VOLUME 21 NUMBER 2 AUGUST 2012

TRANSNATIONAL CORPORATIONS

United Nations
New York and Geneva, 2012
United Nations Conference on Trade and Development
Division on Investment and Enterprise

Editorial statement

Transnational Corporations (formerly *The CTC Reporter*) is a refereed journal published three times a year by UNCTAD. In the past, the Programme on Transnational Corporations was carried out by the United Nations Centre on Transnational Corporations (1975–1992) and by the Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development (1992–1993). The basic objective of this journal is to publish articles and research notes that provide insights into the economic, legal, social and cultural impacts of transnational corporations in an increasingly global economy and the policy implications that arise therefrom. It focuses especially on political and economic issues related to transnational corporations. In addition, *Transnational Corporations* features book reviews. The journal welcomes contributions from the academic community, policymakers and staff members of research institutions and international organizations. Guidelines for contributors are given at the end of this issue.

Home page: http://www.unctad.org/TNC

Subscriptions

A subscription to *Transnational Corporations* for one year is US$45 (single issues are US$20). See p. 87 for details of how to subscribe, or contact any distributor of United Nations publications. United Nations, Sales Section, Room DC2-853, 2 UN Plaza, New York, NY 10017, United States – tel.: 1 212 963 3552; fax: 1 212 963 3062; e-mail: publications@un.org; or Palais des Nations, 1211 Geneva 10, Switzerland – tel.: 41 22 917 1234; fax: 41 22 917 0123; e-mail: unpubli@unog.ch.

Note

The designations employed and the presentation of the material do not imply the expression of any opinion on the part of the United Nations concerning the legal status of any country, territory, city or area, or of authorities or concerning the delimination of its frontiers or boundaries.

Material in this publication may be freely quoted or printed, but acknowledgement is requested, together with a copy of the publication containing the quotation or reprint to be sent to the UNCTAD secretariat.

This publication has not been formally edited.

Unless stated otherwise, all references to dollars ($) are to United States dollars.

ISBN 978-92-1-112862-8
eISBN 978-92-1-055951-5
ISSN 1014-9562

Printed in Switzerland

Board of Advisers

Transnational Corporations

Volume 21, Number 2, August 2012

Contents

ARTICLES

Carlo Altomonte, Lorenzo Saggiorato and Alessandro Sforza	TNCs' global characteristics and subsidiaries' performance across European regions	1
Jasey R. Ramsey, Livia L. Barakat and Sherban L. Cretoiu	Internationalization and its possible impact on subjective and objective performance: Evidence from Brazilian TNCs	21

RESEARCH NOTE

Lou Anne Barclay	The anatomy of a failed industrial policy developing aluminium industry in Trinidad and Tobago	47

TNCs' global characteristics and subsidiaries' performance across European regions*

Carlo Altomonte, Lorenzo Saggiorato and Alessandro Sforza**

There is significant regional variation in the performance of foreign affiliates in Europe. The aim of this paper is to examine whether differences in their performance can be explained by the characteristics of the corporate group to which they belong. To this end, we develop a novel procedure that allows us to control for the characteristics of the groups to which each subsidiary belongs. These characteristics include the geographical spread of the group, the total number of subsidiaries and complexity of internal hierarchies, and the degree of industry diversification within the group. We also control for the different institutional characteristics at the regional level. We find that subsidiaries belonging to geographically more widely spread but relatively less diversified TNC groups have superior performance. The results also suggest that regions with quality institutions attract affiliates of such high-performance groups.

1. Introduction

A growing strand of research examines the relationship between regional economic performance and foreign direct investment (FDI), focusing on the determinants of FDI and locational choices. This focus on FDI reflects the growing importance of transnational corporations (TNCs) in generating economic spillovers (positive or negative) in the host countries/regions,

* **Acknowledgments**: This study was undertaken in the framework of the research project "FDI in Lombardy: A Comparative analysis of Foreign Direct Investment across European Regions", sponsored by the Milan Chamber of Commerce - PROMOS, whose financial assistance is gratefully acknowledged. The authors retain the sole responsibility for their views, errors and omissions.

** Carlo Altomonte (corresponding author) is Associate Professor of Economics of European Integration at Bocconi University, Milan. Contact: carlo.altomonte@unibocconi.it Lorenzo Saggiorato is Research Assistant at ISLA – Bocconi University, Milan. Alessandro Sforza is a doctoral student at London School of Economics.

which, due to their large average size, might significantly affect the growth path of the host economies.[1]

Indeed, a number of TNC characteristics might affect the extent to which FDI can influence the performance of host economies, with the most important determinants being the technology gap between domestic and foreign firms, the ownership structure of investment projects (Havranek and Irsova, 2011a, 2011b) and the degree of development of financial markets (Alfaro et al., 2010). Evidence suggests that the magnitude of TNCs' impact on regional disparities can be considerable because TNCs' investment projects result in varied speeds of industrial restructuring across regions (Altomonte and Colantone, 2008).

In this study, we follow up on this approach and assess whether and to what extent the performance of TNCs' affiliates varies across regions.[2] In order to explain these differences, we develop a novel procedure that allows us to control for the global characteristics of the corporate group to which each subsidiary belongs, such as the total number of subsidiaries, their geographical spread, and the degree of industry diversification within the group.[3]

We find that subsidiaries belonging to a TNC group that is geographically more widely spread but less diversified in terms of business activities have superior performance on average, although most of the regional variation in the results are linked to different local institutional settings and the specific industrial structure of each region. The results are robust to the introduction of a series of firm and regional characteristics.