

VOLUME 21

NUMBER 2

AUGUST 2012

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# TRANSNATIONAL CORPORATIONS

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**United Nations**

New York and Geneva, 2012

United Nations Conference on Trade and Development  
Division on Investment and Enterprise

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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  
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# ***Transnational Corporations***

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# 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,

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\* **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.

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which, due to their large average size, might significantly affect the growth path of the host economies.<sup>1</sup>

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.<sup>2</sup> 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.<sup>3</sup>

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.

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