj.2017.0265>)
 - JIBP: Migration as information-provider (Paper: <https://doi.org/10.1057/s42214-019-00034-9>)
 - Working paper: Political risk dynamics and FDI
- Speed of international growth and co-investment in a target country
 - IBR: Review article on co-investment strategy (Paper: <https://doi.org/10.1016/j.ibusrev.2019.101619>)
 - **JIM: Changes in institutional environment slows down / speeds up investment** (<https://doi.org/10.1016/j.intman.2019.100703>)
 - Working paper: Tax-related reasons for internal/external sales in foreign countries



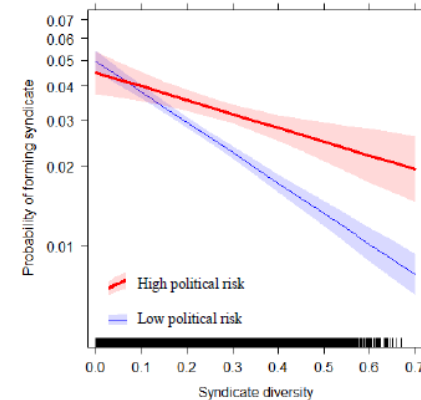
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Diversity and loan syndication

- Study analyzes the composition of banking syndicates in international project finance and the role of host-country political risk determining syndicate partners
- In general, lead arrangers avoid diverse syndicates
- When investing in countries of high political risk, lead arranger priorities shift from reducing diversity to increasing syndicate-level political influence and country-knowledge
- As a result, syndicates investing in high-risk countries are more diverse, on average.

FIGURE 6:
Effect Plot Syndicate Diversity: The Selection of Syndication Partners^a



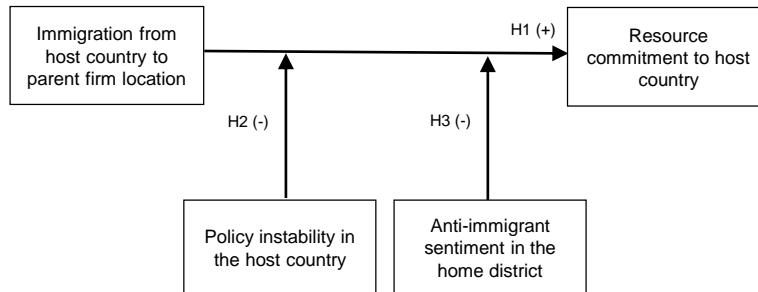
^a Partial effects of the relationship between syndicate diversity and the probability of a syndicate to be selected. The underlying model is the full model in Table 5 (model 5). For the plot, syndicate diversity is unstandardized to facilitate interpretation. The vertical axis is on a scale corresponding to the logistic link function to allow linear plotting. The vertical axes only asymptotically approach their limits of 0 and 1. The thin blue line assumes low political risk, the thick red line assumes high political risk.

Benefitting from Immigration: The Value of Immigrants' Country Knowledge for Firm Internationalization

Kunczer, Lindner, Puck. *Journal of International Business Policy*.

How can firms benefit from immigrants' knowledge and what is the role of the institutional environment?

Research Framework

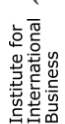


Findings

- Immigrants provide companies with valuable knowledge about their home countries
- This reduces uncertainty regarding the host markets and firms will commit more resources to those countries.
- An unstable environment in the immigrants' home countries will make the knowledge advantage immigrants provide less valuable
- Knowledge sharing between immigrants and local firms is reduced if anti-immigrant sentiment is prominent in firms' home environments

Political risk dynamics and FDI

- Dynamics are important for firm decisions, particularly about forward-looking investments with long time horizons (e.g., FDI)
- Institutional economics (North, 1990) only have little to say about dynamics, particularly with firm-level applications
- IM research has highlighted (based on insights from psychology) that predictions are based on recent changes and the status-quo (Lindner, Müllner, & Puck, 2016; Tversky & Kahneman, 1974).
 - Like in the Covid-19 pandemic: We want to know what the world will look like in a few months
- This paper suggests a structural method of capturing dynamics (Wholey & Brittain, 1989), and of incorporating them into firm-decision making by extending the NPV logic
- Positive developments lead to more investment, and if these developments are more stable this effect is reinforced



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Review article on co-investment strategy

Antecedents

Corresponding research is structured along the 3 types of mode changes

Ample research on between-mode changes

Inconsistent findings on other types, often examined inexplicitly

No comparative studies on antecedents

Phenomenon

Changes to “a company’s way of operating in foreign markets, or the “how” part of foreign operations” subsequent to initial entry
(Benito, 2009)

Evolving from 1977 on, 3 types of mode changes are distinguished:

- Between-mode changes (Johanson & Vahlne, 1977)
- Within-mode changes (Clark et al., 1997)
- Mode combinations (Benito et al., 2009)

The latter needs further differentiation

Consequences

Merely 6 studies analyzing consequences of mode changes

Inconsistent findings, types often examined inexplicitly

Strongly under-researched area with important avenues for future research

Foundations and perspectives

Theoretical foundations can be grouped in the behavioral/process and the economic-strategic approach

On a macro level original stages theory is overhauled. Studies point to lack of research on temporal dimension

On a micro level actual change processes and decision making remains under-researched



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Entry mode decisions by Austrian MNCs

- Relative importance of a foreign subsidiary decreases when the tax rate in a foreign country is higher
 - i.e., there are fewer internal than external receivables in those instances
- There is variation in this difference depending on coordination difficulty and income-shifting opportunities of an MNC
- It is surprising from a management accounting perspective that MNCs use different entry modes at the same time and that the combination of these modes is sensitive to taxation
- This is also surprising from an IB perspective, but relates somewhat to the idea of “mode combinations“, where firms have several activities abroad in parallel.
- A current research project uses the accounting and IB perspectives and tests predictions on OeNB ZWAG data.



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PAPER: PACE OF FOREIGN EXPANSION

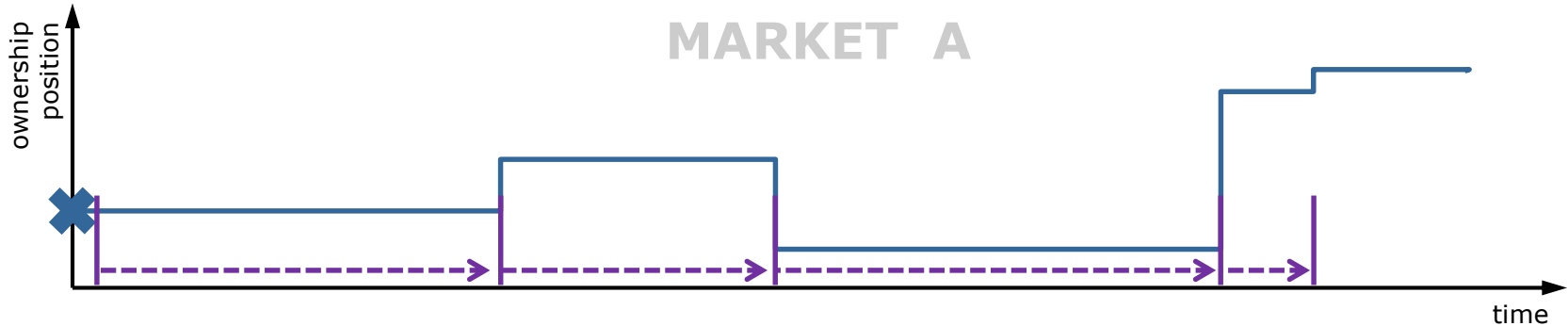
Putzhammer M., Slangen A., Puck J., Lindner T. 2020. The pace of corporate expansion within host countries: how local institutional improvement hampers the exploitation of a firm's regional knowledge base. ***Journal of International Management*** 26(1): <https://doi.org/10.1016/j.intman.2019.100703>.



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Pace of ownership increases remains poorly understood



Motivation

One specific way to measure mode changes is through the level of ownership

Ownership positions in a foreign venture are an important strategic issue.

They are a key determinant of a firm's control over the venture and corresponding risks

(Pan, Teng, Supapol, Lu, Huang, & Wang, 2014; Hill, Hwang, & Kim, 1990)

However, the pace at which firms increase ownership positions is poorly understood.

This is unfortunate because the temporal dimension is a key element of internationalization and so is pace

(Hutzschenreuter, Kleindienst, Guenther, & Hammes, 2016; Chetty, Johanson, & Martín Martín, 2014)

We want to understand the determinants of pace

Regional experience affects pace of expansion

IV: Increase experience

Effectuating ownership increases requires substantial institutional know-how which is time-consuming to obtain
(Henisz & Delios, 2002; Santangelo & Meyer, 2001; Yiu & Makino, 2002)

Institutional similarities are likely to exist between countries of the same supra-national region.
Regional experience may therefore constitute an important source of competitive advantage
(Ronen & Shenkar, 2013; Rugman & Verbeke, 2004; Barkema & Drogendijk, 2007)

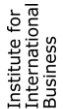
To successfully exploit regional experiential knowledge in a specific local context, that knowledge typically needs to be adjusted to locally prevailing conditions through a process of knowledge recombination
(Gao & Pan, 2010; Santangelo & Meyer, 2011; Benito, Petersen, & Welch, 2009)

Increasing ownership levels is a process where large parts of cognitive effort and time is reduced through increased experience

Firms with more regional experience with ownership increases have more knowledge that can be fruitfully recombined and exploited in a given host country, reducing time and effort for local learning

Hypothesis 1

The higher a firm's regional experience with ownership increases, the quicker the firm will effectuate an ownership increase in a given host country in the region



Institutional improvement affect pace also indirectly

Interaction: experience and institutions

Institutional improvement implies the occurrence of changes in the formal and informal rules for accomplishing ownership increases

(Dacin, Goodstein, & Scott, 2002; North, 1990)

Rapid institutional improvement in a host country makes the knowledge recombination of relevant elements in a firm's regional knowledge base significantly harder

(Perkins, 2014)

The more complex the knowledge recombination process, the more often managers will need to effectively execute it and, hence, the less rapidly the firm will effectuate an ownership increase

Hypothesis 2

Host-country institutional improvement weakens the positive effect of regional experience with ownership increases on the pace at which a firm effectuates an ownership increase



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A multi-level Heckman 2 stage model is employed

Methodology

Sample of 117 Austrian firms internationalizing into CEE (*exports to wholly-owned subsidiary, mult. industries*)

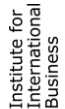
Analysis of 1225 ownership observations in 20 different countries (of these 454 are increases)

Multi-level model to account for varying effects on the firm and country level

Heckman 2 Stage model to account for sample selection bias (*1: increase yes/no; 2: pace of increase*)

Measures

DV	Pace of ownership increase (<i>time in years between the initial entry and a subsequent increase or between two subsequent increases</i>)
IV	Regional experience with ownership increases (<i>number of previous ownership increases in the CEE region before the current one</i>)
Mod	Institutional improvement (host country's pro-market reform rate)
CVs	Industry, firm size (revenues), host-country and mode experience, previous equity stake, host-country economic size and development, institutional quality, EU membership and isomorphic pressures.



Overview over ownership changes

	Dataset (all observations)	Sample (observations without missing data)	Included in stage 1 of regression analysis?	Included in stage 2 of regression analysis?
Total number of established ownership positions	1225	823		
Established ownership positions not exhibiting an increase (right-censored observations)	516	369	Yes (coded 0)	No
Established ownership positions exhibiting an increase	709	454	Yes (coded 1)	Yes



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Country distribution of observations

	Observations included in stage 1 of regression analysis		Observations included in stage 2 of regression analysis	
	Number of established ownership positions	Number of firms	Number of ownership increases	Number of firms
Albania	16	13	6	3
Belarus	12	12	4	3
Bosnia-H.	30	25	13	8
Bulgaria	63	48	32	17
Croatia	69	52	37	20
Czech Republic	25	18	25	18
Estonia	12	12	2	2
Hungary	101	67	63	29
Latvia	10	10	1	1
Lithuania	12	12	2	2
Macedonia	26	19	11	4
Moldova	12	12	2	2
Montenegro	18	17	4	3
Poland	69	45	43	19
Romania	67	55	34	22
Russia	85	53	54	22
Serbia	57	42	28	13
Slovakia	73	52	44	23
Slovenia	31	26	20	11
Ukraine	35	23	29	17
Total	823		454	



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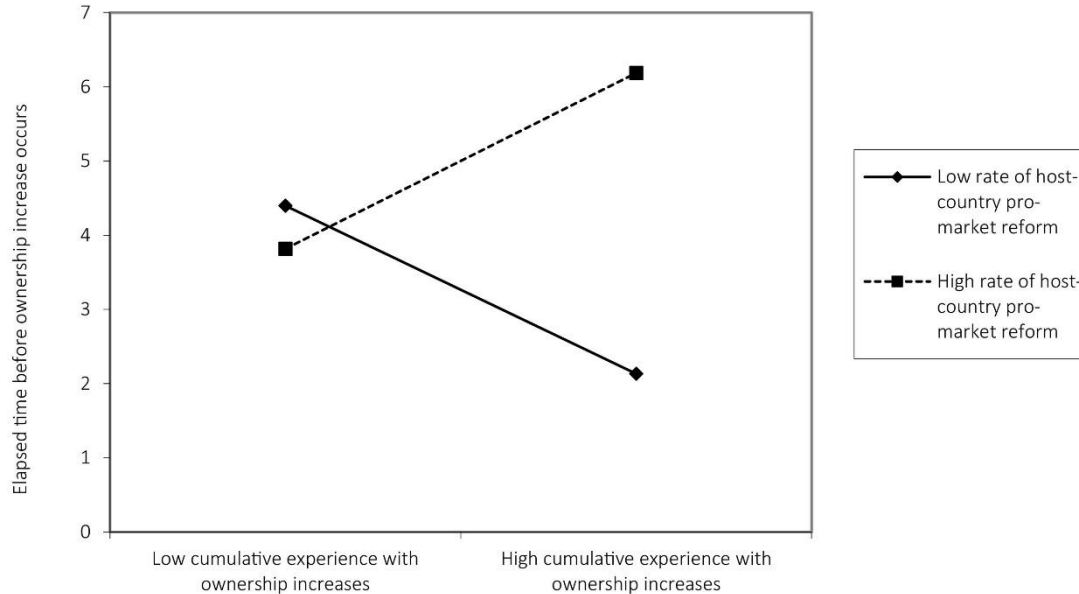
Inverse Mills ratio	-0.29 (0.31)	-0.63 (0.34)	-0.80 (0.34)
Percentage increase in ownership position	0.33 (0.35)	0.32 (0.35)	0.39 (0.34)
Ownership increase represents a mode combination	-1.03 (0.21)	-1.02 (0.21)	-0.89 (0.21)
Ownership increase accompanied by shift to host-country production	0.04 (0.18)	0.05 (0.18)	0.02 (0.17)
Ownership increase represents move from contractual to equity mode	0.49 (0.30)	0.43 (0.31)	0.33 (0.30)
Host country's pro-market reform rate	-1.90 (0.90)	-1.53 (0.92)	-1.95 (0.89)
Firm's cumulative experience with ownership increases (H1)		-0.03 (0.01)	-0.04 (0.01)
Firm's cumulative experience with ownership increases × host country's pro-market reform rate (H2)			2.19 (0.50)
AIC	1695.25	1690.88	1674.01



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The moderating effect of institutional improvement



Regional experience actually slows down expansion within a host country when the country's institutional environment improves rapidly

Institutional improvement acts as a double-edged sword

Discussion

Illumination of the pace of foreign expansion by analyzing relevant antecedents:

Regional experience with ownership increases

Institutional improvement

The interaction of the two

Integration of exp. learning, recombination and institutional perspective shows that knowledge recombination in environments of strong improvement is more complex

Successful recombination therefore takes more time in such environments and slows down pace of expansion

Contribution

Extending the knowledge on the pace of internationalization which was dominated by entry pace.
This dimension is central to the internationalization process
(Chetty et al. 2014; Casillas & Moreno-Menendez, 2014)

Contributing to exp. learning research in IB by showing that the exploitation of regional knowledge in new settings is not as easy as has been assumed previously when the new environment is highly dynamic

Showing that local institutional improvement is crucial besides institutional quality and distance.
Moreover, it acts as a double-edged sword in that it lowers local risks but hinders knowledge recombination

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DISCUSSION

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