

Does Tobin's q Matter for Firms' Choices of Globalization Mode?

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Abstract

In this paper, we investigate empirically how firms' choices of globalization mode differ according to their productivity and Tobin's q using firm-level data of Japanese firms. Our findings support predictions by Helpman, Melitz, and Yeaple (2004) and by Chen, Horstmann, and Markusen (2008). That is, we find that firms with higher productivity tend to choose more foreign direct investment (FDI) and less exporting. We also find that firms with higher Tobin's q tend to choose more FDI and less foreign outsourcing of production. The difference in productivity is relatively less important for the choice between FDI and foreign outsourcing, and the difference in Tobin's q is relatively less important for the choice between exporting and FDI. Because the indexes of globalization activities have a strong negatively skewed distribution, our results indicate that quantile regression would be appropriate to analyze the relationship between firm characteristics and choice of globalization mode.

Keywords: FDI; foreign outsourcing; export; Tobin's q ; quantile regression.

JEL classification: F10; F23; D22; L22.

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