Performance Effects of “Added Cultural Distance” in the Path of International Expansion: The Case of German Multinational Enterprises

This paper contributes to the debate on the performance impact of “added cultural distance” in the multinational enterprise’s (MNE’s) expansion path. Our research focuses on the ability of MNEs to handle complexity associated with added cultural distance in international expansion, and on the effect this may have on profitability. We hypothesise that firms that make expansion moves involving a high level of added cultural distance per unit of time, and those that expand in culturally distant countries in an irregular fashion, that is, with a higher variability, will be less profitable. We test these hypothesised relationships using detailed data on 2404 expansion moves undertaken by our panel of 91 German MNEs, whose expansion paths we tracked during periods ranging between 5 and 20 years.