‘Misfits’ DO try to fit: Deviations from firm-specific optimal multinationality and subsequent market entry or exit in US law firms

K. Skylar Powell⁎, Eunah Lim

⁎ Western Washington University, College of Business and Economics, Parks Hall 215, MS 9075, 516 High Street, Bellingham, WA 98225, USA
b ISCTE-IUL Business School, Av. Das Forças Armadas, 1649-026 Lisbon, Portugal

A R T I C L E   I N F O

Keywords:
Transaction cost economics
Multinationality
Law firms
Market entry
Market exit

A B S T R A C T

Transaction cost and internalization theory research has demonstrated that ‘misfit’ firms, which deviate from firm-specific optimal levels of multinationality, experience performance decreases. However, we do not know if these firms subsequently adjust their multinational footprints to improve performance. This analysis attempts to fill this gap in the literature, using data in the context of large US law firms from 2003 through 2015. Results indicate that firms with insufficient multinationality relative to their firm-specific optimal levels are more likely to enter new foreign markets in a subsequent period. Additionally, firms with excessive multinationality relative to their firm-specific optimal levels are more likely to exit markets in a subsequent period. These results contribute to theory by showing that maintaining firm-specific multinationality is a continuous adaptive process. Results also highlight managerial benefits to continuously evaluating the efficiency of how international interdependencies are organized in response to changing environments and firm factors.

1. Introduction

Over the last 50 years, two dominant approaches to understanding the performance implications of multinationality have emerged. The first approach evaluates the potential for a general multinationality and performance (M-P) relationship (e.g., Berry & Kaul, 2016; Borda, Geleilate, Newburry, & Kundu, 2017; Semrau, Ambos, & Kraus, 2016; Tsai, 2014). However, the empirical research within this literature stream has resulted in mixed findings (Marano, Arregle, Hitt, Spadafora, & van Essen, 2016; Nguyen, 2017). Alternatively, the second approach to understanding performance implications of multinationality focuses on firm-specific optimal configurations given a firm’s resources (e.g., Kraus, Mensching, Calabro, Cheng, & Filser, 2016; Powell, 2014a). Much of this research draws upon transaction cost and internalization theory (e.g., Buckley & Casson, 1976; Hennart, 1982) to argue that alignment with firm-specific optimal levels of multinationality will have performance implications (Powell, 2017). In this analysis, we focus on this transaction cost and internalization approach because it offers a clear chain of functional theoretical relationships.

Empirical transaction cost and internalization research exploring the consequences of alignment with, or deviation from, overall firm-specific optimal levels of multinationality is still nascent. While there is some empirical and case study evidence that deviations from firm-specific optimal levels of multinationality are associated with performance decreases (e.g., Carneiro, Amaral, Pacheco, Moraes, & da Silva, 2014; Powell, 2014a), empirical research has not yet tested the assumption that firms which deviate from their optimal levels of multinationality, or “misfits” (Hennart, 2011), will attempt to readjust their multinational footprints. We argue that it is important to explore the assumption that misfit firms will adapt because there is a competing selectionist view (e.g., Hannan & Freeman, 1977) which assumes firms will not make readjustments, even in dynamic environments where firm-specific optimal levels of multinationality may change over time. In other words, we do not know whether misfits adjust their multinational footprints, and this is a gap in the configurational research on multinationality and performance. The objective of this research is to test the relationship between deviations from firm-specific optimal multinationality and readjustments to multinational footprints towards optimal levels.

To accomplish our objective, we test the relationship between deviations from firm-specific optimal levels of multinationality and subsequent new market entries and market exits, in the context of large US law firms during the period from 2003 through 2015. Law firms are part of the service sector, and service firms tend to be more knowledge intensive than capital intensive, relative to manufacturing firms (Powell, 2014a; von Nordenflycht, 2010). Law firms are a classical example of professional services firms and the service sector accounted for two-thirds of global foreign direct investment stock in 2015.
(UNCTAD, 2017, pg.21). Hence, we would argue that service contexts are exceptionally relevant to the study of international business phenomena today. Additionally, there is evidence that service firms tend to be more risk oriented, innovative, and proactive relative to manufacturing firms (Rigtering, Kraus, Eggers, & Jensen, 2014), further suggesting that service firms, such as law firms, are relevant to research in the context of multinationality, which entails risk, innovation, and proactivity.

2. Background and hypothesis

2.1. Differentiating the multinationality alignment perspective from M-P

Scholars exploring the performance consequences of multinationality have considered both objective financial performance outcomes (e.g., Dittfeld, 2017) and perceived success (e.g., Kraus, Mitter, Eggers, & Stieg, 2017), and have often searched for a general M-P relationship (Benito-Osorio, Colino, Guerras-Martín, & Zuniga-Vicente, 2016; Berry & Kaul, 2016; Borda et al., 2017; Tsai, 2014). M-P researchers have used various theoretical perspectives (Nguyen, 2017) and have based expectations for a general relationship on exploitation of scale economies, use of intangible resources and capabilities, access to resources, and learning abroad (Hennart, 2007; Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Kirca, Fernandez, & Kundu, 2016; Tsai, 2014). Yet, empirical results have been mixed and progressively more complex modelling procedures have been employed. For example, M-P research has found non-significant relationships (e.g., Gomez-Mejia & Palich, 1997), positive relationships (e.g., Jung, 1991), negative relationships (e.g., Shaked, 1986), U-shaped relationships (e.g., Berry & Kaul, 2016), inverted U-shaped relationships (e.g., Shin, Mendoza, Hawkins, & Choi, 2017), S-shaped relationships (e.g., Benito-Osorio et al., 2016; Tsai, 2014), M-shaped relationships (e.g., Lee, 2010), and even W-shaped relationships (e.g., Almodovar, 2012).

Along with more complex modelling of non-linear M-P relationships, researchers have increasingly considered factors that might moderate M-P relationships (e.g., Dittfeld, 2017; Shin et al., 2017). For example, Semrau et al. (2016) find a moderating effect of societal/cultural variables, and Shin et al. (2017) find a moderating role for different types of industry resource intensity on M-P relationships in service firms. Other moderators have included business group diversification (Borda et al., 2017), home country institutions (Marano et al., 2016), and firm-specific assets and capabilities (Buckley & Tian, 2017a; Kirca et al., 2016; Tsai, 2014).

Instead of focusing upon more complex modelling procedures, Hennart (2007, 2011) offers an alternative explanation for the diversity in M-P findings. Specifically, there may not be a clear theoretical rationale for a general M-P relationship, as multinationality may not always be a prerequisite for scale economies, flexible access to resources, learning, or the use of intangible resources. In addition to a lack of theoretical clarity in M-P research (Nguyen, 2017), there is also a problem with endogeneity (Carneiro et al., 2014; Kirca et al., 2016; Powell, 2014a). Specifically, multinationality is a consequence of managerial decision processes, and different factors influence managerial decisions (Dastidar, 2009; Maitland & Sammartino, 2015). For example, Sanchez-Bueno and Usero (2014) note that internationalization decisions may be influenced by family ownership, and Buckley and Tian (2017a, 2017b) note that R&D intensity may relate to multinationality. Similarly, Cesinger et al. (2016) argue that a mediated chain from collaboration intensity to international market knowledge is antecedent to levels of multinationality in family firms. This means that multinationality does not vary randomly, yet most M-P models do not account for antecedents to multinationality.

The alternative to the M-P research, is the transaction cost and internalization theory approach (e.g., Buckley & Casson, 1976; Hennart, 1982), which suggests that there is not a general relationship between multinationality and performance. This approach is rooted in Coase’s (1937) argument that firms exist to reduce transaction costs by internalizing failed markets. While Coase’s discussion of firms did not include ideas on the internalization of interdependencies across international borders, Hymer (1976) extended the idea to include the internalization of foreign operations in the face of structural market imperfections. However, transaction cost and internalization theory (Buckley & Casson, 1976; Hennart, 1982) goes a step further, to argue that multinationals also internalize foreign operations in the face of natural market imperfections, such as opportunism and bounded rationality (Hennart, 2001). Specifically, in the face of market imperfections, imperfect information, and opportunism, firms will organize international interdependencies in ways that lower transaction costs (Chen, 2010a; Hennart, 2001; Leih & Teece, 2014; Lo, 2015). This may involve internalizing foreign operations to protect against freeriding, which can decrease quality, endanger client relationships, and damage a firm’s reputation (Chen, 2010b; Hennart, 2001, 2010). As another example, a firm may internalize foreign operations to efficiently access knowledge or to limit the unintended transfer of knowledge (Hennart, 2001). In either case, firm-specific transaction cost factors should influence decisions on how to organize an overall combination of international interdependencies to maximize efficiency. These ideas have been further developed to offer that internalization of foreign operations can be a way to maintain exclusive control over firm-specific advantages, thereby reducing or avoiding any costs that come with the possible transfer of these advantages to other firms (e.g., Lo, 2015; Rugman, Nguyen, & Wei, 2016; Verbeke, 2013). In the same way that Coase (1937) explained the existence of firms as efforts to internalize imperfect markets, transaction cost and internalization theory explains the existence of multinational enterprises as efforts to internalize inefficiencies in international interdependencies.

These ideas suggest that a firm’s transaction cost factors (e.g., Chen, 2010b) and advantages (e.g., Rugman et al., 2016) could mean that the optimal level of multinationality is no multinationality. In this case, any internalized foreign operations should result in additional costs that negatively affect performance. Alternatively, the transaction cost factors and advantages of another firm could mean that there is an optimal level of multinationality for the firm, and being below or above that firm-specific optimal level of multinationality should negatively affect performance (Powell, 2014a, 2017). Firms differ in terms of knowledge, reputations, relationships, and specific advantages, so they should also differ in terms of how they organize their overall collections of international interdependencies to limit transaction costs and optimize performance.

2.2. Misfits and adjustments to multinationality

As described above, transaction cost and internalization theory argues that alignment, or misalignment, with firm-specific optimal levels of multinationality has performance consequences. Additionally, research has highlighted the importance of firm-specific transaction cost factors (Powell, 2014a) and firm-specific advantages (Verbeke, 2013) in the performance of multinational enterprises. However, we do not have a clear idea about how misaligned firms respond. It is reasonable to assume that environments and firm-specific transaction cost factors can change, and the value of firm-specific advantages can change. In the face of changes, some firms may misjudge their optimal levels of multinationality, internalizing some international interdependencies that should be organized externally, or vice-a-versa (Hennart, 2007).

An adaptationist perspective argues that deviations from optimal should be followed by swift adjustments back to optimal (Birkinshaw, Zimmermann, & Raisch, 2016; Nickerson & Silverman, 2003) to improve performance, an idea that is consistent with insights from behavioral theory (Greve, 2003, 2010). Firms may differ in the barriers they face in adjusting their multinational footprints, and significant barriers could delay adjustments in some firms, causing them to become prolonged ‘misfits.’ For example, firms with larger multinational footprints
دریافت فوری
متن کامل مقاله
امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات