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Come Back Home! How Do Home Country and Global Shock Contexts Influence Regional Strategies of Multinationals?

Christoph Czychon, Ulrike Mayrhofer, Manon Meschi, and Alfredo Valentino

ABSTRACT

Drawing on the institution-based view of international business strategy, we investigate the influence of home country and global shock contexts on regional strategies of multinational enterprises (MNEs). The empirical study is based on a longitudinal data set of 57 French and German MNEs (487 firm-year observations) and their geographic distribution of sales. Our findings confirm that home country institutions and global shocks have a significant impact on the regional orientation of MNEs. They also show that the occurrence of a global shock does not mitigate the effects of the home country institutional context on location choices. Our research provides novel insights into the regionalization-globalization debate, which receives particular attention due to the multiplication of global shock events.

KEYWORDS

Multinational enterprise; home country context; global exogenous shock; institution-based view; regionalization; globalization

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Retour aux sources ! Comment les contextes nationaux et de chocs mondiaux influencent-ils les stratégies régionales des multinationales ?

RÉSUMÉ

En nous appuyant sur l'approche institutionnelle de la stratégie d'entreprise internationale, nous étudions l'influence des contextes nationaux et de chocs mondiaux sur les stratégies régionales des entreprises multinationales (EMN). L'étude empirique repose sur un ensemble de données longitudinales portant sur 57 EMN françaises et allemandes (487 observations entreprise-année) et la répartition géographique de leurs ventes. Nos résultats confirment que les institutions nationales et les chocs mondiaux ont un impact significatif sur l'orientation régionale des EMN. Ils montrent également que la survenue d'un choc mondial n'atténue pas les effets du contexte institutionnel national sur les choix de localisation. Notre recherche apporte un éclairage nouveau sur le débat régionalisation-mondialisation, qui suscite un intérêt particulier en raison de la multiplication des chocs mondiaux.

MOTS CLÉS

Entreprise multinationale, contexte national, choc exogène mondial, approche institutionnelle, régionalisation, mondialisation.

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¡Regresa a casa! ¿Cómo influyen los contextos nacionales y de crisis globales en las estrategias regionales de las multinacionales?

RESUMEN

Partiendo de la perspectiva institucional de la estrategia empresarial internacional, investigamos la influencia de los contextos nacionales y de crisis globales en las estrategias regionales de las empresas multinacionales (EMN). El estudio empírico se basa en un conjunto de datos longitudinales de 57 EMN francesas y alemanas (487 observaciones empresa-año) y su distribución geográfica de ventas. Nuestros hallazgos confirman que las instituciones nacionales y las crisis globales tienen un impacto significativo en la orientación regional de las EMN. También demuestran que la ocurrencia de una crisis global no mitiga los efectos del contexto institucional nacional en las decisiones de localización. Nuestra investigación aporta nuevas perspectivas al debate regionalización-globalización, que recibe especial atención debido a la proliferación de crisis globales.

PALABRAS CLAVE

Empresa multinacional, contexto nacional, crisis global exógena, perspectiva institucional, regionalización, globalización.

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Introduction

The impact of globalization on multinational enterprises (MNEs) has received particular attention in international business (IB) literature. MNEs have located their activities across borders and sourced inputs internationally to react to global competitive pressures (Nguyen & Pereira, 2024; Valentino et al., 2022). Previous studies improve our knowledge about regional and global strategies of MNEs, and they have mainly focused on the assessment of the geographic orientation of MNEs based on their revenues (Rosa et al., 2020; Rugman & Verbeke, 2004). Global exogenous shocks such as the global financial crisis and the Covid-19 pandemic have accentuated the risks and costs associated with international expansion (Ciravegna et al., 2023; Oh & Oetzel, 2022). These unpredictable, rare and brutal events lead to radical transformations in the global institutional environment (Delis et al., 2019; Meschi et al., 2026). They have brought back to the forefront the need to investigate the geographic contexts in which MNEs operate (Young et al., 2018). These external contexts are more than just "*backgrounds*" and they are likely to influence internationalization strategies of MNEs (Wan & Hoskisson, 2003). Global shocks create a high level of uncertainty in a wide range of markets and can therefore lead to disruptions in location choices (Chung & Beamish, 2005; Williams & Martinez, 2012).

Extant studies focus primarily on the institutional characteristics of host markets (Chung & Beamish, 2005; Wu et al., 2016) and the distance between home and host countries (Verbeke et al., 2025), but the home country's institutional context has been widely neglected in IB research (Estrin et al., 2016; He & Cui, 2012; Jackson & Deeg, 2019). Home country institutions can be viewed as a critical resource enabling MNEs to develop specific capabilities that will establish a competitive advantage in foreign markets (Cuervo-Cazurra, 2011; Cuervo-Cazurra et al., 2018). Empirical studies often focus on comparisons of home country institutional contexts, by contrasting low- or weak-institutional contexts with high- or strong-institutional contexts in regard to institutional quality, or by considering the perspective of MNEs from emerging markets versus developed countries (He & Cui, 2012; Peng et al., 2008; Wu & Chen, 2014). They highlight the positive effects of a strong institutional context on the ability of firms to develop and efficiently manage the necessary resources and capabilities for their international expansion (Cuervo-Cazurra et al., 2018; He & Cui, 2012). However, few studies examine MNEs originating from the same home region, even if they exhibit diverging internationalization behaviors (Arregle et al., 2016; Czychon, 2020; Wan & Hoskisson, 2003). Institutional contexts bring together a set of formal and informal institutions that shape risk-taking behaviors (Holmes et al., 2013; Young et al., 2018) and internationalization strategies (Cuervo-Cazurra et al., 2018).

To fill these research gaps, we draw on the institution-based view of international business strategy to investigate the effects of these two contingencies, i.e. the home country context and the occurrence of a global shock on the regional orientation of MNEs. We argue that the geographic orientation of MNEs depends on their home country institutional context and the broader international context of uncertainty caused by global shocks (Peng, 2002; Peng et al., 2008). We therefore measure the impact of home country and global shock contexts as well as their interactions on the geographic orientation of MNEs. The empirical study is based on a longitudinal data set of 57 French and German listed MNEs (487 firm-year observations) over the 2005-2015 period.

In the following sections, we will first present the theoretical framework of our study. We will then explain the research methodology and analyze our major findings. The final sections will be dedicated to the discussion and the conclusion.

Theoretical framework and hypothesis development

We will explain the institution-based view of international business strategy and compare the French and German institutional contexts before developing our hypotheses on the effects of home country and global shock contexts on the geographic expansion of MNEs.

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The institution-based view of international business strategy and the geographic expansion of MNEs

According to the institution-based view of international business strategy, strategic orientations, and in particular those related to internationalization, stem from national institutional contexts and from the interactions between such contexts and changes in international markets. North (1990) defines institutions as the "*rules of the game*" which can be broadly classified into (1) formal and (2) informal institutions. Formal institutions refer to regulatory processes that help to define rules, constraints and regulations in which competition, interactions and transactional relationships take place. They include political, judicial, economic and societal aspects of institutions. Informal institutions refer to ethical norms, values and cultural aspects of institutions that can also interfere in transactional activities of firms (Peng et al., 2008). Formal and informal institutions are specific to each country and there exist important institutional differences between the home countries of MNEs (Desreumaux & Hafsi, 2006; Estrin et al., 2016). Much more than simple "*background conditions*", these institutions provide opportunities and constraints, which allow firms to develop competitive advantages that can then be transferred to foreign markets (Peng et al., 2008; Wan & Hoskisson, 2003). They help MNEs to elaborate their strategies by reducing the sources of environmental uncertainty (North, 1990; Young et al., 2018). As described by Ingram and Silverman (2002, p. 18), "*institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy, and to create competitive advantage*".

MNEs can rely on home country institutions to internationalize their activities (He & Cui, 2012; Noorderhaven & Harzing, 2003; Peng et al., 2008). Indeed, the home country can serve as a differentiating resource that allows MNEs to be more or less sensitive to the liability of foreignness (Cuervo-Cazurra, 2011). For example, foreign consumer and government perceptions of the MNE's home country can either facilitate or constrain location choices. Moreover, the institutional home country context can foster the development of specific resources and capabilities that can either be assets or constraints for their internationalization strategies (Arregle et al., 2016; Cuervo-Cazurra et al., 2018). MNEs may select foreign markets based on their ability to effectively mobilize such resources in order to reduce the costs of doing business abroad and the related liability of foreignness, gain a competitive advantage over MNEs from other countries through a better understanding and experience with certain types of institutions or develop a competitive edge over local competitors lacking such resources and capabilities (Cuervo-Cazurra, 2011; Cuervo-Cazurra et al., 2018). García-Canal and Guillén (2008) demonstrate that MNEs originating from highly regulated institutional contexts develop sophisticated resources and capabilities that enable them to meet the expectations and constraints of foreign markets imposed by local governments or highly demanding capital markets, or to stand out in less regulated markets by leveraging these resources to outcompete local firms. This perspective is nuanced by Cuervo-Cazurra and Genc (2008) who show that MNEs from developing countries, i.e. markets with poor institutional quality, need to foster specific capabilities to survive and succeed in their home market, which may be useful for their expansion into the least developed countries, i.e. markets with difficult institutional conditions. Extant literature highlights that the home country institutional context shapes the competitive advantages of MNEs that are transferred abroad (Cuervo-Cazurra, 2011) and influences the capabilities they develop and use for their foreign expansion (Cuervo-Cazurra & Genc, 2008; García-Canal & Guillén, 2008).

Many IB studies highlight the strong regional orientation of MNEs, showing divergences in their propensity to expand more or less globally (Rosa et al., 2020). Institutional differences provide varying incentives that, in turn, influence internationalization decisions. For example, the concept of "regional institutional complexity" suggests that the level of institutional diversity within the region influences the geographic orientation of MNEs (Arregle et al., 2016). The proliferation and diversity of formal and informal institutions with whom MNEs interact can complicate processes, increase transaction costs and heighten uncertainty. This, in turn, can reduce their ability to take risks and to pursue their international expansion (He & Cui, 2012; Wu & Chen, 2014). The institutional characteristics of the MNEs' home country appear to be a contingency that explains their geographic orientation (Holmes et al., 2013).

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Empirical studies comparing institutional contexts focus on differences in institutional quality, contrasting countries with weak or constraining regulations (from emerging or developing countries) and those with strong or supporting regulations (from developed countries) (He & Cui, 2012; Peng et al., 2008; Wu & Chen, 2014). However, studies that highlight strong regionalization trends focus on MNEs from developed countries (Fortune Global 500 ranking), which are characterized by strong institutional arrangements. These disparities lead us to isolate the home country effect from regional affiliation for a more fine-grained analysis of institutional contexts and their related effects on the geographic orientation of MNEs. They may explain divergent internationalization strategies and reflect the ability of MNEs to overcome the liability of inter-regional foreignness (Rugman & Oh, 2013).

Differences between the French and German Institutional contexts

To explain the disparity in internationalization behaviors observed within the same region, we focus on the European Union, which is characterized by significant institutional complexity and diversity (Arregle et al., 2016). We compare two home countries in which a high number of listed MNEs are located and which are representative of institutional differences within the EU region: France and Germany.

Institutional differences involve three types of formal institutions described by North (1990): political, regulatory and economic institutions. These formal institutions present mechanisms that foster stability, market efficiency and information transparency (Makhija & Stewart, 2002; Young et al., 2018). Stability-enhancing institutions govern business activities through rule-setting, controls and sanctions, facilitating market transactions and efficiency by reducing environmental uncertainty (Arregle et al., 2016). In addition, stability-enhancing institutions ensure transparency and predictability in the regulatory and political framework, with clearly codified regulations enforced by government agencies. In such contexts, transaction costs are lowered, leading to increased market efficiency (Peng et al., 2008). Furthermore, stability-enhancing institutions ensure the monitoring and stability of economic and financial indicators, which enhances the quality and predictability of available funding and capital (North, 1990). This allows MNEs to seize more market opportunities through international expansion strategies. Several indicators can be associated with stability-enhancing institutions, notably the effectiveness of the legislative and judicial systems, the enforcement of laws such as intellectual property rights, the consistency of tax regulations that predict investment returns and the government's role in tax regulation, and the control and maintenance of economic and financial indicators such as interest rate stability and the availability of financial capital (North, 1990). All these indicators contribute to reducing uncertainty and improving risk assessment (Young et al., 2018). In return, they lower transaction costs and facilitate international risk-taking and the pursuit of more market opportunities through international expansion strategies.

In line with various indicators of institutional stability, Germany is characterized by the high efficiency of its legislative and judicial systems. For example, the strong impartiality of the judiciary in resolving disputes for companies and challenging the legality of government actions, along with the enforcement and respect of contracts and property rights, contribute to stability-enhancing institutions. Similarly, Germany is noted in Europe for the high transparency of its tax system, with strong tax compliance and significant state investment, which leads to the maintenance of economic stability. The German context is marked by federal and decentralized institutions, which provide stronger regulatory efficiency as well as legal and political adaptability and predictability. In contrast, France is characterized by stronger administrative and fiscal constraints due to higher bureaucratization and centralization of power and institutions. According to institutional stability indicators, the stronger opacity of the French legal and judicial system and the regulatory burden on companies reduce market efficiency and investor confidence (Buigues & Lacoste, 2016; Ruscigno & Mayrhofer, 2025; Ziegler, 1995).

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In addition to these indicators, informal institutions provide complementary explanations for the differences between the French and German contexts. To understand the informal institutional diversity of countries within the same region, IB scholars often rely on Hofstede et al.'s (2010) cultural dimensions (Arregle et al., 2016; Holmes et al., 2013). Two dimensions are particularly relevant for characterizing internationalization decisions of MNEs: power distance and uncertainty avoidance (Noorderhaven & Harzing, 2003). Power distance relates to preferences regarding the distribution of authority within a society and organizations, while uncertainty avoidance refers to how individuals and society handle uncertainty. Looking at Hofstede et al.'s (2010) indices, we can note that the two countries present significant differences, with France scoring higher on both dimensions compared to other EU countries. France is characterized as a culture with high power distance, reflected in the centralized arrangement of institutions and decision-making. This power distance also manifests in organizations through stronger hierarchical structures. Similarly, France is characterized by high uncertainty avoidance, among the highest in Europe, which results in a proliferation of laws and regulations to manage uncertainty and maintain strict control (d'Iribarne et al., 2020). In contrast to the more pyramidal organization in France, there is a more instrumental and mechanistic view of the organization in Germany that ensures information transparency and better risk assessment. Indeed, Germany is among the European cultures with the lowest power distance, complementing its highly decentralized approach to power and institutions with a federal state configuration. Combined with low uncertainty avoidance, this low power distance is also evident in organizations with a culture of direct and participative communication and more distributed control and leadership based on experience and expertise rather than hierarchical positions (Barmeyer et al., 2026; Hall & Hall, 2000).

What is the impact of home country institutional and global shock contexts on the geographic orientation of MNEs?

In this paper, we argue that the home country institutional context influences the geographic orientation of MNEs. Indeed, both formal and informal institutions of the home country are likely to shape the competitive advantages of MNEs (Cuervo-Cazurra, 2011) and their capabilities to expand into foreign markets (García-Canal & Guillén, 2008). Companies typically learn in their home country how to develop relationships with external stakeholders, which then determines the way they deal with formal and informal institutions in the host countries and the level of costs associated with the coordination of foreign operations (Cuervo-Cazurra & Genc, 2008). German MNEs benefit from a stable institutional home country context marked by information transparency and home-market efficiency, which help to develop and transfer competitive advantages, to quantify and mitigate the risks linked to internationalization opportunities, and to engage in relationships with foreign stakeholders (Young et al., 2018). In addition, the low levels of power distance and uncertainty avoidance that characterize the German culture (Hofstede et al., 2010) should facilitate their expansion at the global scale and limit the coordination costs associated with foreign operations. Conversely, French MNEs operate in a less stable institutional context that offers less support to develop and transfer competitive advantages, and to engage in relationships with foreign stakeholders due to stronger administrative and fiscal constraints (Buigues & Lacoste, 2016; Ruscigno & Mayrhofer, 2025; Ziegler, 1995). Moreover, the centralization of authority and the high uncertainty avoidance exert a strong downward influence on headquarters-subsidiaries relationships (Noorderhaven & Harzing, 2003; Sartorius-Khalapsina, 2024). They are likely to limit the global expansion of French MNEs and to increase the coordination costs associated with foreign operations, thus the following hypothesis.

Hypothesis 1: An unstable home country institutional context is likely to increase the home-region orientation of companies, making French MNEs less globally oriented than German MNEs.

Global exogenous shocks create a climate of strong environmental uncertainty and they disrupt established organizational structures, strategies, procedures, relationships, norms and belief systems (Meschi et al., 2026; Williams & Martinez, 2012). MNEs are strongly affected by global shock events (Chung & Beamish, 2005; Williams & Martinez,

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2012), and it is therefore necessary to investigate the direct and moderating effects of such events on their internationalization strategies. Global shocks are likely to affect multiple regions, including the firm's home market (Chalençon et al., 2023; Ciravegna et al., 2023). This contrasts with shocks that have more localized direct consequences, such as natural disasters, industrial accidents or terrorist attacks (Dai et al., 2013; Oh & Oetzel, 2022). The strategic responses of MNEs range from defensive strategies, such as exiting or reducing expansion in the affected markets to more offensive strategies, such as maintaining or redeploying operations in the affected markets or to other markets (Chung & Beamish, 2005; Dai et al., 2013). The regional or even local scope of such shocks can explain diverging strategic responses (Oh & Oetzel, 2022; Williams & Martinez, 2012).

Global shock events are disruptive for internationalization strategies across regions (Ciravegna et al., 2023; Delis et al., 2019) and MNEs are particularly exposed to these "*rules of the game*" changes (Peng et al., 2008). In addition, this high level of uncertainty leads to increased transaction costs for MNEs (North, 1990), because of tighter credit and lending conditions, the rise of protectionism barriers, a widespread economic recession as well as an increasing risk aversion of investors (Chung & Beamish, 2005; Williams & Martinez, 2012). This affects the costs of international trade, the search and assessment of foreign market entries, and increases coordination and management costs associated with international expansion strategies (Delis et al., 2019; Yu & Lindsay, 2016). Global shock contexts are likely to affect MNE performance and put pressure on their revenues, which can push them to adjust their resource allocation towards foreign markets. Their responses to global shocks are often driven by efficiency needs and safety measures (Fainshmidt et al., 2017; Williams & Martinez, 2012).

The geographic dispersion of MNEs and the distance between home and host countries increase their exposure to international risks (Verbeke et al., 2025), in particular during global shock contexts (Williams & Martinez, 2012). The higher institutional complexity may lead MNEs to reassess their geographic orientation and consider reshoring strategies towards their home region (Delis et al., 2019). Indeed, in times of global shocks, the home region is considered less risky due to its familiarity and the reduced liability of inter-regional foreignness. Similarly, the home region is also perceived as more attractive because wage costs may decrease due to slackened labor markets (Delis et al., 2019). The appeal of the home region is further enhanced by the significant decline of demand in foreign markets (Yu & Lindsay, 2016). Finally, when global shocks impact multiple regions, refocusing strategies on the home region is not merely a defensive choice but also a strategic marketing decision. It becomes popular to strengthen the commitment to the home region in order to demonstrate the MNE's contribution to national and regional economies during periods of severe recession (Delis et al., 2019). Due to the conditions of environmental uncertainty and institutional changes, which are particularly high during global shock contexts, we can expect that MNEs are more likely to refocus on their home region, i.e. well-known and safe markets. We can thus formulate the following hypothesis:

Hypothesis 2: The occurrence of a global exogenous shock is likely to increase the home-region orientation of French and German MNEs.

The geographic orientation of MNEs reflects their home country institutional context, which is embedded in the broader international environment (Peng, 2002; Peng et al., 2008). Under normal conditions or during localized shocks, stable home-country institutions provide resources and capabilities that enable MNEs to take greater risks by reassessing their strategy in the affected markets while sustaining international expansion (Dai et al., 2013). However, when a global exogenous shock occurs, MNEs face systemic uncertainty that simultaneously disrupts multiple markets and regions, thereby weakening the influence of home-country institutions on their geographic orientation.

Global shocks constrain the stabilizing and legitimizing capacity of home-country institutions (Oh & Oetzel, 2022). Although governments may adopt supportive measures such as bailouts or regional trade diplomacy (Chung & Beamish, 2005), these initiatives primarily target domestic or regional economic recovery. Moreover, as crises become global and synchronized, the distinctiveness of home-country institutional contexts becomes less salient, thereby

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reducing the relative advantages of firms from stable home-country institutions (Oh & Oetzel, 2022). At the same time, heterogeneous national policy responses to the same global shock increase regulatory divergences, raising compliance costs and strategic complexity for MNEs operating across diverse institutional settings (Meyer & Li, 2022). Consequently, the likelihood of the home-country institutional context to sustain the global orientation of MNEs weakens under systemic uncertainty. Furthermore, global shocks exacerbate the liabilities of foreignness (Meyer et al., 2020), making distant and institutionally dissimilar markets more costly and risky (Cuervo-Cazurra & Genc, 2008; Johanson & Vahlne, 2009). To mitigate uncertainty, MNEs reallocate resources toward their home region, where institutional familiarity and reduced inter-regional liabilities provide relative safety (Delis et al., 2019; Rosa et al., 2020; Rugman & Oh, 2013). Although home-country institutions continue to provide stability and legitimacy, their influence operates indirectly by anchoring firms regionally rather than fostering global strategies.

Together, these mechanisms explain the moderating role of global shocks in constraining home-country institutional effectiveness, homogenizing uncertainty across countries and pushing firms toward defensive, regionally concentrated strategies. Global exogenous shocks should mitigate the effect of home-country institutions on the geographic orientation of MNEs, hence the following hypothesis:

Hypothesis 3: A global exogenous shock is likely to mitigate the effect of the home country institutional context on the geographic orientation of French and German MNEs.

Figure 1 presents the research model, which depicts the relationship between home-country institutional contexts, global exogenous shocks and the geographic orientation of MNEs, highlighting the moderating role of global shocks in this relationship.

Insert figure 1 here

Methodology

We will present the data collection process and our longitudinal data set of 57 French and German MNEs (487 firm-year observations) before explaining our measurements and estimations.

Data collection and sample

To test our hypotheses, we built a longitudinal sample with firm-level data that covers the period 2005-2015. The choice of this timeframe is motivated by our intention to cover the global financial crisis of 2007-2009 as well as to consider the period before and after this crisis. During the global financial crisis, large financial institutions collapsed in developed countries, and many governments were forced to bail out their financial institutions and to establish new norms, rules and regulations in order to stabilize economic systems and financial markets (Williams & Martinez, 2012). The global financial crisis is particularly representative of the strong institutional destabilization in major national economies and global scale repercussions. This climate of strong environmental uncertainty in foreign markets, combined with the heterogeneity of national contexts and institutional changes caused by the global shock, are likely to influence location choices of MNEs (Young et al., 2018). Prior to the Covid-19 pandemic, the global financial crisis was considered as the most important economic crisis since the Great Depression of the 1930s. The bankruptcy of Lehman Brothers and the subsequent international banking crisis severely hit the world economy and thus MNE activities (Hmaittane et al., 2021). The choice of 2005 as a starting point was prompted by the intensification of academic debates on regionalization and globalization (Rugman, 2005).

For the sample selection, we accomplished three main steps. First, following Rugman and Verbeke (2004), we created a list of French and German firms included in the Fortune Global 500 list, which comprises the world's largest

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500 multinationals. Second, we removed from this list firms that merged or were acquired, since mergers-acquisitions often alter the home country institutional context of MNEs, and firms that were not listed permanently during our timeframe so that we could collect data over the 2005-2015 period for all our sample firms. Third, for the final sample selection and to control for possible fluctuations, we compared the Fortune Global 500 list with two European stock market indices, namely CAC40 and DAX30, to have a more reliable set of MNEs and to create a balanced firm sample. These three steps allowed us to select our final sample, which is composed of 57 French and German listed MNEs. All the firm-level data used for our empirical study was collected by the authors based on the annual reports of the selected firms over the 2005-2015 period. This approach provides a rich data set on the largest French and German multinationals, with 487 firm-year observations (Czychon, 2020).

As shown by Rugman (2005), European MNEs are less home-region oriented than their US counterparts. The French and German institutional contexts are highly representative of formal and informal institutional differences in the European region (Barmeyer et al., 2026; Hofstede et al., 2010; Ziegler, 1995). We rely on the Fraser Index of Economic Freedom of the World database, which is often used in IB studies (Arregle et al., 2016; Holmes et al., 2013) and which allows to compare formal institutional contexts based on Gwartney et al. (1997): (1) "*Legal system and property rights*", which include legal and governmental sub-indices such as judicial independence, impartiality of the justice system, respect for property rights, integrity of the legal system and contract enforcement; (2) "*Size of government*", which includes governmental and fiscal indicators such as government investment in the private sector and the taxation system; (3) "*Business regulations*", which assesses the regulatory and administrative burden on companies such as bureaucracy costs, tax compliance or the degree of regulatory restrictions. These indicators show important institutional differences, with average scores of 7.70 vs. 8.53 for "*Legal system and property rights*", 5.4 vs. 6.29 for "*Size of government*" and 6.17 vs. 7.03 for "*Business regulations*", for France and Germany respectively.

In line with previous studies (Arregle et al., 2016; Noorderhaven & Harzing, 2003), we chose the following two informal institutional indicators: power distance and uncertainty avoidance. These indicators show little variation over time and are therefore pertinent to be used as fixed scores (Holmes et al., 2013). They also reveal significant differences, with the scores of 68 vs. 35 for power distance and the scores of 86 vs. 65 for uncertainty avoidance, for France and Germany respectively. We also compared these scores to the average scores of European Union countries, which are 53 for power distance and 73 for uncertainty avoidance. These differences show that France is well above both the German and European averages for both dimensions, indicating a more concentrated and hierarchical power structure as well as a higher aversion to risk and uncertainty.

We collected firm-level data through secondary data sets from Thomson Reuters Eikon and Datastream, and then verified, edited and corrected the raw data by accessing more than 1,550 archival data such as annual reports, financial statements (and restatements) and corporate documents.

Measures

The dependent variable is *Home-region* orientation versus *Global orientation*. In line with previous studies, we measure this variable by the percentage of sales in EMEA (Europe Middle East and Africa) in respect to total sales (Rugman, 2005; Rugman & Verbeke, 2004). It is important to note that European MNEs often use the EMEA region for reporting the geographic distribution of their sales even if their sales in the Middle East and Africa remain marginal in comparison to their sales in Europe.

The two independent variables are *MNE home country* and *Global exogenous shock*. The first independent variable, *MNE home country*, considers the country in which MNEs are headquartered. It is operationalized as a dichotomous variable that takes value 1 for firms headquartered in France and 0 for firms headquartered in Germany. France is considered as a less stable institutional context than Germany (Young et al., 2018). The second independent variable,

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Global exogenous shock, is operationalized as a dichotomous variable, which takes the value 1 for the years affected by the global financial crisis and 0 otherwise. Europe faced the global financial crisis between 2008 and 2009 (Williams & Martinez, 2012). This period corresponds to the economic and trade recession that affected all regions of the world. Figure 2 illustrates this period of economic and trade contraction in relation to the global financial crisis. We also consider this variable as a moderating variable of the main relation between *MNE home country* and *Home-region orientation*.

To control for alternative explanations, we include several control variables. First, we control for the percentage of employees in the three main economic regions (EMEA, Asia and Americas) in which European MNEs spread their international activities. We create three control variables (*Employees in EMEA*, *Employees in Asia and Employees in the Americas*). These ratios allow to estimate the employee distribution among the three regions (Rugman & Verbeke, 2004). Second, we control for the industry. Since the majority of French and German MNEs operate in service and manufacturing industries, we operationalize this variable as a dichotomous variable that takes values 1 for service industries and 0 for manufacturing industries. Third, we control for *Firm age* as a proxy for business experience (measured using the log value), which is considered as a determinant of internationalization (Majocchi et al., 2005). Similarly, we include *Firm performance* as a control variable, measured by the *Return on Assets* ratio, which is calculated as the net income divided by total assets. It is an indicator of the firm's ability to mobilize more resources that facilitate internationalization (Jung & Bansal, 2009). Finally, we control for the *Board size*, measured by the log value of the number of executive managers. This variable captures the firm's size and the diversity of managerial expertise within the board composition, enhancing its capacity to support strategic decisions that involve higher levels of risk-taking, which are often linked to internationalization (Sherman et al., 1998).

Insert figure 2 here

Estimations

We apply a regression-panel methodology to test the direct effect of a global shock on the geographic orientation of MNEs. Before running our analysis, we check for multicollinearity. Table 1 reports the correlation matrix and the summary statistics for the variables used. Following Mela and Kopalle (2002), we take 0.7 as a threshold for the harmful effect of multicollinearity. The correlation matrix reports a low correlation among variables, showing that the data-set does not suffer from multicollinearity issues. The highest pair-wise is between *Home-region orientation* and *Employees in EMEA*, but still below the threshold value. To confirm the absence of multicollinearity, we run the variance inflation factor (VIF). The VIF confirms this result, with each variable lying below the critical threshold of 10 (O'Brien, 2007) and the tolerance rate that does not fall below 0.1 (Hair et al., 2006).

Insert table 1 here

Then, we run the Breusch and Pagan Lagrange multiplier test and the Hausman test to select the right model for our study between a pooled OLS model, a fixed-effects-regression model and a random-effects-regression model. These tests suggest the use of a random-effects-regression model. This result is in line with our research model, where we have time-invariant variables such as *Global exogenous shock*, which is our independent variable, and we cannot consider it as constant. Thus, we adopted a random-effects-regression model to test our hypotheses. The statistical model of our panel regression is as follows:

$$Home - region\ orientation_{it} = \beta_0 + \beta_1 TA_{it-1} + \beta_n r_{in} + \epsilon_{it}$$

Where *Home-region orientation*$_{it}$ indicates the EMEA sales share of each MNE in our sample at year *t*, *TA*$_{it-1}$ denotes our independent variables and r_{in} is a vector for control variables. In our models, control variables are one-year lagged.

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Results

In Table 2, Model 1 displays only the control variables, Model 2 contains the full model with all the variables and Model 3 reports the moderation effect.

Insert table 2 here

In Hypothesis 1, we posit that the home country context influences the *Home-region orientation* of MNEs. As shown in Table 2, Model 2, the coefficient of *MNE home country* is positive and significant with a *p*-value lower than 5%. The results show that French MNEs, which operate in a less stable institutional context, are more home-region oriented than German MNEs, which benefit from a more stable institutional context. Thus, our Hypothesis 1 is supported.

In Hypothesis 2, we argue that, in global shock contexts, MNEs are more home-region oriented than globally oriented. As shown in Table 2, Model 2, the coefficient of *Global exogenous shock* is positive and significant with a *p*-value below 1%. Thus, Hypothesis 2 is also validated.

In Hypothesis 3, we predict the moderating effect of the *Global exogenous shock* on the main relation between *MNE home country* and *Home-region orientation*. Specifically, we posit that the occurrence of a global exogenous shock mitigates the effect of the home country institutional context on the geographic orientation of MNEs. Table 2, Model 3, indicates that the corresponding coefficient of the moderation variable is negative and not significant. Thus, we can conclude that Hypothesis 3 is rejected.

An examination of the control variables reveals the following picture. The impact of *Employees in Asia* and *Employees in Americas* are both negative and significant at the 1% confidence level, while the impact of *Employees in EMEA* is positive and significant at 1%. These results are consistent with previous studies. Finally, the impact of *Industry* is negative and significant at the 10% confidence level, showing that MNEs in service industries are less home region oriented than MNEs in manufacturing industries.

Robustness tests

We included robustness tests on our results. First, regarding the independent variable measuring the onset of the global financial crisis, we also considered an extended period of the crisis corresponding to the years 2007-2009. We coded the value 1 for the crisis years (2007-2009) and 0 for the other years in the sample, allowing us to model the years before and after the crisis. Second, we checked for endogeneity concerns in our models. We checked for reverse causality and confirmed that our models and results are not affected by reverse causality concerns. Additionally, we used lagged values of explanatory variables to further mitigate reverse causality. We employed panel data, which helps to address endogeneity concerns. Furthermore, we applied a two-stage least squares (2SLS) estimation procedure with instrumental variables (Wooldridge, 2010). A valid instrumental variable should be correlated with the suspected endogenous variable (in our case, *MNE home country*) but uncorrelated with the dependent variable (*Home-region orientation*) and the error term. We selected two instrumental variables, specifically “rule of law” and “property and contract rights”, which explain the endogenous variable (i.e. *MNE home country*). These institutional variables differentiate the home countries (France and Germany) as suggested by Young et al. (2018). Specifically, they capture the effectiveness of law and governance, as well as the efficiency and transparency of legislative and judicial systems. We conducted a comprehensive set of diagnostic tests to assess the validity and strength of the instruments used in the IV specifications. In the baseline random-effects IV model, the Sargan–Hansen test does not reject the joint validity of the instruments. A fixed-effects IV specification with year dummies (*xtivreg2*) yields consistent results, with a Hansen J statistic ($\chi^2(2)=2.67$, $p=0.26$) again supporting instrument exogeneity. In the pooled IV specification with year dummies (*ivreg2*), we further examine weak-instrument–robust diagnostics. The first-stage regression confirms that the excluded

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instruments are highly relevant ($F(2,56)=17,381$, $p<0.001$, with substantial partial R^2). The Kleibergen–Paap rk LM test rejects under-identification ($\chi^2(2)=25.36$, $p<0.001$), while the Kleibergen–Paap rk Wald F statistic (17,381) far exceeds the Stock–Yogo critical value of 19.93 at the 10% maximal IV size, indicating that weak identification is not a concern. The Anderson–Rubin test does not reject the null hypothesis ($p=0.13$), and the Hansen J statistic ($\chi^2(1)=0.44$, $p=0.51$) further corroborates the joint validity and exogeneity of the instruments. Additionally, the Durbin–Wu–Hausman test, which examines whether the potentially endogenous regressor is in fact endogenous, is not significant ($\chi^2(1)=1.60$, $p=0.21$). Therefore, we cannot reject the null hypothesis of exogeneity, suggesting that endogeneity concerns are not driving the main results. Overall, these diagnostics provide strong evidence that the instruments are both relevant and exogenous, and that the IV estimates are robust to concerns about weak or invalid instruments. Based on these tests (Table 3), we conclude that endogeneity is not a significant concern in our models, and our results support the robustness of the main models. Finally, we replace the binary crisis dummy (2008–2009) with a continuous global macroeconomic indicator: annual world GDP growth. The results show that world GDP growth enters significantly and with a negative sign (–0.005, $p<0.001$) (see table 4), indicating that stronger global growth is associated with a reduction of sales in the home region. Conversely, global slowdowns or recessions (e.g. 2008–2009) coincide with higher values of sales in the home region. This continuous specification allows us to capture not only the presence but also the intensity and persistence of global economic shocks.

Insert table 3 here

Discussion

Drawing on a rich longitudinal data set, our findings provide context-specific insights into the regionalization–globalization debate by examining French and German listed multinational enterprises operating in relatively stable European institutional environments over time. Our findings highlight the dual role of home country institutions in internationalization decisions. Home country institutions serve as a critical resource that enables MNEs to differentiate themselves in foreign markets and to reduce their liability of foreignness but they can also facilitate the development of distinctive capabilities that contribute to a sustainable competitive advantage abroad (Cuervo-Cazurra, 2011; Cuervo-Cazurra et al., 2018). By shedding light on this underexplored perspective, our research enriches the academic discourse on how firms leverage institutional frameworks in their home country to navigate in international markets when facing global shock contexts.

Our study, which focuses on the geographic orientation of French and German MNEs during the global financial crisis, offers several theoretical contributions.

First, our findings confirm that the home country institutional environment plays a significant role in shaping the geographic orientation of French and German MNEs. They highlight that market efficiency, information transparency, risk assessment and competitive advantages developed in a stable institutional context (Cuervo-Cazurra, 2011) foster internationalization strategies (Cuervo-Cazurra et al., 2018). In particular, French MNEs appear to be more home-region oriented than their German counterparts which achieve a higher global sales orientation. The trend identified by Rosa et al. (2020) that *Fortune Global 500* firms have become more global during the recent period may thus primarily concern MNEs from stable home country contexts. Our findings suggest that studies on regionalization and globalization should pay more attention to formal and informal institutions, particularly when examining MNEs originating from relatively stable market economies, which have been widely neglected in previous literature (Nguyen & Pereira, 2024).

Second, our research sheds new light on the effects of the global financial crisis on the geographic orientation of MNEs. The analysis of our data confirms that the occurrence of this global shock is associated with a stronger home-region orientation of French and German MNEs. Our findings suggest that such contexts, which are marked by strong

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institutional changes and uncertainties (Oh & Oetzel, 2022), push French and German MNEs to fall back on well-known and safer markets by refocusing on their home region. They seem to use their network of subsidiaries and adapt their resource allocation to foreign markets in turbulent times (Fainshmidt et al., 2017). During the global financial crisis, French and German MNEs decide to maintain or expand their activities in their home region while contracting their operations in other geographic regions. We focused on the direct and moderating effects of this external event on the interactions between institutions and strategic orientations at the firm-level (Peng et al., 2008; Young et al., 2018). Our findings indicate that the global financial crisis does not mitigate the impact of the home country institutional context on the geographic orientation of French and German MNEs. They suggest that competitive advantages developed in a stable home country institutional context do not modify location choices during this global crisis. This finding may be specific to French and German MNEs and to the global financial crisis, which hit MNE operations worldwide. Accordingly, these results highlight the importance of considering institutional and shock-related contexts when interpreting location decisions of MNEs.

Third, we enrich the institution-based view of international business strategy by proposing to incorporate the occurrence of a global shock as a reflection of institutional changes and strong disruptions of the "*rules of the game*". Exogenous shocks such as the global financial crisis play a disruptive role in the stability of the global business environment (Chung & Beamish, 2005; Williams & Martinez, 2012). These external events should be considered by the institution-based view of international business strategy since they are characterized by environmental uncertainty. They increase transaction costs and risk perceptions while highlighting institutional dysfunctions and deficiencies in foreign markets. Our findings underscore the significance of the institution-based view of international business strategy in shaping location choices of French and German MNEs (Peng, 2002; Peng et al., 2008). They contribute to a better understanding of the way home country institutional and global shock contexts influence internationalization strategies (Cuervo-Cazurra, 2011; Estrin et al., 2016; He & Cui, 2012).

Conclusion

Drawing on the institution-based view of international business strategy, our study offers novel insights into the effects of home country and global shock contexts on the geographic orientation of French and German MNEs. The comparison of their location choices during the global financial crisis shows how their home country institutions can influence their internationalization strategies. Surprisingly, the occurrence of a global shock does not mitigate the effects of the home country institutional context on geographic choices of French and German MNEs. We contribute to the regionalization-globalization debate, which receives particular attention due to the multiplication of global shock events (Meschi et al., 2026; Verbeke et al., 2025).

Our research presents several limitations and research perspectives. It seems necessary to examine the structural differences between France and Germany while also considering industry effects. Future research could explore whether similar mechanisms emerge in different institutional settings. It could be interesting to consider MNEs from other European countries, which exhibit different institutional characteristics leading to divergent location choices (Peng et al., 2008). Moreover, our study focuses on the global financial crisis as a representative example of global exogenous shocks. We suggest conducting empirical studies to compare strategic reactions to other global shocks, such as the Covid-19 pandemic. Finally, it would be relevant to further investigate the relationship between formal and informal home country institutions and exogenous shock contexts.

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Figures and tables

Figures

Figure 1. Research model

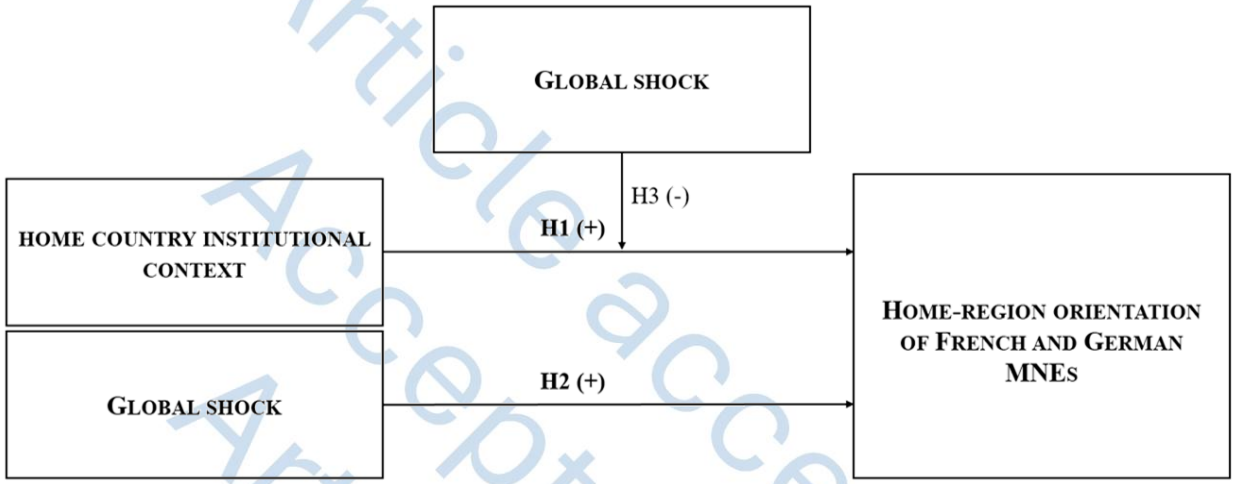
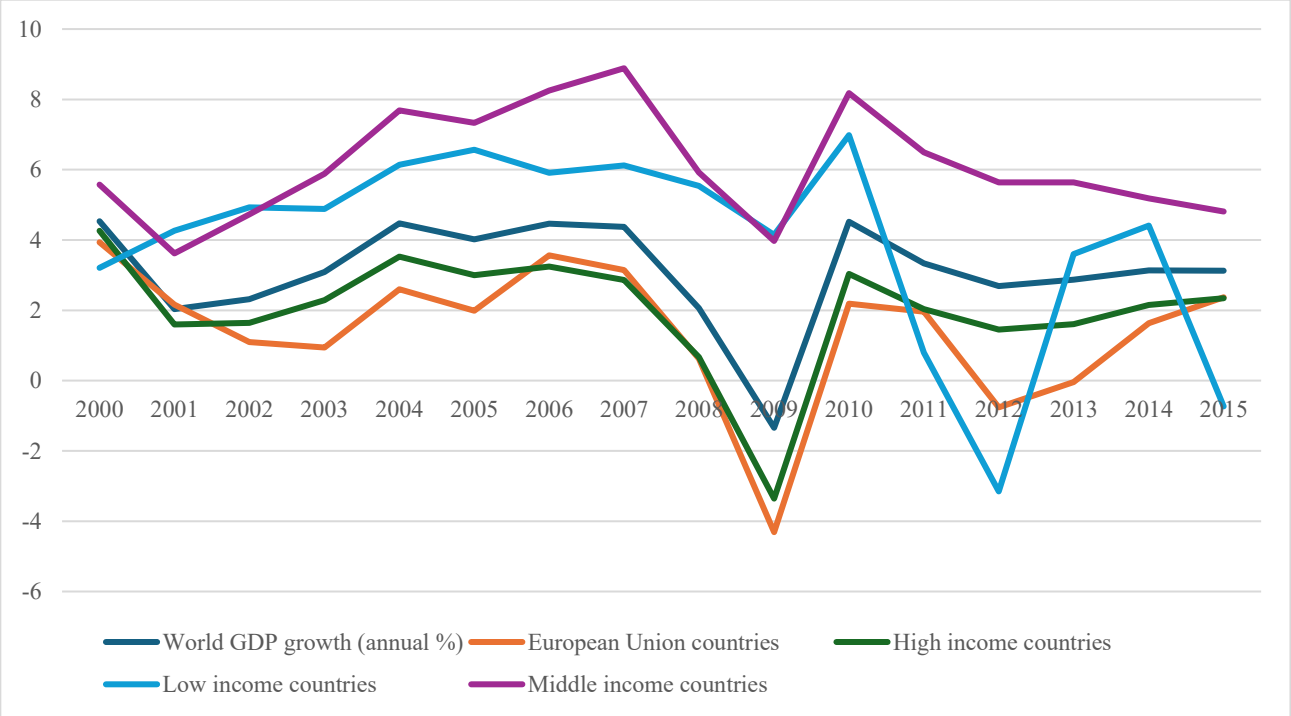


Figure 2. Trends in annual GDP growth (in percentage)



Source: World Bank Database

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Tables

Table 1. Correlation matrix and summary statistics

	1	2	3	4	5	6	7	8	9	10
1. Home-region orientation	1									
2. MNE home country	0.104***	1								
3. Global financial crisis	0.087***	-0.000	1							
4. Employees in EMEA	0.631***	-0.038	-0.009	1						
5. Employees in Asia	-0.489***	0.122***	-0.046	-0.507***	1					
6. Employees in the Americas	-0.618***	-0.051	-0.021	-0.530***	0.173***	1				
7. Industry	-0.152***	-0.050	-0.000	-0.028	-0.008	-0.016	1			
8. CEO duality	0.093**	-0.351***	0.000	0.042	-0.156***	-0.031	-0.019	1		
9. Firm age	0.032	0.019	-0.023	-0.063*	-0.019	-0.081**	0.313***	0.144***	1	
10. Firm performance	-0.160***	0.003	-0.113***	-0.177***	0.168***	0.232***	0.039	-0.038	0.050	
Mean	0.60	0.61	0.18	0.62	0.15	0.18	0.60	1.90	1.64	0.04
Std. Dev	0.18	0.49	0.38	0.20	0.11	0.12	0.48	0.45	0.44	0.06
Min	0.24	0	0	0	0	0	0	0	0	-0.44
Max	1	1	1	1	0.53	0.75	1	1	2.54	0.49

Notes: *,** and *** denote significance at the 10%, 5% and 1% level.

Table 2. Results of the panel regression model

	Model 1 Only controls	Model 2 Full model	Model 3 Full model with moderation
Main effects			
H1: MNE home country		0.148** (0.063)	0.087** (0.040)
H2: Global financial crisis		0.042*** (0.005)	0.042*** (0.006)
Moderation			
H3: MNE home country* Global financial crisis			0.001 (0.010)
Controls			
Employees in EMEA	0.136*** (0.057)	0.144*** (0.051)	0.142*** (0.051)
Employees in Asia	-0.364** (0.159)	-0.332** (0.150)	-0.326** (0.150)
Employees in the Americas	-0.449*** (0.130)	-0.462*** (0.136)	-0.461*** (0.137)
Industry	-0.025 (0.039)	-0.025 (0.038)	-0.028 (0.038)
CEO duality	0.110 (0.074)	0.191*** (0.074)	0.153** (0.070)
Firm age	-0.082*** (0.030)	-0.062** (0.032)	-0.060** (0.031)
Firm performance	0.035 (0.044)	0.019 (0.041)	0.018 (0.041)
Constant	0.577*** (0.171)	0.277 (0.175)	0.388** (0.165)
N. of obs.	487	487	487
R-sq	0.53	0.57	0.62

Notes : *,** and *** denote significance at the 10%, 5% and 1% level.
Robust standard errors are in parentheses*

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Table 3. Instrument validity and diagnostic tests

Test	Statistic	p-value	Interpretation
First-stage F (relevance)	17,381	0.000	Instruments strongly correlated with endogenous regressor
Kleibergen–Paap rk LM	25.36	0.000	Rejects underidentification
Kleibergen–Paap rk Wald F	17,381	–	Far above Stock–Yogo 10% threshold (19.93)
Anderson–Rubin	$F(2,56)=2.08$ / $\chi^2(2)=4.39$	0.13 / 0.11	Cannot reject joint validity
Hansen J (overidentification)	$\chi^2(1)=0.44$	0.51	Instruments exogenous
Sargan–Hansen (RE model)	$\chi^2(1)=2.39$	0.12	Instruments valid
Durbin–Wu–Hausman	$\chi^2(1)=1.60$	0.205	Cannot reject exogeneity

Notes: Instruments = rule of law and property and contract rights. All tests use cluster-robust standard errors at the firm (id) level. The large first-stage F-statistic and high Kleibergen–Paap statistics confirm instrument relevance; Hansen J and DWH tests support instrument exogeneity.

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Table 4. Results with global financial crisis measured with world GDP growth

	Model 1	Model 2
H1: MNE home country	0.091**	0.092**
	(0.040)	(0.039)
H2: Global financial crisis	-0.005***	-0.005***
	(0.001)	(0.001)
H3: MNE home country* Global financial crisis		-0.000
		(0.002)
Employees in EMEA	0.146***	0.147***
	(0.056)	(0.056)
Employees in the Americas	-0.472***	-0.474***
	(0.129)	(0.129)
Employees in Asia	-0.385**	-0.387**
	(0.152)	(0.151)
Industry	-0.021	-0.022
	(0.038)	(0.038)
Firm age	-0.086***	-0.084***
	(0.031)	(0.031)
Firm performance	0.047	0.047
	(0.065)	(0.065)
CEO duality	0.157**	0.155**
	(0.072)	(0.072)
Constant	0.449***	0.449***
	(0.165)	(0.164)
Observations	487	487
R-sq	0.57	0.56

Notes : *,** and *** denote significance at the 10%, 5% and 1% level.

Robust standard errors are in parentheses.

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