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Publishing in the Multinational Finance Journal, Part 4: Drafting the Hypotheses

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Abstract.

The last of four editorials written to mark the thirtieth volume of the Multinational Finance Journal concerns the development of hypotheses. Following Leventis (2025), I discuss the three elements that a convincing hypothesis needs, namely the theory that provides the mechanism, the prior evidence that shows the question to be open, and the institutional setting that determines where and how strongly the relation should hold. I illustrate each with papers from the journal's archive and argue that the institutional setting, often treated as background, is the element in which a multinational study has most to offer. I close with remarks on stating predictions before the results are known, on tests that could fail and on the value of null results, and with an invitation to submit.

Keywords: Hypothesis development, Theory, Institutional setting, Research design, Multinational finance

JEL Classification: A14, B41, G00, G30

1. Introduction

A hypothesis is a claim about the world together with a reason for believing it, and the reason is the part that reviewers examine. This final editorial in the series marking our thirtieth volume follows Leventis (2025) in treating three elements of a well-developed hypothesis (theory, prior evidence and institutional setting). Not every paper needs numbered hypotheses. The journal has published reviews, descriptive studies, historical essays and theoretical models that have none, and an exploratory paper that says it is exploratory is preferable to one that presents its findings as predictions. Where a paper does test a relation, the reader is entitled to know why the authors expected it, what would have counted against it, and where it should be stronger or weaker.

2. Theory

Theory provides the mechanism, in the sense that it says why one variable should move another. Leventis (2025) adds that it guides the choice of setting, measures and controls and guards against the suspicion that a relation is spurious. Sutton and Staw (1995) list what is commonly offered in its place. References to earlier papers, data, lists of variables, diagrams and the hypotheses themselves are not theory, in their account, because none of them explains why. A hypothesis section that consists of a sentence of assertion followed by a string of citations has not yet given a reason.

The most informative hypotheses in finance often come from setting one theory against another. Nguyen and Phi (2026) set alignment against entrenchment for the shareholdings of chief executives and chairmen in Vietnam, argue from the features of the setting that alignment should dominate, and predict an inverted U for foreign ownership, which is what they find. Chen and Lin (2013) start from two literatures, one holding that moderate optimism offsets a manager's reluctance to invest and another holding that optimism causes overinvestment, and condition their predictions on whether the firm is prone to invest too little or too much. A single theory can be enough when it is specific, as the entrenchment hypothesis is. Boubaker (2007) tested it on French firms and could say which shareholders expropriate minorities, by what device and with what effect on value. The paper by Wessels, Wansbeek and Dam (2016) is unusual in deriving a null. If firms choose their governance arrangements optimally, governance and performance should be unrelated once the constraints on the firm are taken into account, and the absence of a relation is then what the theory predicts, where it might otherwise be read as a failed test.

Authors who draw on more than one theory should say how the theories relate. They may be rivals, in which case the design should be able to tell them apart, or they may apply under different conditions, in which case the conditions should be stated and tested. The weakest use of theory is the list, in which agency theory, stakeholder theory, resource dependence and institutional theory are each given a paragraph and all are said to support the same prediction. Reviewers reasonably ask what a test can show when every theory predicts the same sign.

Reviewers at the leading journals now routinely ask for evidence on the mechanism as well as on the main effect, and the hypotheses are the place to prepare for it. A theory that says why a relation exists usually also says through what channel it operates and under what conditions it strengthens, and each of these is a prediction that can be tested. Frahm, Glöer and Küster Simic (2023) hypothesise an interaction, that institutional ownership and debt jointly

raise firm value, and then ask whether the interaction is stronger in periods of financial turmoil and whether it differs between bank-based and market-based financial systems. Faruqi *et al.* (2019) propose that cash flows mediate the relation between governance and bank performance and test the mediation separately for developed and developing countries. A test of mediation needs the same defence as the main effect, because the mediator is itself an outcome and may share its unobserved causes. Predictions about channels and conditions are harder to satisfy by accident than a single coefficient, and they give the reader more reason to believe the main result.

3. Prior evidence

On prior evidence I can add little to Leventis (2025). A summary that cites only the studies pointing in the direction the authors favour defeats its own purpose, as he says, because a relation on which theory and evidence agree needs no further test. The more convincing papers discuss the contrary findings fully. Mason, Medinets and Palmon (2016) show that studies of say-on-pay have found lower pay, a changed mix of pay and no effect at all, and note that the rules differ so much from country to country that the effectiveness of say-on-pay is difficult to determine. Majerbi and Rachdi (2014) return to the link between financial liberalisation and banking crises and find that liberalisation raises the probability of a crisis only in the early stages of reform and lowers it thereafter, and that the effects of governance depend in turn on how far liberalisation has gone. Zabolotnyuk (2018) treats the disagreement across 53 studies as data and uses meta-analysis to show that the rating before the change, the location of the issuer, the period and the size of the change are each related to the strength of the share price reaction.

The useful question about a body of prior work is under what conditions its results were obtained, which includes the country, the period, the measures and the design, and whether those conditions hold in the present study. A review written in this way does most of the work of motivating the hypothesis, and it also tells the reader which earlier results the new study addresses. It should include the most recent work, since a reviewer who knows of a closely related study will expect to see it discussed.

4. The institutional setting

For a multinational journal the institutional setting is the element that deserves most attention, and it is the one most often left as background. The premise that institutions shape financial outcomes has been central to the field since La Porta *et al.* (1998) related investor protection to legal origin across 49 countries. The difficulty since then has been to say which institution matters. Isidro, Nanda and Wysocki (2020) show that country characteristics are so closely correlated with one another that attributing an outcome to any single one is unreliable. The implication for hypothesis development is that the argument has to name the institution through which the effect runs and explain why that institution is responsible when its correlates might equally be.

The best examples in the archive build the setting into the prediction. Berglund and Holmén (2016) build their first hypothesis on the thresholds in Swedish law that determine when employees may appoint directors and on the requirement that those directors be employees of the firm, and their second on what makes a board seat unattractive to an

individual employee. Kim, Lyn and Zychowicz (2003) argue that the contribution of foreign direct investment to growth depends on who provides it, because American and Japanese multinationals differ in how they transfer technology, and find some evidence that it does. The question Voinea, Cazacu and Neagu (2017) ask, whether the subsidiaries of foreign banks in central and eastern Europe take more risk when they are run by expatriate managers, arises because most large banks in the region are subsidiaries of foreign groups. Agoraki and Tsamis (2017) relate bank profitability in the same region to the capital requirements, market discipline and activity restrictions that differ from one country to the next, and Park, de Moraes and Roquete (2025) compare Brazil and South Korea because their histories of inflation differ, which provides variation in the experience of inflation that neither country could supply alone.

A hypothesis that takes the setting seriously usually has a cross-sectional implication. The relation should vary in a predictable direction with the strength of the institution in question and should be absent where the institution is absent. Predictions of this kind connect the development of the hypothesis to the questions of identification discussed in the second editorial, because an omitted variable would have to produce the same pattern across settings in order to explain them. They do not identify an effect by themselves, since the institution a theory names has correlates, as Isidro *et al.* (2020) show. They also require authors to be precise about how general the result is. Authors of a single-country study should say which features of the country the result depends on and where else those features are found, and authors of a cross-country study should group countries by the institution their theory names, since region and income are at best rough proxies for it. Karolyi (2016) reports that studies of markets outside the United States are cited more than others, which may indicate that readers value evidence on how far our theories extend.

Whether nature-related risks are priced, and how they affect lending, is likely to depend on the disclosure rules and environmental enforcement of the country in which the assets are located. Dyck *et al.* (2019) find that institutional investors improve the environmental and social performance of the firms they hold, and that the effect comes from investors whose home countries have strong norms on these matters. A hypothesis in sustainable finance, digital finance or banking regulation that ignores the setting will miss much of what is interesting about the question.

5. Predictions that could fail

I look for hypotheses that the evidence could have contradicted. Authors weaken their own papers when they adjust the hypotheses to the results after the analysis is complete, because the reader can no longer distinguish a prediction that was confirmed from a pattern that was found. Harvey (2017) describes the incentives that lead to this and their consequence for the reliability of published findings, and authors can guard against it in several ways. Hypotheses can be written before the data are examined and the fact recorded. Where theory gives no clear direction, the hypothesis can be stated without one, or as two competing predictions. The magnitude that would be economically meaningful can be considered in advance, so that a precisely estimated small effect is not mistaken for support, and the analyses that were tried and did not work can be reported. On the form of the statement I have few rules. A hypothesis should contain one prediction, should name its variables in the terms used in the tables, and should give a direction where the theory gives one. A set of hypotheses that differ only in the

dependent variable adds length without adding content. Registration of a study before it is carried out formalises these habits, and Bloomfield, Rennekamp and Steenhoven (2018) find that it improves the planning of research.

I said in the first editorial that a well-powered test which fails to support a widely held prediction is a contribution, and the point applies most directly to hypotheses. A prediction that follows from a respected theory, tested with adequate power in a setting where the theory should apply, tells us something whichever way the test comes out. Lambrinoudakis (2016) tested a central prediction of the dynamic trade-off theory and found a relation of the opposite sign or none, and the result tells that literature more than another confirmation would have done. Berglund and Holmén (2016) find no relation in either direction between employee representation on Swedish boards and firm performance, which is a useful thing for legislators elsewhere to know.

6. Concluding remarks

These four editorials have followed a manuscript from the choice of question through its design and its introduction to its hypotheses. Their common theme is that the setting of a study should be part of its argument, in the topic, in the measures, in the way the paper opens and in the predictions it makes. Leventis (2025) ends his fourth editorial by recommending simplicity in the statement of hypotheses, and I would extend the advice to every section of a paper.

Our editorial approach is developmental, and my co-editors and I would rather help a promising paper become a good one than reject it for problems that can be fixed. I invite authors to send us their work on the questions set out in the first of these editorials and in the companion retrospective (King, 2026), and on any question in finance and accounting to which the setting and its institutions make a difference.

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