

Firm-specific Characteristics and the Repeated Decision to Invest Abroad

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This paper tests the robustness of previous empirical findings on how firm-specific characteristics (FSCs) affect foreign direct investment (FDI). Previous empirical firm-level FDI studies find that the investing firm's size is positively related to its ability to become a multinational firm and/or its level of foreign investment. In the years that follow, the influence of firm size on investment has proven to be empirically quite robust, regardless the measure of firm size (employment, total assets, total sales) and investment (count of new investment, investment values). In addition, other FSCs such as research and development intensity (R&D) and export ratios have also proven to be significant predictors of a firm's investment levels.

A question emerges, however, as to what exactly these results suggest. Empirical investigations typically examine the FSC-FDI relationship using pooled investment data. As noted by Blömstrom and Lipsey (1991), such results are often ambiguous in that these models cannot distinguish between how FSCs affect the firm's likelihood of becoming a multinational enterprise (MNE) and how they affect the extent to which the firm invests abroad. By pooling investment totals/values, focus is placed on the investment total/value rather than the firm's investment sequence of first deciding whether or not to invest abroad and then, once established as a MNE, deciding whether or not to invest again. As a result, a determination cannot be made as to how FSCs influence the likelihood of becoming a MNE, the extent of its foreign holdings, or how these influences change during the investment process.

This study distinguishes itself from previous FDI research as it empirically investigates how firm-specific investment influences change as firms proceed through their FDI process. More specifically, by separating a firm's investment total into a sequence of individual investment decisions, one can analyze how firm-specific characteristics affect investment likelihood at each stage. This provides a determination of what influences a firm to initially invest abroad, and then once a MNE, the extent to which these same characteristics remain as FDI influences as the firm continues to invest. Combined, the answers to these questions reveal the degree to which one can generalize the FSC-FDI relationship over a firm's entire investment history.

A firm-level panel data set of Japanese FDI into Europe during the period 1970-1994 is used to investigate the FSC-FDI relationship. Empirical analysis is through a proportional hazard model that allows the values of time-varying covariates to be updated throughout the investment sequence. Estimation results indicate that position in the investment sequence does affect how FDI determinants influence investment. For firm size, R&D intensity, and export levels, their affect on investment is shown to vary depending on the firm's place in its investment process. Keiretsu membership, a key aspect of Japanese industrial organization, is found to only significantly impact investment at later investment stages. These results suggest that the firm's position in its investment sequence has a significant impact on future investment decisions, limiting the ability to generalize the FSC-FDI relationship over the firm's entire FDI sequence.

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