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Book Review
書　評

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FOREIGN DIRECT INVESTMENT
Ownership Advantages, Firm Specific Factors, Survival and Performance

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I INTRODUCTION

Ghahroudi, Hoshino, and Turnbull (2019) have done a great job in extending and developing the literature on foreign direct investment (FDI) and multinational corporations (MNCs). The authors accounted the underlying main reasons of this research work as follows: MNCs need to identify which host country and industry factors are important in choosing among different types of equity ownership, namely international joint ventures, wholly-owned subsidiary, etc.; MNCs need to know the reasons of foreign market entry which can provide growth and profitability not available in home markets; MNCs need to know the options of choosing the appropriate equity ownership for entry into international markets in view of their resources, capabilities, and international experience; and the research world in international management increasingly demands empirical support for the existing theories and previously defined and tested constructs. In view of the above reasons three research were undertaken by these scholars in this project and the outcome, this book, was published by World Scientific Publishing Co. Pte. Ltd. of Singapore with an ISBN of 9 789813 238398. The size of this work is 178 pages (163p. + xvp.). This review article examines the organization and contents of this book, evaluates its academic values, highlights on its drawback, and extends brief suggestions for further research.

II ORGANIZATION

Composed of six chapters, this book aims to examine, extend, and develop the literature on foreign direct investment (FDI) and subsidiaries of multinational corporations (MNCs). Table 1 shows the contents of this book.

Chapter 1 introduces the key research questions and/or objectives of this research and gives the reasons for undertaking it. Then, it introduces the concepts of FDI and MNCs – the two most important concepts and/or topics examined and extended in this project.

In Chapter 2, the authors did an elaborate review of literatures on the theories of MNCs. The fourteen theories reviewed are: industrial organization theory, internalization theory, location theory, eclectic theory or OLI paradigm, product life cycle theory, internal financing hypothesis, Kojima theory, entry mode theories, classical theory of governance, agency theory, transaction cost theory, resource-based theory, stages models of internationalization, and monopolistic advantage theory. These are studied to develop a generalized view of the MNCs theories, which the authors had envisioned to support and expand in this research.

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The core of this book/research is Chapters 3, 4, and 5. Research methodologies used in these chapters are summarized here in a nutshell. Chapter 3 examines FDI of Japanese subsidiaries in India, which has experienced massive economic growth among the developing countries. The study covers establishment, survival, size, entry strategy, equity ownership, and sales growth of Japanese subsidiaries in India. Data were compiled from 2001-2006 (five years) from the Toyo Keizai database (***kaigai shinshutsu kigyou souran***). Chapter 4 explores the main determinants of the factors influencing performance of foreign investment in Japan as a developed country, based on an integrative perspective, incorporating contingencies at both parent and subsidiary companies. Data were drawn from a sample of 3,500 Japanese affiliates of foreign firms. Chapter 5 explores, at first, the relationship between type of industry entered by MNCs to a host country (here Japan) and type of ownership, experience, import-export ratio, firm size, and number of foreign employees and secondly, the impact of country origin, foreign ownership, and parents' and subsidiary's factors on the asset growth ratio (AGR). Here also data were derived from the Toyo Keizai database on 3,500 foreign subsidiaries of MNCs from 52 countries which entered into this country at different points of time till 2006.

The chapter-wise detailed findings of this research can be enumerated as follows. Chapter 3 reveals that high preliminary capital, number of employees, subsidiary age, and full equity ownership had significant effects on the survival of subsidiaries. Subsidiaries in the manufacturing sector preferred to have majority equity ownership due to assets, export orientation, and technology transfer. It was also found that subsidiary age, entry strategy, and equity ownership did not have much impact on sales growth, rather fewer number of employees in the subsidiaries had a greater rate of sales growth.

Research in Chapter 4 integrates parent MNCs factors with those of the subsidiaries to assess performance such as net profit, return on sales (ROS), and return on assets (ROA). Different aspects of ownership advantages including management and employees, level of parent company investment, and interaction between parent companies and subsidiaries were assessed. Also, variables like management authority, foreign manager, new graduate, and foreign employees were taken as proxies of knowledge transfer and development. Findings in this chapter support the following hypotheses: (1) MNCs preferred to enter Japanese market using a wholly owned subsidiaries; (2) Foreign affiliates in Japan with higher level of foreign ownership have higher level of management authority and greater number of foreign employees; (3) MNCs preferred to enter and hold minority ownership when the subsidiary is export-oriented sector; (4) Such affiliates share and transfer more knowledge than others in commensurate with their possession of such knowledge; and (5) Moreover, the size of the parent MNCs had impact on the performance of their subsidiaries, in that, larger MNCs had better returns on sales and assets.

Findings in Chapter 5 show that MNCs in the manufacturing sector have relatively lower investment ratio and enter into a host country (here Japan) through different entry strategies of partial ownership under various ownership agreements. MNCs in services sector enter into this host country through wholly-owned subsidiaries. Manufacturing firms have higher import ratio than firms in the service industries. Foreign affiliates in the manufacturing industry have a greater number of foreign employees than the services industry. Secondly, it is found that firms in services industries have greater total assets than manufacturing industry. Experience in the host country culture, foreign ownership, new graduate have a significant impact on performance and asset growth ratio (AGR), where foreign affiliates from North America (USA and Canada) did (do) better than those from Europe and Asia. And, foreign affiliates from the USA have greater AGR than European subsidiaries in Japan because of greater foreign ownership, higher experience in the host market, and those have greater sales growth rates and lower ratios of export are likely to have greater asset growth.

III ACADEMIC CONTRIBUTION OF THE BOOK

The academic value of this work lies in the fact the three main studies conducted by the authors are based on reasonably rigorous research designs, hypotheses, methodologies, and empirical analyses and interpretations. The authors tested five hypotheses in Chapter 3, six in Chapter 4, and five in Chapter 5. In order to test these, a number of statistical tools were used. Empirical analysis and discussions on results are being conducted with references to earlier research findings. Thus, the authors have done a very good job in establishing their own findings in this book using modern research tools, technics, and methods.

IV SOME CRITIQUES

Although this book possesses some good aspects, it has some obvious limitations also. The study in Chapter 3 has serious limitations in that although the dataset contained a list of 270 subsidiaries in India, the sample size was reduced to 263 cases to analyze survival ratio and majority ownership. However, due mainly to incompleteness of data for sales and other independent variables, sales growth ratio (as proxy for firm's performance) could be calculated for only 85 subsidiaries (31.5% approximately). The data used in this study were from 2001 to 2006. The variables that are included in Toyo Keizai database for Japanese MNCs subsidiaries are very limited. All these constraints in data source and data time duration limit the scope of generalization of the findings in this chapter.

The study in Chapter 4 focused on the situation prevailing only in Japan. However, studies showed that there existed differences in the characteristics and performances of FDI between developed and less developed countries (Makino, Beamish, and Zhao, 2004). Furthermore, the scope and validity of the research is very narrow. Although, there exists 3,500 foreign subsidiaries in Japan, it covered only 310 such firms (8.9% approximately). The concepts used in the case of performance, ownership, etc. are less than perfect or misleading. Also, variables like manager authority, foreign manager, and foreign employees which are used as proxies for knowledge transfer and development are also very narrow. These, in short, limits the general acceptance of the findings in this part.

The study in Chapter 5 also have several obvious limitations in terms of scope and validity. Especially, the scope of the study in this chapter is foreign affiliates in Japan only. The database used had limited data about firm assets. Although the source contained data on 3,500 foreign affiliates, only 293 (8.3%) were covered due to adequacy of information available. The subset of variables used in the analysis were also limited. Had there been more variables taken, the findings could be different.

V CONCLUDING REMARK

As the authors claim, some of the findings of this study is consistent with findings of similar earlier studies and they positively contribute to those earlier theories, namely eclectic paradigm, resource-based view, and corporate governance theories. As such, this research contributes to international management literature by providing empirical support for these previously defined and/or tested constructs. As mentioned in the critique section of this review, the scope of data and methodical limitations have significantly influenced the generalization of the findings in this laborious research work by the authors. The theories (Chapter 2) tested could be grouped logically into trade theories, FDI theories, and MNCs theories and could be expanded separately instead of reviewing haphazardly. Perhaps, the author would launch and/or conduct more research with well-defined and/or rigorous framework to supplement findings in this research.

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