

Reconceptualizing the Role of the Top Management Team in the Performance of Multinational Enterprises

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Abstract

In this paper we develop a new framework for future research on the role of top management teams (TMTs) in the performance of multinational enterprises (MNEs). We concisely review previous empirical research on the multinationality-performance relationship and highlight common theoretical oversimplifications. Subsequently, we explicate how a rigorous internalization theory perspective may help to overcome these theoretical shortcomings. Building on the firm specific advantage (FSA)-country specific advantage (CSA) framework, we reject that multinationality per se has a positive performance effect. Rather, FSAs and CSAs are the ultimate antecedents of MNE performance, with particular importance of interactions between them. We introduce TMT-based higher-order FSAs as the decisive factor allowing firms to actively utilize gainful advantage combinations. Based on strategic leadership and resource-based view (RBV) considerations as well as on agency theory, we suggest that TMT capability and TMT willingness to make effective and efficient use of available FSAs and CSAs constitute the TMT-based higher-order FSA. Besides providing preliminary evidence for our reconceptualization by reinterpreting previous empirical multinationality-performance research, we indicate how future empirical research may further corroborate our framework.

Key words: multinational enterprise, multinationality, performance, top management team, internalization theory, firm specific advantages, country specific advantages

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1 Introduction

International business and strategic management scholars have studied the multinationality-performance relationship intensively during the last few decades (e.g., Geringer et al., 1989; Gomes and Ramaswamy, 1999; Hitt et al., 2006). Generally, a firm that broadens the geographic scope of its activities is believed to increase its chances of enjoying the numerous benefits associated with operating in international markets (Rugman and Verbeke, 2008c). Nevertheless, empirical findings regarding this relationship remain inconsistent and contradictory. If and how much a firm gains from its multinational activities appears to be highly context-dependent (Bausch and Krist, 2007).

This context dependence conforms to internalization theory, which argues that the competitiveness of multinational enterprises (MNEs) is crucially determined by firm specific advantages (FSAs), country specific advantages (CSAs), and recombinations thereof (Hymer, 1976; Buckley and Casson, 1976; Rugman, 1981; Hennart, 1982). Originating from transaction cost economics (TCE), internalization theory is a comparative institutional approach for analyzing MNE behavior. Accordingly, it serves to consider the relative effectiveness and efficiency of alternative governance mechanisms for the management of economic interdependencies (Rugman and Verbeke, 2008a). Nonetheless, many scholars studying multinationality and performance seem reluctant to take a rigorous internalization theory perspective. A focus on the RBV, explaining above average performance with a superior endowment with idiosyncratic resources and (dynamic) capabilities (Barney, 1991; Teece, 2007; Wernerfelt, 1984, e.g.), is more prevalent. Although the internalization theory's usefulness for strategic management research and its compatibility with the RBV have

been demonstrated (Rugman and Verbeke, 1992, 2003), the applicability of internalization theory is still widely seen as being limited to the explanation of foreign direct investment (FDI) and the existence of the MNE. Its value for analyzing MNEs' strategies remains underestimated.

In this paper we review previous research on the multinationality-performance relationship. We give a concise overview that highlights the inconsistencies of previous findings, discuss two major attempts to integrate them, and point at the theoretical shortcoming, i.e., a negligence of internalization theory. Subsequently we recapitulate the foundations of internalization theory (Buckley and Casson, 1976) and the FSA-CSA framework (Rugman, 1981). Our major contribution is then the introduction of TMT-based higher-order FSAs as a critical factor for MNE performance that has hitherto hardly received attention. We develop a preliminary framework for future research on TMT-based higher-order FSAs in the context of MNE performance, distinguishing between TMT capability—based on RBV (Penrose, 1959) and strategic leadership (Hambrick and Mason, 1984)—and TMT willingness—based on agency theory (Jensen and Meckling, 1976) and bounded rationality (Cyert and March, 1963) considerations. A discussion of preliminary support of our reconceptualization by a reinterpretation of previous empirical evidence is followed by some final remarks and conclusion.

2 A Critical Review of Multinationality-Performance Research

A review of the literature on the link between multinationality and performance reveals four main research trends. Work from the 1970s mainly highlights the benefits of multinationality, advocating an overall positive multina-

tionality-performance relationship (Agmon and Lessard, 1977; Hughes et al., 1975; Rugman, 1979). During the 1980s and 1990s, more and more authors started to discuss potential negative effects associated with being multinational. Costs of complexity and coordination as well as liabilities of foreignness became the center of attention (Grant, 1987; Siddharthan and Lall, 1982; Zaheer, 1995), raising the question whether the correlation between multinationality and performance might be negative.

This eventually led to work considering the trade-off between benefits and costs attributed to multinationality. Although the notion of a non-linear relationship between multinationality and performance became widespread, the precise shape remained unclear. A focus on liabilities of foreignness, which are mainly prevalent during early stages of multinational activities, suggests a U-shaped relationship (Lu and Beamish, 2001; Ruigrok and Wagner, 2003). Costs of complexity and coordination, on the other hand, rise with an increasing degree of multinationality, thus implying an inverted U-shape (Geringer et al., 1989; Gomes and Ramaswamy, 1999; Hitt et al., 1997).

More recently, the multitude of conflicting and inconsistent results led to two different attempts to integrate the previous work. One is theory-based and goes back to the work of Riahi-Belkaoui (1998), Contractor et al. (2003), and Lu and Beamish (2004), who propose the S-curve hypothesis in their studies. They argue that the relationship between multinationality and performance is U-shaped for lower degrees of multinationality and takes on an inverted U-shape for higher degrees, thus constituting an overall horizontal S-curve. Accordingly, the multinationality-performance relationship can be divided into three stages. During an initial stage, liabilities of foreignness dominate the relationship, inducing profitability to decrease when multinationality increases. From

some point onwards, a rising degree of multinationality results in increasing profitability. During this second stage learning (Johanson and Vahlne, 1977, 1990) and the exploitation of economies of scale and scope prevail. Finally, a point is reached from which onwards further increasing the degree of multinationality reduces profitability again. The driving forces during this third stage are complexity and coordination costs, often associated with distance (Ghemawat, 2001). Altogether, combining theoretical reasons for positive effects and for negative effects of multinationality on firm performance during different stages of the internationalization process results in the S-curve hypothesis (Contractor et al., 2003; Lu and Beamish, 2004).

The second attempt to integrate previous findings is methodology-based. Bausch and Krist (2007) do not approach the topic by combining theoretical insights, but rather rely on a statistical method that has not been used in this field of study before. The authors introduce meta-analytical techniques to integrate the findings from 36 previous studies of the relationship between multinationality and performance. The strengths of meta-analyses include their ability to detect the true relationship between variables. Moreover, meta-analyses are useful to reveal reasons for conflicting findings of different studies, such as research artifacts or moderator variables (Dalton et al., 1999). Bausch and Krist (2007) find an overall positive, yet very weak, effect of multinationality on performance. Their results indicate that moderating variables exist, and further tests reveal that, among others, research and development (R&D) intensity and country of origin are moderators. All in all, Bausch and Krist (2007) conclude that no universal multinationality-performance link exists and suggest that future research should investigate the specific circumstances under which multinationality increases profitability.

Despite the two delineated attempts to integrate contradictory and inconsistent findings, the debate on the true relationship between multinationality and performance has not ended. Bowen (2007), e.g., criticizes the statistical methods of the majority of research in this area and highlights potential sources of errors. Rugman and Verbeke (2008a) remark that multinationality is only an intermediate variable and regressions using it as an independent variable when performance is the dependent variable are mis-specified. The theoretical background of a large number of studies on the topic is the center of attention of Hennart (2007). The author explicates why multinationality cannot lead to higher performance per se. To this end, Hennart (2007) discusses the three most prominent arguments (q.v. Pangarkar, 2008) of the proponents of a positive effect of multinationality on performance: (1) economies of scale, (2) more flexible access to better resources, (2) greater learning opportunities.

Hennart (2007) points out that all three arguments may be valuable, but are frequently overgeneralized. Economies of scale may enhance performance, but not only in a multinational setting. In fact, if they can be realized without multinational activity, a firm does not incur extra costs associated with foreign operations, e.g., costs associated with cultural, administrative, geographic, and economic distance (Ghemawat, 2001). Regarding the resource access argument, Hennart (2007) retorts that it implicitly assumes that FDI is the only viable way to realize these benefits, not allowing for any occasion in which the market solution is more efficient. Lastly, the learning argument first of all assumes that geographically dispersed and locally embedded knowledge is relevant for all MNEs. Furthermore, this argument implies that the only way to access such knowledge is FDI, once again neglecting a possibly more efficient market solution (Hennart, 2007). Even if these assumptions were correct, it is quite unlikely that *all* foreign subsidiaries explore new knowledge

instead of just exploiting old knowledge. Such behavior would require an organizational structure like that of Bartlett and Ghoshal's (1989) "transnational" solution, which can hardly be found in reality.

The essence of this criticism is that the implicit assumptions of three widely used arguments for a positive impact of multinationality on performance are extremely narrow and they lack TCE insights. Economies of scale, more flexible access to better resources, as well as learning certainly entail benefits, but they also entail costs. These costs may be particularly high in a multinational context, due to liabilities of foreignness, increased complexity, and higher coordination requirements. In view of that, achieving economies of scale, improving resource access, and learning may actually be most efficient in only a few countries, with a relatively low degree of multinationality.¹ In the next section, we explicate how internalization theory and the FSA-CSA framework can overcome this criticism and lead to a differently specified theoretical model where multinationality is not an independent variable.

3 Internalization Theory and Performance

Some 40 years after Coase's (1937) seminal paper on the costs of market transactions was first published, Williamson (1975) popularizes the concept of TCE. Williamson (1975) proposes bounded rationality, uncertainty, opportunism, frequency, and asset specificity as the main determinants of the relative efficiency of the market vis-à-vis the hierarchical solution for any given transaction. Simultaneously, Buckley and Casson (1976) lay the foundation for

¹ This train of thought is in line with recent findings that most of the largest MNEs expand within their home triad region rather than globally (Rugman and Verbeke, 2004, 2008b).

internalization theory by explaining that the MNE exists as a replacement for the market in cross-border transactions. Buckley and Casson (1976) incorporate the idea of FSAs, developed in the 1960 dissertation of Hymer (1976) and propagated by Kindleberger (1969). FSAs are necessary for a firm's competitiveness abroad, since it faces "liabilities of foreignness" (Zaheer, 1995). Most FSAs are based on intangible assets controlled by the firm. The markets for these intangibles are usually imperfect, because intangibles exhibit, at least partially, public good characteristics. Market failure implies that the internal organization of activities to develop and exploit FSAs, i.e. the MNE, is an efficient solution, whereas the market is not (Buckley and Casson, 1976).

Williamson's (1975) and Buckley and Casson's (1976) works were integrated in Hennart's (1982) 1977 dissertation, which offers a detailed analysis of market and hierarchical solutions in the context of MNEs. Rugman (1981) underscores that the *raison d'être* of MNEs is their ability to internalize exogenous market imperfections, whether natural or induced by government regulations. Furthermore, Rugman (1981) emphasizes FSAs as prerequisites for multinationality and introduces the complementary concept of CSAs. By the time Caves (1982) put the discussed literature within a context of industrial organization and international economics, internalization theory had emerged as a general theory of the MNE in the field of international business.

Within the realms of internalization theory, the FSA-CSA framework is a powerful tool for explaining a firms' motives for multinationality. The framework originates Rugman's (1981) juxtaposition of FSAs and CSAs as the main determinants of FDI decisions. One of its strengths is its parsimony. Unlike the eclectic paradigm of Dunning (1988, 2000), the FSA-CSA framework does not distinguish between ownership and internalization advantages. Rather, both

		Firm-Specific Advantages	
		Weak	Strong
Country-Specific Advantages	Strong	1	3
	Weak	2	4

Fig. 1. FSA-CSA Matrix (based on Rugman (1981))

are captured by the notion of FSAs, because the very nature of FSAs requires internalization for effective utilization (Rugman, 1986). The idea of CSAs, on the other hand, is equivalent to the location advantage of Dunning's eclectic paradigm. This type of advantage arises from having operations in one particular location and not in another (Rugman and Verbeke, 1992).

The logic of the FSA-CSA framework predicts that a firm's multinationality is the result of the assessment of two elements: (1) FSAs relative to competitors and (2) available CSAs. To simplify this decision problem, the matrix in Figure 1 dichotomizes the possible parameter values of both FSAs and CSAs to being either weak (irrelevant) or strong. The resulting two-by-two matrix offers four cells, which illustrates the bases on which firms can compete abroad.

A firm in Cell 2 should not be a MNE, as it is unable to compete abroad. It can neither rely on FSAs nor CSAs to overcome the liabilities of foreignness. We expect a firm in Cell 2 to either remain uni-national, or to fail in the long-term, unless it is able to develop new FSAs or access new CSAs which implies leaving Cell 2. The reason is that the costs of any FDI undertaken by a firm in Cell 2 supersede its benefits. Cell 2 hence reveals a core idea of internalization

theory, i.e., that multinationality cannot be beneficial for a firm that does not have any FSAs/CSAs (Verbeke et al., 2009; Verbeke and Brugman, 2009).

Proposition 1 *Multinationality per se does not positively affect performance.*

In Cell 1, existing home country and/or aspired host country CSAs allow a firm to compete in a multinational context. Examples of CSAs include not only natural resource endowments or low labor costs, but also cultural factors, or technological know-how, e.g., reflected in a skilled labor force. On this note, CSAs are similar to a “competitive advantage of nations” (Porter, 1990).

Proposition 2 *Strong CSAs positively affect MNE performance.*

In contrast, a firm with strong FSAs but weak CSAs (Cell 4 in Figure 1) is independent from country factors for its competitiveness in foreign markets. Of major importance are marketing-based and technology-based FSAs (Caves, 1982), built up over time through investments in marketing and R&D, respectively. This point of view is largely consistent with the RBV, which concentrates on idiosyncratic resources and capabilities as a source of competitive advantage and above average performance (e.g., Barney, 1991; Peteraf, 1993; Prahalad and Hamel, 1990; Wernerfelt, 1984). Although firms in Cell 4 may possess FSAs strong enough to compete abroad, the reach of their FSAs may be limited. Some FSAs are non location-bound and may easily be transferred to other locations, whereas location-bound FSAs cannot be transferred (Rugman and Verbeke, 1992). In spite of this, location-bound FSAs can be valuable, because they allow for national responsiveness. In fact, many non location-bound FSAs may not be deployed to their full potential without combining them with location-bound FSAs (Rugman and Verbeke, 2003).

Proposition 3 *Strong FSAs positively affect MNE performance.*

Even though firms in Cells 1 and 4 have advantages that permit them to compete abroad, they still face problems. Firms in Cell 1 are unable to generate and sustain advantages over competitors who can access the same CSAs. Hence, for long-term success they must develop FSAs, possibly based on CSAs (Rugman and Verbeke, 1992), and reach Cell 3. Analogously, firms in Cell 4 have to consider that not only non location-bound and location-bound FSAs may supplement each other, but also FSAs and CSAs. Not combining FSAs with adequate CSAs thus implies foregoing advantage combinations that are more valuable than the standalone advantages. Firms in Cell 4 should thus try to find gainful FSA-CSA linkages, moving to Cell 3. Altogether, Cell 3 in Figure 1 is especially attractive because of the protruding importance of FSA-CSA combinations for MNE performance (Rugman and Verbeke, 2003).

As the discussion of the FSA-CSA framework has demonstrated, MNEs in Cell 3 that make active use of interactions between FSAs and CSAs that result in augmented existing FSA bundles or in completely new FSAs are most likely to reach and sustain above-average performance. Cell 3 MNEs exhibit a certain degree of ambidexterity (Gupta et al., 2006) in the sense of both exploiting existing and exploring new (March, 1991) FSAs, CSAs, and recombinations thereof. MNEs that actively utilize gainful recombinations possess higher-order FSAs (Rugman and Verbeke, 2008a), comparable to the concept of dynamic capabilities, a major source of sustained competitive advantage in the RBV (Teece et al., 1997; Eisenhardt and Martin, 2000; Winter, 2003; Teece, 2007). Because of the expounded utmost significance of these higher-order FSAs for MNE performance, we will expand on their nature and develop a preliminary framework for future research in the following section.

4 The Nature of Higher-order FSAs and a Preliminary Framework for Future Research on Their Performance Impact

As argued in the previous section, MNEs that possess higher-order FSAs gainfully recombine FSAs and CSAs, taking advantage of interaction effects. This entails that higher-order FSAs permit firms to estimate the costs and benefits associated with different FSA-CSA combinations very well. Based on these superior estimations, MNEs with higher-order FSAs then realize multinational strategies that are very close to a internalization theory/TCE-based theoretical optimum, given available FSAs and CSAs. This, in turn, causes MNEs with higher-order FSAs to experience above-average performance.

The positive performance impact of a higher-order FSA, that implies superior prediction of benefits and costs of different multinational strategies, equates to Teece's (2007) assertion that performance depends on how accurate a TMT's conjectures about the future are, and on how good a TMT is at updating them. Ultimately, evaluating different potential multinational strategies and choosing which one to realize is—like any strategic decision—one of the core responsibilities of a firm's TMT. Accordingly, managerial capabilities are seen as a major source of sustainable competitive advantage and hence above average performance by RBV scholars (Barney et al., 2001). We therefore argue that the described higher-order FSA, that allows MNEs to actively use interaction effects between different advantages and thereby positively impacts MNE performance, is embedded in a firm's TMT.

Supporting the view that TMTs play an important role in the performance of MNEs, upper echelon and strategic leadership research emphasize that TMTs interpret situations and make strategic decisions based on their previous

knowledge and experiences, their values and beliefs, and their personality traits (Hambrick and Mason, 1984; Schwenk, 1995). TMT characteristics are thus antecedents of organizational outcomes (Hambrick, 2007). Although power culminates within the chief executive officer (CEO) (Mintzberg, 1983), the whole TMT significantly affects the strategic decision making process (Papadakis and Barwise, 2002). This is particularly true for contexts in which managerial discretion is high (Finkelstein and Hambrick, 1990), as is the case for multinational strategy. Consequently, developing a research framework that captures TMT-based higher-order FSAs raises hope to better understand MNE performance.

So far, international business research has not sufficiently and systematically elucidated the role of TMTs for MNE performance. This surprises, for the idea that TMTs play an important role for the success of MNEs is already implicit in Buckley and Casson's (1976) observation that TMTs must cope with a number of difficulties when organizing an internal market. Likewise, other authors note the potential impact of TMTs without researching it thoroughly. Ghemawat (2001), e.g., highlights that the background of certain TMTs will make it easier for them to be successful in more distant markets. Furthermore, a number of variables that various authors present as (potential) moderators of the relationship between multinationality and performance measure direct outcomes of TMTs' strategic decisions, e.g., choice of country (Barkema et al., 1996), choice of expansion speed (Vermeulen and Barkema, 2002), or choice of organizational structure (Bartlett and Ghoshal, 1989; Lu and Beamish, 2004). Lastly, although Hitt et al. (2006) identify TMT characteristics as antecedents of multinationality and TMT experience and diversity as moderators of the multinationality-performance relationship, their conceptual framework is fundamentally flawed by ignoring the fact that MNE performance is ultimately

determined by FSAs and CSAs, and not by multinationality (Verbeke and Brugman, 2009; Verbeke et al., 2009).

Looking at the few existing empirical investigations of TMTs within international business research (Bowen, 2007; Hennart, 2007) further exposes this common misunderstanding of the true antecedents of MNE performance. Existing research on multinationality and TMTs is mainly concerned with the influence of TMTs on different characteristics of multinationality. Some evidence, e.g., supports that TMT business experience, international experience, organizational tenure, level of education, and age determine the degree of multinationality (Tihanyi et al., 2000; Athanassiou and Nigh, 2002; Peyrefitte et al., 2002; Herrmann and Datta, 2005). Other research is concerned with the effect of TMTs on the mode of entry (Lee and Park, 2006). The underlying assumption of all these studies is that specific TMTs promote a higher degree of multinationality or a particular characteristic of multinationality. Internalization theory, however, by assuming that TMTs can incorporate higher-order FSAs, would not link specific TMTs to higher degrees or particular characteristics of multinationality. Rather, TMT-based higher-order FSAs lead to more appropriate multinational strategies, given a firm's advantages. Only in the case of strong advantages would a more appropriate strategy mean a high degree of multinationality. Therefore, for any given endowment with FSAs and CSAs, a TMT-based higher-order FSA ensures a more effective and efficient utilization of those advantages. Figure 2 summarizes propositions 1 to 3 and the following proposition 4.

Proposition 4 *TMT-based higher-order FSAs positively moderate the relationships between FSAs and CSAs with MNE performance.*

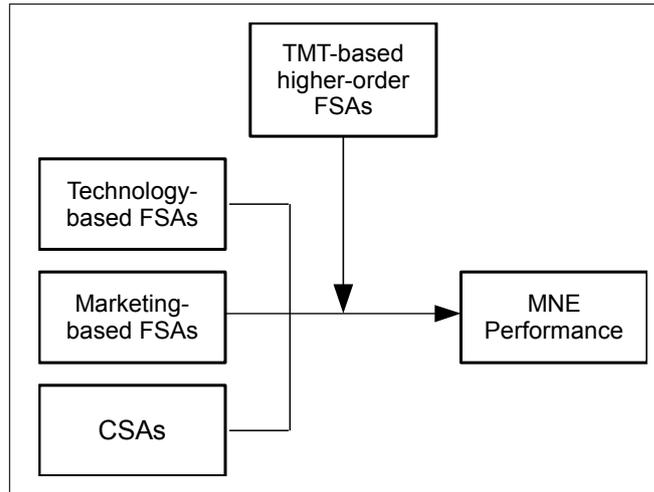


Fig. 2. TMT-based Higher-order FSAs As Moderators of the Relationship between FSAs and CSAs with MNE Performance

Having established that a TMT-based higher-order FSA is an important antecedent of MNE performance, we now turn to the question what constitutes this higher-order FSA. Abstractly speaking and from a general point of view, two factors determine whether or not a TMT realizes a multinational strategy that is close to a theoretical optimum, given its firm’s FSAs and CSAs. One is the TMT’s *capability*, intellectual and cognitive, to correctly assess costs and benefits of various potential multinational strategies, based on an in-depth understanding of FSAs and CSAs. The other is the TMT’s *willingness* to actually realize the strategy that appears most promising from a TCE/internalization theory point of view, determining whether or not a latent capability is actually exploited. The four cells of the matrix in Figure 3 illustrate how TMT capability and willingness interact and why a TMT-based higher-order FSA only exists when high capability coincides with high willingness.

Assuming that TMTs in Cell 1 of Figure 3 achieve gainful combinations of FSAs and CSAs implies that only willingness matters and capability is irrelevant. This view is largely consistent with agency theory. Agency theory assumes that due to the separation of ownership and control in large corpora-

		Capability of the TMT	
		Low	High
Willingness of the TMT	High	1 Benevolent but impotent	3 Higher-order FSA
	Low	2 Completely out of place	4 Powerful but malfeasant

Fig. 3. Capability and Willingness As Constituents of TMT-based Higher-order FSAs

tions (Berle and Means, 1950), the interests of agents (managers) deviate from those of principals (owners), which leads to agency costs (Jensen and Meckling, 1976). The major aim of corporate governance is thus mitigating agency costs through monitoring and incentivizing (Oviatt, 1988; Shleifer and Vishny, 1997). If some managers do not behave as agents but rather as stewards, serving the organization rather than themselves (Davis et al., 1997; Shen, 2003), another way of reducing agency costs is to assure that the TMT consists of stewards and not of agents. Either way, we argue that neither willing agents nor willing stewards are a sufficient precondition for successful management. In line with Hendry (2002) we contend that even honest and dutiful managers who are willing to realize what seems to be the optimal multinational strategy to them may be limited in their capabilities and thus are prone to failure.

In contrast to Cell 1, supposing that TMTs in Cell 4 realize multinational strategies that effectively and efficiently combine FSAs and CSAs neglects willingness, focusing exclusively on capability. This would be consistent with the RBV which ascribes above-average performance to idiosyncratic resources and capabilities (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). However, we

reject the implicit assumption that TMTs always utilize their capability to the fullest extent. One reason for this is that TCE are the very basis for internalization theory as a central theory of the MNE, and Williamson (1975) highlights the importance of opportunistic behavior and bounded rationality (Cyert and March, 1963; March and Simon, 1958) in this context. Another reason is that MNEs are particularly likely to encounter agency problems, as the vast majority of MNEs is controlled by professional managers facing a highly dispersed ownership structure (Berle, 1965; Shleifer and Vishny, 1986; Thomsen, 2008). Consequently, TMTs in Cell 4 may be capable of realizing a successful multinational strategy with the firm's given FSAs/CSAs, but they are reluctant. Their low willingness could, e.g., be based on simple disinterest in the problem of multinational strategy, implying that they rather concentrate their efforts on other issues. It could, however, also be rooted in personal interest that are contrary to shareholders' interest.

Accordingly, we argue that TMT-based higher-order FSAs exist in Cell 3 of Figure 3, where TMTs are not only able to correctly assess a whole variety of different multinational strategies, but also willing to do so and to act accordingly. Cell 3 thus bears particular importance for international business research as it emphasizes the role of TMTs in the performance of MNEs. The integration of agency theory and RBV arguments makes Cell 3 unique. We expect highly capable TMTs with a strong desire to employ their capabilities to realize highly successful multinational strategies, given their firms' FSAs and CSAs.

Future research on the performance of MNEs should investigate TMT-based higher-order FSAs and should therefore consider both TMT capability and TMT willingness to realize a multinational strategy that effectively and ef-

ficiently combines FSAs and CSAs. The operationalization of these two dimensions should build on the theories used above to explain the meaning of TMT-based higher-order FSAs, in general, and the necessity to distinguish between TMT capability and TMT willingness, in particular. This means that proxies for capability should rely on RBV and strategic leadership research as a starting point. Experience within the TMT (Hambrick, 2007; Sturman, 2003), especially industry and intercultural experience, as well as associated diversity measures (Harrison and Klein, 2007), may prove fruitful as they enhance the TMT's understanding of technology-based FSAs and CSAs. Understanding these advantages is a prerequisite for correctly assessing their potential combinations. With regards to willingness, proxies that have previously been used in agency theory research to indicate goal alignment are promising. These include managerial compensation and share ownership (Devers et al., 2007).

5 Discussion and Conclusions

The reconceptualization of the role of TMTs in MNE performance, elaborated in the preceding sections, rigorously builds on internalization theory. We have advocated that the core antecedents of MNE performance are FSAs and CSAs, whereas multinationality per se cannot be assumed to be beneficial. This reasoning does not implicate that previous multinationality-performance research is useless. Rather, reinterpreting previous research from our point of view may help to answer some open questions and also to phrase some new questions that may direct future research on this topic. We exemplify this by revisiting two of the most influential recent findings on multinationality and performance, namely results from meta-analysis (Bausch and Krist, 2007) and the S-curve hypothesis (Contractor et al., 2003; Lu and Beamish, 2004).

With regards to a general link between multinationality and performance, Bausch and Krist's (2007) meta-analysis yields a very small effect size. Further tests reveal, however, that effect size is higher for firms with stronger R&D intensity and for firms from certain countries of origin (Bausch and Krist, 2007). With R&D intensity as a common measure for technology-based FSAs (Caves, 1982) and country of origin as a proxy for home CSAs, our previous arguments are supported by these findings. For firms without strong advantages, multinationality cannot have a positive effect. Firms need strong FSAs and/or CSAs for multinational competitiveness. Finally, among firms with strong advantages, some realize a multinational strategy that is more efficient than others, implying higher degrees of multinationality in this particular case. Hence, we expect the firms with superior multinational strategies given their strong technology-based FSAs or home CSAs to possess a TMT-related higher-order FSA.

The S-curve hypothesis, assuming a sigmoid shape of the relationship between multinationality and performance, is not contradictory to our internalization theory based framework, insofar as an individual firm is concerned. For a single firm, the marginal performance effect of a change in the degree of multinationality is very likely to depend on its current degree of multinationality. This means that, in the process of internationalization, each FDI undertaken by a firm entails very unique costs and benefits. A domestic firm, e.g., that possesses an advantage on basis of which it wants to become a multinational, may be well aware of the fact, that substantial FDI in a certain number of different countries will be necessary in order for its multinational activity to be successful. Rugman (1981, Chapter 3) already outlined a net present value approach of internationalization which is consistent with a firm accepting short-term performance declines in the expectation of long-term gains.

Hence, on the one hand the domestic firm is aware that liabilities of foreignness will imply performance decreases in an early phase of the first few FDIs, i.e., stage 1 of the S-curve (Lu and Beamish, 2004). On the other hand, the firm also expects learning processes to set in and eventually outweigh initial negative effects (stage 2 of the S-curve (Lu and Beamish, 2004)). The learning processes include the gradual development of new transactional advantages pertaining to the control and coordination of assets in a multinational context (Rugman and Verbeke, 1992), as well as an improvement of the above-mentioned TMT capability, one important component of TMT-based higher-order FSAs. Finally, stage 3 of the S-curve (Lu and Beamish, 2004) implies that MNEs' degree of multinationality is beyond the optimum, i.e., available FSAs and CSAs are not strong enough. Because TMTs should have developed the capability to understand this connection, we suspect that low TMT willingness to actually utilize TMT capability will be present in MNEs in stage 3.

Even though strong arguments for the S-curve exist, its precise form, i.e., its slopes and inflection points, remains unclear (Lu and Beamish, 2004). Following the above line of thought, the form of a firm's S-curve essentially depends on FSAs and CSAs.² In this regard, a general S-curve that applies to a large number of firms cannot be expected to exist. Instead, firms' S-curves are rather unique, at most being similar for firms with similar advantages, e.g., firms from the same industry and from a particular country.

Correspondingly, Contractor et al. (2003) find different S-curves for different service sub-sectors, and Lu and Beamish (2004) find important FSAs like R&D and marketing to influence slopes and inflection points of the S-curve.

² Even with low advantages, a firm may still experience an S-curve because the discussed effects occur to a certain degree, but the maximum of the S-curve might be at the point of zero multinationality, implying any FDI would be inefficient.

Again, the basis of MNE performance are FSAs and CSAs, without them multinationality cannot lead to higher performance. Among firms with strong advantages, we again find some that realize more efficient multinational strategies than others. A number of firms with strong advantages operate at a low level of multinationality, not utilizing available advantages to the fullest possible extent. Accordingly, some firms possess TMT-based higher-order FSAs (i.e., firms at or near the maximum of the S-curve) which other firms lack (i.e., firms far away from the S-curve maximum, on either side).

In summary, we gave a concise overview of previous multinationality-performance research and argued that attempts to integrate inconsistent and contradictory findings via meta-analysis (Bausch and Krist, 2007) or with the S-curve hypothesis (Contractor et al., 2003; Lu and Beamish, 2004) do not overcome theoretical shortcomings. As Hennart (2007) portends, these shortcomings are reflected in three oversimplified arguments commonly used to explain the influence of multinationality on performance: (1) economies of scale, (2) better and more flexible resource access, and (3) greater learning opportunities. Most studies miss the important point that whether or not these benefits justify FDI depends on a comparative TCE based evaluation.

Therefore, we argued that the performance of MNEs should be studied from an internalization theory point of view (Buckley and Casson, 1976), a comparative institutional approach that has its origins in TCE (Hennart, 1982; Williamson, 1975). Internalization theory can expediently be applied to consider the relative effectiveness and efficiency of alternative governance mechanisms for the management of economic interdependencies (Rugman and Verbeke, 2008a), a fact that has been largely ignored by scholars studying the link between multinationality and performance.

By explaining how FSAs and CSAs (Rugman, 1981) are the ultimate determinants of MNE performance, we refuted the oversimplified notion that multinationality per se positively affects firm performance (Verbeke and Brugman, 2009; Verbeke et al., 2009). Coming along with this cognition is the fact that regressions with multinationality as an independent and performance as a dependent variable are mis-specified (Rugman and Verbeke, 2008a). Accordingly, inconsistent and contradictory finding regarding the influence of multinationality on performance (Gomes and Ramaswamy, 1999; Lu and Beamish, 2001) are no surprise. Furthermore, we pointed out that interaction effects among FSAs and between FSAs and CSAs bear special significance for (sustainable) above-average performance. One of our major contributions was then the introduction of TMT-based higher-order FSAs as the factor allowing MNEs to actively utilize gainful combinations of different advantages and devise multinational strategies that make efficient use of them.

While strategic leadership (Hambrick and Mason, 1984), RBV (Penrose, 1959), and agency theory research (Shleifer and Vishny, 1997) have long been arguing for a decisive role of TMTs in firm outcomes, international business scholars have not yet systematically researched TMTs as FSAs. TMTs have merely been seen as moderators of the multinationality-performance relationship or as antecedents of a firm's multinational strategy (Herrmann and Datta, 2005; Hitt et al., 2006; Tihanyi et al., 2000). In the first case, the assumption that multinationality per se determines MNE performance does not comply with internalization theory. In the second case, the supposition that certain TMT characteristics result in specific multinational strategies is contrary to the notion that TMT-based higher-order FSAs exist. The reason is that TMT-based higher-order FSAs should not lead to specific multinational strategies, but to more effective and efficient multinational strategies, given a firm's advantages.

Integrating a strategic leadership and RBV perspective with an agency theory perspective we elaborated that TMT-based higher-order FSAs depend on both TMT capability and TMT willingness to realize a multinational strategy that is close to a theoretical optimum for given FSAs and CSAs. Capability addresses the question whether or not the TMT is objectively able to devise a multinational strategy that makes efficient use of available FSAs and CSAs. Willingness, on the other hand, reflects whether this capability is actually used. Future research incorporating technological and intercultural experience measures as proxies for TMT capability, and TMT compensation and share ownership measures as proxies for willingness, will bring us one step closer to understanding the complex determinants of MNE performance.

Preliminary support for our reconceptualization originates from a reinterpretation of the results of Bausch and Krist's (2007) meta-analysis and the S-curve hypothesis (Contractor et al., 2003; Lu and Beamish, 2004) that we based on our internalization theory foundations. Both the meta-analysis and the empirical work on the S-curve reveal that firms with strong FSAs and CSAs benefit from multinational activity, whereas the effects are weak or non-existent for firms that lack these advantages (Bausch and Krist, 2007; Contractor et al., 2003; Lu and Beamish, 2004). Moreover and more importantly, among firms with strong advantages, only some realize multinational strategies that make effective and efficient use of their advantages. We thus propose that these firms possess TMT-based higher-order FSAs, that other firms with equally strong advantages but ineffective and inefficient multinational strategies lack. Despite these encouraging findings, future empirical tests of our propositions are certainly inevitable in order to further corroborate our reconceptualization.

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