The assessment of impact of foreign direct investment on a company's performance in Baltic countries

Ekaterina Azarkevich[a], Julija Bistrova[a], Natalja Lace[a*]

[a] *Riga Technical University, Faculty of Engineering Economics and Management, 6 Kalnciema Str., Riga, LV-1048, Latvia*

Abstract

Purpose of the article The aim is to investigate the impact of foreign direct investment (FDI) on company's performance using the data for more than 380 companies located in Baltic countries and working mainly in the wholesales and trade and manufacturing industries.

Methodology/methods In order to investigate the relationship between GDP and FDI the correlation and regression analysis were used. The mean comparison was used to identify the significant difference in financial ratios of companies with FDI and without FDI. The regression model estimation was applied to explore the impact of FDI on profitability of companies.

Scientific aim is to discover whether the companies with FDI show significantly better financial performance than the companies without FDI. The following hypotheses were advanced in the current study: H1: There is significant qualitative and quantitative difference between the companies depending on whether there is a foreign capital or not; H2: The financial performance of companies with FDI is significantly different from the financial performance of the companies without FDI; H3: The indicators affecting profitability differ between companies with foreign direct investment and domestic companies.

Findings The mean comparison results indicate that there are significant differences in terms of profit margin and number of employee for Lithuanian companies, assets turnover and age for companies in Latvia and operating revenue and total assets in Estonia. Partially the same results gave the regressions with dummy variable, where the significant difference in age, leverage, assets turnover were indicated for Latvia and profit margin was indicated for Lithuania. The correlations results shows that the financial leverage positively impacts foreign company's profitability in Latvia and Estonia and negatively impacts domestic companies in the same countries. The significant impact of foreign direct investment on the company's profitability was indicated only in case of Lithuanian companies, where the financial performance of foreign companies is 0.016 points superior than domestic companies have.

Conclusions This study has its limitations in the scope of data used, since it covers only the manufacturing and wholesale and trade sector companies with the net turnover in 2015 not less than 50, 000 euro. Moreover, the significant limitations and constraints of this study are also associated with the lack of available and reliable data on performance of Latvia, Lithuanian and Estonian companies. The research was conducted based on data of one period due to the unavailable information of annually information how the ownership of the company was changing. The domestic companies and foreign companies are not significantly differ in terms of profitability ratios: ROA, ROE and ROCE based on the regression results. Foreign companies in Lithuania has higher profit margin than the domestic companies do. The Lithuanian domestic companies' profitability is significantly higher than profitability of foreign companies by 0.016 points. The foreign companies in Latvia have more efficient asset utilization and significantly higher operating revenue than domestic companies do. Latvian foreign companies' profitability is positively affected by leverage.

Acknowledgements The paper was supported by the project „The Development of Innovation and Entrepreneurship in Latvia in Compliance with the Smart Specialisation Strategy" within the National Research Program 5.2. "Economic Transformation, Smart Growth, Governance and Legal Framework for the State and Society for Sustainable Development - a New Approach to the Creation of a Sustainable Learning Community (EKOSOC-LV)".

Keywords: Foreign Direct Investment, performance, profitability, Baltic countries

JEL Classification: M15, M21

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[*] Corresponding author: Tel.: +37129543819
E-mail address: natalja.lace@rtu.lv