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Does foreign direct investment theory explain subsidiary performance? A critical literature review

Abstract: Theoretical models explaining foreign direct investment (FDI) have sought to address the "why" and "how" of the international expansion of firms. However, while it has been argued that performance is central to international business research, this is not entirely reflected by extant theory. This paper aims to critically analyse references that FDI theories make in regards to foreign subsidiary performance. An analytical framework is proposed and subsequently applied to evaluate extant empirical findings. Discussion points to the highly fragmentary character of FDI theories and the heterogeneity of empirical results, as well as an inadequate inclusion of FDI motives. The paper ends up with several recommendations for future empirical studies.

Keywords: foreign direct investment, firm internationalisation, multinational companies, performance.

JEL codes: F21, F23, L25, M16, M21.

Introduction

The globalisation process in world economy and the pace of technological progress have dramatically changed the conditions in which companies operate, by increasing pressure towards constant growth and international competitiveness of the firm. Foreign direct investment is widely considered to be the most advanced, yet simultaneously the most risky form of firm internationalisation. The decision to commit substantial resources to a foreign market bears important implications for the long-term competitiveness of multinational companies. Thus, the issue of maximising performance in foreign markets should lie at the very heart of foreign direct investment (FDI) theories [Glaum & Oesterle 2007, p. 308]. The importance of understanding the success determinants of internationalisation has been clearly

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highlighted by the recent economic crisis, which resulted in a wave of divestments by multinational companies, including those from emerging countries, which only recently undertook foreign expansion via FDI.

Therefore, it appears somewhat peculiar that – in spite of decades of theoretical development and empirical research on FDI – research on the performance outcomes of undertaking FDI remains scarce [Gao et al. 2008, p. 750; Gorynia, Nowak & Wolniak 2005, p. 67], fragmented and incoherent in its results. While there is a significant number of theoretical and empirical studies on the determinants of FDI mode choice (greenfield, acquisitions, joint ventures), location choice and the consequences for home and host economies, relatively little attention has been devoted to consequences of FDI for individual companies. It is likewise surprising to observe that no complex review or critical assessment of the determinants of subsidiary performance can be found in extant literature.

Accordingly, the purpose of this paper is to investigate the extent to which FDI theory allows identification of foreign subsidiary performance determinants and thus has a normative character in this respect. In order to lay a foundation for this exploratory purpose, the notion of foreign subsidiary performance and its different conceptualisations are discussed (section 1). Subsequently, major theoretical approaches to foreign direct investment are evaluated in terms of their reference to performance (section 2). Based on this discussion, an analytical framework for studying FDI performance is proposed. In section 3, the theoretical predictions are confronted with an overview of empirical findings on foreign subsidiary performance. Given the theoretical nature of literature reviewed in section 2, as well as a significant heterogeneity of research designs used in empirical studies discussed in section 3, a quantitative review of extant findings would be difficult [Sousa, Martínez-López & Coelho 2008]. Thus, a qualitative approach to reviewing extant literature was used in order to provide critical and structured synthesis and evaluation of previous findings [Seuring & Gold 2012]. Based on the review, several directions for future research are highlighted in the concluding section 4.

1. Foreign subsidiary performance – towards conceptualisation

While performance can be regarded as a key variable in foreign expansion of companies [Brouthers 2002; Peng 2004], it has been analysed on several levels and by using hetereogeneous success measures. Firstly, research has focused on the impact of the degree of internationalisation on performance of the entire company. In this category of studies, accounting-based measures of economic outcomes have been used, including the return on assets (ROA), return on sales (ROS) or return of equity

(ROE) [Li 2007; Matysiak & Bausch 2012]. However, due to the historical character of objective financial performance measures or differences in national accounting standards, also effectiveness-based measures, such as the ratio of operational costs to sales revenues have been used [Gomes & Ramaswamy 1999].

Secondly, performance has been analysed as a key variable in studies focused on particular forms of foreign expansion. Apart from studies, which analysed the performance of parent firms using different operating modes in foreign markets, such as export, contractual agreements, joint ventures or wholly-owned subsidiaries [e.g. Brouthers, Brouthers & Werner 2003], the vast majority of studies adopted the performance of foreign units as the level of analysis. Within the research stream devoted to export project or overall export performance, the most frequently used outcome measures were financial related to sales growth, market share, export profitability, or non-financial, which take into account the development of new export products, the impact of export on the firm's scale economies or reputation [Katsikeas 2000, p. 498].

Amongst studies devoted to foreign expansion undertaken in the form of FDI, the understanding of performance has, as well, been dominated by the financial perspective. Indeed, a common approach to evaluating performance of a foreign venture has been to estimate its incremental cash flows and apply a discount rate, which includes variables specific to international transactions, such as tax and exchange rate differentials, or barriers to capital transfers [Jaworek & Szóstek 2008, p. 119]. However, a broader approach to performance would require evaluation of other, non-financial objectives determined for a foreign subsidiary. Depending on available data sources, extant research on foreign subsidiary performance has either used objective or subjective measures. The former include accounting or capital market-based financial measures, as well as non-financial variables, such as foreign subsidiary survival [e.g. Nguyen 2011]. The latter refer to assessment of subsidiary results by the parent firm or subsidiary managers, rated in a given scale [e.g. Delios, Xu & Beamish 2008]. Like the objective indicators, subjective measures have also been dominated by profitability assessments [see e.g. Woodcock, Makino & Beamish 1994].

Given the heterogeneous understanding of the notion of performance as used in extant studies, which consequently resulted in divergent and frequently incomparable results [Matysiak & Bausch 2012], a holistic and multidimensional conceptualisation of FDI performance should be assumed by scholars (for different performance dimensions used in literature, see Figure). One such holistic concept, which can be helpful in assessing performance of a foreign subsidiary is the competitiveness concept of Gorynia [2002, pp. 74–75], one of its dimensions being the competitive position. The latter can be conceptualised as the outcome of the evaluation of a company's offer by the market, including both financial (relative profitability) and non-financial indicators (such as market share, product competitiveness and advancement [Gorynia et al. 2012, p. 436]).

Variable category		Data type: Qualitative	Data type: Quantitative
	Financial	• Achievement of financial goals • Subjective evaluation of profitability (*gain, break-even, loss*)	• Accounting-based (*profit, return on investment, return on equity, return on assets, return on sales*) • Value based measures (*economic value-added, cash flow return on investment*) • Capital market-based measures (*stock price, earnings per share*)
	Non-financial	• Perceived overall performance (relative to competititors) • Product differentiation • Operational risk • Employee satisfaction	• Productivity • Subsidiary size • Survival • Market share • Sales growth • Employee retention

A two-dimensional classification of foreign subsidiary performance measures
Source: Own work based on review of literature

2. Subsidiary performance in foreign direct investment theories

After the presentation of several basic approaches to the performance of foreign expansion in section 1, attention will now shift to investigation of theoretical factors affecting performance of foreign subsidiaries[1]. The phenomenon of FDI has been the subject of different theories of international business and internationalisation models. It must be noted, however, that the field of international business has not

[1] Given the above outlined understanding of performance as firm-level financial and non-financial results, the theoretical discussion focuses on micro-economic theoretical concepts. The notion of performance in relation to foreign direct investment has another significance on the macro-economic level, whereby it can, inter alia, refer to the relation of outward FDI to the GDP of the home country and thus signify its relative ability to generate and support FDI [see e.g. Gorynia et al. 2012a].

developed a coherent theoretical foundation, instead relying on a mosaic of partial concepts, addressing the issues of "why" (causality), "how" (modality), "when" and "how fast" (temporality) and "where" (location) of the foreign expansion [Kutschker & Schmid 2008, p. 377]. Therefore, the set of theoretical explanations of the phenomenon of firm internationalisation are highly heterogeneous and not entirely consistent, remaining far from a "super theory". Given the above set of fundamental questions, the question arises as to whether these theories are normative in terms of the explicit question "how well" a firm can internationalize.

Taking the capital market-based approaches to FDI as a starting point, the extended interest rate approach argues that FDI occurs as a result of comparison between the expected return on domestic and foreign investments [Heidhues 1969, pp. 55–56]. Thereby, the differentials in interest rates between countries have to exceed the information and transfer costs incurred by the firm when undertaking FDI. Moreover, investors are confronted with risk and uncertainty, which leads to heterogeneous evaluations of foreign projects by different investors and thus individual adaptations of interest rates to account for project risk. For this reason, no general indications can be formulated as to the direction and magnitude of investment projects across countries [Heidhues 1969][2]. However, since the flows of FDI are explained by the possibility of achieving a higher return on investment in a foreign country, this approach makes a clear reference to subsidiary performance. Conversely, the currency area approach of Aliber [1971] places emphasis on home-country factors. It is argued that foreign direct investment flows are determined by the expectations of appreciation or depreciation of national currencies, which can impact the attractiveness of investment projects. Investors from hard-currency countries are more likely to use lower interest rates and thus have higher project evaluations than those from soft-currency countries. Accordingly, determinants related to the performance of a foreign venture are explicitly within the scope of this theoretical concept[3].

On the contrary, the theory of the monopolistic advantage of Hymer [1976] stipulates that – while a certain part of FDI projects can be indeed explained by differentials in interest rates and exchange rates – the central motives for FDI are related to control and to the possession of monopolistic advantage. The former relates to the influence on local operations, as well as the reduction of international competition, particularly via acquisitions. The latter underlines the exploitation of firm-specific advantages in foreign markets, which is a necessary condition in overcoming barriers to international operations [Hymer 1976, p. 41]. These can relate to the information disadvantage of a foreign firm in terms of the economic, political, legal,

[2] The interest rate-based explanations of FDI resemble those underlying portfolio investments, although the two categories of investment have distinct motivations and are in fact separate empirical phenomena.

[3] The theory was criticised for the fact that investors might finance their foreign ventures in foreign currencies, as well.

cultural or social environment, to exchange rate risks, information and communication costs or wrong interpretation of information in the decision-making process. These liabilities of foreignness require the exploitation of monopolistic advantages, which result from imperfect competition in markets for goods (e.g. product differentiation) or intermediate goods (e.g. patented technology, favourable capital access, superior management skills), size advantages (e.g. economies of scale, vertical integration) or artificial market imperfections (e.g. tariff walls) [Kutschker & Schmid 2008, p. 414]. Therefore, the major driver of economic performance of foreign operations can be seen in the possession and leverage of firm-specific resources [Dunning 1993, p. 69]. At this junction, this view coheres with the rationale of the resource-based view which identifies firm resources as a fundamental source of firm performance [Barney 1991; Brouthers, Brouthers & Werner 2008].

Assuming that firm-specific resources are a dynamic category, monopolistic advantage theory can be complemented by the internationalisation process model, also called the Uppsala Model [Johanson & Vahlne 1977, 2009]. The approach assumes that firm internationalisation is a sequential and gradual process of increasing resource commitments in foreign markets, starting with exports and passing up to FDI as the most advanced operating form. This incremental process is driven by the increase of a firm's experiential knowledge of foreign markets. The authors also postulate that internationalising firms will first select foreign countries with similar market conditions and similar cultures to those of their home country due to limited experience and thus lower costs of operations in proximate countries [Li 2007, p. 121]. The accumulation of experience enables overcoming the negative effects of the psychic distance, defined by Johanson and Wiedersheim-Paul [1975, p. 308] as factors hindering or disabling information flows between firm and market, such as differences in educational and political systems or level of economic development. While the model does not formulate explicit normative statements about subsidiary performance, it implicitly touches upon the cost side of performance by exposing the concept of psychic distance and the alleviating role of firm experience to increase foreign market commitments.

Another perspective explaining foreign expansion via FDI is the internalisation theory, which shifts the emphasis on efficiency premises of FDI [Buckley & Casson 1976; Hennart 2001]. Due to the existence of cognitive market imperfections, the creation of a foreign subsidiary aims at reducing transaction costs by replacing market transactions, which can be inefficient under certain conditions, with more efficient transactions within the borders of a multinational enterprise [Rugman, Verbeke & Nguyen 2011, p. 759]. The theory suggests that companies strive at profit maximisation through cross-border internalisation of the market for intermediate goods in order to ensure protection for such assets as knowledge in the areas of production, marketing and organisation etc. Market imperfections relate to, *inter alia*, difficulties in evaluating the possessed knowledge, information asymmetries between buyers and sellers or the intervention of governments. The major advantages arising from the internalisation of cross-border activities, which have been discussed in the literature on multinational enterprises, include the economies of scale and scope, which are possible owing to an efficient exploitation of firm-specific advantages in different geographical markets [Ghoshal 1987]. However, the role of firm-specific advantages and their efficient exploitation for performance is arguably rather seen from the entire firm's perspective, and not necessarily from that of a subsidiary.

Table 1. Subsidiary performance in FDI theories

Theory	Main authors	Main FDI determinants	Reference to performance
Extended interest rate theory	Heidhues [1969]	interest rate differences, information and transfer costs, uncertainty, risk	explicit
Currency area theory	Aliber [1971]	exchange rates (local to foreign currency)	explicit
Monopolistic advantage theory	Kindleberger [1969]; Hymer [1976]	firm-specific advantages	explicit
Uppsala model	Johanson and Vahlne [1977, 1990]	experience (foreign market knowledge)	implicit
Internalisation theory	Buckley and Casson [1976]; Hennart [2001]; Rugman [2010]	intangible assets, transaction costs, location advantages	implicit
Eclectic Paradigm of International Production	Dunning [1998, 1995, 2001]	Ownership advantages, internalisation advantages, location advantages	implicit

While the focus on the exploitation of intangible resources in foreign markets constitutes a juncture between internalisation theory and aforementioned monopolistic advantage theory, Rugman [2010, p. 7] extends the logic of the efficiency approach with country-specific advantages. Accordingly, depending on the motives of undertaking FDI, the benefits which arise from it can embrace access to natural resources, labour, incentives from host-countries, etc. At this point, the link between internalisation theory and location theories should be stressed. The latter underline the role of host-country resources in building the competitiveness of foreign investors [Dunning 1998]. According to Dunning [2001, p. 177], firms tend to allocate the modules of the value chain in locations which enable the highest profitability. However, location theories need to be considered in combination with firm-specific resources, since location choice can affect efficient transfer of resources from headquarters to subsidiary and thus determine its performance [Brouthers, Brouthers & Werner 2003]. A crucial location variable, which determines the ability of the firm to exploit the possessed advantages for increasing its subsidiary's performance, are differences in the institutional environments between host-countries [Brouthers, Brouthers & Werner 2008]. The institution-based view, which ascertains that strategic choices are not only driven by industry conditions or firm capabilities, but are also a reflection of formal and informal constraints of a particular institutional framework, in both home and host countries [North 1990; Scott 1995]. The institution-based view is particularly relevant in the context of emerging markets, where institutional change tends to be more extensive than in developed countries and there are often significant differences in institutional infrastructures between the two categories of countries [Peng et al. 2008, p. 4]. Dunning [2005, p. 50] recognised that the extent and quality of a nation's institutions and its institutional infrastructure are increasingly becoming a critical determinant of the successful deployment of the firms' ownership advantages.

A holistic concept, which integrates some of the above mentioned perspecives is Dunning's [1988, 1998, 1995, 2001] Eclectic Paradigm of International Production, also known as the OLI (Ownership, Location, Internalisation) paradigm. It has gained widespread acceptance in international business research. It is regarded as the most comprehensive theoretical approach explaining the international activity of firms. This framework stipulates that for a firm to become an international investor, it must possess ownership advantages (O-advantages), such as brand names or proprietary technology, which can be exploited abroad in order to gain competitive advantages over local competitors. Furthermore, it has to be advantageous for the firm to use internalised operating forms (I-advantages) over market transactions (such as contractual resource transfers) to exploit its competitive advantage. Finally, it is assumed that the firm can use specific resources in a foreign location (L-advantages), such as attractive markets or low input costs, in combination with the O and I to strengthen its competitive position. While the eclectic approach does not relate these factors directly to subsidiary performance, it can be argued that the determinants of the choice of FDI as the right market entry mode, as opposed to exporting or contractual resource transfers, are also crucial in explaining a foreign venture's financial outcomes. Benito and Tomassen [2003, p. 185] suggest that internalisation of possessed ownership advantages can – in combination with location advantages – lead to both the increase of revenues, as well as the reduction of transaction and production costs.

Dunning [1998] also grouped the motives for undertaking FDI into resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking. While the latter category of motives is aimed at enhancing the resource base of a company in a given location, the former three motives can be collectively labeled as asset-exploiting [Dunning, Kim & Park 2008, p. 170]. The notion of FDI motives, and thus the role, which is assigned to a subsidiary within the MNE network, is relevant to analysis of FDI performance. The underlying investment motive determines the operational focus of a subsidiary, which may cause it to perform well in the aspects central to its mandate, while it can simultaneously underperform in other areas [Verbeke, Li & Goerzen 2009]. Therefore, a uniform application of identical performance measures to subsidiaries having different functions, such as local sales, raw material sourcing, local production and export back to the home country or know-how acquisition, could lead to misleading findings in terms of "performing" or "underperforming" units. Moreover, investment motives determine the time-frame, in which expected outcomes are to materialise [Verbeke & Brugman, 2009]. Thus, a mere analysis from a short-term perspective might also skew the real image of performance.

The above discussion of theoretical concepts in relation to their ability to explain foreign subsidiary performance leads to the formulation of an overall analytical framework for studying foreign subsidiary performance (see Figure 2). The selection of variables in the framework results from the theoretical concepts and their empirical verifications discussed in sections 2 and 3[4].

Accordingly, foreign subsidiary performance can be simultaneously affected by firm-specific factors and location variables, as can be inferred from the above discussed theoretical streams. However, research on FDI behaviour of firms also un-

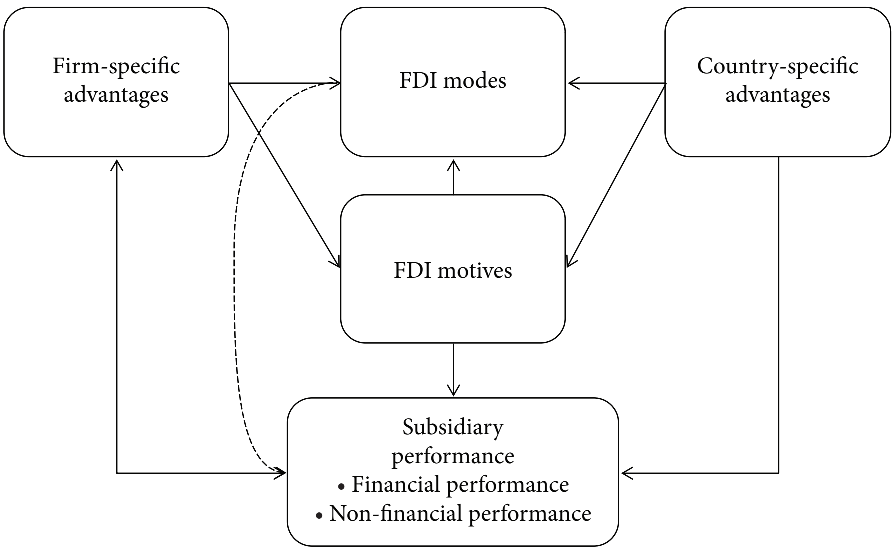

Figure 2. Aanalytical framework of subsidiary performance

[4] An obvious limitation of the framework is that it does not consider other variables, which would be worthwhile investigating if one adopted another theoretical perspective.

derlines the role of FDI modes (joint ventures, greenfield and acquisitions) as important variables, since they incur different governance costs on the one hand, and have different effects on the ability of the entrant to leverage its extant capabilities or acquire new resources, on the other hand. As mentioned above, a relevant variable is that of FDI motives, which determines the specific performance dimensions important from the point of view of foreign subsidiaries objectives within the parent organisation. As illustrated in the framework, the said variables are interrelated, i.e. while they can be regarded as factors directly affecting subsidiary performance, they also exert influence upon each other.

3. FDI theory vs. findings of previous studies

The above discussion of FDI theories points to their partly normative character in regards to economic outcomes, i.e. the determinants of the choice of FDI as a foreign entry strategy can be explicitly related to performance or – implicitly – it can be assumed that the choice of FDI, as prescribed by theory should ensure realisation of the ultimate goal of performance maximisation. However, as mainstream FDI theory remains rather general in relation to specific factors affecting foreign subsidiary performance, it should be confronted with concrete research findings to verify its recommendations and identify other relevant determinants.

As regards the role of firm-specific advantages, several studies based on the resource-based view, knowledge-based view and dynamic capability perspective, have looked into resources on the parent company or subsidiary level. On the level of the parent company, research confirmed the positive influence of such resources as firm size, product differentiation, international experience and host-country experience [Vega-Céspedes & Hoshino 2001], technological and marketing knowledge [Fang et al. 2012] or ethnical ties of managers with foreign business partners [Jean Tan & Sinkovics 2011]. These findings seem to be consistent with theoretical predictions, since firm-specific advantages have been widely understood as attributes of the parent firm. Empirical investigations, however, also draw the attention to the level of the foreign subsidiary, whereby technological skills, human resources, internal and external network ties [Xia, Qiu & Zafar 2007] or subsidiary size [Chiao et al. 2008] were found to be positively related to foreign subsidiary performance. Regarding the role of experience, studies based on organisational learning and evolutionary theory, have emphasised the relevance of firm experience for subsidiary performance, yet reaching inconclusive results. Contrary to the predictions of the Uppsala model, general international experience might affect FDI performance positively or negatively. The possibility of benefiting from international experience can be negatively affected by cultural distance [Luo 1999a] or host-country development level [Makino, Isobe & Chan 2004]. Moreover, in the light of extant research, experience in the host-country seems to be more valuable as opposed to the general one [Dikova 2009; Wu & Lin 2010][5]. Moreover, experience gained in economically and institutionally similar markets has hardly been examined for its impact on FDI performance [Luo & Peng 1999].

With regard to the normative value of the efficiency approach to FDI, research has drawn on transaction cost theory to propose that foreign entry modes will yield different performance outcomes due to different governance costs, as well as the costs of resource acquisition or development [Lecraw 1983, 1984]. A higher performance of greenfield subsidiaries as compared to joint ventures and acquisitions was observed [Woodcock, Beamish & Makino 1994; Nitsch, Beamish & Makino 1996]. However, no significant performance differences between the FDI modes were established in other studies [Chan 1995]. Shaver [1998, p. 571] claimed that research designs ought to consider self-selection of FDI modes, which means that the results of particular modes depend on contextual factors. Consistent with this line of reasoning, it was found that entry modes chosen based on the transaction cost theory predictions (extended with institutional and cultural factors) displayed superior economic results [Brouthers 2002; Brouthers, Brouthers & Werner 2003]. On the other hand, Kim and Gray [2008] found that entry modes selected on the basis of transaction cost premises were paradoxically related to worse financial and similar non-financial outcomes, pointing to the existence of other moderating variables. These can include the learning effect, legal restrictions in host countries [Ogasavara & Hoshino 2007], cultural distance [Mulok, Azimah & Ainuddin 2010] or institutional distance [Gaur & Lu 2007].

Moving on to the level of host-country variables, which are part of location theories, as well as the aforementioned eclectic paradigm, empirical evidence suggests that host-country effects can be equally relevant in explaining FDI performance as industry or firm effects [Makino, Isobe & Chan 2004]. However, prior research including such variables as psychic distance [Dikova 2009] or the level of economic and institutional development [Chan, Isobe & Makino 2008; Chung & Beamish 2005] has reached inconsistent results. Particularly, the effects of psychic distance were proven not to have a direct relationship with performance [Dikova 2009]. On the other hand, the said institutional approach seems to have a high explanatory value as applied to foreign subsidiary performance. The institutional development of host countries was found to be positively related to subsidiary performance by affecting the costs of subsidiary operations [Gugler et al. 2009]. Moreover, the institutional environment also determines the ability to make use of firm-specific re-

[5] However, its relevance is context-based. Delios and Beamish [2001] found that in case of wholly-owned subsidiaries, host-country experience increased survival, but not profitability. Further, Wu and Lin [2010] observed that host-country experience has a weaker influence on subsidiary profitability in unrelated rather than related foreign industries.

sources. Companies possessing weaker resource advantages were found to prefer joint ventures in case of high institutional distance, while wholly-owned subsidiaries in case of a low one [Brouthers, Brouthers & Werner 2008]. In locations with a lower level of institutions, in which market-based advantages might matter less, the variation in economic outcomes across individual firms turns out to be higher [Makino, Isobe & Chan 2004]. In line with the reasoning of the institutional theory, this can result from the absence of patterns of legitimate behaviour, which stabilise the outcome expectations [Chan, Isobe & Makino 2008]. On the other hand, it has been suggested that the differences in subsidiary performance can be related to a heterogeneous capability of firms to cope with environmental uncertainty, a relationship which has so far not been examined adequately in empirical research.

Finally, as far as the aforementioned FDI motives are concerned, they turn out to be an overlooked determinant of subsidiary performance. Studies show that FDI oriented towards market seeking is more related to local market sales growth than to other location advantages [Demirbag, Tatoglu & Glaister 2007]. Uhlenbruck [1997] compared the influence of market- and resource-seeking motives, finding the effect of lower labour costs in Eastern European host countries but no impact of market factors. Luo [1999b] found that a subsidiary's focus on cost efficiency positively relates to the return on assets, export growth and risk reduction, while a local market focus relates to local market growth.

4. Conclusions and directions for further research

Discussion of major theories explaining the foreign expansion of firms (see section 2) indicates that, more or less explicitly, the maximisation of firm performance constitutes the underlying rationale of these approaches. Since the parent firm perspective is apparently predominant, the success of foreign subsidiaries seems to be merely a necessary condition to increase overall firm competitiveness. Far less can be directly inferred about the success determinants of local subsidiaries, which can follow their own strategies and exert strong influence within the parent firm network.

Moving to the level of empirical evidence reviewed in this paper, there seems to be no unanimity, either (see section 3). Findings in relation to the influence of firm-specific advantages, transaction cost (or internalisation) variables, FDI modes or host-country factors display many contradictions. One of the underlying reasons could be seen in the operationalisation of the very notion of performance (see section 1). Depending on the adopted measurement of a foreign subsidiary's results, the influence of particular determinants might be positive or negative, which does not per se pose any contradiction with other studies.

Moreover, an important issue results both from the empirical findings and the very assumptions of the underlying theories. Firstly, the mere observation of direct effects of particular factors might not lead to meaningful results due to the fragmentary character of single theoretical concepts. Secondly, the importance of particular firm-level factors cannot be analysed without simultaneously considering the host-country context, as well as factors related to the governance of transactions (i.e. FDI modes). Therefore, studies on the performance of foreign subsidiaries should not only pay attention to some of the said factors as separate determinants on performance, but also consider the interaction effects between them by following a broader, more holistic research design (see Figure 2).

The above discussion could inspire future research on FDI performance, particularly in empirical settings, where this phenomenon is of growing importance, however it has still received relatively little attention. One of such contexts is the post-communist, middle-income countries of Central and Eastern Europe (CEE), which – as a subset of emerging countries – are of specific interest for performance research for several reasons. While comparative studies of FDI from several CEE countries pointed to a generally positive influence of FDI on the investors' competitive position, the degree of fulfillment of the related expectations varied significantly between firms from different home countries, due to barriers and difficulties related to foreign investments [Svetličič & Jaklič 2003, p. 68]. Indeed, firms from the CEE are latecomers to international markets and usually display disadvantages in terms of international competitiveness [Svetličič 2003, p. 8]. The study by Rosati and Wiliński [2003] indicated that Polish outward investors mostly reported no radical improvement in the overall financial position of the parent company as a consequence of undertaking FDI, while the strongest visible impact could be stated in regard to the development of export activities. A more recent survey of Polish investors pointed to a mostly slight increase of competitiveness as a consequence of undertaking FDI [Szałucka 2009, p. 101]. Accordingly, the understanding of the conditions, under which FDI can result in superior performance, requires further enhancement. The recommendations developed from extant FDI theory, which was developed in the context of mature economies, might not necessarily hold true for newcomer firms.

More specifically, the impact of host-country characteristics on the success of foreign expansion deserves particular attention in the context of the CEE region, as its historical heritage has significantly shaped the institutional environments. Institutional characteristics of both home and host countries can impact on FDI modes and location choice [e.g. Bevan, Estrin & Meyer 2004; Dunning 2005]. Therefore, further studies should contribute to the understanding of FDI performance determinants in the case of companies which are newcomers to the global economy. The performance aspects of internationalisation are particularly relevant for newcomer companies, as they still remain at an initial stage of expansion through FDI and are therefore confronted with uncertain decisions affecting their financial and non-financial results. Alongside looking at the idiosyncratic character of firm resources, future research should aim to investigate the interactions between resources and the context of their application. Following recent calls to account for institutional factors when studying firm internationalisation [e.g. Peng, Wang & Jiang 2008], an explicit investigation of the impact of formal and informal institutions on FDI performance would provide new insights into the currently still inconclusive research on these aspects and shedding light on the particular type of firm advantage related to embeddedness in a transition economy environment and – consequently – to the experience of doing business in similar contexts.

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