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Contents

Articles

Transaction costs and their impact on industry’s internationalisation degree – theoretical framework
Katarzyna Mroczek-Dąbrowska

FDI policies in Europe in the aftermath of the 2008+ crisis
Marta Götz

Determinants of inward FDI into Visegrad countries: empirical evidence based on panel data for the years 2000–2012
Krzysztof Wach, Liwiusz Wojciechowski

Co-movements of NAFTA stock markets: Granger-causality analysis
Paweł Foljau

Audit committee structure and earnings management in Asia Pacific
Qaiser Rafique Yasser, Abdullah Al Mamun

Success and failure in M&As: Is there a place for a paradigm change? Evidence from the Israeli hi-tech industry
Ofer Zaks

It’s not all about the profit: an analysis of changes in arts and business relations
Kamila Lewandowska

Book Reviews

Piotr Trapczyński, Foundations of Foreign Direct Investment Performance, Poznań University of Economics and Business Press, Poznań 2016 (Svetla Trifonova Marinova)

Maciej Szymczak, Evolucja łańcuchów dostaw [The Evolution of Supply Chains], Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu, Poznań 2015 (Jarosław Witkowski)
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The book “Foundations of Foreign Direct Investment Performance” presented offers an insight into a topic that has intrigued international business scholars across the globe as multinational companies (MNCs) have been setting up subsidiaries in lands near and far, thus generating revenue overseas. This process leads to questions about: how the performance of MNCs and their subsidiaries should be measured, the extent to which subsidiaries contribute to the overall performance of MNCs, profitability and its role in measuring performance of MNCs and subsidiaries, to mention just a few. These questions and the predominant belief that profitability is the preferred indicator of MNC subsidiary performance have led to ever-growing concerns over the academic understanding of what MNCs really measure when running subsidiaries abroad. The overall strategy of an MNC may somehow differ from the strategy of a single subsidiary as subsidiaries may serve different objectives and only in their totality may they actually influence the strategy of the MNC. Consequently the positions of MNC subsidiaries may result in different levels of performance analysis and different performance measures applied to diverse subsidiaries and the MNC. For example, if a subsidiary has the task of developing and penetrating a new market then indicators such as market spread, market depth and market share come into the realm of subsidiary performance assessment. The book clearly sees that the notion of performance is related to the financial and non-financial results at two levels: that of foreign affiliates, as well as of the entire multinational firm.

Moreover, recognising the fact that firm-level decisions are affected by micro-, meso- and macro-level factors that can translate into diverse motives in setting up foreign subsidiaries, this book adopts a holistic approach to the examination of key internationalisation theories and motives in order to identify the embeddedness of various performance assessment approaches in different streams of international business theoretical thought.

Following such an approach and adopting a microeconomic perspective, the book by Piotr Trąpczyński sets out on a journey of several stages. Initially the author identifies the theoretical determinants of MNC subsidiary performance, which is followed by a critical assessment and conceptualisation of the affiliate performance set up, drawing on the MNC competitiveness framework that leads to a review and critical evaluation of research on the determinants of performance in foreign markets. This sequence allows the reader to understand the found-
dations of conceptual interpretations of performance and to gradually build on it considering its determinants against the background of MNC competitiveness. Hence Trąpczyński recognises the complexity of the construct and the consequent need for the creation of a multidimensional approach to the measurement of subsidiary performance that integrates MNC strategy.

The very nature of MNC foreign subsidiaries (sometimes called affiliates) presupposes an understanding of the ownership-power relationship between the MNC and a respective subsidiary. This conceptual aspect is well captured in the book although the final model suggested by the author in Figure 24 on p. 99 may have taken more account of it. In cases when the MNC has concentrated ownership with power over a subsidiary the extent to which the subsidiary may actually better indicate the bundle of financial and non-financial indicators of its performance might be rather low. Nevertheless passing to the perspective of strategic management, Trąpczyński proposes a classificatory approach, in which subsidiary performance includes both financial and non-financial measures of performance. He also offers a clearer partition of these measures into objective and subjective. For example, the financial measures suggested in the model include the subjective evaluation of profitability (gain, break-even, loss) and the objective measures that could be accounting-based (profit, return on investment, return on equity, return on assets, return on sales), value-based (economic value-added, cash flow return on investment), and capital market-based (stock price, earnings per share, Tobin’s q).

Trąpczyński’s approach is similar to Hult et al. [2008] who propose three main dimensions of performance measurement – financial, operational and overall effectiveness. Instead of the last two Trąpczyński suggests non-financial measures such as perceived overall performance (relative to competitors), product differentiation, operational risk and employee satisfaction. Both Hult et al. and Trąpczyński are proponents of the application of objective and subjective evaluation measures of performance.

In the process of developing his arguments on performance measures Trąpczyński adopts a dynamic view of FDI by viewing FDI as an internationalisation mode and a more static, constituent view considering FDI as a characteristic of a MNC. This is an important differentiation as depending on the extent of international operations of a firm the relevance of specific aspects of internationalisation decisions which may lead to the prioritisation of different performance indicators or – bundles of these. Such a view reminds of the work of Schmid and Kretschmer [2010] who reviewed the literature on performance evaluation and suggested a contingency framework which is centred on performance evaluation in terms of its object and importance in the control mix, its content and its process. Many other authors have called for a multidimensional approach to subsidiary performance, expressing the view that purely financial measures can only narrowly reflect performance [Pangarkar 2008] as they do not help to understand the antecedents of performance.

The presented book offers quite an exhaustive overview of performance measures developed in the literature. For example, it explores in detail the different financial measures that can be accounting-based, such as return on investment (ROI), return on sales (ROS) or return on equity (ROE); or market-based, such as earnings per share (EPS) and economic
value-added (EVA). The overview does not overlook an important point, i.e. that accounting-based measures express historical performance, whilst market-based measures are forward looking. In addition, a review of quantitative and qualitative measures and of those utilising primary and secondary sources is also handled thoughtfully by the author. This takes the reader to the recognition that the highly heterogeneous understanding of performance results in divergent and frequently incomparable findings in the literature justifies the need for a holistic understanding of performance and its evaluation measures.

The presented book is one of the attempts made by international business scholars to provide a comprehensive review of MNC subsidiary performance determinants, the understanding of which is somewhat limited in the current international business literature. For instance, other attempts at studying these are those of Schmid and Kretschmer [2010], Kretschmer [2008] in her book Performance Evaluation of Foreign Subsidiaries, Vedder [2008] in the book Performance Evaluation of Foreign Subsidiaries: A Critical Analysis and a more recent study by Ramsey and Bahia [2013]. Following the systemic logic of the performance measure review Trąpczyński relates subsidiary performance measures to FDI modes, implying different performance consequences of specific modes of foreign investment due to costs associated with resource acquisition and affiliate governance; then to host-country determinants; to resources; to environmental complexity and industry structure uncertainty; to organisational learning and evolutionary theory and to MNC strategy. The latter has been extended by Ramsey and Bahia [2013] who associate subsidiary performance measurement with subsidiary strategy. They propose that financial measures are more important than non-financial when assessing the performance of foreign subsidiaries pursuing a sales/profit growth strategy; non-financial operational measures are more important than financial when assessing the performance of foreign subsidiaries pursuing market entrance or a technology incorporation/human resources development strategy and non-financial measures are more important than financial ones when assessing the performance of foreign subsidiaries pursuing a strategic position or a study of market strategy.

Consequently the reviewer would support the conclusion of this book that further research should consider the actual role that an MNC subsidiary plays in the network of its parent company because the role of the subsidiary might have distinct effects on specific subsidiary performance. In exploring this the value proposition of the subsidiary in the MNC subsidiary network and its value adding activities within a specific business model may present a fruitful avenue for further exploration of subsidiary performance measurement.

References


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CONTENTS

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