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RESEARCH ARTICLE

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Global strategy collections: Multinationality and performance

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Abstract

Research Summary: In this second collection of articles relating to global strategy, we address the well-established but unresolved issue of the relationship between multinationality and performance among multinational firms. The M-P relationship has been the topic of many articles in many journals for many years, but its true nature is still not established. Both theory and empirical findings provide different and often opposed views, as can be seen in the articles collected here. We see two main perspectives on this issue. Some scholars suggest that differences in data and analytical tools have prevented consistent empirical results, and that more consistent and carefully chosen empirical modeling can yet establish the true M-P connection. Others believe that basic problems in theory and in building testable frameworks that are truly consistent with theory have made this an inherently intractable problem. The collection provides important articles that test the M-P relationship as well as critiques from both perspectives. We see considerable power in the view that individual firms are likely to have their own idiosyncratic optimal level of multinationaliation. We finish by calling for and suggesting new approaches to the issue, such as a micro-foundations approach, as opposed to simply using more sophisticated tools to test

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problematic models based on well-established but ultimately inadequate theory.

Managerial Summary: The relationship between the level of multinational diversification and performance in multinational firms is at the heart of global strategy. If operating at ever increasing levels in ever more countries does not provide reliably superior performance, why do firms continue to expand internationally? One view suggests that since firms continue to increase their international presence, there must be some ultimate benefits—difficult as they may be to establish. The opposing view suggests that since an equal amount of research finds no such benefits, it may be that no level of multinational diversification is generally optimal, but that depending on its particular resources and capabilities, experience, industry, and national portfolio, each multinational must discover its own optimal level of cross-border investment.

KEYWORDS

methodological issues, multinationality, operationalization, performance, theoretical issues

1 | INTRODUCTION

Few topics in international business have been studied as much as the relationship between multinationality (or internationalization) and performance (the M-P relationship). Indeed, one might say that the underlying reasoning of global business strategy rests on the assumption that international engagement in markets, operations, and sourcing is inherently valuable for a firm's performance. A perhaps simplistic approach proposes that since we can observe that most firms tend to increase their multinationality (the size and scope of their cross-border operations) over time, managers must assess the impact of increasing international diversification on their firm's performance as positive—otherwise they would not continue to do it. A number of theoretical approaches have been applied to support and justify the M-P relationship including industrial organization and transaction cost economics, the resource-based view, organizational learning, signaling theory, and real options theory. These many perspectives on the M-P relationship have been tested empirically at considerable length in a veritable cottage industry of studies. This is the case, first, because of the importance of the claim to international business and global strategy, and second, because data on the degree of multinationality and the level of performance of multinational firms has been easily accessible in many countries. Unfortunately, as we shall see, this extensive research has not resulted in conclusive and widely accepted findings.

The mixed and inconclusive results have led scholars to follow to distinct pathways. One group of scholars highlights that the problem is mainly of a methodological and empirical

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nature (e.g., Contractor, 2012), while another group of scholars questions whether there is actually a general optimal level of multinationality and proposes that the problems are conceptual in nature (e.g., Hennart, 2011). The aim of this paper is to sort out the underlying logic of these arguments and thereby dig deeper into our understanding of the M-P relationship. In this way, we hope to pave the way for new and fresh research on the M-P relationship that might break the current deadlock.

2 | MODELING THE M-P RELATIONSHIP

Theoretical arguments have been formulated to predict the benefits as well as costs of multinationality. The benefits of multinationality have been said to arise from global market power, extra-national economies of scale, economies of scope in the cross-border exploitation of firm-specific advantages, sourcing of cheaper inputs based on comparative advantages across locations and cross-border arbitrage, and market diversification-driven risk reduction. The costs of multinationality include the uncertainty and risks of operating in unfamiliar locations with varying degrees of cultural and institutional differences, the difficulties of communication and control over extended geographical distances in a complex global political economy, and the bureaucratic costs of building a multinational organization to manage these conditions (see Contractor (2012) for a more elaborate discussion of benefits and costs of multinationality).

The coexistence of benefits and costs of multinationality has given rise to multiple descriptions of the expected nature of the M-P relationship. At least six different models describing this relationship—positive and linear, negative and linear, positive with diminishing returns, U-shaped, inverted U-shaped, and S-shaped—have been presented by previous researchers. The theoretical arguments behind each of these models is based on different emphasis and timing of the benefits and costs of multinationality. However, the results of the many empirical studies testing these models have largely been disappointing, perplexing, and inconclusive. Early models driven by industrial organization economic models proposed that operating in more international markets gave multinational firms the market power and strategic insight to dominate domestic rivals, suggesting a positive and linear effect of multinationality on performance. A focus on the resources and capabilities of firms (Caves, 1971) suggested that applying these firm-specific assets in more and larger markets would offer greater returns on investments in technology, brands, and products. At the same time, moving production to the lowest-cost locations based on comparative advantage (to exploit local advantages) and arbitrage (to exploit temporary disequilibria) could reduce the cost of these products and technologies enough to offset any liabilities to the firm from its foreign identity (Kogut, 1985). Thus, most models predicted that increasing the degree of multinationality on the part of a firm should improve its economic performance.

Of course, managing such widespread operations across many different locations requires significant oversight to avoid risks known and unknown. Early models suggested that rising transaction costs would drive multinationals to internalize foreign production and markets to reduce uncertainty and increase control, but also would make for expensive organizations (Buckley & Casson, 1976; Hennart, 1982). Most models predict that lesser degrees of multinationality, with fewer challenges and less organizational complexity, should be able to generate superior performance, up to a tipping point where complexity of the external environment would become ungovernable or force such costly forms of organizational oversight that performance would degrade. The S-shape model includes three phases where the costs associated with liability of foreigness drive up the total costs of internationalization in the first phase with lower levels of multinationality,

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while learning about foreign markets drives down the costs and increases the benefits as the level of multinationality increases in the second phase. In the third phase, high levels of multinationality and increased complexity of the multinational organization drive up the costs of coordination making the overall performance fall (Lu & Beamish, 2004). The other five models (linear, U-shaped, inverted U-shaped etc.) are nested within the S-shape model in the sense that their arguments build on the different phases of the S-shaped model. That is, the U-shaped model describe phases one and two, while the inverted U-shaped model puts attention on phases two and three.

More recently, the advent and development of information technology combined with increasing experience and super-national enforcement mechanisms have made alliances, joint ventures, long-term supplier and distribution contracts, and other non-ownership means of managing global networks both less expensive and highly effective. New models suggest that widespread and complex networks of production and distribution at least push the hypothesized point of performance decline further off both in complexity and time, though none yet proposes that accreting costs will not eventually overwhelm ever-pressured returns to multinational expansion.

3 | ADDRESSING THE PROBLEM OF MIXED RESULTS

In response to the rather inconclusive empirical tests of the M-P relationship, two different paths have developed among scholars: one camp claims that a universal causal relationship exists between the level of multinationality and firm performance and the reasons for the inconclusive results are mainly of a methodological and empirical nature, while the other camp proposes that the problems are conceptual in nature and we need a better theoretical understanding of this relationship in order to get out of the current deadlock (Tallman & Pedersen, 2012). The latter camp questions whether there is a general optimal level of multinationality at all, or whether this will vary with the individual firm attributes, implying that significant performance effects should only occur when the level of multinationality of a firm is not aligned with its firm attributes—or put differently, what matters for profitability is not the size and scope of multinationality, but their fit with a firm's attributes (Hennart, 2011). The underlying theoretical models behind the two distinct camps are illustrated in Figures 1 and 2—and are discussed and unfolded in the following.

Those insisting on a universal M-P relationship expect that all firms will show the same level of performance in response to a given degree of multinationalization, but acknowledge that the operationalization and measurement of multinationality and of firm performance have been problematic. Multinationality can be measured on many dimensions, for example, levels of international sales, assets or employees, number of national markets, or as the level of global mindset among managers. Which of these provides the best reflection of the theoretical construct of multinationality? Likewise, what measure or combination of measures of performance are relevant to the multinational firm at any specific time? Multinationality and performance are multidimensional constructs, but how can you capture this multidimensionality in a parsimonious and meaningful way? Only focusing on one or a few dimensions of multinationality might be misleading. Wiersema and Bowen (2011) argue along these lines that a measure of multinationality should capture the internationalization of a firm's entire value chain and not just a part of it. For a recent attempt to measure the multinationality see Békés et al. (2021) who construct an index of the boldness of firms' international footprints, which includes both the spatial scope of international diversification and the extent of commitment in each location (modes of foreign operations).

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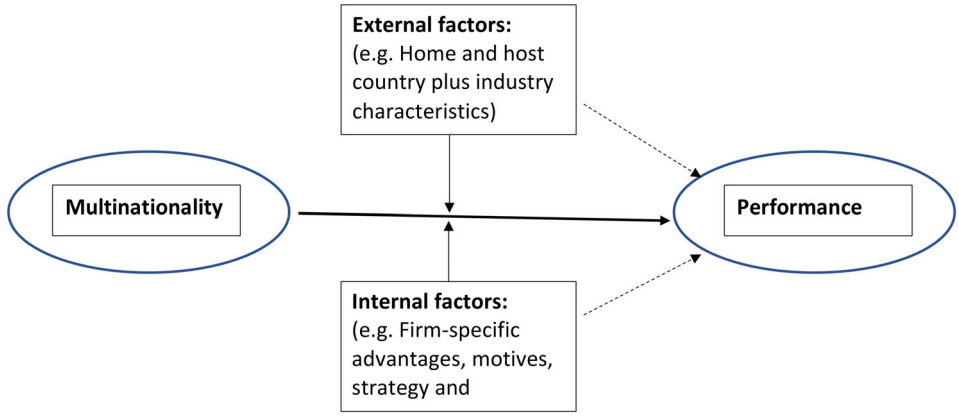

FIGURE 1 The theoretical model behind the universal M-P relationship.

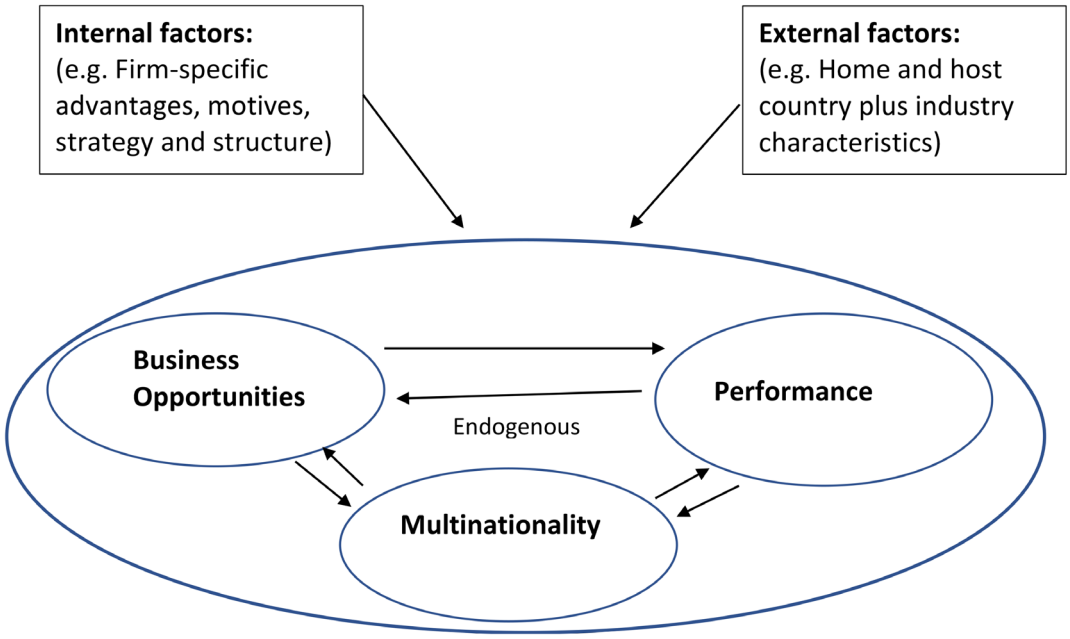

FIGURE 2 The theoretical model behind the rejection of a universal M-P relationship.

An additional issue is whether these variables work the same way irrespective of the firm, industry, or national context or whether moderating and contingent variables need to be added. If so, which contingencies are appropriate and what are the theoretical arguments for them? Candidates include nationality of the firm, geographic scope, industry, motives, and strategic intent. As illustrated in Figure 1, any or all of these internal and external factors are frequently added as moderating or control variables in models proposing a universal M-P relationship. In this sense, all the included variables are treated as exogenous and randomly generated variables.

This implies that most of these empirical studies on the M-P relationship have a serious problem with assumed causality as one can easily imagine that the causality runs the other way

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from performance to multinationality. In other words, a better performing firm will have the financial muscle to increase its multinationality. The multinationality variable is treated as an exogenous variable, but since firms typically increase their multinationality over time with rational expectations of improving their performance it should rather be treated as endogenous to performance. Berry and Kaul (2016) show that the multinationality effect on firm performance that might appear in causal models disappears once the endogeneity of multinationality is accounted for. Causality and endogeneity issues that vary from firm to firm are clearly problems in the many cross-sectional studies, but even studies based on longitudinal data might have similar issues with expectations of future firm performance paving the way for increasing multinationality. Shaver (1998) shows that failure to take the resulting endogeneity into account when assessing the performance of alternative strategies can lead to seriously biased results. All in all, this camp makes a valid, but perhaps inadequate, call for adequate measures, additional contingent variables, use of longitudinal data, and application of more sophisticated statistical techniques to further our understanding of the M-P relationship.

Those arguing against the universal M-P relationship propose that the problems are more theoretical in nature and emphasize that firms do not make decisions about the level of multinationality per se. They do make decisions about how best to exploit their firm-specific advantages in an optimal way. This might imply an increase in the level of multinationality or not, but the level of multinationality is not the decision variable. No firm is deciding "we want a 25 (or 50 or 75)% level of multinationality for our activities," but rather they decide to pursue expectedly beneficial business projects and strategies, some of which might alter their level of multinationality. Firms' degree of multinationality in reality is the result of decisions that have been taken based on other strategic considerations, for example, strategies of internal and external growth, cost cutting strategies, or customer relationship strategies. It implies that the level of multinationality will emerge as a result of other decisions and in alignment with the firm's business opportunities (determined by internal and external factors). Performance effects will only appear if the firm's international footprint is not aligned properly with the business opportunities it pursues. However, this will be the case whether the initial level of multinationality is too high or too low in relation to the opportunities offered by internal and external factors. Powell (2014) provides an extended outline of this argument in his study of multinationality, alignment, and performance. In Figure 2, this is illustrated by endogenizing the level of multinationality. In fact, there is a two-way causality between business opportunities, multinationality and performance making it difficult to tease out what determines what. Here external and internal factors, like firm-specific advantages, are antecedents of multinationality, in contrast to Figure 1 where they were moderating or controlling variables.

Both multinationality and performance might be determined by business opportunities in the sense that the exploitation of the firm's superior firm-specific advantages might lead to pursuing business opportunities abroad as well as improved firm performance. Therefore, we have the problem that both our independent and dependent variables are endogenously determined by the omitted variable of firm-specific advantages. This camp, therefore, calls for a deeper theoretical understanding of the two-way causality and the mediating processes between multinationality and performance, including the (omitted) internal and external factors that might be the real drivers of multinationality and firm performance (this view is outlined by Hennart (2011) and by Verbeke and Forootan (2012)).

In the following section, we present a literature review of articles published in *GSJ*, *SEJ*, and *SMJ* on the M-P relationship as a reflection of the arguments outlined above on the M-P relationship and where the discussions stand today. The selection of articles is based on a keyword search of the words: multinationality/international diversification and performance of empirical

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articles in the three SMS-journals. It starts with the seminal paper by Delios and Beamish (1999) in SMJ. The reviewed articles that include empirical testing of the M-P relationship are listed in Table 1 in chronological order to reflect the development in the research on the M-P relationship. The table describes the main characteristics of the reviewed articles including the measure of firm performance, multinationality, proposed M-P relationship, including contextual variables, empirical setting, applied theories, and main findings.

4 | LITERATURE REVIEW

Seeking to address the question of what value there is in firm internationalization, Delios and Beamish (1999) argue that multinational firms are more profitable due to their higher returns from exploitation of firm-specific advantages, such as brand equity, patents, or unique processes across a greater number of markets. Advantages also stem from increased market power, the ability to source lower cost inputs, and the spread of risk across a number of host country settings. In a path analytic model that includes such firm specific advantages as technology assets and marketing assets as well as multinationality (geographic scope) they find that multinationality has a positive effect on firm performance even when controlling for the effects of technology assets, marketing assets and product diversification (Delios & Beamish, 1999).

Extending the study of the value in internationalization, with a focus on small and medium-sized enterprises, Lu and Beamish (2001) found that positive impacts of internationalization on firm performance are due to foreign direct investment (FDI) activities. Exporting has a moderating effect on this relationship—the results show that a strategy of high export intensity coupled with greater extent of FDI resulted in lower performance (Lu & Beamish, 2001). The effects of FDI on the M-P relationship indicate an S-shaped curve: low levels of FDI are associated with decreasing performance, but as levels of FDI increase firms see higher performance until performance again falls off as the costs of internationalization surpass the benefits (Lu & Beamish, 2001). Other studies have also found an S-shaped M-P relationship due to the interplay of external and internal information costs (Fisch, 2012). These costs vary depending on type of firm as well as firm strategy: industry, firm size, firm expansion, and geographic location were variables found to affect the shape of the M-P relationship. As these studies indicate, the relationship between multinationality and performance is complex, variable, and inconclusive.

To add a new lens to the literature, Hennart (2011) argues that "we should carefully analyze the theoretical base of the M-P relationship" (p. 136). In doing so, Hennart contends that internationalization is a strategic choice for firms, and therefore we should not expect to see any general M-P relationship. The only cases where profitability is affected significantly by level of multinationality should be when firms make a mistake in the level of multinationality they choose. In these cases, firms are either over or under integrated compared to their specific optimum, thereby affecting profitability, but will likely correct their strategic position once they become aware of the problem. Berry and Kaul (2016) provide support to Hennart's argument for the need to reassess the theoretical base of the M-P relationship, as their study found no M-P relationship once they had accounted for endogeneity.

The lack of an M-P relationship speaks to studies that found no support for the S-curve hypothesis, in effect also challenging the existence of a casual effect of multinationality on performance (Pisani et al., 2020). Similarly, the S-shaped model has been critiqued on the grounds that the initial downturn in performance that the S-shape predicts may not occur if firms enter foreign markets that are similar to their home markets (Cardinal et al., 2011). Another reason

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TABLE 1 Empirical studies on the multinationality-performance relationship.

Author	Measure of performance	Measure of multinationality/ internationalization	Proposed relationships	Contextual variables/ moderators	Empirical setting	Findings
Delios and Beamish (1999)	• Return on assets (ROA) • Return on equity (ROE) • Return on sales (ROS)	Number of FDI and number of countries in which FDI had occurred.	Relationship between geographic scope and performance.	• Industry profitability • Product diversification • Technological assets • Geographic scope.	399 Japanese manufacturing firms.	Geographic scope positively associated with firm profitability. Performance was not related to the extent of product diversification.
Lu and Beamish (2001)	• ROA • ROS.	Exporting and FDI activities.	Relationship between internationalization and firm performance.	• Proprietary content of an SMEs assets • Size of SME • Product diversification • Exchange rate • Industry dummies	164 Japanese SMEs, engaged in 19 different industries.	When firms begin FDI activity, profitability declines, but greater levels of FDI are associated with higher performance. Exporting moderates the relationship between FDI and performance. Alliance with foreign partners is an effective strategy to overcome deficiencies SMEs face in resources and capabilities.
Fisch (2012)	• Profitability for investors.	Count of host countries.	How do firm contingent differences effect the relationship between internationalization and performance?	• Firm type (size, industry) and strategy variables (contraction or expansion).	Panel of all German firms with FDIs. In total 3398 firms.	Study shows that industry, size, expansion, and location cause a variety of S-curve progressions.

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TABLE 1 (Continued)

Author	Measure of performance	Measure of multinationality/ internationalization	Proposed relationships	Contextual variables/ moderators	Empirical setting	Findings
Kirca et al. (2012)	• Revenue generation (sales, sales growth) and profit maximization (ROA, ROS, ROE, ROI)	• Foreign sales to total sales • Foreign assets to total assets Breadth (number of countries, number of foreign subsidiaries).	The effects of country-level and industry-level factors on the M-P relationship	• Type of multinationality • Stage of internationalization • Firm strategic motivations • Industry characteristics • Home country factors.	Meta-analytic data from 47,489 firms across 152 independent samples reported in 141 studies.	Firm size and stage of internationalization do not affect the M-P relationship. Service businesses benefit less from multinationality than manufacturing businesses. Stronger M-P relationship for firms from advanced economies than developing economies.
Oh and Contractor (2012)	• Firm's market value (the sum of common equity, preferred stock, and debt).	Measured by foreign to total sales in the proximate region.	The effect of territorial coverage and product diversification on the M-P relationship.	• Degree of proximate region internationalization • Degree of distant region internationalization • Product diversification	835 observations from 1998 to 2004 for 315 firms in 36 industries.	When not accounting for product diversification, multinationality increases performance for firms that have expanded only in the proximate region subgroup, while for firms that have expanded only in the distant region subgroup, multinationality has a negative impact on performance.

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TABLE 1 (Continued)

Author	Measure of performance	Measure of multinationality/ internationalization	Proposed relationships	Contextual variables/ moderators	Empirical setting	Findings
Bertrand and Capron (2015)	• Firm-level labor productivity	Foreign acquisition	Ex post domestic productivity gains accrue to firms making cross-border acquisitions.	Investment rate.	Sample of acquiring and non-acquiring French firms, for a total of 183 cross-border acquisitions during the period of 1993–2004.	Cross-border acquisitions and investing in productivity make each other more beneficial for firm productivity.
Berry and Kaul (2016)	• ROA	Measured by an internationalization index based on number of foreign countries and foreign subsidiaries	The S-shaped relationship between a firm's multinationality and its performance.	• R&D intensity.	Sample consists of 2023 firms over 18 years, with a total of 21,297 firm-year observations.	Find no evidence of an S-shaped relationship between multinationality and performance. R&D spending does not moderate this relationship.
Benito et al. (2016)	• Tobin's Q • ROA • ROS	The ratio of foreign sales to total sales, as well as the ratio of foreign employment to total employment.	State ownership positively moderates the internationalization-performance relationship.	• Listed firms • Degree of internationalization.	30 of the largest publicly listed Norwegian firms from 2000 to 2010.	Limited support for the idea that SOEs benefit more from internationalization than POEs.
Chang and Chung (2017)	• Productivity	Export ratio	Relationship between firm's global strategic choices and performance.	Strategy as it pertains to export decision. Learning opportunities.	A total sample of 61,172 Chinese firms from the period 1998–2003.	The PSM/DID approach can identify the dynamic effects of strategy adoption.

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TABLE 1 (Continued)

Author	Measure of performance	Measure of multinationality/ internationalization	Proposed relationships	Contextual variables/ moderators	Empirical setting	Findings
Christophe and Lee (2018)	• Stock market survival • Abnormal stock returns	International versus domestic IPO	How internationalization affects IPO performance.	Internationalized IPOs vs. domestic-only.	Sample of US firms that went public during the years 1993–1996. A total of 1723 unique IPOs.	Internationalized IPOs earn positive risk-adjusted excess stock returns over 5 and 10 year investment periods, whereas domestic-only IPOs do not.
Belderbos et al. (2019)	Measured by value of growth options—The market value of the firm that is attributable to future growth opportunities.	Number of host countries the firm operates in.	Both environmental uncertainty and incremental investment strategies are crucial for firms to obtain growth option value from multinational investment.	• Multinationality • Market uncertainty • Equity stake • Investment size • Country level investment	Panel dataset of 396 Japanese manufacturing firms and 2054 firm-year observations.	A positive relationship between multinational investment and the value of growth options only applies to firms investing in host countries with high market uncertainty.
Chan et al. (2020)	• Equity funding • Human capital • Revenue Profit	Number of countries	Performance of new ventures affected by country context	Industry	1442 ventures from 117 accelerator programs across 22 countries	Variance decomposition of venture performance and results remain consistent when controlling for country and industry
Pisani et al. (2020)	ROA	Ratio of number of foreign countries and foreign subsidiaries	S-shaped relationship between multinationality and performance	• Debt-to-equity ratio • Export intensity • Product diversification • Exchange rate • Country • Industry sector.	250,000 firms based in 111 countries from 2009 to 2016, including 889,865 firm year observations.	Find no evidence of S-shaped relationship between multinationality and performance. Highlight the need for more focus on context.

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for the variation in findings as they pertain to the S-shaped curve may be that in many studies there has been a restricted range of observations, thereby limiting the amount of diversification accounted for between firms. The findings call for a more contextual approach, and a greater focus on between-firm differences to explain the effect the M-P relationship.

Contractor (2012) finds value in a more contextual approach, criticizing Hennart's theoretically based arguments that there is no M-P relationship, by highlighting that there is indeed both a negative and positive M-P relationship, but that the heterogeneity of firms obscures this finding from the majority of studies. A negative M-P relationship can be found if firm-specific factors are considered and if research methodology focused on the longitudinal process of international expansion. While the evidence shows that internationalizing comes with costs, there are also benefits: firms that are internationalized have higher survival rates and enjoy superior stock performance than domestic-only firms (Christophe & Lee, 2018). The findings agree with Contractor (2012), who posits that international expansion is generally beneficial to performance even though negative relationships have also been observed.

By arguing for the potential of both a negative and positive M-P relationship, authors such as Contractor outline several contingency factors that alter the M-P relationship. Among these contingency factors are the types of territories covered by the firm and product diversification (Oh & Contractor, 2012). Once product diversification reaches a certain threshold it is found to decrease the benefits of internationalization (Oh & Contractor, 2012). However, the same study also found that increasing product diversification reduces the negative effects of internationalizing into distant countries.

Other variables to be considered in the M-P relationship are firm specific advantages and strategic choices that determine the extent of a firm's international diversification (Verbeke & Forootan, 2012; Wiersema & Bowen, 2011). Positive benefits from internationalization depend on the strengths of the firm-specific advantages as well as the ability to recombine firm-specific advantages with resources in new markets as firms internationalize (Verbeke & Forootan, 2012). In terms of firm strategy, an internationalization strategy through exporting has been found to improve firm productivity based on learning from exporting activity (Chang & Chung, 2017). Strategies focused on cross-border acquisitions have been found to increase the productivity of the firm in the home country (Bertrand & Capron, 2015). In particular, productivity gains at home will be greater when there are learning opportunities in the host country of the acquired firm. Another factor affecting this relationship is that firms will gain more productivity from acquisitions if the acquiring firm engages in productivity-enhancing activities at home (Bertrand & Capron, 2015).

Further studies highlight the importance of both firm strategy and the type of country entered in unlocking growth opportunities that can potentially lead to increased performance. These findings indicate that the number of host countries invested in, the type of country and the types of investment strategies are key to what future growth opportunities will be gained during internationalization (Belderbos et al., 2019). The type of country and strategy is particularly important as it pertains to environmental uncertainty: firms that wish to unlock growth options need to align their incremental investment strategy to environmental uncertainty across host countries and within each country in which they operate (Belderbos et al., 2019).

Other than the type of internationalization and firm strategy, industry characteristics and home country factors (stronger benefits for advanced economies than developing countries) are important moderating effects for the M-P relationship (Kirca et al., 2012).

Along these lines Chan et al. (2020) conducted a variance decomposition of performance of new ventures across countries and industries to sort of the importance of the country and industry for venture performance. They generally found that the country effect was more sizeable than the

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industry effect on venture performance. Firm ownership has also been shown to have a modest moderating effect on the M-P relationship; limited support was found for the idea that state-owned companies (SOEs) benefit more from internationalization than privately owned companies (Benito et al., 2016). These effects were stronger for majority-owned SOEs than minority-owned SOEs. The findings demonstrate that contingency variables (internal and external) such as firm, industry, and country-level factors play an important role in understanding the M-P relationship.

5 | DISCUSSION AND FUTURE STUDIES

The overall message derived from this review of the M-P literature is that attempting to find a universally valid M-P linkage is unlikely to yield valuable insights. Most scholars would agree that this strand of research is no longer being moved forward through more empirical studies that just test new variations of known variables in a new context or more sophisticated statistical models with a new shape of the relationship. As such, we do not need more of the same as we will just get more contradictory and inconclusive results. Instead, we need to reconsider the way this topic has been approached, which involves new conceptual ideas and truly innovative approaches.

It seems particularly unlikely that cross-sectional studies of multiple firms can ever be conclusive. This is because the theoretical models for the M-P relationship, whatever the "shape" of the influence, are described from the perspective of individual firms and their managers gradually increasing their international markets and sources of inputs, integrating their various international operations, and learning about managing ever-larger and more diverse organizations.

Given the overwhelming number of empirical studies that continue to provide mixed results, the problem seems to be more theoretical in nature. We should move away from linking multinationality directly and deterministically to performance and focus more on understanding the micro-processes and mediating processes in between multinationality and performance. In fact, there are many intermediary steps between a decision to pursue a business opportunity abroad, thereby increasing the level of multinationality, and the effect of this decision on firm performance. We need to better understand all these intermediary steps in order to be able to disaggregate the effect of all the interacting factors that are at play. This also implies that this should be studied at a more disaggregated level where some of the interacting factors (like country and industry factors) are kept constant by design.

If all other aspects of the firm were held constant except the level of international diversification, perhaps an equilibrium level with optimal performance could be reached. However, everything else is much more likely to be changing, so the optimal degree of multinationality for any firm is constantly changing as are all the conditions that might also impact performance. This aspect of the problem suggests that cross-sectional evaluations of even large numbers of firms using the most sophisticated analyses will never be conclusive. The data are simply not commensurate with the concepts.

Future work could look for more sophisticated ways of accounting for this endogeneity of multinationality, perhaps relying on external shocks like changes in government policies, industry conditions or natural experiments that affect the level multinationality. Similarly, setting up a comparison of firms that are exposed to very similar internal and external factors, but vary in their multinationality, would also help in detecting the causality and understanding the mediating process that lead to firm performance.

This approach also argues for longitudinal studies that track firms over time, but that measure changing levels of many internal and external variables as well as multinationality and

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performance. They also need to track managerial goals, as performance is not a fixed target, and the relationships of the firm with its allies and competition. Following how firms increase their international footprint over longer time would allow us to understand whether there are clear stages in the level of multinationality (as indicated by the S-shaped model). In fact, the S-shaped model builds on the assumptions that there are distinct stages in multinationality where benefits dominate costs and vice versa, but if these benefits and costs are appearing simultaneously, we should not expect any performance effect of multinationality. One attempt along these lines was made by Pedersen and Shaver (2011) that identified the first FDI as the really big step in expanding the international footprint as it implied setting up the initial structure and routines for the international organization. This argument suggests that longitudinal qualitative studies are perhaps the best way to move our understanding of what multinationalization is in today's economy, what drives it, and ultimately how it affects performance. Such studies are challenging, but the need to break out of the mold of quantitative analysis defined not by concepts and observation but by data availability seems apparent.

If we can begin to see a new set of relationships through qualitative work, studies of the M-P relationship might consider that empirically the golden standard of statistical testing in management and strategy is moving toward experimental design. Although it is very hard to be able to manipulate the degree of multinationality in firms, we should try to adapt semi-experimental statistical methods such as vignette studies or to take advantage of natural experiments. Such techniques seem to offer opportunities to bring the richness and understanding of longitudinal case studies together with some rigorous analytics aimed at certain identifiable events on those time lines. The causality issue, which is a big problem in M-P relationship studies, can hardly be overcome in other ways than applying some kind of experimental design.

The concluding message that we hope to impart is that M-P studies are moribund, if not dead, so long as scholars keep working within existing conceptual models and using "established" data and methods. However, multinationalism is likely with us, albeit in novel forms, for an extended future, and we do need to know more about it. We, or perhaps YOU, need to find new ways to address the issues—theoretically and empirically—and to keep the study of this essential, even definitional, aspect of global strategic management alive.

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