The differences between foreign and local firms are of an enormous importance as they undermine the entire rationale for the study of the MNEs as a separate field of inquiry. Only if the behavior of foreign firms has characteristics that differ from those of firms in general, the study of the MNEs as a separate phenomenon is justified. Otherwise, knowledge on firms in general can be generalized to MNEs. Hence, there is a need to establish clearly the existence and nature of the differences between foreign and local firms. Comparisons of these firms operating in the same environment are potentially a most telling way to understand the behavior of MNEs and their unique attributes. They enable researchers to distinguish between the attributes accruing to all firms, regardless of their ownership, and those that are unique to foreign-owned establishments.

International business and management scholars have indeed used the comparisons between foreign and local firms quite often (some recent examples include Rosenzweig and Nohria, 1994, Zaheer and Mosakowski 1997, Shaver, 1998, Nachum and Keeble, 2001). Only seldom, however, these studies draw the implications of the differences found in terms of strategic behavior, organizational practices and location patterns to the understanding of the uniqueness of the MNEs. Even less discussed are methodological issues associated with such comparisons and possible caveats in the findings as a result.

Jungnickel’s edited volume is thus a most important contribution, which starts filling this gap. It addresses both the theoretical and methodological issues associated with the comparisons between foreign and local firms, and tests empirically differences between foreign and local firms in terms of selected indicators, such as productivity, wages, and R&D, in a number of European countries.

The book reaches two major conclusions regarding the differences between foreign and local firms. First, a number of papers in the book, notably those by Pfaffermayer and Bellak as well as Bellman and Jungnickel, make the compelling argument, and show empirically, that the real difference is between multinationals and purely domestic firms, and not between foreign and all local firms. That is, it is not ownership per se that matters but rather the multinational scope of firms and their participation in a global network, which enables them to benefit from advantages of scale and specialization within the network and from access to tangible and intangible resources worldwide. This is a far reaching conclusion, as it questions some of the fundamental assumptions underlying the theory of the MNEs, notably the liability of foreignness (Zaheer 1995), and perhaps suggests a need to distinguish explicitly between multinationality and ownership in studies of similar kind. Very few comparative studies controlled for the geographic scope of the local sample, and their findings are mixed. Dom and Jensen (1998) and Mata and Portugal (2002) reached similar conclusions to those reached in this book, but Nachum (2003) found that the differences between foreign and local firms continue to hold also after distinguishing between purely domestic and multinational firms in the local sample.

1 A number of the papers in the book examine in addition also issues related to the impact of foreign affiliates on host countries (notably Pain and Hubert; Lallement with reference to the U.K. and France respectively) and the patterns of their location within countries (Braconier and Ekholm with reference to Swedish affiliates in Germany). These, however, are relatively marginal from the point of view of the book as a whole.
The second important conclusion of the book is that the comparison between foreign and local firms is inherently context specific, and hence there will be different findings in different countries and under different circumstances. This is emphasized particularly by Bellman and Jungnickel, but it is acknowledged by most of other papers. For example, the comparison between US affiliates and local firms is a different question if studied in Brazil or Britain. This implies that there is no universal answer to the question addressed by this book: ‘Do foreign firms differ?’ but rather one that is perhaps specific, at least to some extent, to any given context.

The methodological contribution of the book lies in raising a number of methodological issues that ought to be borne in mind when comparing foreign and local firms and when interpreting the results of these analyses. These are discussed in some length by Pfaffermayr and Bellak and referred to by all other papers in the book. For one, such comparisons in fact mean comparing independent and multi-unit firms, or else HQs and affiliates operations. It is not clear that such analyses compare ‘like with like’ and it might be that some of the differences found in fact reflect functional differences rather than those associated with ownership per se. This argument is consistent with Harhoff et al (1998) that found significant differences between affiliated units and independent operations in terms of their survival rate and exit mode, although both were of the same nationality.

A second methodological issue raised in the book is related to the implicit assumption underlying comparative studies of this kind, namely that the behavior of local and foreign firms is independent of each other. Hence the behavior of local firms is taken as an indicator of the way in which they would behave in the absence of foreign affiliates. However, the studies in the book show that the presence of foreign affiliates modifies the behavior of local firms, and vice versa, that is, foreign affiliates lose some of their distinctiveness when they adopt local norms and routines of operations. This is consistent with a number of previous studies that have illustrated that the differences between foreign and local firms diminish over time (Zaheer and Mosakowski 1997, Roszenzweig and Nohria 1994, Jenkins 1990).

Third, the growing prevalence for M&As as the dominant mode of entry is raised by a number of papers in the book (in particular Pain and Hubert, but also others) as an additional potential difficulty, since it has a natural tendency to eliminate the strength of the differences between foreign and local firms. Affiliates founded as independent firms and only later acquired by MNEs are likely to remain relatively similar to local firms. Several papers in the book make the argument that under these circumstances, comparisons between foreign and local firms have to take explicit account of issues related to the selection of local firms for acquisition. For example, there is often a selection bias towards successful local firms that distorts differences associated with ownership.

Fourth, the book also point at the need to address the implications of degree and type of ownership in these comparative studies. It is very likely that at least some of the inconsistencies of previous research are due to the failure to apply a uniform definition of foreign affiliates and to control for type of ownership.

Finally, many comparative studies use performance measures, but a number of papers in the book, notably Lallement’s paper, emphasize the limitations of these measures, which may be misleading indicators of affiliates’ performance as they are often distorted by internal MNE transfer.

As various chapters in the book suggest, beyond its theoretical importance, the comparison between foreign and local firms has also critical implications for practice. From a policy perspective, knowledge of whether or not foreign and local firms differ would suggest whether certain policies designed to affect all firms operating in a country need to be differentiated for foreign and locally-owned firms. It will also imply whether the structure of ownership in a country is important in the sense that it is likely to have different implications for the countries concerned. Many governments spend considerable resources to attract foreign firms, with the underlying assumption that such firms bring with them some assets that local firms do not have. However, if foreign firms do not possess such superior assets, governments may better allocate these resources elsewhere.

It can only be hoped that this book will bring about greater interest in the differences between foreign and
local firms, and at the same time, greater care in conducting such comparisons and in interpreting their findings.

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