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Foreign- Versus Domestic-Owned firms in the Predicament 'Cui bono?'

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Abstract

Background: This article examines the productivity of domestic firms in the case of the foreign ownership. **Objectives:** Foreign direct investments affect the competitive competences of domestic firms; thus, the objective is to see the way foreign ownership drives the growth of domestic firms. **Methods/Approach:** The study uses standard models to analyse productivity; they are applied to data sets of Macedonia, a Southeast European economy, and it is concluded that foreign ownership has a major role in domestic firms' restructuring processes increasing their productivity. **Results:** Surely, the results support the principal notion that the augmented presence of foreign firms is to influence the restructuring and business activity of domestic companies positively. **Conclusions:** Our analysis verifies that foreign ownership has influenced the overall economy and particularly domestic-owned firms with the constant increase in employment and especially direct export.

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Introduction

There is well-developed literature analyzing many aspects of foreign direct investments. As far as the interest related to the performance of domestic in comparison to foreign owned firms is concerned, there are five major issues. First, governments assign generous resources in investment promotion in order to lure foreign capital. Present day research is conclusive on the importance of foreign direct investment for economic progress, especially on productivity and technology transfer to host economies (Keller, 2000; Keller and Yeaple, 2009). The basic arguments behind this claim are rooted in the systematic superior performance of foreign investments compared to domestic owned firms. When it comes to particularities related to the presence of foreign owned companies, it should be said, that the literature also identifies negative spillovers (Chung, Mitchell, and Yeung, 2003; Gorodnichenko, Svejnar and Terrell, 2014). Second, increased mergers and acquisitions affect the share