

FOREIGN DIRECT INVESTMENT AND MNC: CONSTRUCT DEFINITIONS AND BASIC EMPIRICAL DATA

Lecture 2

Multinational Corporations: Theory and Practice
Winter term 2023/24

Strategic Leadership and Global Management
Prof. Dr Dodo zu Knyphausen-Aufseß

Note: The content of this file is released exclusively to support teaching in the context of the module "Multinational Corporations and Corporate Control" in the winter semester 2023/24.

GUIDELINE

During my previous lecture, I have introduced you into our topic and the perspectives I consider relevant in this context. I have also talked a bit about the value of a theoretical understanding of MNCs, and I have given you an overview of the evolution of our theoretical thinking about MNCs. In this lecture, my first goal is to give you an even better understanding of the main object of our interest – the multinational corporation (MNC). I start with an overview of some definitions which we find in the literature (slide 3) – in order to then discuss (after a short excursus on the concept of the Global Value Chain; slide 4) another term that is closely related to the construct of MNCs: the concept of foreign direct investment (FDI). Slides 5-7 show how FDIs and portfolio investments are distinct from each other. Then we regard empirical data: The slides 8-25 show several basic investment patterns and also mention recent development, as e.g. the emergence of sovereign wealth funds and private equity firms (see in particular slides 18-22).

Slide 26 deals again explicitly with the term of multinational corporations – starting points for determining the “level of internationalization” of an enterprise are shown. The slides 27-34 elaborate certain aspects mentioned on slide 26. It is obvious that the measurement of “internationalization” has, inter alia, implications for empirical studies that investigate the internationalization-performance nexus. Slides 35-38 give an overview of the research and indicate how confusing the results are.

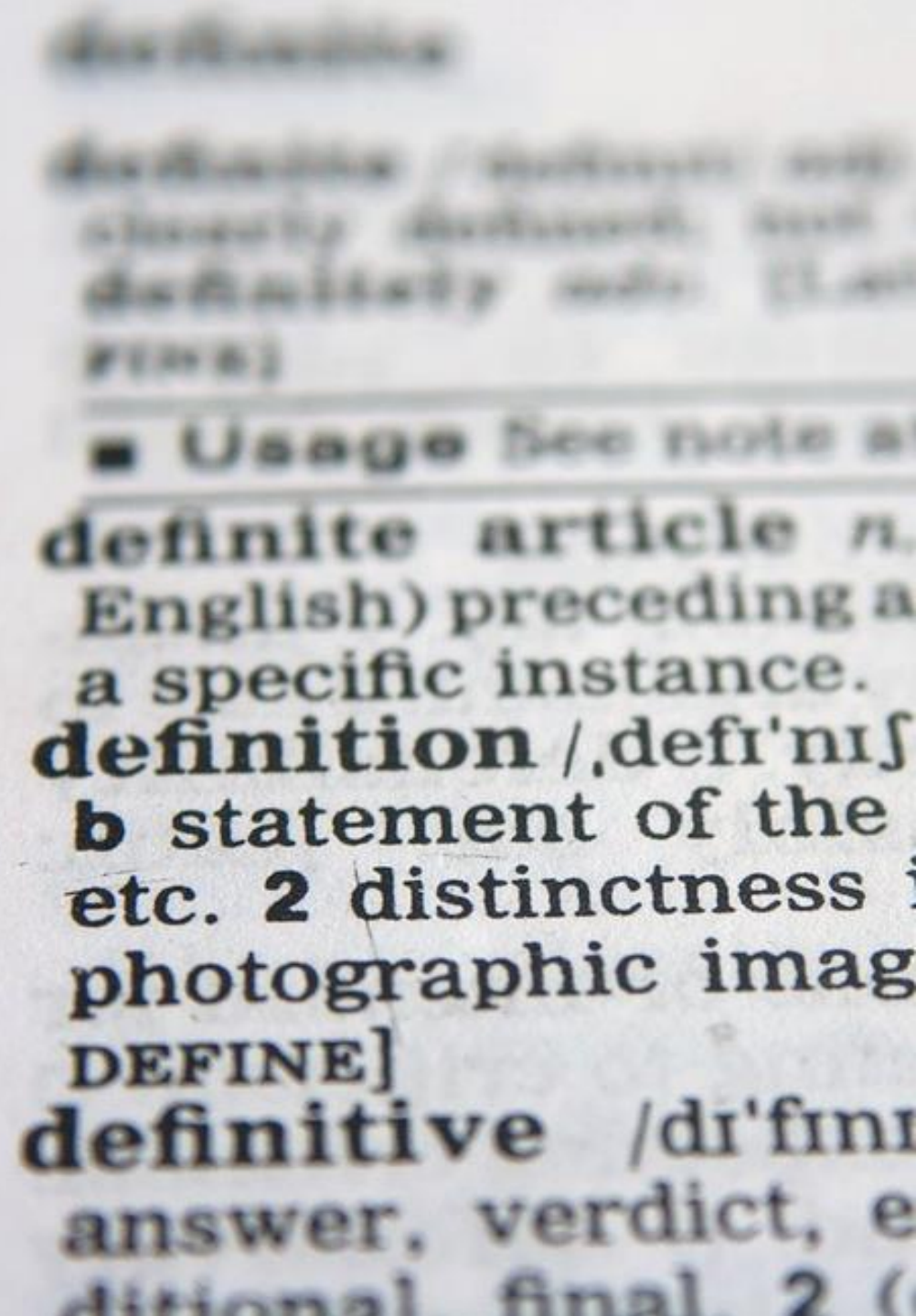
Overall, it is my hope that we now have a good basis for discussing several internationalization theories and topics within the following sessions.

MNCS – TOWARDS A DEFINITION

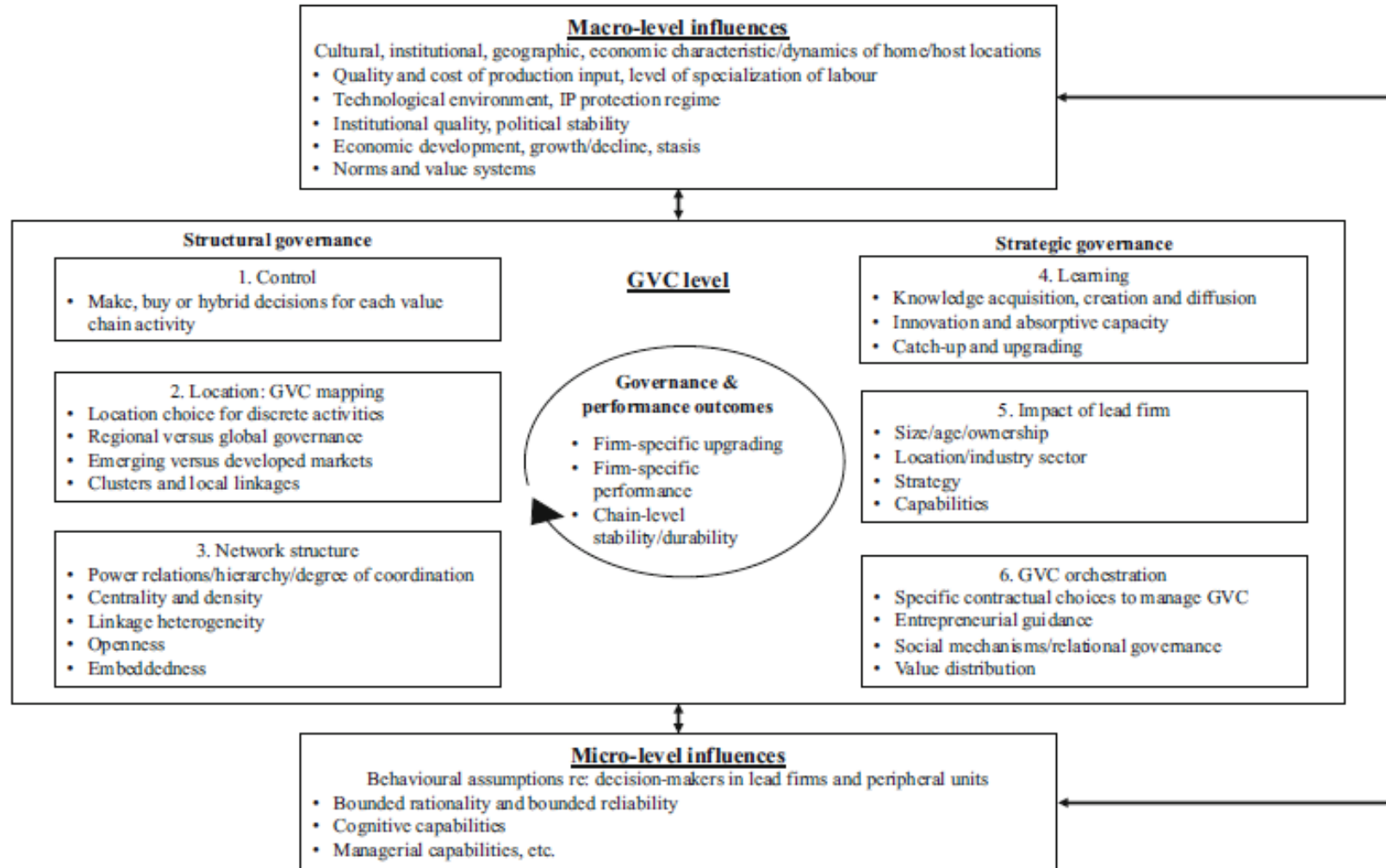
- “all enterprises which control assets – factories, mines, sales offices and the like – in two or more countries” (UNCTC)
- “enterprises that own and control productive activities (broadly defined to cover any activity that adds value, such as manufacturing, extraction, provision of services, marketing, R&D and so forth) in more than one country” (Casson & Pearce)
- Firms that are “not international in ownership but rather national firms operating in a number of countries through separately incorporated enterprises connected with and responsible to a central headquarter.” They are “administratively organized on such a scale as to displace the ‘market’ over wide and varied types of activity”, and may appear as “‘global’ corporations forming and implementing competitive strategies on a ‘global’ scale” (Penrose)
- “an enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country” (Dunning & Lundan)

Ownership and control as central elements – what’s about responsibility in global supply/value chains?

Sources: UNCTC, Transnational Corporations in World Development: A re-Examination, New York 1978, p. 158; Casson, M. & Pearce, R., Multinational Enterprises in MDCs, in: Gemmel, N. (Publ.), Surveys in Development Economics, Oxford 1990, p. 90; Penrose, E., Multinational Corporations, in: Eatwell, J., Milgate, M. & Newman, P. (Publ.), The new Paögrave: A Dictionary of Economics, London 1987, p. 562; Dunning, J. & Lundan, S. M., Multinational Enterprises and the Global Economy, Cheltenham, UK & Northampton, MA 2008, p. 3

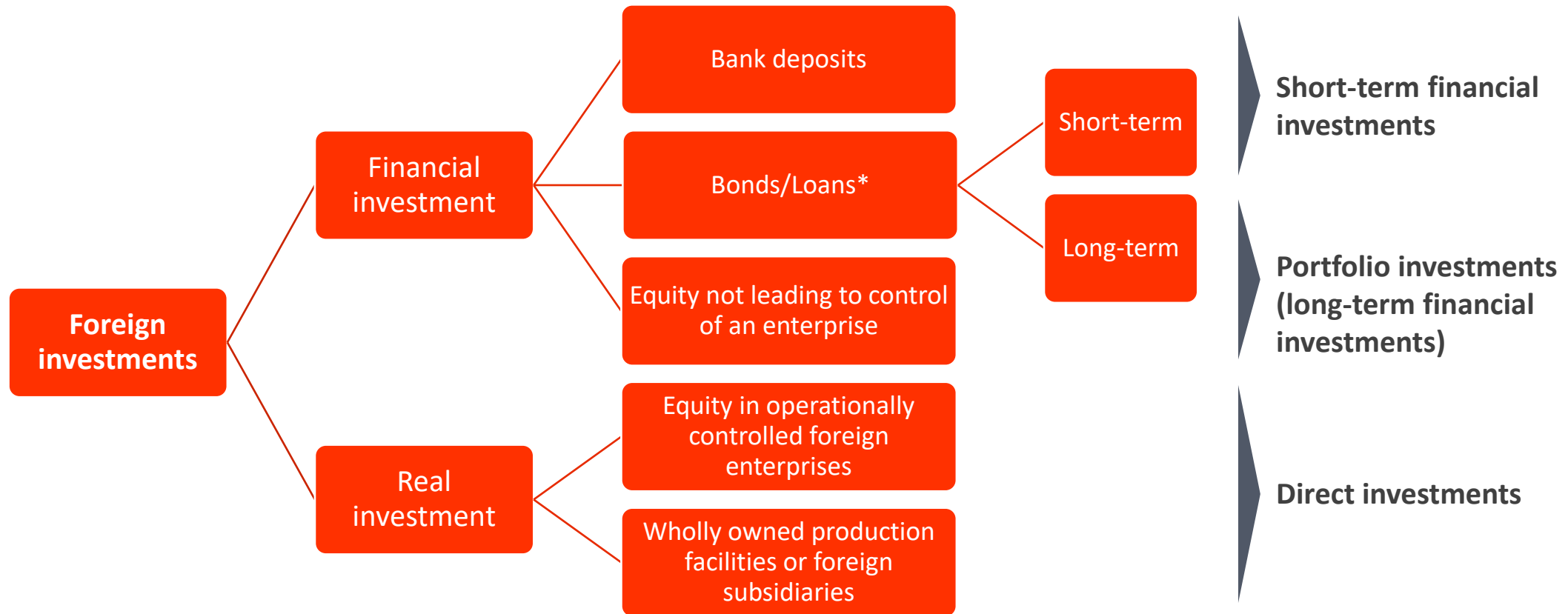


SIDE NOTE: A FRAMEWORK FOR UNDERSTANDING GLOBAL VALUE CHAINS



Source: Kano, L., Tsang, E.W.K. & Yeung, H.W.C. (2020) Global value chains: A review of the multi-disciplinary literature. J Int Bus Stud 51, 577–622 (p. 584). <https://doi.org/10.1057/s41267-020-00304-2>

FOREIGN INVESTMENTS – A CLASSIFICATION



* The primary difference between Bonds and Loan is that bonds are the debt instruments issued by the company for raising the funds which are highly tradable in the market i.e., a person holding the bond can sell it in the market without waiting for its maturity, whereas, loan is an agreement between the two parties where one person borrows the money from another person and which is not generally traded in the market (<https://www.wallstreetmojo.com/bond-vs-loan/>).

Source: Liansheng, W., Foreign Direct Investment and Transnational Corporations. A Review of Trade-Theoretical Approaches, working paper, University of Oslo, 1992, p. 4., slightly modified

DIRECT VS. PORTFOLIO INVESTMENTS (1)

Attribute	Direct investments	Portfolio investments
Reasons for investment	<ul style="list-style-type: none">▪ Profit maximization▪ Management control across different countries in order to achieve an optimal control of resources and to maximize the total profit from multinational operations▪ Reasons to reinforce the desire for control:<ul style="list-style-type: none">▪ Internalization of technological externalities▪ Overcoming market imperfections▪ Overcoming government-induced barriers	<ul style="list-style-type: none">▪ Profit maximization
Type of investment	<ul style="list-style-type: none">▪ By the investors allocated capital that exceeds the minimum for effective participation in management▪ Ploughed back profits into subsidiaries▪ Other long-term capital (company-internal loans)	<ul style="list-style-type: none">▪ Long-term civil loans/bond or loans/bonds from other institutions▪ Equity investment in enterprises on a scale that does not lead to participation in management

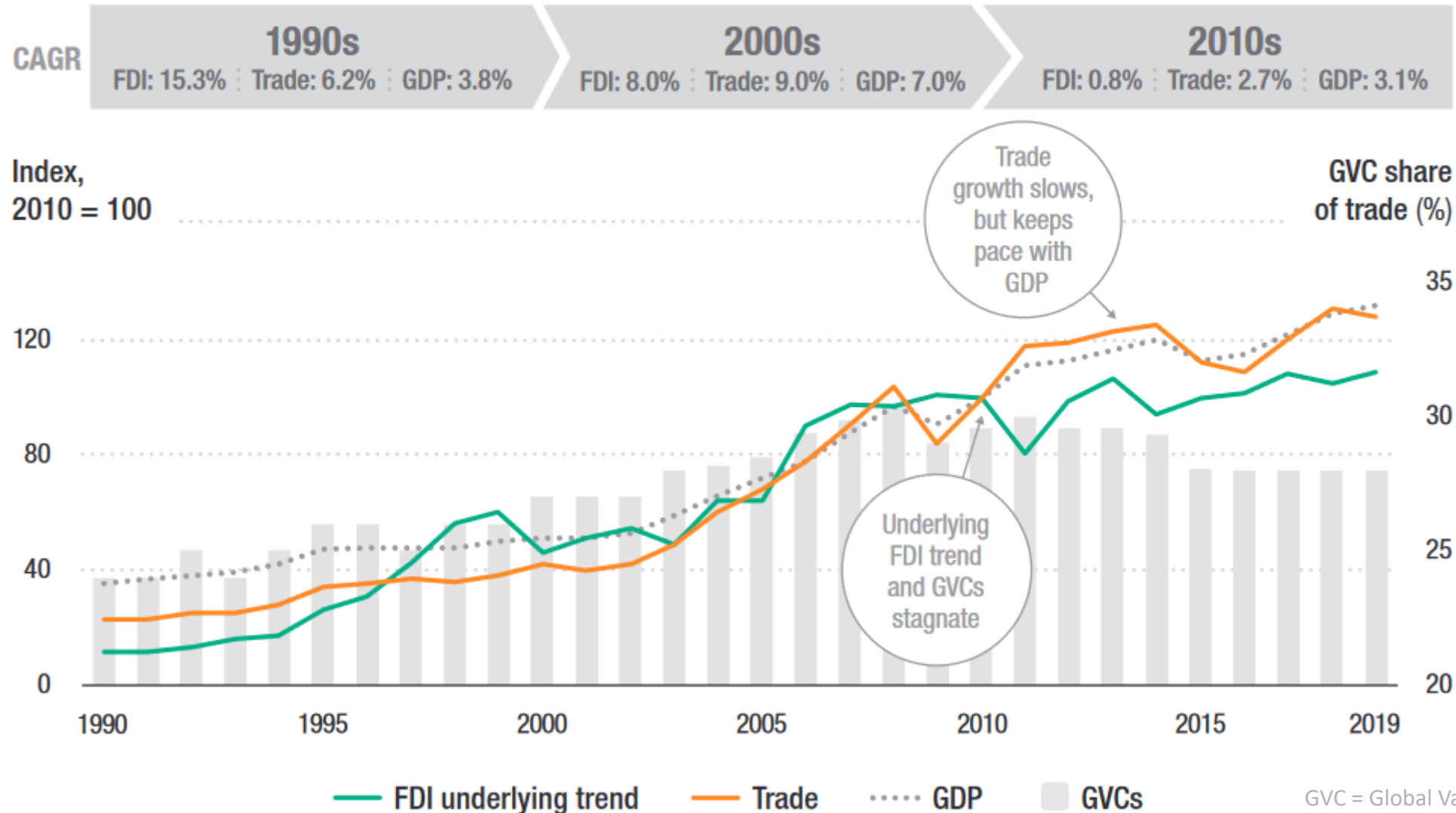
Source: Liansheng (1992), slightly modified

DIRECT VS. PORTFOLIO INVESTMENTS (2)

Attribute	Direct investments	Portfolio investments
Scale of equity	<ul style="list-style-type: none"> ▪ Concentrated direct investments: investments of an individual investor or a group of investors; 10-25% equity ▪ Spread direct investments: investments with scattered shares; more than 50% equity from enterprises from one country or almost 100% foreign equity in total 	<ul style="list-style-type: none"> ▪ Loans: no specifications; Option/Convertible bonds as very special cases not relevant in our context ▪ Equity: shares below the required percentage that allows effective participation in management
Benefits	<ul style="list-style-type: none"> ▪ Equity profit and possible capital growth from appreciation ▪ Management salary and bonuses and other benefits related to participation in management 	<ul style="list-style-type: none"> ▪ Income from appreciation of bonds and loan interest rates
Disadvantages/expenses	<ul style="list-style-type: none"> ▪ Direct investment costs (cost of capital; usually as sunk costs) ▪ Information expenses (costs for search of information about the host country as well as communication expenses) ▪ Investment risks 	<ul style="list-style-type: none"> ▪ Costs of capital (to a certain degree reversible through resale of bonds; occurring losses are part of the investment risk) ▪ Information costs (but lower than with direct investments)

Source: Liansheng (1992), slightly modified

FDI, TRADE, GDP, AND GVC TRENDS, 1990-2019



Note: Trade is global exports of goods and services. GVC share of trade is proxied by the share of foreign value added in exports, based on the UNCTAD-Eora GVC database (see Casella et al., 2019). The underlying FDI trend is an UNCTAD indicator capturing the long-term dynamics of FDI by netting out fluctuations driven by one-off transactions and volatile financial flows.

Source: UNCTAD: World Investment Report 2020, p. 123

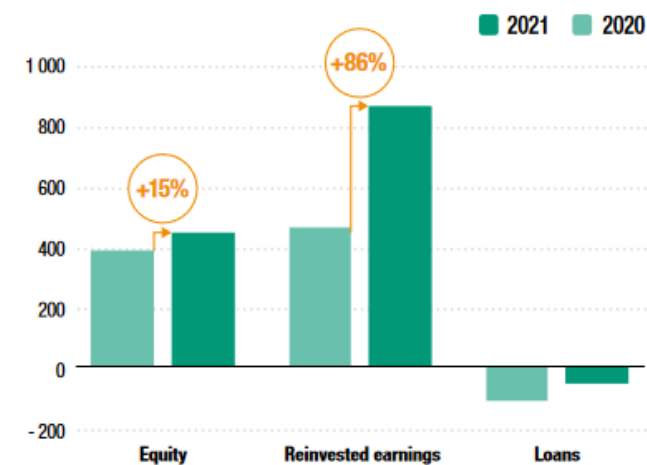
Global FDI INFLOWS, 2008-2022, AND THE ROLE OF REINVESTED EARNINGS IN THE RECENT UPSURGE

(billions of dollars and per cent)

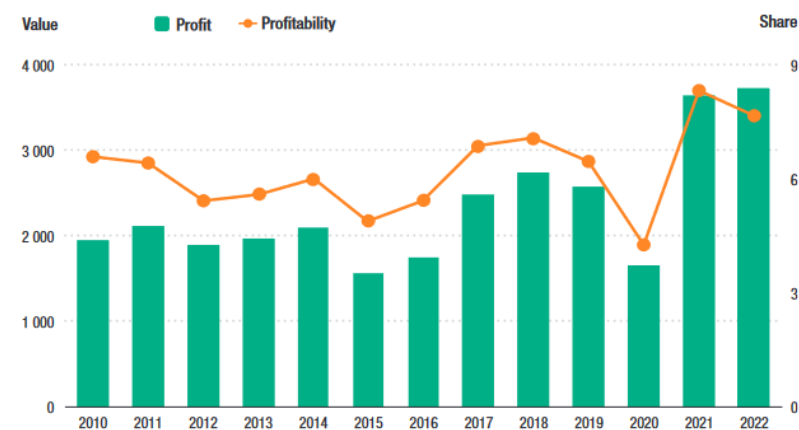


Source: UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>).

Source: UNCTAD: World Investment Report 2022, pp. 2, 5, 6; 2023, pp. 2 and 4



Source: UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>).

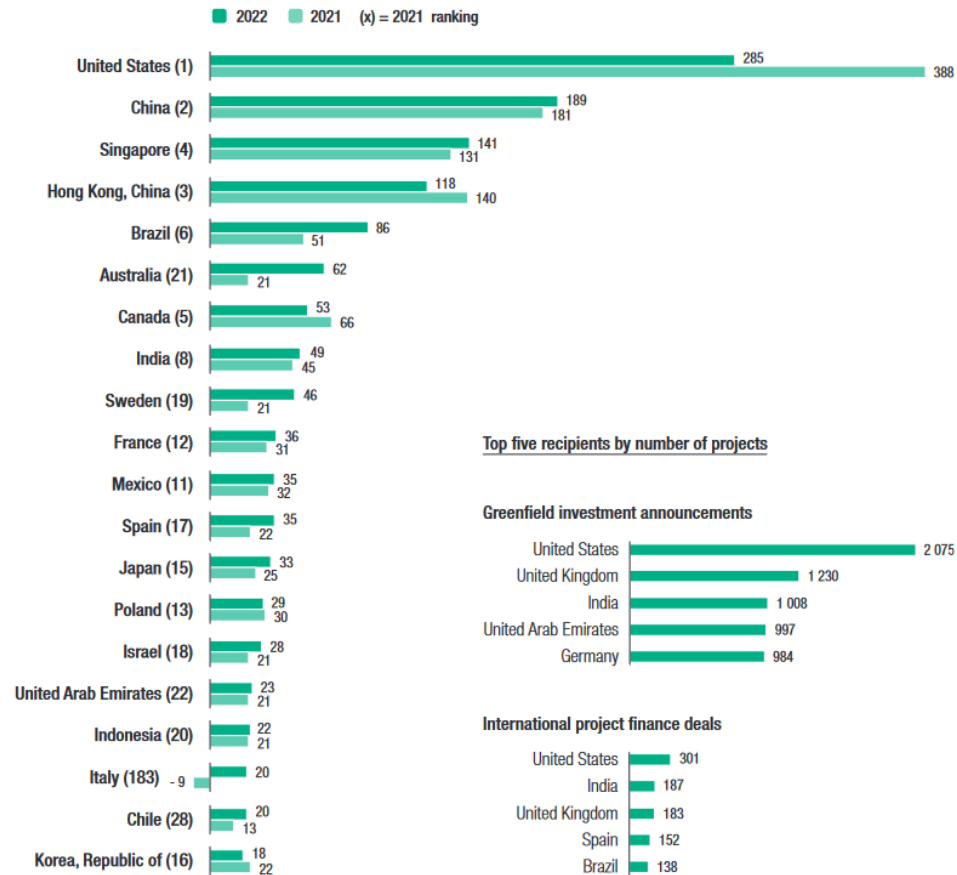


Source: UNCTAD, based on information from Refinitiv SA.

Note: Covers 3,849 MNEs for which data was available for every year in the range. Profitability is calculated as the ratio of net income to total sales.

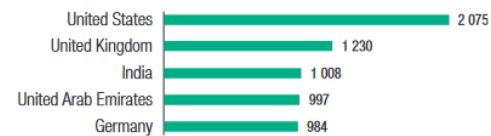
WHERE THE MONEY COMES FROM AND WHERE IT GOES

FDI inflows top 20 host economies, 2022 and 2021 (bn \$)

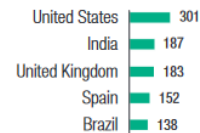


Top five recipients by number of projects

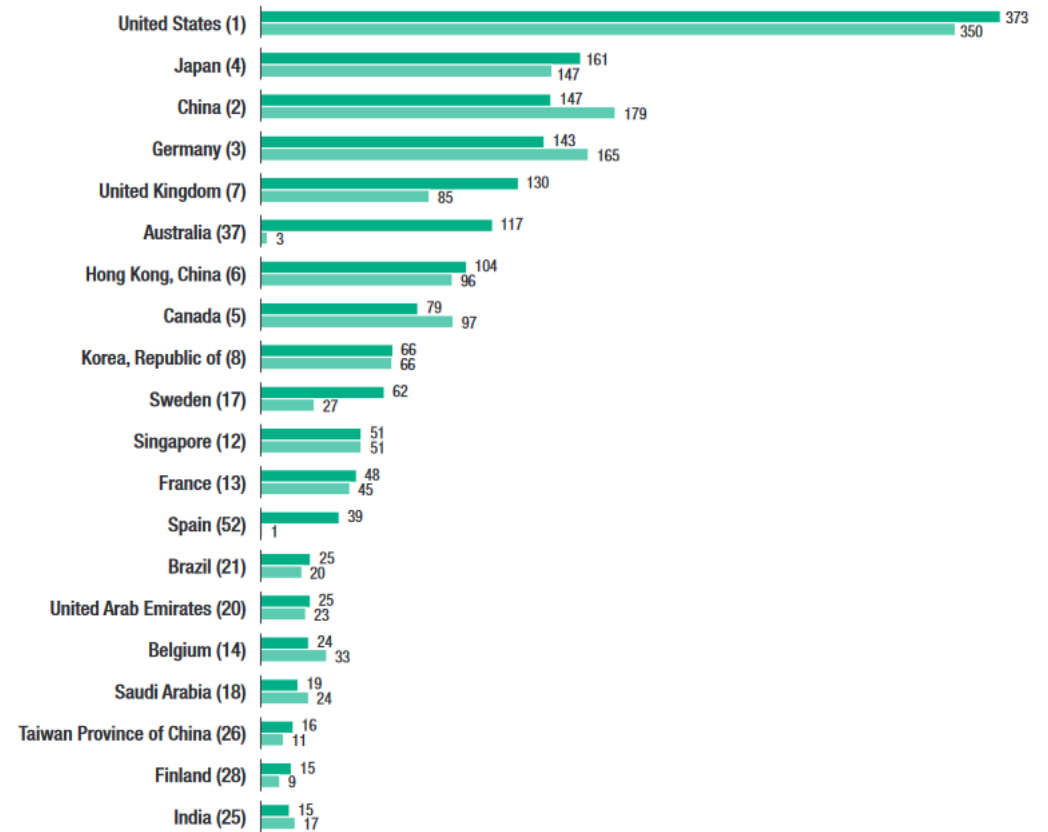
Greenfield investment announcements



International project finance deals



FDI outflows top 20 home economies, 2022 and 2021 (bn \$)



Source: UNCTAD: World Investment Report 2023, pp. 8 and 17

■ 2022 ■ 2021 (x) = 2021 ranking

DEVELOPED COUNTRIES

Figure A | **FDI inflows, 2007–2009 and 2018–2020**
(Billions of dollars and per cent)

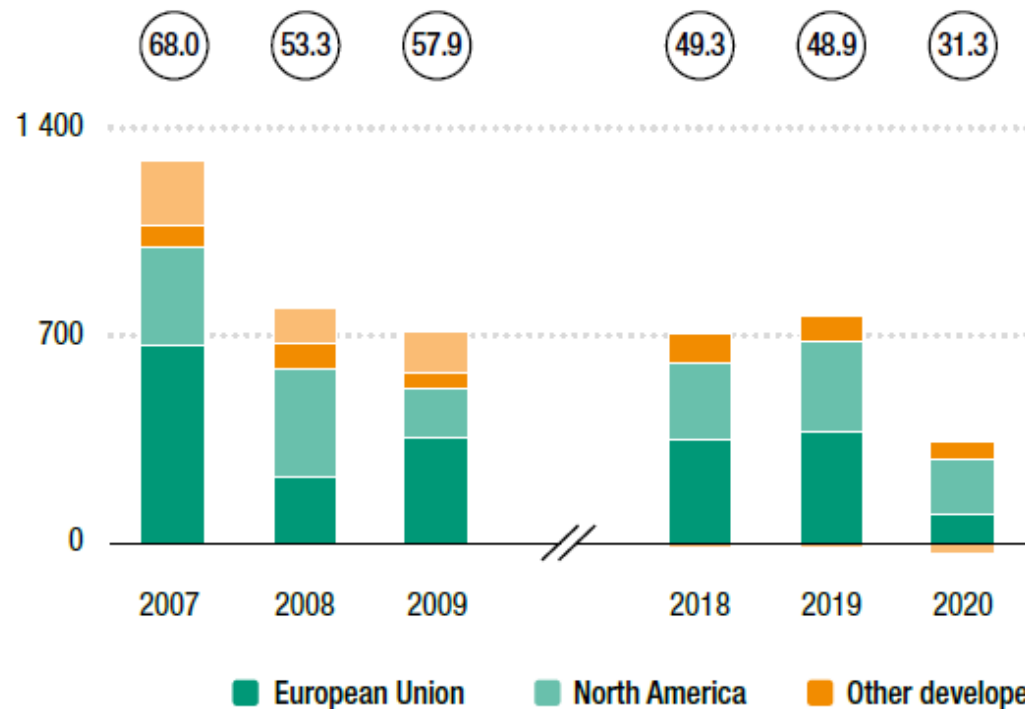
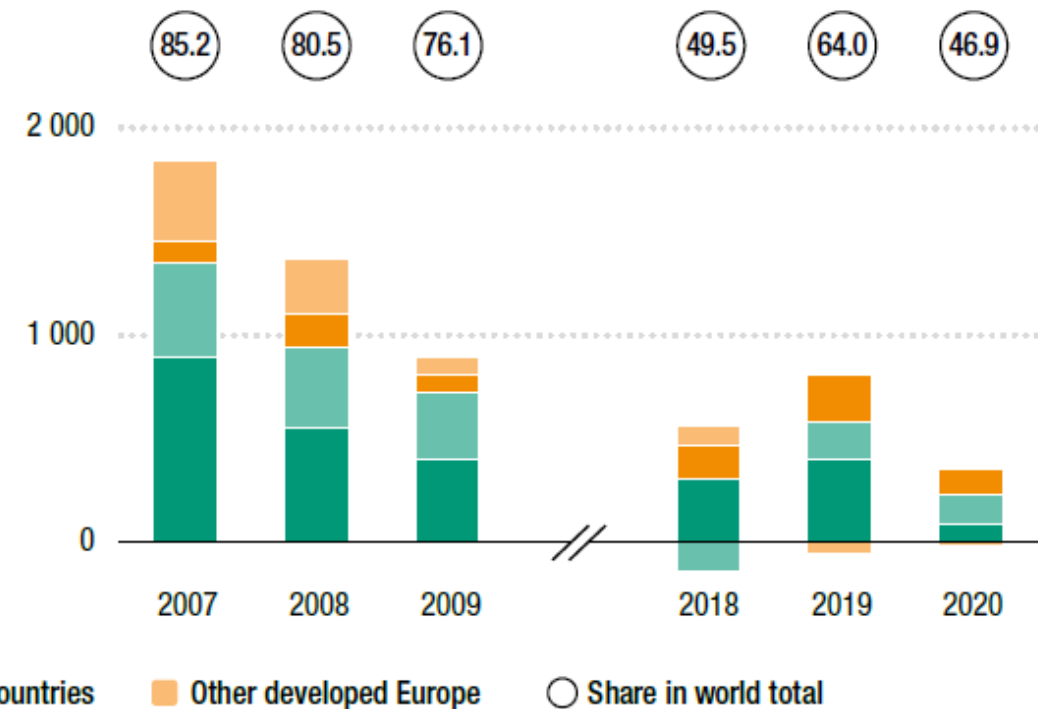


Figure B | **FDI outflows, 2007–2009 and 2018–2020**
(Billions of dollars and per cent)



Source: UNCTAD: World Investment Report 2021, p. 73

ASIA

Figure A | **FDI inflows, 2007–2009 and 2018–2020**
(Billions of dollars and per cent)

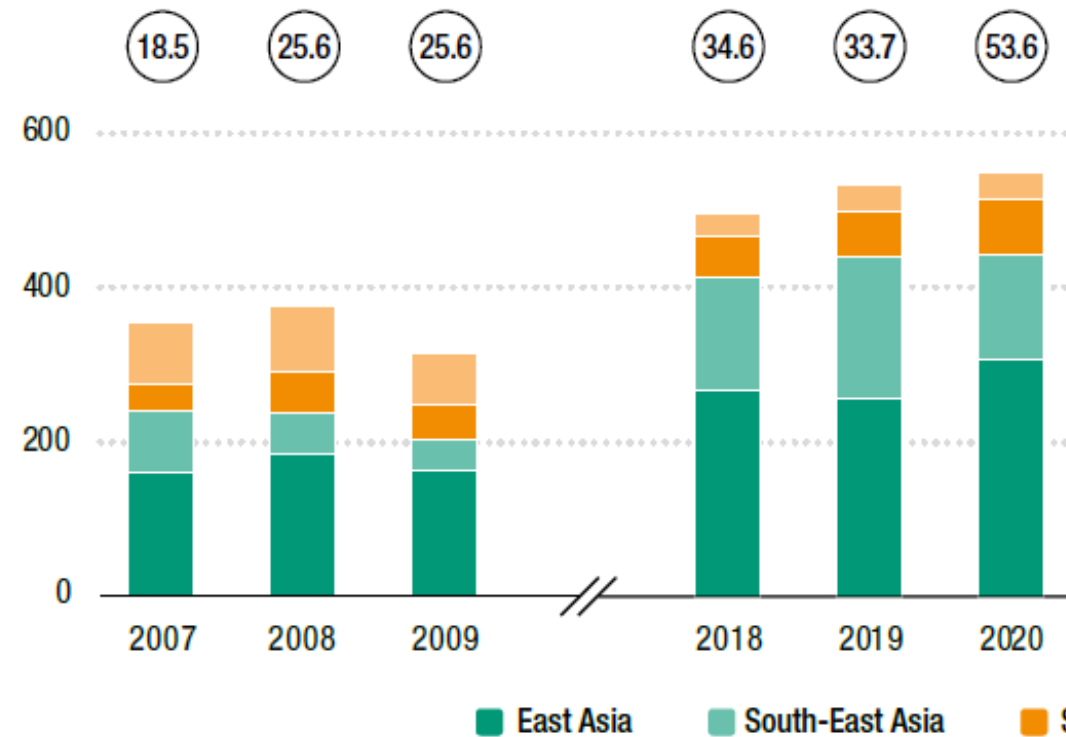
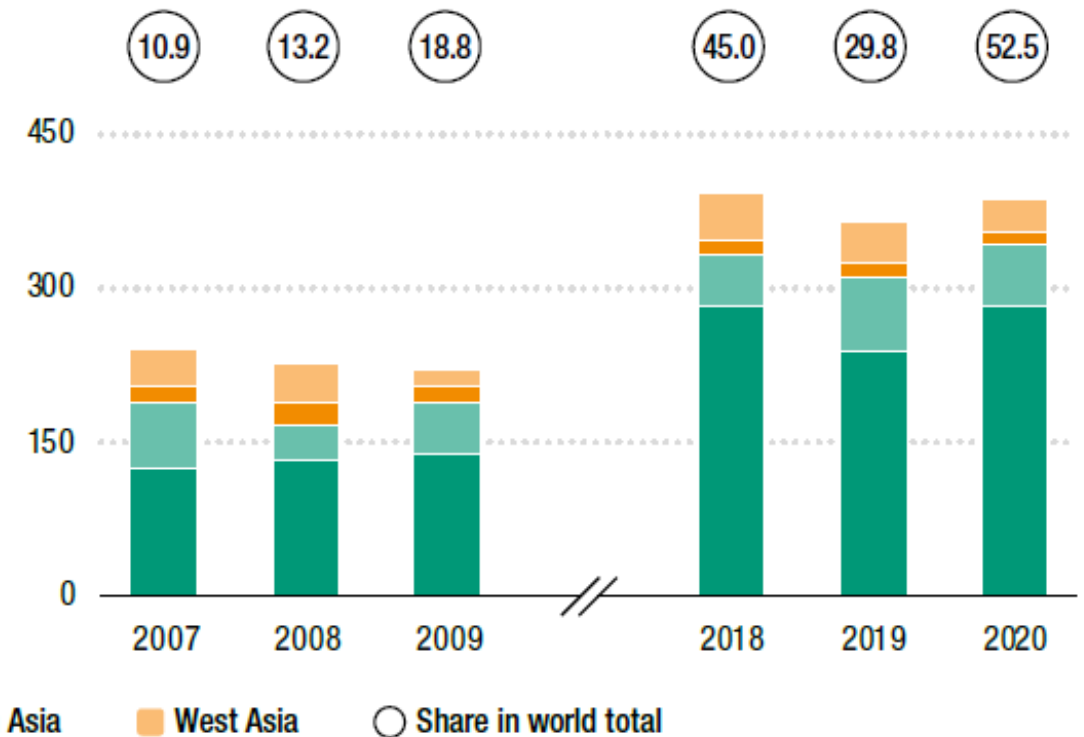
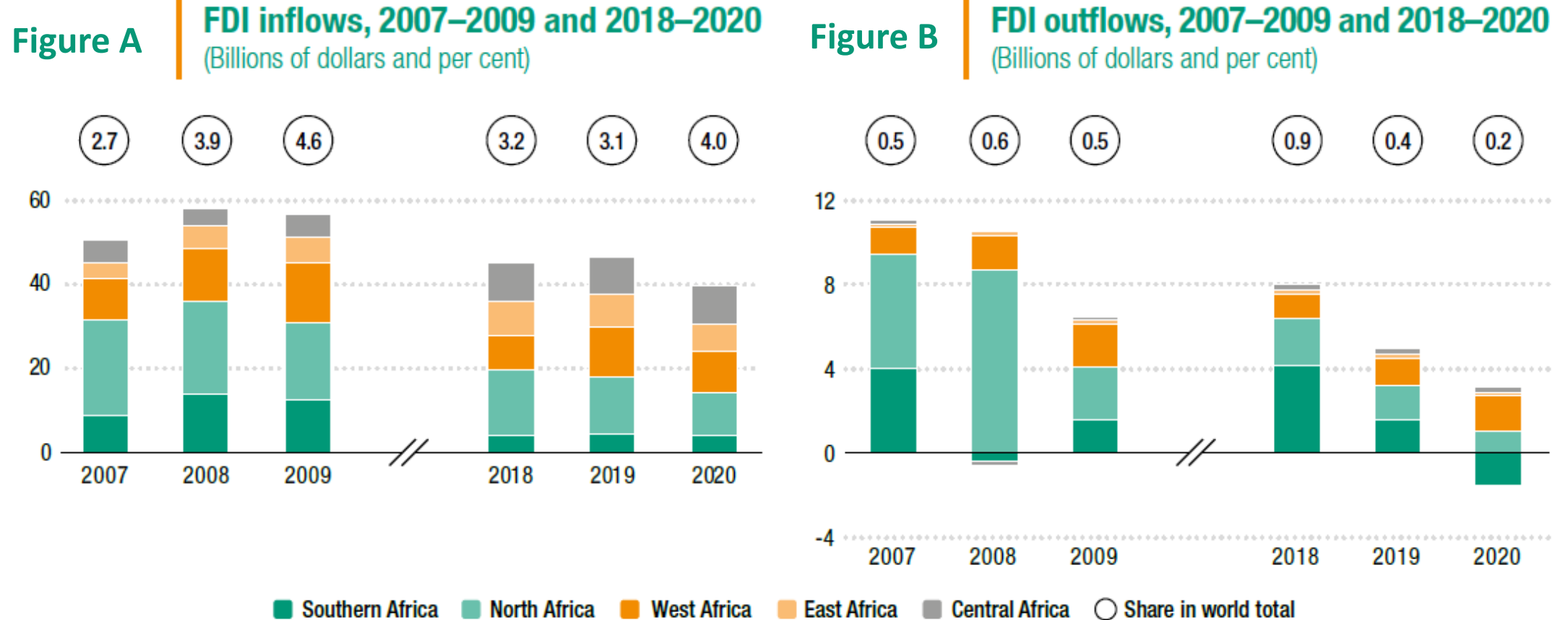


Figure B | **FDI outflows, 2007–2009 and 2018–2020**
(Billions of dollars and per cent)



Source: UNCTAD: World Investment Report 2021, p. 47

AFRICA – THE FORGOTTEN CONTINENT (?)*



* For reviews of literature on international business in Africa see <https://doi.org/10.1057/s41267-022-00581-z>,

<https://doi.org/10.1057/s41267-022-00589-5> and <https://doi.org/10.1007/s11575-023-00513-5>, all published in 2023.

INVESTMENT INITIATIVES FOR AFRICA (EXAMPLES)

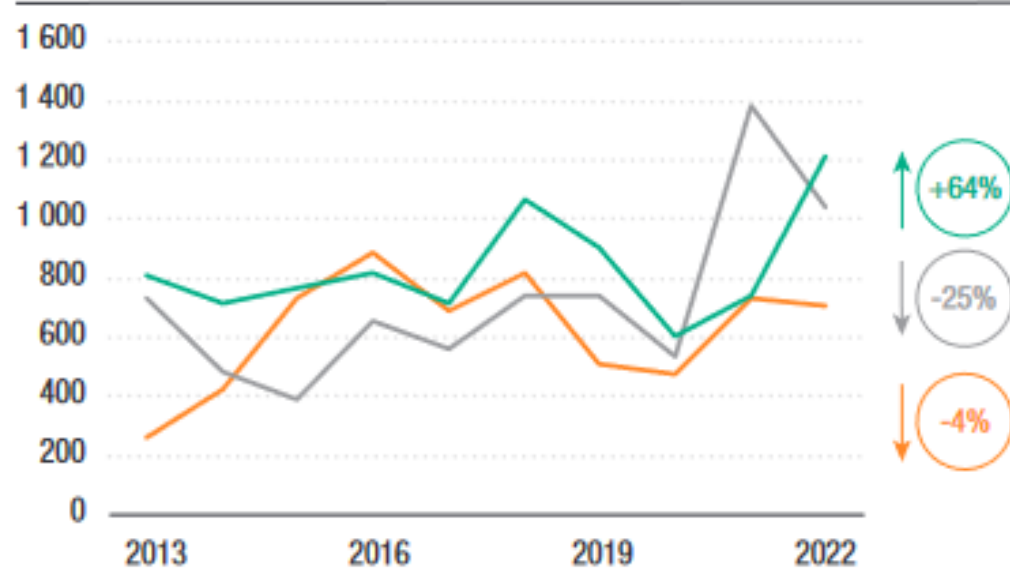
Country	Name of initiative	Highlights	Key projects
United States	Prosper Africa Initiative (2019)	Projects in the form of equity, debt financing, risk insurance and technical development through the International Finance and Development Corporation, which has a global investment cap of \$60 billion	Announcement of \$5 billion in investment in Ethiopia by 2022 in newly privatized industries
China	Forum on China–Africa Cooperation (October 2010, latest summit in 2018)	\$60 billion financing package, including \$10 billion in private investment	\$12 billion coastal railway in Nigeria, \$4.5 billion Addis Ababa–Djibouti railway, and \$11 billion megaport in Tanzania
United Kingdom	United Kingdom–Africa Investment Summit (January 2020)	Deals worth about \$8.5 billion to set the groundwork for post-Brexit economic and investment ties between the United Kingdom and African countries	Tullow Oil announcement of investment of \$1.5 billion to continue oil production in Kenya
Russian Federation	Russia–Africa Summit and Economic Forum (October 2019)	50 agreements for a total of more than \$10 billion, in mainly infrastructure and natural resources development project	Announcement of \$2.2 billion investment to build oil refinery in Morocco by VEB, a state development corporation
France	Choose Africa (December 2019)	\$3 billion in financing for start-ups and SMEs in Africa until 2022, in the form of credit, technical support and equity financing	FISEA equity investment in Agri VIE II, a venture capital fund for agribusiness in Sub-Saharan Africa

Source: UNCTAD, based on initiative websites.

Source: UNCTAD: World Investment Report 2020, p. 33

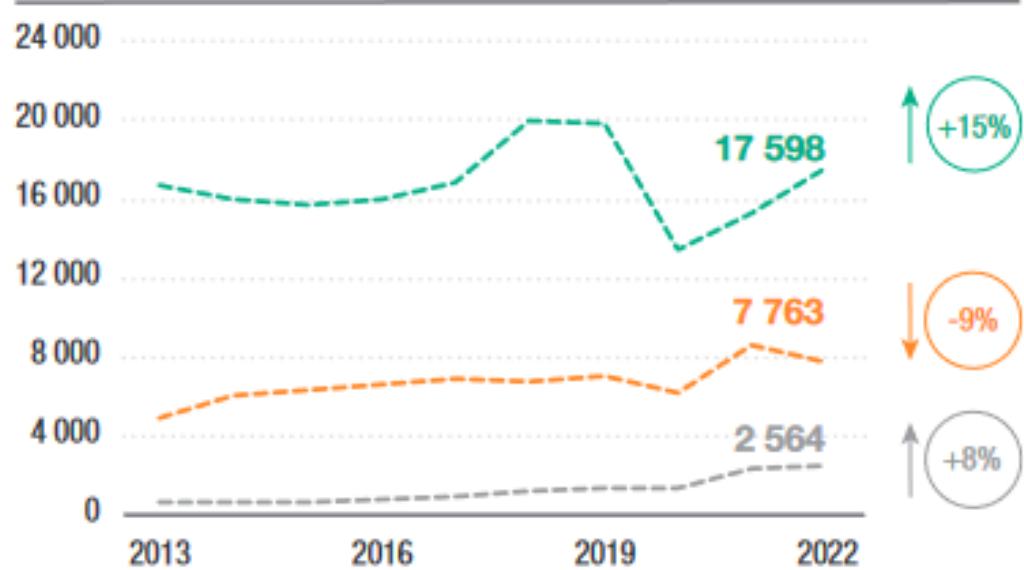
VALUE AND NUMBER OF NET CROSS-BORDER M&As AND ANNOUNCED GREENFIELD FDI PROJECTS (BILLIONS OF DOLLARS AND NUMBERS)

a. Value



— Greenfield projects — Cross-border M&As — International project finance deals

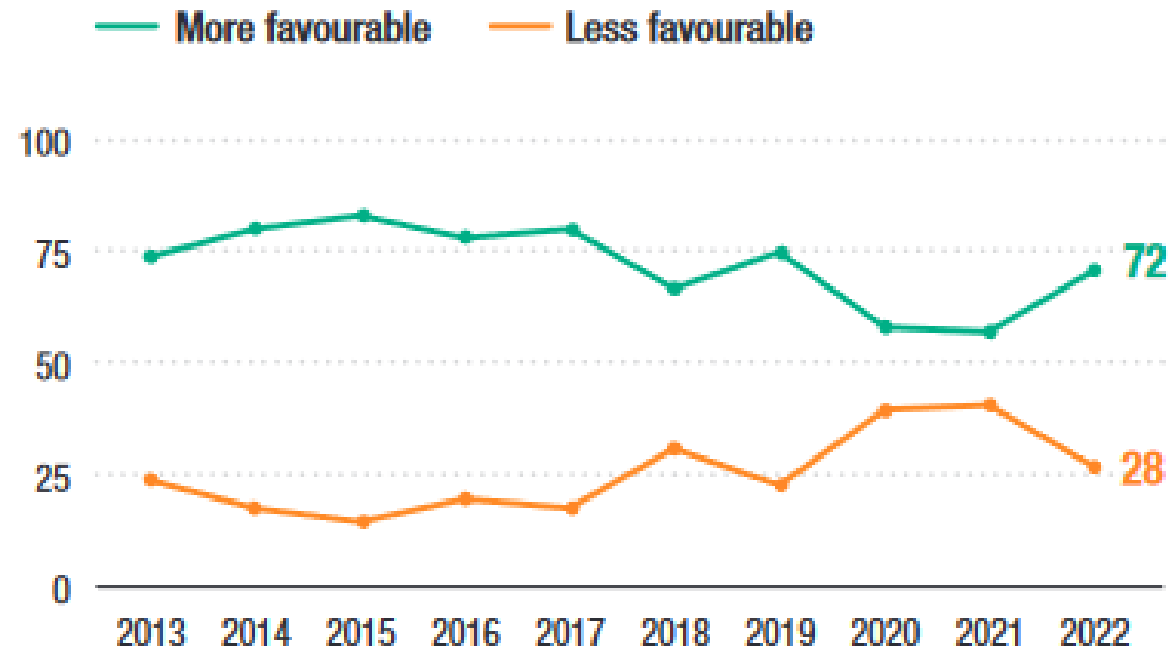
b. Number



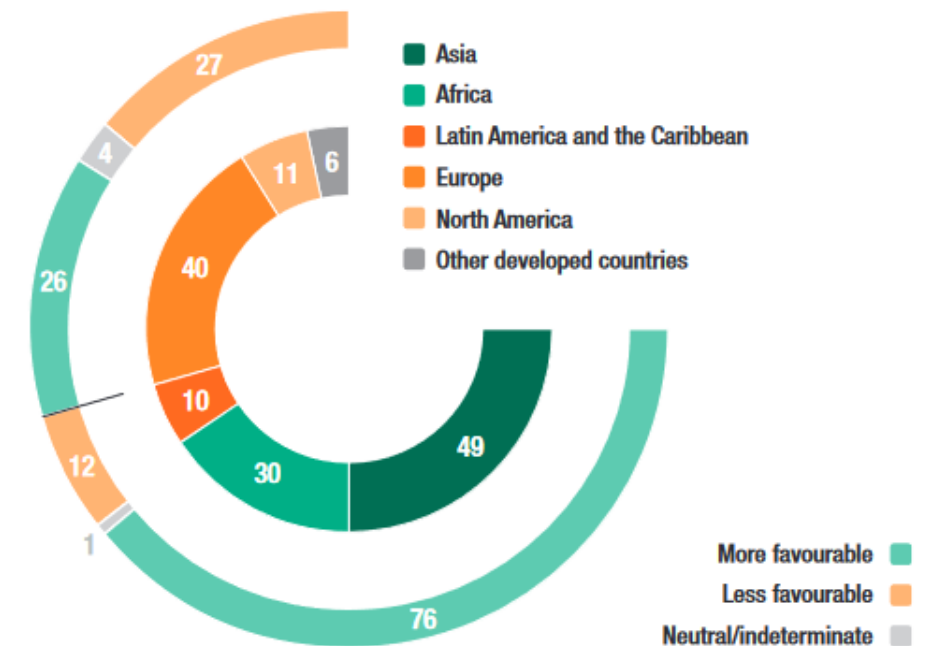
Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (fDimarkets.com) and Refinitiv SA.

NATIONAL INVESTMENT POLICIES HAVE BECOME RESTRICTIVE – BUT CORONA MAY HAVE CHANGED THE TREND

Changes in national investment policies, 2013-2022 (Per cent)



Regional distribution of national investment policy measures, 2022 (no. of measures)



CFIUS Goes Global: New FDI Review Processes Proliferate, Old Ones Expand

January 19, 2022

Skadden's 2022 Insights

Michael E. Leiter, Brian J. Egan, John Adebiyi, Pascal Bine, Andrew L. Foster, Matthias Horbach, Akira Kumaki, Brooks E. Allen, Jason Hewitt



↑
**BACK TO
TOP**

Takeaways

- Since 2018, the U.S. and several other countries have revised or installed national security-related screening of foreign direct investments.
- Many jurisdictions now require filings for investments in the defense and security sectors, critical infrastructure, advanced technologies and sensitive personal data, or where state-backed investors are involved.
- While the CFIUS review process in the U.S. often remains the stiffest hurdle, the growing number of jurisdictions with similar regimes means that investors and parties to mergers must plan carefully for the review process.
- With the encouragement of the U.S. and EU, many reviewing authorities now frequently share information.

NEW TYPES OF INVESTMENT: SOVEREIGN WEALTH FUNDS AND PRIVATE EQUITY FUNDS

“Daimler saved by Middle Eastern wealth fund

A sovereign fund controlled by the oil-rich sheikhs of Abu Dhabi has become the biggest shareholder in Mercedes owner Daimler, guaranteeing its independence and future with a €1.95bn (£1.8bn) capital injection.

Aabar Investments, wholly owned by the emirate government and funded with oil money, will pay €20.27 per share for a 9% stake in the carmaker. The share issue will not be open to other shareholders - including long-standing investor Kuwait Investment Authority, the world's oldest sovereign fund, which has a 6.9% stake.

[...]

Dieter Zetsche, Daimler's chief executive, said the deal with Aabar Investments, announced late last night, would give the group extra flexibility to invest in new automotive technologies - such as electric vehicles and lighter compound materials ...”

Sources: Quote taken from Gow, David for The Guardian, Monday 23 March 2009, <https://www.theguardian.com/business/2009/mar/23/daimler-mercedes-abu-dhabi-stake>. Information on the right-hand side taken from various press releases.



Note: Three years after the investment, the Abu Dhabi fund exited Daimler. Subsequently, the Kuwait Investment Authority became one of the largest shareholders. However, a partial withdrawal was also announced here at the end of March 2023; the shareholding in Mercedes-Benz will thus be reduced from 6.84% at the end of 2022 to 4.95%. The largest individual shareholders are the Chinese BAIC Group and Tenacious3 Prospect Investment Ltd, also from China. There is no German anchor shareholder.

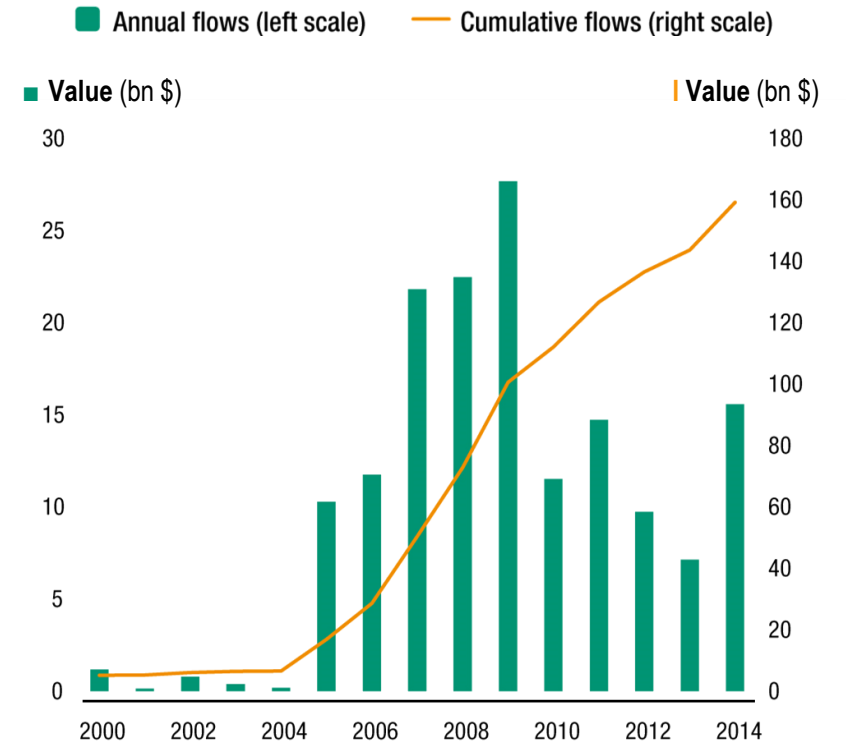
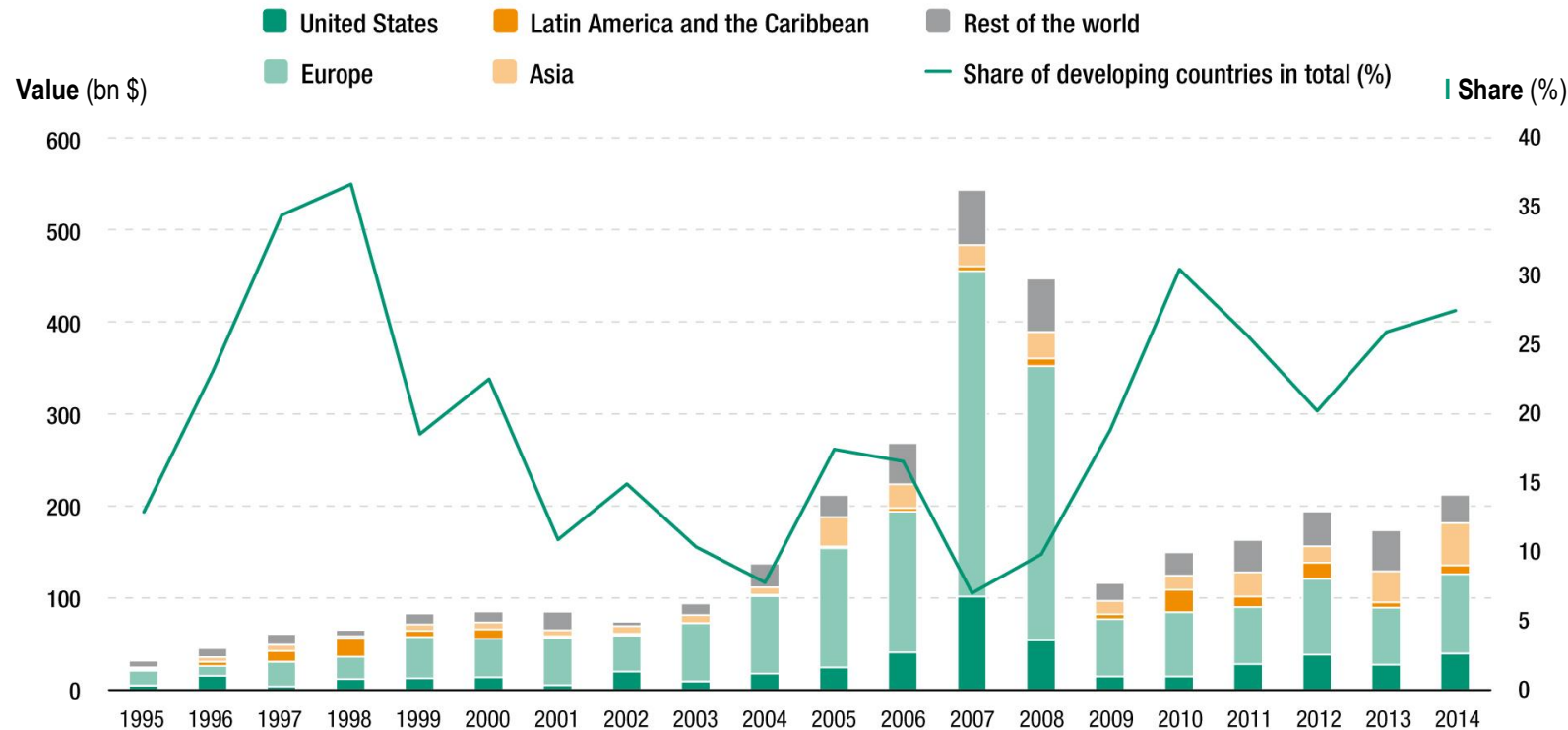
NEW TYPES OF FDI: PRIVATE EQUITY FUNDS AND SOVEREIGN WEALTH FUNDS

Comparison between Private Equity Funds and SWF

Item	Private Equity Funds	SWF
FDI	<i>Value cf. next slide</i>	<i>Value cf. next slide</i>
Main source economies of FDI	United States, United Kingdom	United Arab Emirates, Norway, Saudi Arabia, Kuwait, Singapore, China, Hong Kong (China), and Russian Federation
Largest funds involving FDI	KKR, Blackstone, Permira, Fortress, Bain Capital, and Carlyle (United States)	Norway Government Pension Fund Global, China Investment Corporation, Abu Dhabi Investment Authority, Kuwait Investment Authority, Hong Kong Monetary Authority Investment Portfolio
Investment strategy	<ul style="list-style-type: none"> ▪ Shorter time frame (exit within 5-8 years) than public companies and traditional TNCs, but play a more active role in the management of invested companies than SWFs. ▪ At the same time, inclined to look for options that offer quick returns, akin to those of portfolio investors. ▪ Buy larger and also publicly listed companies, but also invest in venture capital. ▪ Undertake FDI through buyouts. ▪ FDI is expanding in developing countries. 	<ul style="list-style-type: none"> ▪ Shifting from passive to active investors. ▪ Have tended to hold investment-grade, short-term, liquid sovereign assets in the major currencies, particularly United States treasury securities, but are now becoming strategic investors, with a preference for equities. ▪ Also investing in bonds, real estate, hedge funds, private equity and commodities. ▪ Still limited involvement in FDI. ▪ Concentrated on developed countries.

Sources: UNCTAD,, World Investment Report 2008, p. 22 (modified); Cuervo-Cazurra, A., Grosman, A. & Megginson, W.L. A review of the internationalization of state-owned firms and sovereign wealth funds: Governments' nonbusiness objectives and discreet power. *Journal of International Business Studies* 54, 78–106 (2023). <https://doi.org/10.1057/s41267-022-00522-w>

SPECIAL PLAYERS IN THE FDI LANDSCAPE (OLD DATA): PRIVATE EQUITY FUNDS AND SOVEREIGN WEALTH FUNDS



Source: World Investment Report 2015, p. 16: UNCTAD, cross border M&A database

THE TOP 20 SWF

Fund	Country	Source	Mission	Establish Date	AUM (USD Bn)	AAA (%)	International (%)
NBIM	Norway	Commodities	Savings	1997	\$1362	3	100
CIC	China	Reserves	Savings	2007	1222	25	33
SAFE IC	China	Reserves	Stabilization	1997	980	22	26
ADIA	Abu Dhabi	Commodities	Savings	1967	829	25	100
GIC	Singapore	Reserves	Savings	1981	799	25	100
KIA	Kuwait	Commodities	Savings	1953	693	23	95
PIF	Saudi Arabia	Commodities	Strategic	1971	620	56	30
HKMA EF	Hong Kong	Reserves	Stabilization	1993	587	8	87
NSSF	China	Reserves	Savings	2000	452	14	10
QIA	Qatar	Commodities	Savings	2005	445	41	71
ICD	Dubai	Commodities	Strategic	2006	300	65	51
Mubadala	Abu Dhabi	Commodities	Strategic	1984	284	48	53
Temasek	Singapore	Reserves	Strategic	1974	283	43	76
KIC	South Korea	Reserves	Savings	2005	205	17	100
Future Fund	Australia	Reserves	Savings	2006	187	40	80
NWF	Russia	Commodities	Stabilization	2008	155	20	17
NDFI	Iran	Commodities	Strategic	2011	139	82	0
ADQ	Abu Dhabi	Reserves	Strategic	2018	108	58	3
NDF	Saudi Arabia	Commodities	Strategic	2017	93	100	0
EIA	Abu Dhabi	Commodities	Strategic	2007	86	21	40

Source: Megginson, W.L., Malik, A.I. & Zhou, X.Y. (2023) Sovereign wealth funds in the post-pandemic era. *Journal of International Business Policy* 6, pp. 253–275 (p. 256)

TOP 25 INVESTMENT FUNDS AND MANAGERS OF THE DAX, 2021

Rank	Fund Name	Investor name	DAX Value in \$M Dec-21 *	% Share DAX Instl.	% Share Change (pp)	DAX Value in \$M Dec-20 *	Number of DAX Equities	Orientation	Type	Country
1	The Government Pension Fund - Global	Norges Bank Investment Management (Norway)	31,976.8	4.0%	0.2%	32,365.7	33	Active & Passive	Pension	Norway
2	Vanguard Total International Stock Index Fund	The Vanguard Group, Inc.	15,453.5	1.9%	0.1%	15,585.9	40	Passive	ETF	USA
3	American Funds EuroPacific Growth Fund	Capital World Investors (U.S.)	9,598.2	1.2%	0.3%	7,544.4	18	Active	Mutual Fund	USA
4	Vanguard Developed Markets Index Fund	The Vanguard Group, Inc.	8,656.1	1.1%	0.1%	8,113.7	40	Passive	ETF	USA
5	iShares Core MSCI EAFE ETF	BlackRock Fund Advisors	5,753.8	0.7%	0.0%	5,995.6	40	Passive	ETF	USA
6	iShares Core DAX UCITS ETF (DE)	BlackRock Asset Management (Deutschland) AG	5,474.5	0.7%	-0.3%	8,387.1	40	Passive	ETF	Germany
7	Oakmark International Fund	Harris Associates, L.P.	4,639.6	0.6%	-0.1%	5,991.7	9	Active	Mutual Fund	USA
8	Stichting Pensioenfond ABP (Global Equity Portfolio)	APG Asset Management N.V.	4,594.3	0.6%	0.0%	4,837.6	32	Active	Pension	Netherlands
9	DekaFonds CF	Deka Investment GmbH	4,532.1	0.6%	0.1%	3,987.1	35	Active	Mutual Fund	Germany
10	Canada Pension Plan	CPP Investment Board	4,509.9	0.6%	0.3%	2,151.1	24	Active	Pension	Canada
11	California Public Employees' Retirement System	California Public Employees Retirement System	4,270.4	0.5%	0.0%	4,114.9	37	Active & Passive	Pension	USA
12	iShares Trust - MSCI EAFE ETF	BlackRock Fund Advisors	3,588.0	0.5%	-0.1%	4,362.3	40	Passive	ETF	USA
13	Xtrackers DAX UCITS ETF	DWS Investment GmbH	3,583.9	0.5%	-0.1%	4,797.9	40	Passive	ETF	Germany
14	CREF Stock Account	TIAA-CREF Investment Management, LLC	3,446.7	0.4%	0.2%	1,930.1	40	Passive	ETF	USA
15	Capital World Growth and Income Fund	Capital World Investors (U.S.)	3,353.6	0.4%	0.2%	1,819.8	11	Active	Mutual Fund	USA
16	DWS Aktien Strategie Deutschland	DWS Investment GmbH	3,342.3	0.4%	0.1%	2,754.2	27	Active	Mutual Fund	Germany
17	Legal & General Pension PMC Europe(Ex UK) Index	Legal & General Investment Management, LTD	3,086.6	0.4%	0.4%	20.4	38	Passive	ETF	UK
18	Fidelity International Index Fund	Geode Capital Management, LLC	2,905.7	0.4%	0.1%	2,515.7	40	Passive	ETF	USA
19	DWS Deutschland	DWS Investment GmbH	2,869.0	0.4%	-0.1%	3,825.8	31	Active	Mutual Fund	Germany
20	Vanguard International Growth Fund (U.S.)	Baillie Gifford & Company | Schroder IM UK	2,816.0	0.4%	0.0%	2,774.4	7	Active	Mutual Fund	USA/UK
21	DWS ESG Investa	DWS Investment GmbH	2,770.8	0.3%	-0.1%	3,390.6	33	Active	Mutual Fund	Germany
22	Vanguard European Stock Index Fund	The Vanguard Group, Inc.	2,655.6	0.3%	0.1%	2,263.7	40	Passive	ETF	USA
23	American Funds New Perspective Fund	Capital World Investors (U.S.)	2,492.5	0.3%	0.2%	1,360.7	8	Active	Mutual Fund	USA
24	UniFonds	Union Investment Privatfonds GmbH	2,337.4	0.3%	0.1%	1,277.5	27	Active	Mutual Fund	Germany
25	Vanguard FTSE All-World Ex-US Index Fund	The Vanguard Group, Inc.	2,326.5	0.3%	0.0%	2,312.7	40	Passive	ETF	USA
			141,033.7	17.8%	1.8%	134,480.5				

* Based on recent public information

Source: S&P Global Market Intelligence

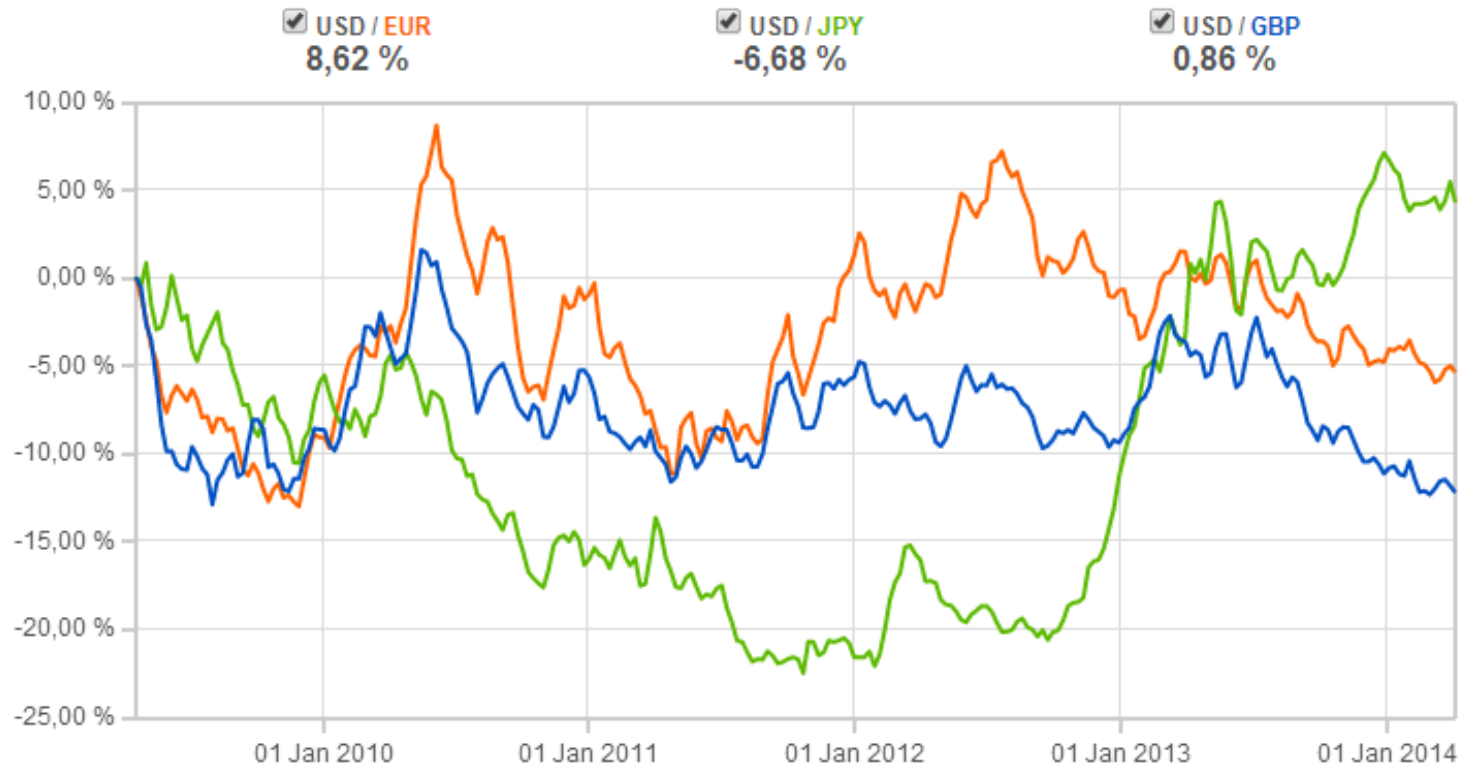
Source: <https://www.dirk.org/wp-content/uploads/2022/06/Dax-Studie-Investoren-der-Deutschland-AG-9.0.pdf>

A COMPLETE OVERVIEW: SELECTED INDICATORS OF INTERNATIONALIZATION

Item	Value at current prices					
	1990	2005–2007 (pre-crisis average)	2018	2019	2020	2021
FDI inflows	205	1 425	1 448	1 481	963	1 582
FDI outflows	244	1 464	941	1 124	780	1 708
FDI inward stock	2 196	14 605	32 843	36 530	41 728	45 449
FDI outward stock	2 255	15 315	31 393	34 496	39 546	41 798
Income on inward FDI ^a	82	1 129	2 199	2 264	1 997	2 193
<i>Rate of return on inward FDI ^b</i>	<i>5.2</i>	<i>9.2</i>	<i>6.5</i>	<i>6.0</i>	<i>4.9</i>	<i>4.9</i>
Income on outward FDI ^a	128	1 243	2 128	2 259	2 041	2 131
<i>Rate of return on outward FDI ^b</i>	<i>8.4</i>	<i>10.5</i>	<i>6.5</i>	<i>6.6</i>	<i>5.4</i>	<i>5.3</i>
Cross-border M&As	98	729	816	507	475	728
Announced greenfield FDI projects	..	..	982	846	575	659
Sales of foreign affiliates	4 801	19 781	32 884	32 889	..	..
Value added of foreign affiliates	1 074	4 668	7 148	6 512	..	..
Total assets of foreign affiliates	4 649	47 124	96 130	92 235	..	..
Employment by foreign affiliates (thousands)	20 449	49 840	84 066	83 597	..	..
<i>Memorandum:</i>						
GDP ^c	23 475	52 481	86 085	87 536	85 239	96 293
Gross fixed capital formation ^c	5 838	12 477	21 908	22 488	22 028	24 902
Royalties and licence fee receipts	31	189	417	457	469	471

Source: UNCTAD: World Investment Report 2022, p. 39

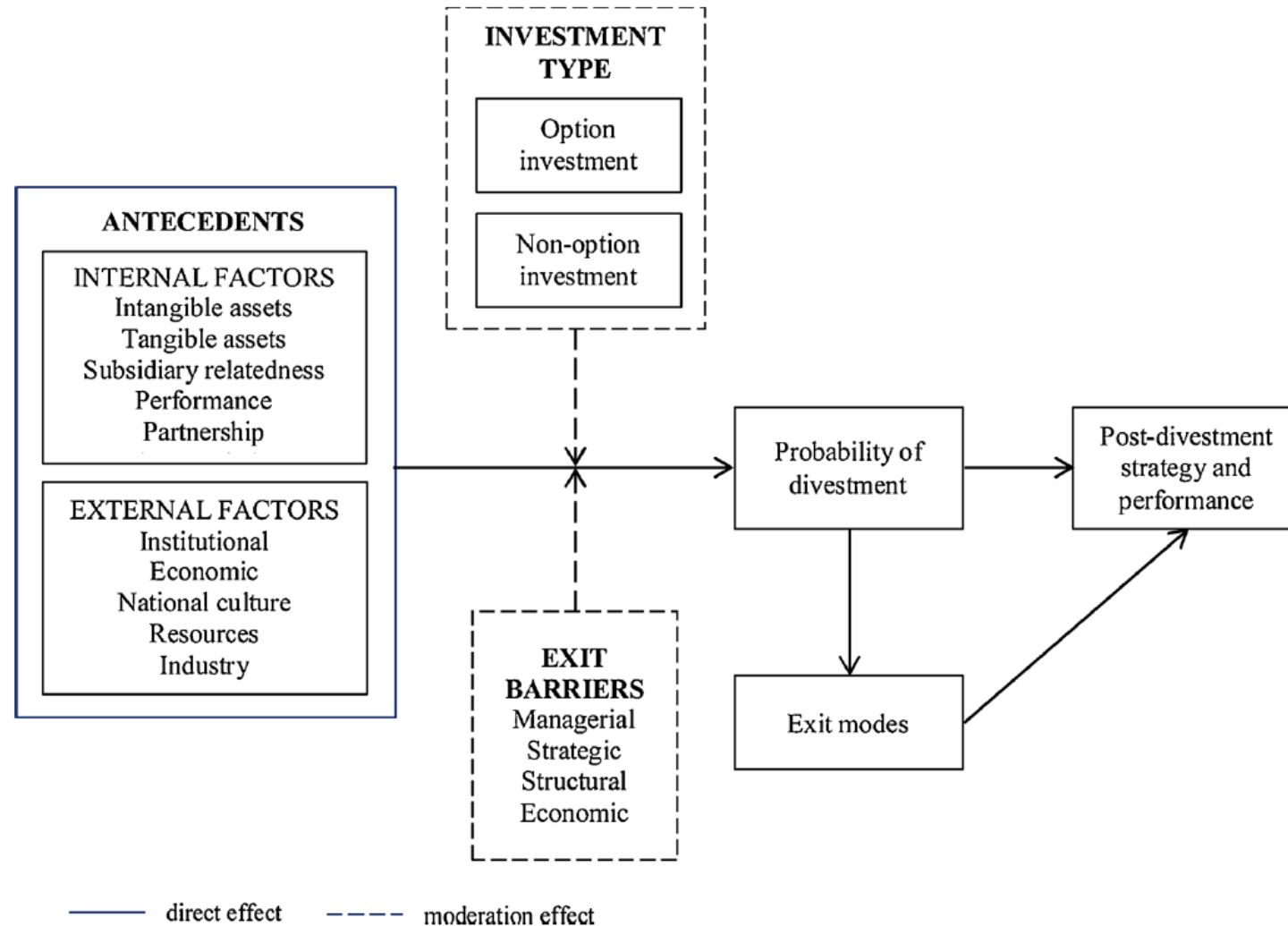
CAUTION: THE ABOVE STATED DATA CAN BE DISTORTED DUE TO SHIFTS IN EXCHANGE RATES



A decreasing graph shows devaluation of the first currency in comparison with the second currency.

Source: <http://www.oanda.com/lang/de/currency/historical-rates/>

ANOTHER CAVEAT: FOREIGN DIVESTMENTS

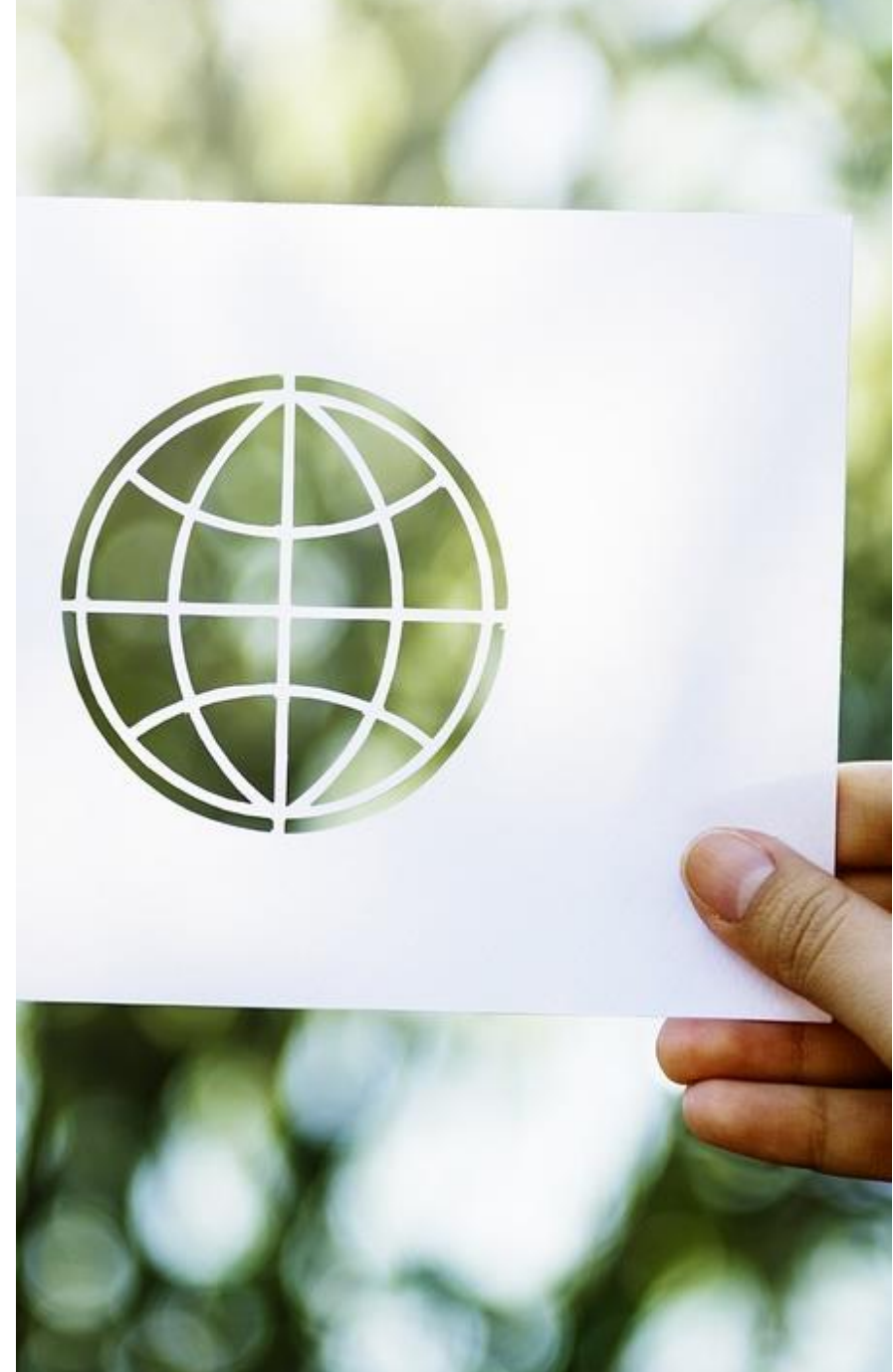


Source: Arte, P. & Larimo, J. (2019), Taking stock of foreign divestment: Insights and recommendations from three decades of contemporary literature. *International Business Review* 28 (6)

STARTING POINTS FOR ASSESSING THE INTERNATIONALIZATION LEVEL OF MNEs

- Number and size of foreign subsidiaries or associates that are owned or managed by a MNC
- Number of countries in which the MNC is engaged with value-adding operations such as mines, plantations, production facilities, sales branches, banks, offices or hotels
- Share of foreign assets, revenue, profit and employment in the MNCs total
- Degree to which the management and/or the capital ownership is internationalized
- Degree to which the high value-added activities – especially research & development – is internationalized (this criterion measures the quality or degree of foreign activities)
- Extent and pattern of systematic benefits that emerge from controlling and influencing a network of foreign economic activities
- Degree to which the responsibility for certain activities is placed on foreign subsidiaries
- Ratio of international market shares (RIMS) measured against the standard of a maximally internationalized firm

Sources: Dunning, J.H. & Lundan, S.M. (2008) *Multinational Enterprises and the Global Economy*. 2nd Edition, Reading: Addison-Wesley, p. 3;
Marshall, V.B., Brouthers, L.E. & Keig, D.L. (2020), RIMS: A new approach to measuring firm internationalization. *Journal of International Business Studies* 51, 1133–1141



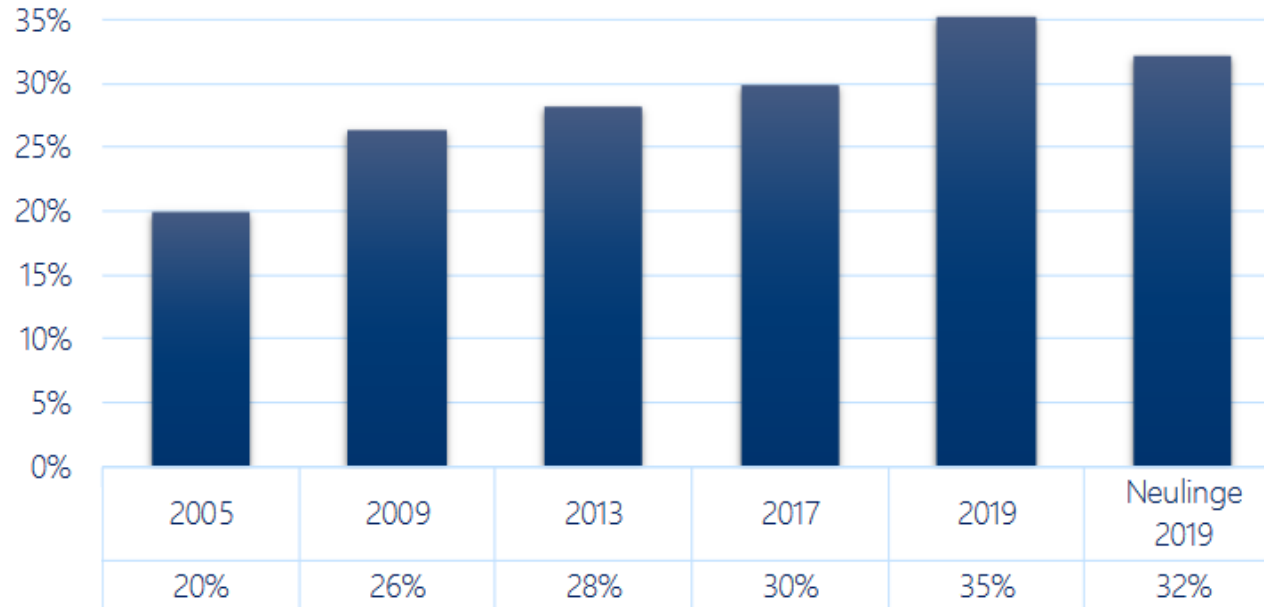
THE WORLD'S LARGEST NON-FINANCIAL MNEs BY FOREIGN ASSETS, 2021

Ranking by:		Corporation	Home economy	Industry ^b	Assets		Sales		Employment		TNI ^a (Per cent)
Foreign assets	TNI ^a				Foreign	Total	Foreign	Total	Foreign ^c	Total	
1	16	Shell plc	United Kingdom	Mining, quarrying and petroleum	367 818	404 379	239 658	261 504	56 000	82 000	83,6
2	49	Toyota Motor Corporation	Japan	Motor Vehicles	319 475	522 471	206 121	279 216	219 388	366 283	65,0
3	35	TotalEnergies SE	France	Petroleum Refining and Related	298 425	332 380	172 322	218 243	58 050	101 309	75,3
4	52	Volkswagen Group	Germany	Motor Vehicles	262 835	598 719	243 201	295 745	373 000	667 000	60,7
5	28	Deutsche Telekom AG	Germany	Telecommunications	259 466	318 979	98 972	128 598	156 339	216 528	76,8
6	65	Exxon Mobil Corporation	United States	Petroleum Refining and Related	197 420	338 923	172 426	276 692	25 200	63 000	53,5
7	25	Stellantis NV	Netherlands	Motor Vehicles	194 548	194 548	157 892	176 618	130 788	281 595	78,6
8	70	BP plc	United Kingdom	Petroleum Refining and Related	191 516	287 272	106 398	157 739	11 100	64 000	50,5
9	15	Anheuser-Busch InBev NV	Belgium	Food & beverages	179 313	217 627	46 272	54 304	146 785	169 000	84,8
10	34	British American Tobacco PLC	United Kingdom	Tobacco	172 480	185 153	27 074	35 329	29 717	52 050	75,6
11	57	Enel SpA	Italy	Electricity, gas and water	165 788	234 387	48 110	99 414	36 003	66 279	57,8
12	55	Chevron Corporation	United States	Petroleum Refining and Related	161 158	239 535	90 317	162 465	22 968	42 595	58,9
13	89	EDF SA	France	Electricity, gas and water	160 091	408 841	41 898	99 836	33 690	165 000	33,8
14	11	Vodafone Group Plc	United Kingdom	Telecommunications	156 541	170 907	45 500	52 932	86 922	96 506	89,2
15	33	Honda Motor Co Ltd	Japan	Motor Vehicles	149 346	196 882	107 950	129 490	143 878	211 374	75,8
16	6	CK Hutchison Holdings Limited	Hong Kong, China	Retail Trade	147 640	155 598	52 419	57 298	279 000	300 000	93,1
17	71	Mercedes-Benz Group	Germany	Motor Vehicles	144 607	294 293	169 677	198 547	28 286	172 425	50,3
18	32	Siemens AG	Germany	Industrial and Commercial Machinery	139 302	161 329	58 610	74 417	190 000	303 000	75,9
19	4	Hon Hai Precision Industries	Taiwan Province of China	Electronic components	137 194	140 802	209 630	214 595	855 916	878 429	97,5
20	77	Microsoft Corporation	United States	Computer and Data Processing	135 685	333 779	84 135	168 088	78 000	181 000	44,6
21	58	BMW AG	Germany	Motor Vehicles	133 774	259 969	114 696	131 488	40 096	118 626	57,5
22	50	Johnson & Johnson	United States	Pharmaceuticals	133 432	182 018	46 619	93 775	95 382	144 300	63,0
23	63	RWE AG	Germany	Electricity, gas and water	130 133	161 184	18 257	28 991	4 661	18 246	56,4
24	96	China National Petroleum Corp (CNPC)	China	Mining, quarrying and petroleum	129 200	625 390	111 599	299 188	121 197	1 242 245 ^d	22,6
25	41	Iberdrola SA	Spain	Electricity, gas and water	120 997	160 553	29 255	46 234	30 366	39 955	71,5

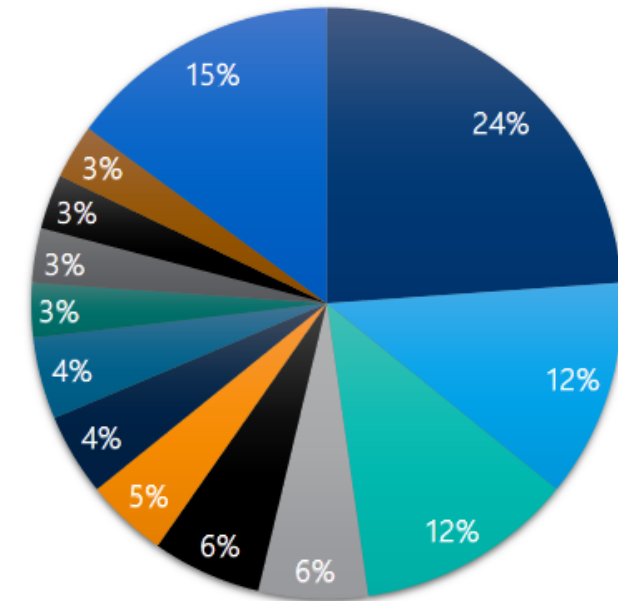
Source: UNCTAD: World Investment Report 2022

DAX MANAGEMENT BOARDS ARE SLOWLY BECOMING INTERNATIONAL

Rise in percentage of foreigners in DAX management boards



Nationalities in DAX management boards

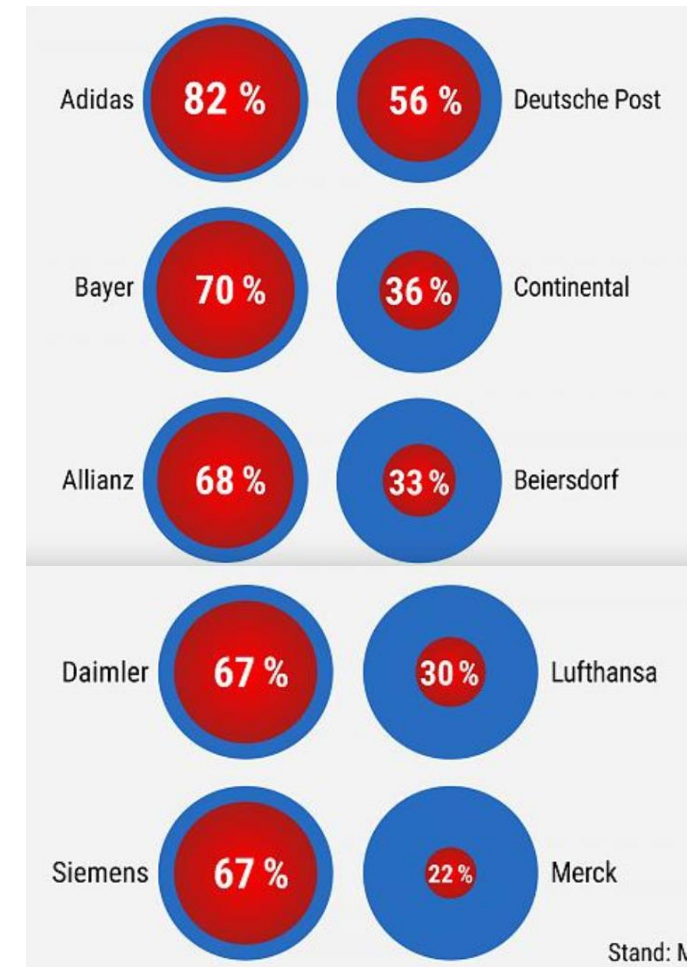


Update 2022: "German management boards have also become more international: the proportion of German nationals on DAX management boards fell from 67% to 63% last year. The proportion of foreign nationals is higher among women than among men (44% vs. 35%). For new appointments, the reverse is true: among the new female DAX management board members in 2022, half were German nationals, among the men around 20%."



Sources: <https://www.odgersberndtson.com/media/8520/8-dax-vorstands-report-2019.pdf>; <https://www.russellreynolds.com/en/insights/reports-surveys/dax-40-board-study-2023>

GERMAN DAX FIRMS: FOREIGN SHAREHOLDERS



Source: https://www.focus.de/finanzen/boerse/gastbeitrag-von-gabor-steingart-wem-gehoert-der-dax-auslaendische-investoren-haben-das-kommando-uebernommen_id_11029421.html



VIRTUAL HEADQUARTERS

UNITED STATES

Marketing (brand)
R&D (products)

HONG KONG

Marketing (brand)
Sourcing (products)

GERMANY

R&D (product)
Sourcing (product)
Strategic Planning (brand)
Supply Service (product supply)
Warehousing & Logistic (product supply)
Sales, Sales service & Distribution (growth)

INTERNATIONALIZATION OF HEADQUARTERS: THE CASE OF PUMA

Hybrid matrix structure with vertical-functional and horizontal-regional focus:

Vertical focus:

- Virtual headquarters: decentralized competency centers located in **Germany**, the **USA**, and **Hong Kong**.
- Competency centers hold seven corporate functions: Product, Product Supply, Product Sourcing, Product Supply Brand, Brand, Growth, and Structure.
- Each of these functions is strategically positioned where management know-how and specialization is optimal.

Horizontal focus:

- Regional headquarters: **Germany**, the **USA**, **Hong Kong**, **Austria** and **Australia** serve as regional hubs in order to oversee distributors, licensees, and other subsidiaries within these regions.
- Germany is responsible for Western Europe, the USA for America, Austria for Eastern Europe, Africa and Middle East, Hong Kong for Asia, and Australia for the Pacific Region
- This enables dynamic reaction to regional and local specifications and incorporation into global brand initiatives provided by the corporate functions.

Sources: www.puma.de; Photo: Aarp65, CC BY-SA 3.0 <<https://creativecommons.org/licenses/by-sa/3.0/>>, via Wikimedia Commons

PUMA INFRASTRUCTURE

AMER

**VIRTUAL
HEADQUARTERS**



**USA
Boston**

EMEA

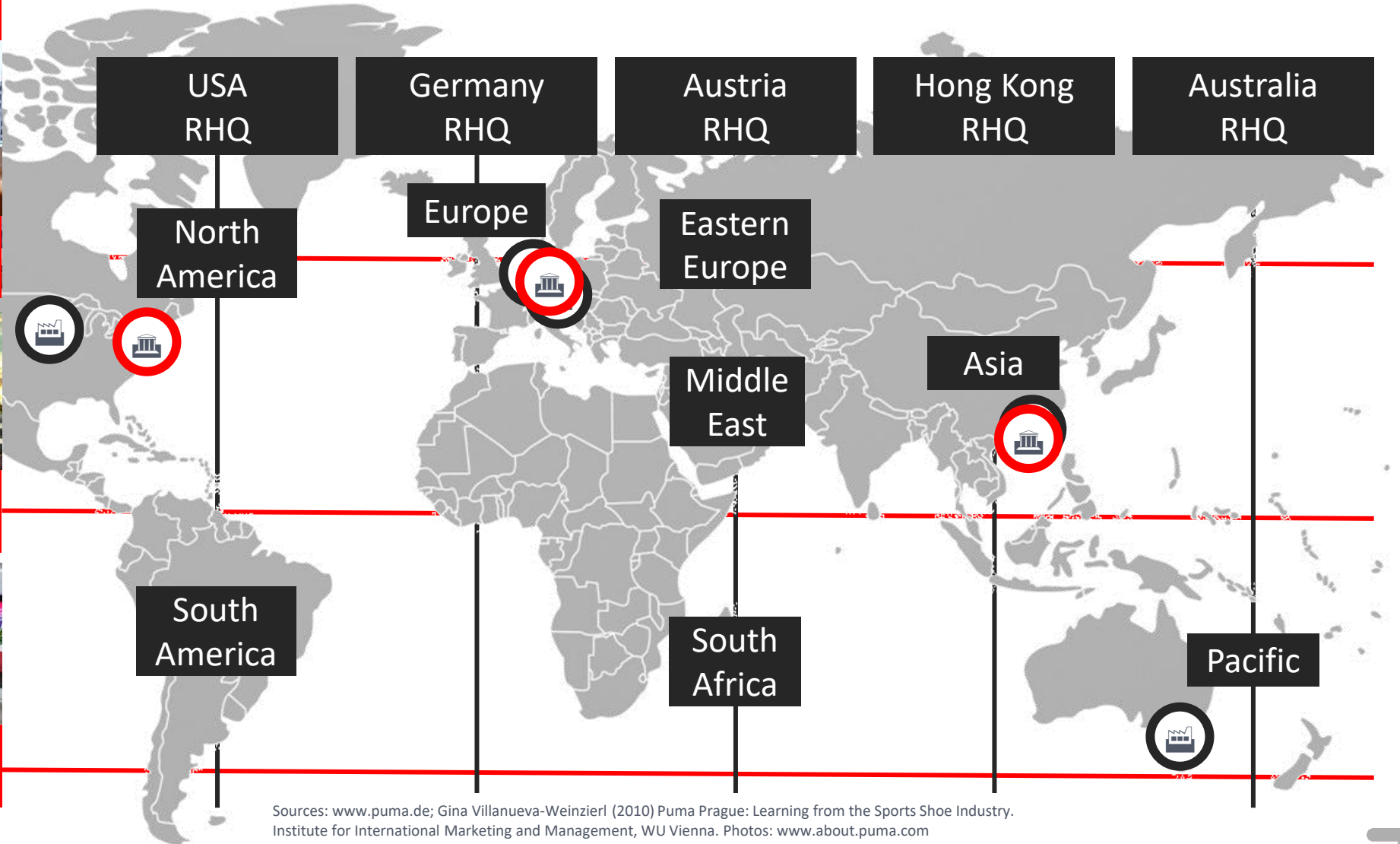


**GERMANY
Herzogenaurach**

APAC

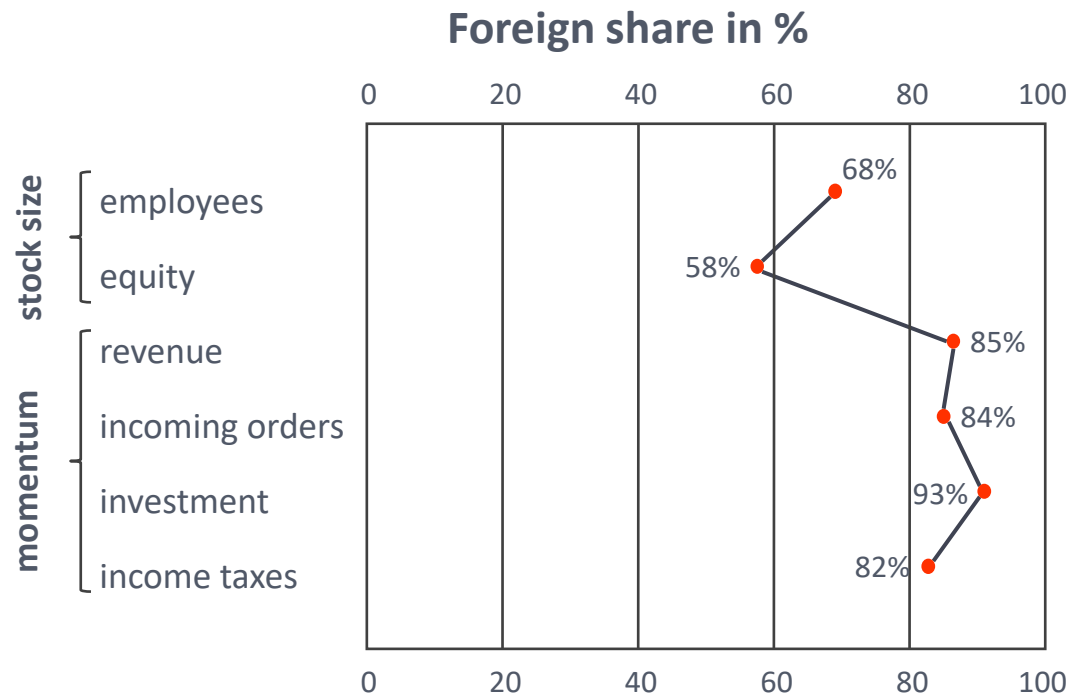


Hong Kong



Sources: www.puma.de; Gina Villanueva-Weinzierl (2010) Puma Prague: Learning from the Sports Shoe Industry. Institute for International Marketing and Management, WU Vienna. Photos: www.about.puma.com

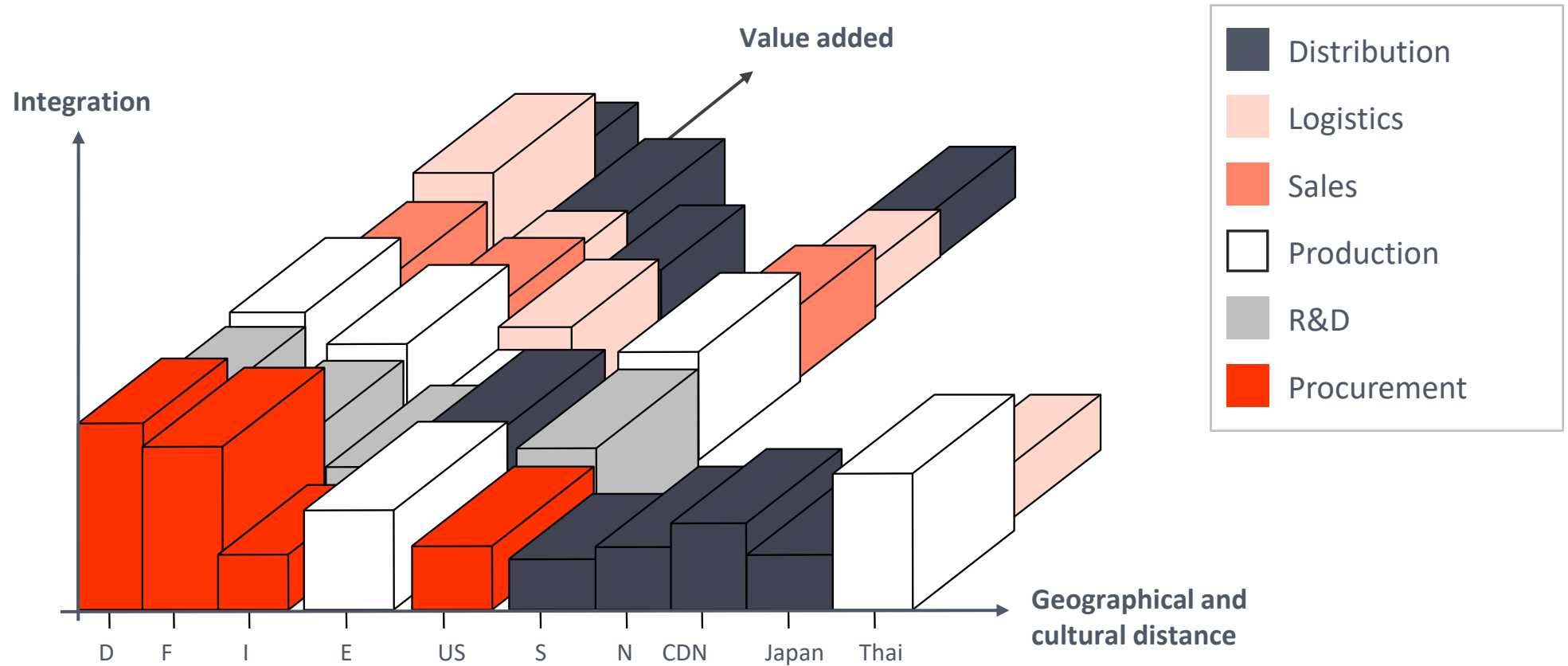
INTERNATIONAL PROFILE OF SIEMENS



Source: Kutschker, M./Schmid, S. (2011) Internationales Management, 7. ed., München: Oldenbourg, p. 267.



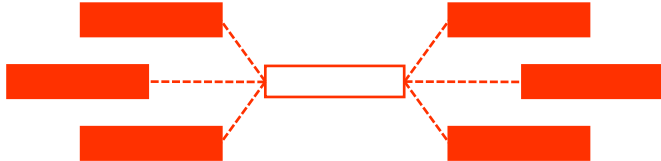
DIMENSIONS OF GLOBALIZATION



Source: Kutschker/Schmid (2011), p.333.

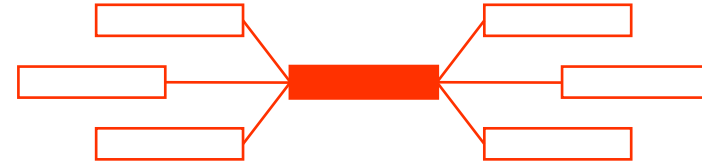
A QUALITATIVE CLASSIFICATION OF INTERNATIONALIZATION

Model of the multinational organization



- **Multinational mentality:** Management regards overseas operations as a portfolio of independent businesses
- **Personal control:** Informal HG-Sub relationships overlaid with simple financial controls
- **Decentralized federation:** Many key assets, responsibilities and decisions decentralized

Model of the global organization



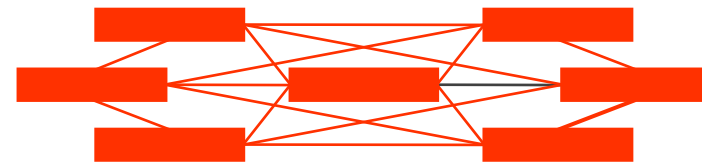
- **Global mentality:** Management treats overseas operations as delivery pipelines to a unified global market
- **Operational control:** Tight central control of decisions, resources and information
- **Centralized hub:** Most strategic assets, resources, responsibilities and decisions centralized

Model of the international organization



- **International mentality:** Management regards overseas operations as appendages to a central domestic corporation
- **Administrative control:** Formal management planning and control systems allow tighter HQ-Sub linkage
- **Coordinated federation:** Many assets, resources, responsibilities and decisions still decentralized, but controlled by HQ

The transnational solution



- **Complex process of coordination and cooperation in an environment of joint decision making**
- **Large flows of components, products, resources, people and information among independent units**
- **Distributed, specialized resources and capabilities**

Source: Bartlett, C.A./ Ghoshal, S. (1989), Managing Across Borders: The Transnational Solution, Boston: Harvard Business School Press, p. 50-52 and p. 89.

WHAT YOU MEASURES IMPACTS WHAT YOU GET

Studies on the connection between internationalization and performance (1)

Author(s) and year	Measurements ^a	Performance indicators	Empirical findings ^b
(a) Linear			
Brewer (1981)	FETE	Stock return	(-)
Buckley, Dunning, and Pearce (1978, 1984)	FSTS	ROA	(0)
Bühner (1987)	FSTS	Market return	(+)
Errunza and Senbet (1981)	FATA, FETE, FSTS	Excess return	(+)
Errunza and Senbet (1984)	AFS, FSTS, NFS, Entropy measure	Excess return	(+)
Fatemi (1984)	FSTS	Risk-adjusted return (ROE)	(0)
Geringer et al. (2000)	FSTS	ROA, ROS, sales growth	(-)
Geyikdagi and Geyikdagi (1989)	FBTB	Beta	(+)
Grant (1987)	FSTS	ROA, ROE, ROS	(+)
Grant et al. (1988)	FSTS	ROA, ROE, ROS	(+)
Haar (1989)	FSTS	ROA	(0)
Jung (1991)	FSTS	(After-tax net income)/(Total assets)	(+)
Kim and Lyn (1987)	FDI	Excess market value; Tobin's Q	(+)
Kohers (1975)	FATA, FETE, FETN, FSTS	Cost of capital	(0)
Kumar (1984)	FSTS	ROA, ROS	(0)
Michel and Shaked (1986)	FSTS	Risk-adjusted return	(-)
Miller and Pras (1980)	NNS	SD of ROS	(+)
Morck and Yeung (1991)	NNS, NFS	Market value	(0)
Riahi-Belkaoui (1996)	FSTS	ROA	(+)
Sambharya (1995)	FSTS, FATA	ROA, ROS, ROE	(0)
Shaked (1986)	FSTS	SD of ROE, Beta	(0)
Siddharthan and Lall (1982)	FSTS	Sales growth	(-)
Tallman and Li (1996)	FSTS, NNS	ROS	(+)
Vernon (1971)	FSTS, FATA, FETE, FETN	ROI, ROS	(+)

Source: Qian, G., Lee, L., Ji, L. & Qian, Z. (2008) Regional diversification and firm performance, in: *Journal of International Business Studies* 39, 197–214

WHAT YOU MEASURES IMPACTS WHAT YOU GET

Studies on the connection between internationalization and performance (2)

(b) Curvilinear (inverted U-shaped)

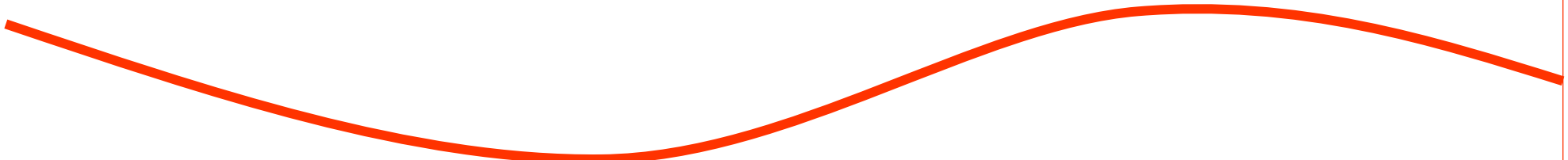
Contractor et al. (2003)	Sum of FSTS, FETN and FOTO	ROA, ROS
Daniels and Bracker (1989)	FATA	ROA, ROS
Geringer, Beamish, and daCosta (1989)	FSTS	ROA, ROS
Gomes and Ramaswamy (1999)	FSTS, FATA, NNS	Cost of sales/total sales, ROA
Hitt et al. (1994)	NNS	ROA, ROS
Hitt et al. (1997)	Entropy measure	ROA
Qian (1997, 2002)	FSTS	ROA, ROE
Ramaswamy (1995)	FATA	ROA, ROS, ROVA
Riahi-Belkaoui (1998)	FSTS	ROA
Ruigrok and Wagner (2003)	FSTS	ROA
Sullivan (1994)	FSTS, FATA, NNS	ROA, ROS

^a FSTS, foreign sales/total sales; FATA, foreign assets/total assets; FETN, number of foreign employees/total number of employees; FETE, foreign earnings/total earnings; FBTB, foreign business/total business; FOTO, Number of foreign offices/total number of offices; NNS, number of nations in which firm has foreign subsidiaries; NFS, number of subsidiaries abroad; FDI, foreign direct investment; AFS, absolute foreign sales.

^b Findings: +, positive relationship; -, negative relationship; 0, no relationship.

Source: Qian, G., Lee, L., Ji, L. & Qian, Z. (2008) Regional diversification and firm performance, in: *Journal of International Business Studies* 39, 197–214

INTERNATIONALIZATION AND PERFORMANCE: THE S-CURVE HYPOTHESIS

Stage of internationalization	First Stage	Second Stage	Third Stage
Firm Characteristics	Early internationalizers	Medium term international diversification	High international diversification
Characteristics	<ul style="list-style-type: none"> ▪ Liability of foreignness ▪ Firm not able to best explore the economies of scale and learning opportunities ▪ Firm does not possess the ability to best configure local key resources in a way that minimizes the overall costs, because of company's unfamiliarity with the local idiosyncrasies ▪ Firm has not the sufficient bargaining power, since it has not established legitimacy in the host country 	<ul style="list-style-type: none"> ▪ Increasing learning experience reduces liabilities of foreignness ▪ Development of capabilities ▪ Exploitation of economies of scope and scale ▪ Increased bargaining power ▪ Increasing international diversity fosters innovation and prepares firms to achieve good results in a dynamic environment 	<ul style="list-style-type: none"> ▪ High transaction costs, because of excessive multinationality ▪ Problems of coordination and information asymmetries among the subsidiaries
Performance behavior	Diminishing results	Increasing results	Diminishing results
Curve orientation			

Source: Vilas-Boas, R. & Suárez-González, I., Internationalization and firm performance: The S-curve hypothesis under the Eurozone context, Working Paper, 2007

TESTING THE S-CURVE HYPOTHESIS

“Does it pay to be a multinational? Despite decades of empirical research, we still do not know. We undertake a large-sample, cross-national replication of Lu and Beamish (2004) and Berry and Kaul’s (2016) works to examine whether the multinationality-performance relationship is S-shaped in a 2009-2016 panel of 889,865 firm-year observations. Using a two-stage least squares fixed-effects model that accounts for endogeneity on a subsample of 32,835 multinationals from 64 countries, **we find no evidence of an S-shaped relationship; nor do we see it in any of the single-country contexts. Our results show no evidence of any within-firm effect of multinationality on performance,** highlighting the need for more contextually-grounded research focused on explaining between-firm effects to advance our theoretical and empirical understanding of the multinationality-performance relationship.”

Source: Pisani, N., Garcia-Bernado, J., Heemskerk, E. (2020), Does it pay to be multinational? A large-sample, cross-national replication assessing the multinationality-performance relationship. *Strategic Management Journal* 41: 152-172 (Abstract)

Note: For a recent review article that confirms the confusing research status, see Nguyen and Kim (2020)*

* Nguyen, Q. T. K., Kim, S. (2020) The multinationality and performance relationship: Revisiting the literature and exploring the implications. *International Business Review* 29(2). <https://doi.org/10.1016/j.ibusrev.2020.101670>