



Multinationals and Performance: Policy Implications

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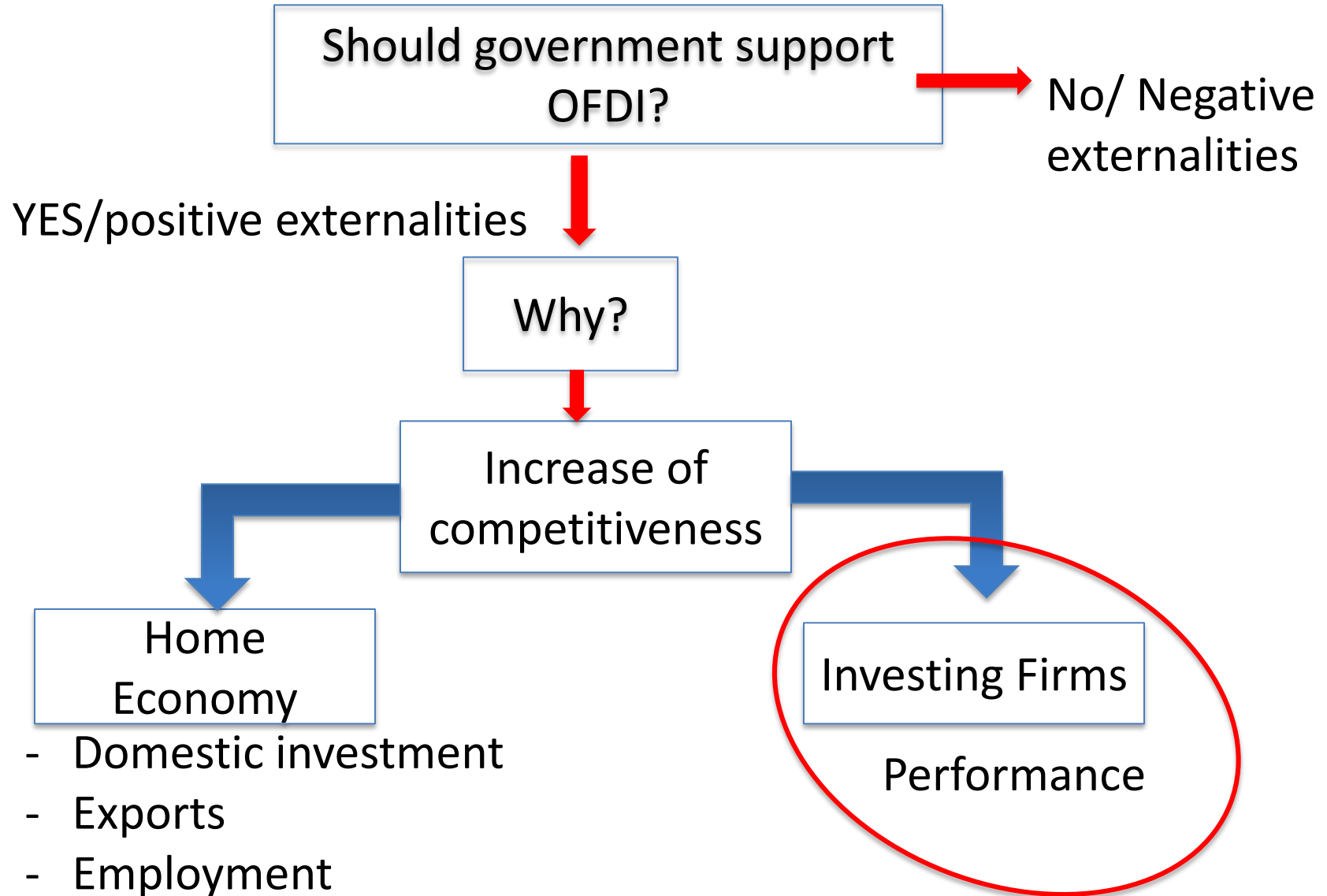
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Presentation Outline

- Why this research?
- What do we ask?
- What has been said?
- What do we argue?
- How did we go about it?
- What did we find?
- So what?
 - Managerial implications
 - Policy implications

Why this research?



What do we ask?

- How does the level of internationalization affect performance?
- How does international expansion into particular locations affect performance?

What has been said?

- ***Why government should support OFDI:***
 - As part of government policy: e.g. Chinese state-owned enterprises
 - As part of the overall industrial development policy: OFDI contributes to the country competitiveness
- ***How could a country competitiveness increase from OFDI?***
 - Investing firms becoming stronger thanks to the need to compete outside
 - Spillovers effects to suppliers and related firms, and to the overall economy

What has been said?

- ***Home Government Policies on OFDI***
 - Policies Liberalizing OFDI: Reducing Constraints in the Home Market
 - Enable firms to invest abroad, e.g. by reducing capital controls
 - Policies Facilitating or Protecting OFDI: Reducing Constraints Abroad
 - Help firms enter foreign markets, e.g. by double taxation and regional economic integration
 - Policies Promoting OFDI: Subsidization of Investments
 - Induce particular firms to enter specific markets, e.g. by providing information and technical assistance, direct financial support and fiscal incentives, and investment insurance

What do we argue?

- If internationalization is good for firms, i.e. higher performance, managers will do it
- If managers already have incentives to internationalize, less need for government subsidies
- Countries benefit from positive externalities/spillovers. Government can use money elsewhere
- In sum, we should understand how internationalization affects firm performance

How did we go about it?

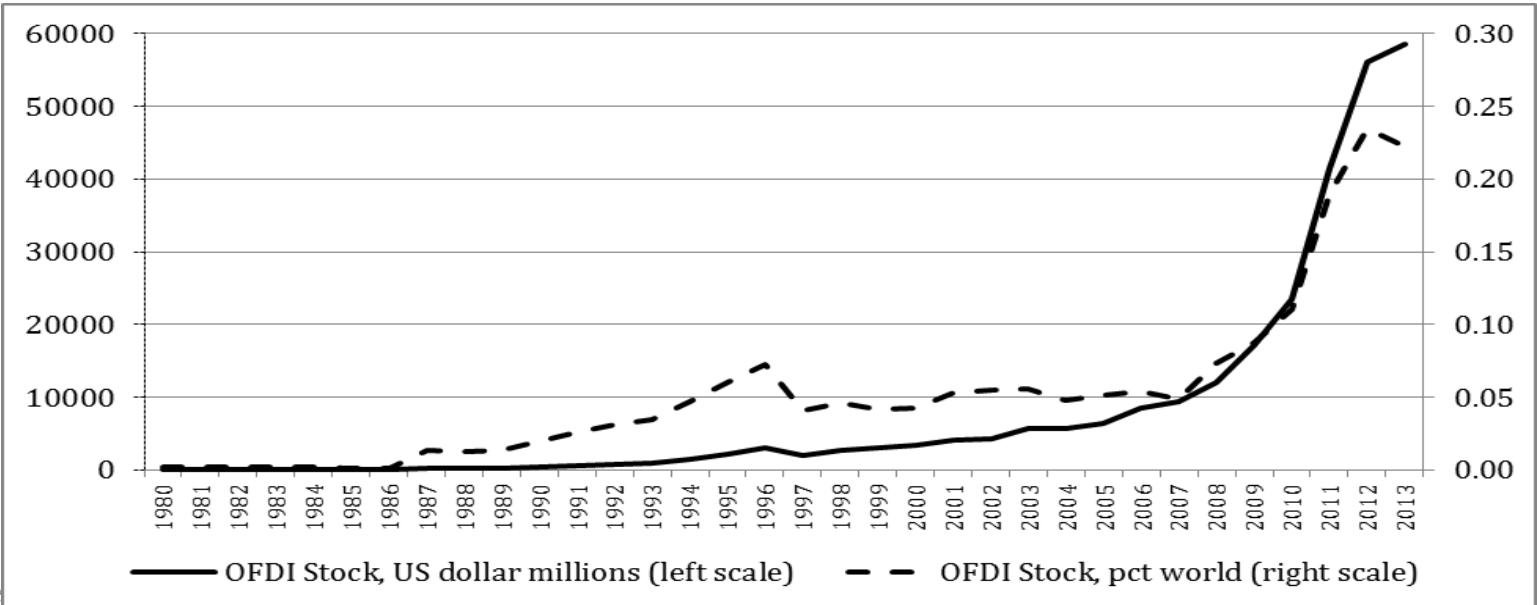
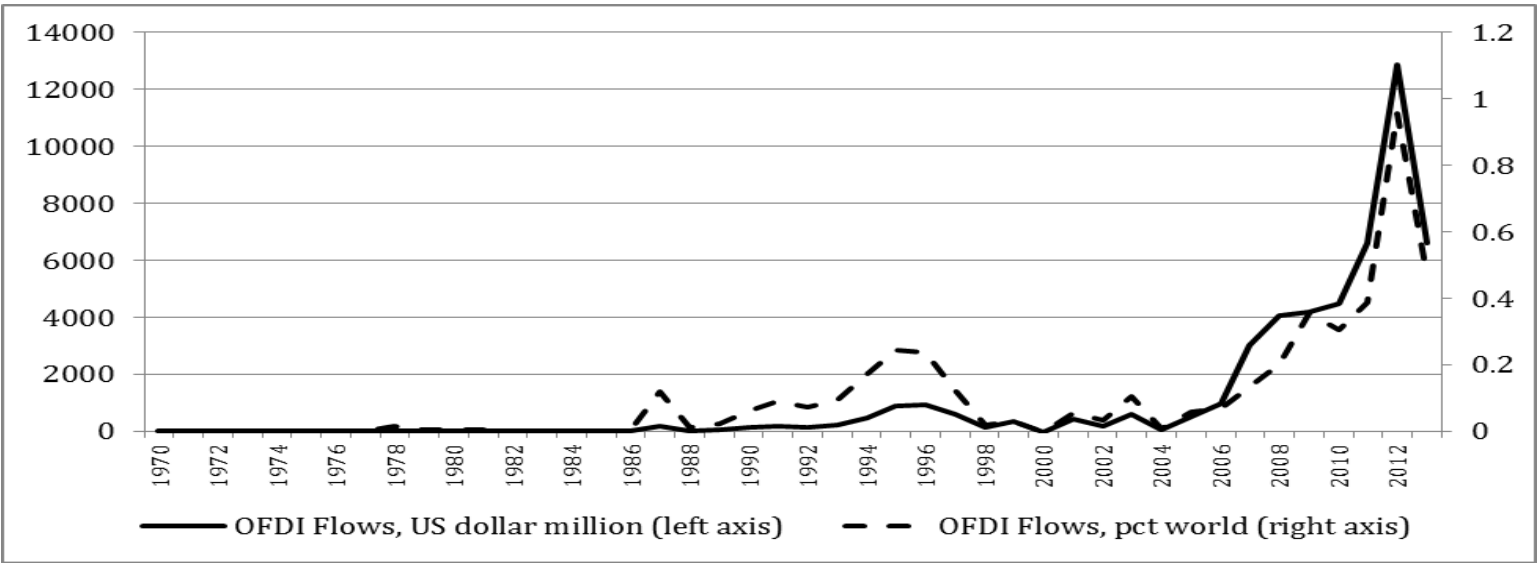
- Dataset of publicly listed firms in Stock Exchange of Thailand for 1990-2012
 - Biases: Self selected firms, relatively large
- Sources
 - Financial data from Thompson Reuters' Datastream Professional
 - Internationalization data from Annual Registration Statement (Form 56-1)

How did we go about it?

- Measures
 - Performance: Return on Assets
 - Internationalization: foreign sales/income; international investment/assets; number foreign subsidiaries
 - Control for income, age, industry, year (other controls limit sample)
- Method
 - $ROA_{it+1} = \beta_0 + \beta_1 * internationalization_{it} + \beta_1 * internationalization_{it}^2 + \beta_1 * internationalization_{it}^3 + \beta_2 * size_{it} + \beta_3 * age_{it} + \beta_k * industry_{it} + \beta_l * year_{kit} + \mu_{it}$
 - Generalized least squares, correcting for heteroskedasticity and panel specific autocorrelation, one to five year lag



What did we find?



What did we find?

- Internationalization and performance
 - Trade: positive relationship
 - Investment: curvilinear: positive, negative, positive

	Dependent variable: ROA, one year lag				
	International trade		International investment		
	Datastream	Annual reports	Datastream	Annual reports	
Dimensions of internationalization:	International Sales on Gross Income	Foreign Revenue on Gross Income	International Assets on Total Assets	International Investment on Total Assets	Number of Foreign Subsidiaries
	Model 6.2.a	Model 6.2.b	Model 6.2.c	Model 6.2.d	Model 6.2.e
Internationalization	-1.544 (2.493)	0.233** (0.106)	86.580 (133.700)	11.56*** (3.100)	0.368*** (0.083)
Internationalization square	-3.035 (3.554)	-0.004 (0.006)	-783.300 (7421.000)	-1.138*** (0.335)	-0.00997** (0.004)
Internationalization cube	-0.321 (0.688)	0.000 (0.000)	5054.000 (81010.000)	0.0259*** (0.009)	0.000 (0.000)
Sales	6.84e-11** 0.000	6.71e-11** 0.000	6.59e-11** 0.000	6.49e-11** 0.000	0.000 0.000
Age	0.0354*** (0.009)	0.0350*** (0.008)	0.0350*** (0.009)	0.0343*** (0.008)	0.0313*** (0.009)
Constant	-3.722*** (1.314)	-3.684*** (1.305)	-3.663*** (1.308)	-3.775*** (1.268)	-3.550*** (1.272)
Observations	8,584	8,584	8,584	8,584	8,584
Number of Firm	413	413	413	413	413



What did we find?

- Location and performance
 - No relationship except for investments in offshore financial centers

	Dependent variable: ROA, one year lag									
	Model 6.4.a	Model 6.4.b	Model 6.4.c	Model 6.4.d	Model 6.4.e	Model 6.4.f	Model 6.4.g	Model 6.4.h	Model 6.4.i	Model 6.4.j
	Foreign Investment	Number of subsidiaries	Foreign Investment	Number of subsidiaries	Foreign Investment	Number of subsidiaries	Foreign Investment	Number of subsidiaries	Foreign Investment	Number of subsidiaries
Advanced	0.000 (0.000)	-0.035 (0.086)	0.000 (0.000)	-0.029 (0.085)	--	--	--	--	--	--
Emerging	4.93e-10** (0.000)	0.164** (0.066)	--	--	--	--	--	--	--	--
Emerging except OFCs	--	--	0.000 (0.000)	0.091 (0.081)	--	--	--	--	--	--
Asean	--	--	--	--	0.000 (0.000)	0.155 (0.108)	0.000 (0.000)	0.157 (0.106)	0.000 (0.000)	0.200* (0.107)
Non-Asean	--	--	--	--	4.50e-10** (0.000)	0.033 (0.054)	--	--	--	--
Non-Asean non-OFC	--	--	--	--	--	--	0.000 (0.000)	-0.050 (0.061)	--	--
Asia except Asean	--	--	--	--	--	--	--	--	0.000 (0.000)	-0.274** (0.107)
Europe	--	--	--	--	--	--	--	--	0.000 (0.000)	0.197 (0.126)
America	--	--	--	--	--	--	--	--	0.000 (0.000)	0.268 (0.370)
Africa	--	--	--	--	--	--	--	--	0.000 (0.000)	2.177 (2.005)
Oceania	--	--	--	--	--	--	--	--	0.000 (0.000)	-0.148 (0.218)
OFCs	--	--	4.99e-10** (0.000)	0.322*** (0.122)	--	--	4.99e-10** (0.000)	0.338*** (0.131)	4.97e-10** (0.000)	0.358*** (0.135)
Sales	0.0643** (0.027)	0.008 (0.040)	0.0644** (0.027)	0.036 (0.046)	0.0644** (0.027)	0.029 (0.060)	0.0643** (0.027)	0.031 (0.060)	0.0642** (0.027)	0.011 (0.072)
Age	0.0350*** (0.008)	0.0275*** (0.009)	0.0351*** (0.008)	0.0286*** (0.010)	0.0351*** (0.009)	0.0283*** (0.010)	0.0350*** (0.009)	0.0279*** (0.010)	0.0356*** (0.008)	0.0297*** (0.010)
Constant	-3.693*** (1.307)	-3.610*** (1.285)	-3.693*** (1.307)	-3.620*** (1.285)	-3.692*** (1.307)	-3.560*** (1.287)	-3.692*** (1.307)	-3.574*** (1.284)	-3.718*** (1.305)	-3.596*** (1.284)
Observations	8584	8584	8584	8584	8584	8584	8584	8584	8584	8584
Firms	413	413	413	413	413	413	413	413	413	413

What did we find?

- Insights from the Study
 - A Positive Relationships between International Expansion and Performance
 - Exploitation of advantages support initial performance
 - But complexity reduces performance with higher intl
 - But global learning at higher levels
 - An Unclear Relationship between Destination of Investment and Performance
 - Nearby countries should lead to higher performance
 - Offshore financial centers

So what?

- Policy Implications
 - Encourage a broad-based range of firms to internationalize, regardless of size, industry and destination country
 - Reduce constraints at home and abroad
 - Information and education
 - Allow managers to decide on location and activity
- Policy directions
 - Holistic: Fit with overall economic development
 - Inclusive: Answer to all types of OFDI
 - Not intrusive: Managers know better



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Thank you for your attention and suggestions!