

匯率變動對多國企業績效評估 與轉撥計價之影響—— 中華民國外資企業之研究

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中文摘要 績效評估與轉撥計價是多國企業在引導並控制其全球營運的主要管理工具。多國企業對於其在世界各地營運單位所作之績效評估，促使各事業單位朝著總公司之營運目標前進。而其利用轉撥計價之方法，則可引導各單位以利潤中心之觀念增進營業績效，並可調節整體之現金流量因應各國之特殊環境與規範。

近年來，亞洲太平洋許多國家，包括日本、韓國、台灣、香港、新加坡等之貨幣對美金之兌換率已有不同幅度之升值，尤以日本、台灣、韓國升值更高。由於匯率變動，多國企業在評估其國外事業時便增加了新的變數。同一事業單位，因為外匯變動之關係而使其績效之表達受到影響。各事業單位間之轉撥計價也因匯率改變而有所不同。

本文便針對以上問題，以問卷之方式，向在台灣美商公司之母公司進行調查，以瞭解多國企業在匯率大幅變動下是否對其績效評估之政策有所改變，以及影響其轉撥計價政策之主要原因。

研究之結果發現大多數多國企業之績效評估受匯率變動之影響不大，而不一定要求其子公司對匯率變動之結果負責。在轉撥計價方面，本研究利用因素分析之結果顯示有六個主要的因素對於多國企業制定轉撥計價有重大之影響。

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THE IMPACT OF CURRENCY EXCHANGE FLUCTUATION ON MULTINATIONAL FIRMS' PERFORMANCE EVALUATION AND TRANSFER PRICING – A STUDY IN TAIWAN

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Abstract

Performance evaluation and transfer pricing are important management devices to multinational corporations for directing and exercising control over their world-wide operations. In recent years, U.S. currency has depreciated significantly against a number of countries within the Pacific Rim, such as Japan, Korea and Taiwan. Due to this shift in currency value, multinational firms operating in this environment are confronted with a new challenge in evaluating the performance of their subsidiaries. This paper reports results of a survey designed to expand our understanding of the impact of currency

fluctuation on the performance evaluation practice of U.S. multinational firms having operations in Taiwan. In addition, factors which affect transfer pricing policies of U.S. multinational firms were also explored.

1. Introduction

In order to manage their worldwide operations successfully, multinational corporations (MNCs) must develop performance evaluation systems as control devices. A performance evaluation system, if designed properly, assists top management in identifying problem areas, in allocating limited company resources effectively, and in ensuring the achievements of the MNC's goals [Choi and Mueller, 1984; Persen and Lessig, 1979; Srinivasan and Schoenfeld, 1978; and Shapiro, 1978]. Developing an effective performance evaluation system for foreign operations is both a science and an art. Because the goal of performance evaluation of foreign subsidiaries is to provide an *ex ante* incentive for the subsidiary management to take actions that are congruent with the company's overall objectives, differences between countries, particularly cultural differences, should be taken into consideration. Besides environmental differences – such as the tax regulations, economic policies, and inflation rates – foreign exchange rate fluctuations should also be considered as factors which influence their performances [Morsicato, 1980; and Cunningham, 1978].

Foreign exchange fluctuations are beyond the control of individual corporations. Nonetheless, anticipating them and taking appropriate action are necessary parts of management function. The responsibility of dealing with foreign exchange fluctuations may fall on the corporate headquarters of MNCs or on their foreign subsidiaries, depending on their management philosophies and styles [Zenoff, 1980; Czechowica, Choi and Bavishi, 1982]. Those corporations that charge their headquarter management with this responsibility believe that the foreign subsidiaries should be responsible only for their business operations, not for dealing with the financial uncertainties created by fluctuating currency values. Thus, the foreign subsidiary can concentrate on its primary business operations. On the other hand, corporations that delegate this responsibility to their foreign subsidiaries tend to think that the success of a foreign operation lies in its financial

Exhibit 1
Change of Foreign Exchange Rate*
 (US \$1 at End of the Year)

	Japan Yen	Korea Won	Taiwan Dollar
1985	238.47	861.89	39.89
1989	133.48	675.23	26.96
% Change	78.7%	27.6%	48.0%

*Source: Statistical Abstract of the United States (1990)

operations, as well as in its business operations. The foreign subsidiaries should accomplish both operations.

The values of foreign currencies in the Pacific Rim countries have appreciated dramatically since 1985, as shown in Exhibit 1. By the end of 1989, the Japanese Yen has appreciated by about 79% against U.S. Dollar, while Korean Won appreciated about 28% and the Taiwanese Dollar appreciated about 48%. This paper attempts to gather evidence from the U.S. multinational firms on their attitudes and policies toward foreign currency fluctuation and its impact on performance evaluation.

Usually international transfer pricing policies to facilitate cash movements and to minimize taxes are developed by MNCs at the top management level. A sound transfer-pricing system can provide a reasonable measure of divisional performance and help ensure efficient allocation of corporate resources [Miller, 1979]. Therefore, this study also explores factors which may affect MNCs' transfer pricing policies. An international transfer pricing system should achieve several objectives: consistency with the system of performance evaluation, minimization of foreign exchange risks, avoidance of conflict with host governments, management of cash flows, reduction of income taxes, competition in the foreign country markets, and so on. Theoretically, multinational enterprises have the ability to use their international transfer pricing policies to maximize their global profits. However, different international tax rates, fluctuating foreign exchange rates, diverse and numerous governmental regulations, and other economic and social problems make it very complex and difficult for multinational firms

to set their transfer pricing policies. To further our understanding of factors used in setting these important and complex policies, U.S. multinational firms with subsidiaries in Taiwan were selected as a basis for study.

2. Sample Selection and Instruments

A sample of 112 firms was selected from the *Directory of U.S. Firms in Taiwan* [China Commercial Service, 1989]. Their parent companies in the U.S. were identified, and survey questionnaires were sent to their controllers, chief financial officers or financial managers. A total of 112 questionnaires were sent out over approximately five weeks. After five weeks, a follow-up letter with another copy of the questionnaire was sent to facilitate more responses. Twenty-eight questionnaires were returned with valid answers, making the overall response rate 25%. The usual mail survey response rate is about 20% [Kanuk and Berenson, 1975], so the 25% response rate for this study was not surprising, given the scope of the research. Because of this small sample size, interpretations of the research results should be made with caution.

There were two sections in the questionnaire. The first section contained 25 questions regarding performance evaluation policy. Subjects were asked to circle the answer(s) for their Taiwanese operations only. In the second section, twenty transfer-pricing environmental variables were listed. These variables were suggested by Tang [1980] after extensive review of the existing literature. Subjects were asked to check, on a five-point scale, the degree of importance their companies placed upon each of the 20 transfer-pricing variables. If they considered the variable "extremely important" in setting their transfer pricing, the point value was 5. On the other hand, if they considered the variable "not at all important", the value 1 was to be assigned.

3. Data Analysis and Survey Results

3.1 Performance Evaluation

The data were analyzed using the SPSS/PC+ statistical software package.¹ Descriptive statistics from the data were used for analyzing the MNCs' performance evaluation policies.

¹SPSS/PC+ for the IBM PC/XT/AT, SPSS Inc., Chicago, Illinois, 1986.

3.1.1 Environmental Adjustments

Of the 28 valid responses, 27 indicated that their firms held majority interests in their Taiwanese operating units. Therefore, the headquarters of these MNCs are more likely to exercise significant controls over these units than are their non-majority owned operating units. Also, 27 indicated no differences in the performance evaluation techniques used for their domestic and Taiwanese operating units. When asked whether they used the same evaluation for their operating units in Taiwan as for units in other countries, 19 (68%) responded positively. The other firms (32%) made adjustments in evaluating their foreign operations by comparing foreign operating units, thus providing implicit recognition of the environmental differences. However, most U.S. MNCs apparently do not emphasize environmental differences in their performance evaluations of foreign operating units. This is also reflected in the answers to other questions.

When asked whether their firms' performance evaluation systems are designed to reflect the environmental differences that may be of greater concern in one geographical area than in another, the majority of the respondents answered negatively. On a scale anchored at 1 (to a great extent), 3 (moderate extent), and 5 (not at all), 75% of the respondents answered 4 or higher, and the average score was 3.89. This indicates that their firms' systems of performance evaluation were designed to reflect environmental differences (cultural, legal, political, economic) only to a less than moderate extent. Nonetheless, when asked their opinion on whether their firms' performance evaluation systems should reflect the environmental differences, only about 25% responded negatively or marked the number 4 or 5. The others responded more positively, and the average score was 3.11, suggesting there should be at least moderate reflection of environmental differences in performance evaluation systems. These answers seem to suggest that current performance evaluations for foreign operating units do not give adequate consideration to environmental differences, even though there is a need to do so.

3.1.2 Reporting of Currency Fluctuation

Fluctuations of foreign currency value do not appear to have a major impact on the performance evaluation standards used by the MNCs.

When asked who is responsible for anticipating and reporting foreign currency fluctuations, 15 (54.8%) answered the foreign subsidiary manager, 11 (42%) indicated the home office personnel, and 1 (4%) answered both the subsidiary manager and home office personnel. All respondents indicated that fluctuations of foreign currency values did not change the standard used for performance evaluation of foreign operating units and operating managers. Such fluctuations also did not affect the financial measures used for performance evaluation nor shift of the emphasis from U.S. dollar statements to local currency statements or vice versa. When MNCs did not consider fluctuations of foreign currency value in their performance evaluation, they may simply have charged their foreign operating units with business and financial responsibilities. On the other hand, if they failed to recognize the impact of currency fluctuations, the basis of their performance evaluation over foreign operating units may be misleading.

3.1.3 Budgeting

Because budgeting systems are crucial for MNCs to exercise their controls over their foreign subsidiaries, all respondents reported that they used budgeting for performance evaluation. Furthermore, 22 (79%) of the respondents indicated that they also used additional measures for the performance evaluation. In terms of the use of exchange rate, about half of them indicated that they used the expected exchange rate at the planning date both for preparing their budgeting and for the performance evaluation. In addition, 4 (14%) indicated that they used actual exchange rate at planning date both for budgeting purposes and for performance evaluation. The use of either rate for both situations by 61% of the respondents suggests that the head offices of these MNCs do not hold their foreign subsidiaries responsible for the foreign exchange fluctuation risk. However, 7 (25%) firms reported that they used the expected exchange rate at the planning date for budgeting but used the actual rate at the evaluation date for performance evaluation, which suggests that they consider the foreign subsidiaries responsible for foreign exchange fluctuation risk.

For the Taiwanese units of the MNCs, 64% of the respondents indicated that budget preparation was done primarily in local currency and then translated into U.S. dollars; about 18% revealed that budgets were prepared

in local currency. Furthermore, the Taiwanese subsidiary managers were involved in the budget preparation process, as can be seen from the reports that budgets were either prepared by the Taiwanese subsidiary managers (75%) or by their home office after consulting with the subsidiary manager (18%).

3.1.4 Performance Evaluation of Managers

About 39% of respondents indicated that the foreign exchange gains and losses were included in performance evaluations of their foreign subsidiary managers. For 54% of respondents, such gains and losses were the responsibility of their head office personnel. Interestingly, one firm reported that they held both the subsidiary manager and home office personnel responsible for the foreign exchange gains and losses. For performance evaluation, responses revealed that multiple measures (an average of 3.28 measures) were used by MNCs rather than a single measure. Among the measures listed, profit was named most frequently (24 out of 92 times), followed by return on investment (ROI) (17 out of 92 times), budget compared to actual profits (16 out of 92 times), and return on equity (ROE) (11 out of 92 times). Although residual income incorporates the opportunity cost concept and is considered by Kaplan [1989] to be a better measure than ROE, none of the respondents indicated that residual income was used by their firms. It appears that MNCs do not take the opportunity cost into consideration for their overseas investments.

In judging the performance of their Taiwanese operating units, 39% of the respondents indicated that they used the performance of other managers in other countries and the historical data of the subsidiary as bases. Eighteen percent indicated that they used only the historical data of the subsidiary as the basis of evaluation. In answering questions regarding which monetary unit should be used on financial statements for the performance evaluation of Taiwanese managers, 86% of the respondents indicated that they consider local currency better. Again, this would seem to reflect an attitude that foreign exchange fluctuation risk should not be included in the performance evaluation of subsidiary managers.

3.1.5 Performance Evaluation of Operations

As indicated by Kaplan [1989], evaluating a divisional manager differs from evaluating the division. For a divisional manager, there may be variables which the manager cannot control but which may be controlled within the division. Therefore, separate evaluation criteria may be necessary. As a result, this survey also solicits information regarding performance evaluation of foreign subsidiaries as operation units.

About 89% of the respondents indicated that in their firms financial statements were used as a measure for internal control. Only 3 of them (11%) indicated otherwise. Financial statements presented in terms of local currency were considered by 73% of the respondents to be superior for the performance evaluation of Taiwanese operating units. Nineteen percent thought that it was desirable or necessary that financial statements be presented in both local currency and U.S. dollars. Respondents ranked financial measures in terms of their importance in evaluating operating units; among the measures listed, profit was the most frequently mentioned (24 out of 93 times), followed by return on investment (ROI) (17 out of 93 times), budget compared to actual profits (14 out of 93 times), and return on equity (ROE) (13 out of 93 times). Once again, residual income was not mentioned in the responses as a financial measure for evaluating the operating units. Moreover, the financial measures listed above were very similar to those listed to evaluate the subsidiary managers' performance.

As a basis for comparing performances, 42% of the respondents cited using the performance of similar units in other countries and the historical record of the subsidiary. Nineteen percent of respondents indicated they used only similar units in other countries as bases for comparison, and 12% indicated the use of similar units in the U.S. and historical data of the subsidiary.

3.2 Transfer Pricing

Using the SPSS/PC+ software package, a factor analysis was performed on the environmental items that comprised the transfer pricing questionnaire. Factor analysis is a statistical technique applied to a single set of variables when the researchers are interested in discovering which variables in the set form coherent subsets that are relatively independent of one another. Variables that are correlated with one another, but fairly indepen-

dent of other subsets of variables, are combined into factors. In addition to factor analysis, some descriptive statistics were also used to analyze data.

3.2.1 Important Variables of Transfer Pricing Policies

The descriptive statistics allow us to distinguish which variables are important in setting transfer pricing policies. Table 1 shows the average of each variable in a descending order. As expected, "overall profit to the company" is the most important variable. The next important variable is "restrictions imposed by foreign countries on repatriation of profits or dividends." Both variables are profit related. The low standard deviations for these variables indicate that there was relatively greater consensus among the subjects on the importance of *profit* consideration. Other variables which received a high rating include "antitrust legislation of foreign countries," "maintaining good relationships with host governments," "import restrictions imposed by foreign countries," "antidumping legislation of foreign countries," and "the competitive position of subsidiaries in foreign countries." From these high rating variables, we know that the *governmental relationships*, *legal environment*, and the *competition* of the foreign country also were very important to subjects.

3.2.2 Factor Analysis

In the current study, we did not test any hypotheses. However, there are some open questions and hunches within the context. Therefore, exploratory factor analysis was performed to reveal the factors underlying a broad collection of environmental variables related to transfer pricing policies. The 20 environmental variables were analyzed using the QUARTIMAX method (oblique rotation) in SPSS/PC+ software, and maximum likelihood technique (ML) was used for factor extraction. Because some factors are correlated to one another, oblique rotation is more appropriate for this study. The maximum likelihood method was used because it obtains sets of factor loadings successively in such a way that each in turn explains as much as possible of the population correlation matrix as estimated from the sample correlation matrix (Nunnally, 1978). Seven factors were extracted for identifying underlying dimensions of environmental considerations of international transfer pricing policies. The criterion used to

TABLE 1
Environmental Variables of International Transfer Pricing

Rank	Variable Symbol	Variable Definition	Average	Standard Deviation
1	V1	Overall profit to the company	4.25	0.68
2	V20	Restrictions imposed by foreign countries on repatriation of profits or dividends	4.04	0.62
3	V14	Restrictions imposed by foreign countries on the amount of royalty or management fees which can be charged against foreign subsidiaries	3.79	0.72
4	V15	Antitrust legislation of foreign countries	3.62	0.82
5	V5	Maintaining good relationships with host governments	3.54	0.83
6	V2	The competitive position of subsidiaries in foreign countries	3.54	0.88
7	V8	Import restrictions imposed by foreign countries	3.42	0.78
8	V11	Antidumping legislation of foreign countries	3.29	1.04
9	V12	Differentials in income tax rates and income tax legislation among countries	3.29	1.04
10	V9	Rules and requirements of financial reporting for foreign subsidiaries	3.04	0.98
11	V4	The need to maintain adequate cash flows in foreign subsidiaries	2.96	0.69
12	V10	Rate of customs duties and customs legislation where the company has operations	2.96	0.91
13	V19	Domestic government requirements on direct foreign investments	2.87	1.08
14	V3	Restrictions imposed by foreign countries on the amount of royalty or management fees which can be charged against foreign subsidiaries	2.71	0.86
15	V13	The need of subsidiaries in foreign countries to seek local funds	2.71	0.81
16	V6	Devaluation and revaluation in countries where the company has operations	2.71	0.85
17	V16	Rates of inflation in foreign countries	2.67	0.87
18	V18	Risk of expropriation in foreign countries where the company has operations	2.62	0.82
19	V7	The interests of local partners in foreign subsidiaries	2.21	0.83
20	V17	Volume of interdivisional transfers	2.08	0.72

decide the number of factors was the size of the eigenvalues. According to the statistical analysis, seven factors were obtained because their eigenvalues were larger than 1.²

Table 2 presents the quartimax factor loading matrix. Loadings less than 0.5 are not shown in the table. A loading matrix is a matrix of correlations between observed variables and factors. The sizes of the loadings reflect the extent of relationship between each observed variable and each factor. Usually, each variable loads on several factors. For any single factor the loadings of a few variables are large while the loadings of the other variables are small. Higher loadings represent the factor better. Therefore, based on more representative ones (loadings > 0.50) of each factor, names of factors were decided. Furthermore, variances of the original variables which can be accounted for by each individual factor as well as cumulative percentage of variances are shown in Table 3.

The first factor is *risk and reporting*. It represents four variables: risk of expropriation in foreign countries where the company has operations (V18); rules and requirements of financial reporting for foreign subsidiaries (V9); rates of inflation in foreign countries (V16); and volume of interdivisional transfers (V17). As can be seen from Table 3, this factor is the most important, because it explains 21.4% of the variance attributable to the original variables.

The second factor is *legal environment* which can account for 18.5% of total variance of the original variables. Variables that highly relate to this factor are domestic government requirements on direct foreign investment (V19); import restrictions imposed by foreign countries (V8); rate of customs duties and customs legislation where the company has operations (V10); and restrictions imposed by foreign countries on repatriation of profit or dividends (V20).

The third factor, *local partner's interest* (V7), is also an important concern of MNCs. Indeed, these first three factors are very important in MNCs' setting the transfer pricing policy. Combining these three factors can explain more than half of the variances (50.1%).

²Eigenvalues represent variance. The variance that each standardized variable contributes to a principal components extraction is 1. Therefore, from a variance perspective, a component with an eigenvalue less than 1 is not as important as an observed variable (Tabachnick and Fidell, 1989).

TABLE 2
Quartimax Factor Loadings of
International Transfer Pricing

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
V18	.93391						
V9	.77810						
V16	.71067						
V17	.70516						
V2	.42462						
V19		.97818					
V8		.74662					
V10		.64012			.51663		
V20		.52972					
V7			.81627				
V5				.82122			
V14				.75937	.51292		
V4	.51216			.69490			
V12				.61638			
V1				.55837			
V3	.52036				-.59803		
V11					.57188		
V6						.83004	
V13	.51917						.76711
V15							.60119

KEY:

Factor	Name
1	Risk and Reporting
2	Legal Environment
3	Local Partners Interest
4	Governmental Relationships and Consideration of Profit and Cash Flows
5	Performance Evaluation and Antidumping Legislation
6	Currency Stability
7	Financial Need and Antitrust Legislation

TABLE 3
Variances Accounted for by Factors

Factor	Titles of Factors	Percent of Variance	Cumulative Percent of Variance
1	Risk and Reporting	21.4	21.4
2	Legal Environment	18.5	39.9
3	Local Partners Interest	10.2	50.1
4	Governmental Relationships and Consideration of Profit and Cash Flows	8.0	58.1
5	Performance Evaluation and Antidumping Legislation	6.1	64.2
6	Currency Stability	5.1	69.3
7	Financial Need and Antitrust Legislation	4.8	74.1

The fourth factor is *governmental relationships and considerations of profit and cash flows*, which includes maintaining good relationships with host governments (V5); restrictions imposed by foreign countries on the amount of royalty or management fees which can be charged against foreign subsidiaries (V14); the need to maintain adequate cash flows in foreign subsidiaries (V4); differentials in income tax rates and income tax legislation among countries, and overall profit to the company (V1).

Another factor is related to *performance evaluation (V3)* and *antidumping legislation of foreign countries (V11)*. However, according to an additional test (Cronbach's reliability test), this factor is not reliable: the reliability coefficient alpha of this factor is 0.5412 and the cut-off point for alpha is usually 0.6. This result implies that both V3 and V11 may belong to other factors because this factor does not represent them well. Variable 3, performance evaluation, also loads on the first factor.

Currency stability is the sixth factor. Only V6, devaluation and revaluation in countries where the company has operations, loads on this factor. This result confirms that currency exchange fluctuations have an impact on international transfer pricing policy.

The last factor is *financial need and antitrust legislation*. The reliability coefficient alpha of this factor is 0.598, which is close enough to 0.6 to justify its inclusion as a reliable factor. Two variables are related to this factor:

the need of subsidiaries in foreign countries to seek local funds (V13) and antitrust legislation of foreign countries (V15).

Variables 3, 4, 10, and 13 loaded on two factors. However, variables 4, 10, and 13 each have one loading relatively higher than the other loading. Therefore, only their major loadings were considered. V3 (performance evaluation of foreign subsidiaries) was the only variable with two loadings that are very close (absolute value of $-.59803$ versus 0.52036). In addition, the original factor 5, on which V3 and V11 load, was eliminated because of low reliability. Perhaps performance evaluation is a confusing variable to subjects. Further study about the relation of transfer price and performance evaluation is needed.

V2 (the competitive position of subsidiaries in foreign counties) was dropped because its highest loading is only 0.42462 (< 0.5). This variable is related to risk. Either with or without this variable, the first factor is risk oriented. However, according to the means and standard deviations, V2 is one of the high rating variables. Probably this variable is not as salient as *currency stability* or *local partner's interest* to be a single factor by itself, and, if the product or the market is under stable situation, it is not highly related to the risk factor.

4. Conclusions and Limitations

Our findings reveal that fluctuation of foreign currency value does not have major impact on the performance evaluation of foreign operating units of MNCs. The majority of MNCs in this research do not hold their foreign subsidiaries responsible for the results of fluctuating foreign currency. Furthermore, MNCs use multiple measures rather than a single measure for performance evaluation. Among those measures listed, profit is considered to be the most important measure for the performance evaluation of foreign operations and subsidiary managers. Since residual income is not considered by any of the MNCs surveyed, whether they take opportunity cost into consideration when looking at the world market in terms of various investment opportunities is unclear. Our results also reveal that even though environmental differences are important for the design of performance evaluations, present practice does not reflect such differences. This suggests that U.S. MNCs have yet to address the issues of divergent world environments.

As to the transfer pricing policies, the descriptive statistics show that profit and legal environment were considered the most important factors in the MNCs represented by our respondents. Furthermore, the factor analysis indicates they considered six factors important in setting MNCs' transfer pricing policy: risk and reporting, legal environment, local partner's interest, governmental relationships and considerations of profit and cash flow, currency stability, and financial need and antitrust legislation. In particular, risk and reporting, legal environment, local partner's interest together can account for half (50.1%) of variance of original variables. The results also indicate that MNCs consider currency exchange fluctuation when setting the transfer pricing policy.

Given the inherent small sample size of this research, the degree to which the results are generalizable to other relevant groups could be limited. In addition, the risk of non-response bias has not been eliminated. Therefore, interpretation of the findings must be made with caution.

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