

**Gordon Institute  
of Business Science**  
University of Pretoria

**South African multinational enterprises' performance and the  
multinationality effect between 2005 – 2015**

**Hylee Choto**

**15389384**

A research proposal submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfillment of the requirements for the degree of Master of Business Administration.

07 November 2016

## Abstract

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Emerging markets' share of global foreign direct investment reached a record high of 35% in 2014 up from 13% in 2007. In 2013 South Africa was the only country in Africa whose FDI outflows exceeded USD 3 billion resulting in a surge of emerging market multinational enterprise investments. This inquiry investigates the moderating effects of firm factors and geographical distance on the multinationality-performance relationship. Using internationalisation theory lens, the literature explores MNEs and local firm, the internationalisation process, internationalisation strategies and how the evolution of MNEs and its impact on multinationality – performance relationship.

This inquiry used Pearson Correlation hypothesis testing to determine whether firm factors, the degree of internationalisation and geographical distance influence the multinationality – performance relationship. Financial data from 81 South African listed companies from 8 industries was tested via three multiple regression models.

Firm-specific factors were found to be more influential than the degree of internationalisation and geographical distance on MNE performance. Firm age, experience, technology, management capabilities and knowledge base were found to have a greater effect on performance, rather than access to multiple emerging markets contradicting the literature. These findings add to the internationalisation theory and international business literature. The study proposes an internationalization model to assist managers to shape an integrative expansion strategy for market expansion and reduce the associated risks.

**Keywords:** Internationalisation theory, firm factors, geographical diversification, emerging markets multinational enterprises, foreign subsidiaries.

## Declaration

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I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorization and consent to carry out this research.

Name: Hylee Choto

Signature:

Date: 7 November 2016

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## List of Abbreviations

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DMNE	Developed markets multinational enterprises
DOI	Degree of internationalisation
EMNE	Emerging markets multinational enterprises
FSA	Firm-specific factors
FDI	Foreign direct investment
IB	International business
IPM	Internationalisation process model
LOF	Liability of foreignness
MNE	Multinational enterprises
M-P	Multinationality and performance
OFDI	Outward foreign direct investment
OLI	Ownership advantages, location and internalisation
RBV	Resource based view
UNCTAD	United Nations Conference on Trade and Development

# 1. Introduction to the research problem

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## 1.1 Research title

South African multinational enterprises' performance and the multinationality effect between 2005 – 2015.

## 1.2 Introduction

Internationalisation is one of the key strategic options for companies to expand, exploit and explore resources to create sustainable competitive advantages. From 1974 to 2004, more than 70 articles have tried to determine whether dimensions of multinationality influence firm performance (Hennart, 2011). In pursuit of multinationality (foreign operations), companies have traditionally justified their multinationality strategy as that of seeking natural resources, new markets, improved efficiencies and strategic assets (Cui, Meyer & Hu, 2014).

According to the United Nations Conference on Trade and Development (UNCTAD) in 2014, multinational enterprises (MNEs) from developing markets invested \$468 billion in foreign countries, a 23 percent growth from 2013. Developing markets' share of global foreign direct investment (FDI) reached a record 35 percent in 2014, from 13 percent in 2007 (UNCTAD, 2015). In 2013, South Africa (SA) was the single nation in Africa whose outward FDI exceeded USD 3 billion (Taal, 2014). The huge FDI was attributed to South African multinationals investing across borders.

However, once invested, multinational firms face intense competition from local firms focused on their home market and can adapt more swiftly as operating or economic conditions change and are more risk taking than MNEs' foreign subsidiaries (Economist, 2013a). As financial data suggests, South African MNEs have shown mixed results in international markets. Some of the firms that have expanded into Africa and beyond have been a success and other have failed.

Within the past five years Woolworths, MTN Group and Tiger Brands have seen their performance being negatively affected as a result of their operations in Nigeria. Woolworths pulled out of Nigeria due to its failure to respond to consumer needs. However, Woolworths has shown successes in other regions such as Australia and New Zealand (Economist, 2013b; Woolworths, 2016). Due to restrictive tax laws and legislation, MTN saw it being penalised R56 billion in Nigeria and R9.3 billion in Uganda. Penalties imposed on MTN's

Nigerian and Ugandan subsidiaries have seen financial performance reducing in those regions Morris, (2016). Another SA MNEs that pulled out of Nigeria in 2013 is Tiger Brands. Tiger Brands decided to pull out of Nigeria as its Nigerian subsidiary was making losses and the share had lost 44.4% of its value Fin24, (2015).

Though firms such as Woolworths, MTN and Tiger Brands are notable companies to have failed in some of their international expansions, there are companies such as Naspers Limited, SAB Miller and Shoprite who have been able to grow their businesses successfully within the African region and beyond. Naspers and Shoprite have shown a positive performance trajectory being recorded over a period in different regions (Naspers, 2016; Wrolwblewska, 2016). Since 2013, SAB Miller's sub-Saharan Africa operations contributed more profits to the group than its European subsidiaries.

A series of fundamental questions arises out of this anecdotal evidence – why do some SA MNEs succeed in foreign markets while others do not? Do the same factors drive this success or failure of SA MNEs? To what extent was the performance of these firms due to internal operations or externalities beyond their control?

For MNEs seeking to expand to foreign markets, there are competing priorities and problems with multinational expansion – which factors should be prioritised and which factors have a material effect on performance post entry.

### **1.3 Problem definition and purpose**

According to Morris, (2016) since South Africa's independence in 1994, South Africa was only earning R11million from Nigeria only, but by 2015, South Africa was earning R11 billion from such international transactions. A surge in international operations resulted in the need to determine what exactly drives or influences the multinationality and performance (M-P) relationship considering that host countries and country of origin are heterogeneous (Verbeke & Kano, 2016a).

One of the problems in the field of corporate or business strategy is the ability to determine the factors that lead to the achievements and failures of businesses (Kirca, Roth, Hult & Cavusgil, 2012b). Though there has been a surge in multinational enterprises over the years the findings from extant literature on the factors that moderate the M-P relationship have been inconsistent (Buckley, Elia & Kafouros, 2014), inconclusive (Oh & Contractor, 2014a; Kirca et al., 2012b; Marano, Arregle, Hitt, Spadafora & van Essen, 2016), contradictory (Oh

& Contractor, 2014a) and mixed (Oh & Contractor, 2014a; Yildiz, 2013b; Verbeke & Kano, 2016a).

Even though empirical and theoretical studies have been able to explain the role of ownership advantages, internalisation, and location choices on MNEs internationalisation strategy before entry into the international market, scholars could not conclude as to whether multinationality affects firm performance post entry (Narula, 2014). Hence, what are the aspects that impact the M-P link and to what extent do such factors influence the relationship? (Fleming & Cabral, 2016). MNEs are embedded in multiple locations – what role, does geographical distance play between the head office or home country and foreign subsidiary region influence the firm performance and to what extent (Verbeke & Asmussen, 2016a).

Recent research demonstrates that there hasn't been a model able to determine whether multinationality has an influence on firm performance (Oh & Contractor, 2014a; Yildiz, 2013b; Verbeke & Kano, 2016a). To help explain why some MNEs fail or succeed in their internationalisation pursuit, one group of scholars argue that firm, industry and country factors significantly influence the foreign subsidiary performance (Fleming & Cabral, 2016; Hennart, 2012; Jain & Prakash, 2016; Cui, Meyer & Hu, 2014) while Rugman and Oh, (2013) propose that regional strategy perspective predominantly influences the performance of multinationals. Limited M-P relationship studies were performed on MNEs from emerging markets as compared to MNEs from developed markets (Lebedev, Peng, Xie & Stevens, 2015). There is a need to determine if similar studies that were performed in the developed markets would give similar results (Buckley et al., 2014). About the SA MNEs, the inquiry attempts for to determine the aspects that significantly stimulate the success or failure of businesses.

#### **1.4 Research objective and motivation**

Recent literature suggests mixed findings on the M-P link are as a result of various factors that have been proposed to influence such a relationship (Kirca et al., 2012b). According to Dunning (2012, Hennart (2012) and Matysiak and Bausch (2012), an MNE is an entity that operates, produces goods and services in different regions and own assets in such host countries. As a result, MNEs can grow its value by geographically diversifying and being able to transfer its intangible assets across its borders, and as such it is important to ask whether enhanced geographical diversification or internationalisation of MNEs would realise higher performance.

Kirca et al. (2012), Verbeke and Forootan (2012) and Kim, Hoskisson and Lee, (2015) argue that effect of the M-P link depend on the multinationality type, firm strategic antecedents, country of origin factors and industry characteristics. Jain and Prakash (2016) argue that MNE firm performance depend on the mode of foreign entry mode and internationalisation motivations. Marano, Arregle, Hitt, Spadafora, and van Essen (2016), Zhou and Guillen, (2015) and Chen, Zhai, Wang, and Zhong, (2015) argue that home country institutions, foreignness and newness of foreign operations be the critical factors that impact multinationality performance. As such some views have been put forward but could not come to a conclusive as to which factors are more significant to influence the M-P relationship.

Kirca et al. (2012b) argued that M-P link is influenced by firm, industry and country factors and as such those factors help explain and reconcile contradictory and inconclusive results in the extant literature. They also argued that there be a need to consider the effect of country spreading rather than the influence of regions on the M-P linkage. Kirca et al. (2012b) developed a theoretical model to test the M-P relationship using firm knowledge base, technology, capabilities (firm factors) and geographical distance but Fleming and Cabral, (2016), argued that the model needs to be empirically tested.

The proposed inquiry on the impact of multinationality on the South African multinational enterprises builds on the existing international business literature wherein Kirca et al. (2012b) suggested that further empirical studies should be performed on the M-P link.

This research is positioned to test whether firm factors (knowledge base, technology and management capabilities) and geographical distance influence the performance of SA MNEs. To gain an understanding of the effect of firm factors and geographical distance, the following section on literature review will explore different dimensions on MNEs, internationalisation process and internationalisation strategy.

## 2. Literature review

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### 2.1 Introduction

Over the preceding four decades, internationalisation and research on the M-P relationship have surged forward with results being inconclusive and often contradictory as to whether multinationality influences firm performance. The historical literature provides several dimensions in a bid to explain the multinationality – performance relationship. These studies have covered mainly developed firms expanding into emerging markets and less emerging market firms expanding into developed markets or other emerging markets.

This chapter will start by explaining the various dimensions of multinational companies, followed by internationalisation and multinationality process, internationalisation strategy and finally the empirical review of M-P relationship studies and how MNEs, internationalisation processes, and strategy affect the M-P relationship.

### 2.2 Multinational Enterprises (MNEs)

#### 2.2.1 MNEs vs. domestic firm

An MNE is an entity that has operations in more than one country, owning assets to produce goods and services together with locally owned resources (Dunning, 2012). MNEs are further defined as firms that produce goods and services in foreign regions/countries with their employees, opposed to companies that export/distribute to foreign countries (Hennart, 2012; Matysiak & Bausch, 2012; Aggarwal, Berrill, Hutson & Kearney, 2011; Fleming & Cabral, 2016). Firms which are purely domestic firms are those that have all their activities located within their home country. MNEs have their foreign subsidiaries located in other nations.

However, according to Dunning (1988: 21) through his OLI (ownership, location, and internalisation) eclectic paradigm framework as cited by Hennart (2012) there are three conditions necessary and sufficient to ensure that a firm becomes an MNE, i.e.:-

- Ownership (O) - The firm should make sure that it owns assets which are particularly those that local enterprises in the host country do not possess. Such ownership advantages should enable a reduction in extra costs incurred by an MNE in the host country.
- Location (L) – the firm should be able to use its ownership, internalisation/capabilities, and location advantages to be profitable through foreign direct investment in the host

country. Location advantages could include resources, labour, markets and enabling institutions.

- Internationalisation (I) – Internalisation refers to the thinking that it should be more appropriate to locate production facilities in a host nation than in the countries of origin. Internalisation theory assumes “that firms select the most cost effective foreign localities for definite MNE undertakings and internalise marketplaces up to the point where the benefits of advanced internalisation surpass or are equivalent to the total costs” (Kirca, Roth, Hult & Cavusgil, 2012, p110). According to Matysiak and Bausch (2012), MNEs can compete outside their home market using firm-specific advantages (FSAs) and without such FSAs, liabilities of foreignness obstruct the ability of MNEs to compete effectively in host countries vis-a` -vis local firm.

The success of MNEs attributable to firm’s ability to utilise its ownership, location and internalisation factors to its advantage (Hennart, 2012). Porter, (2016) argue that MNEs be the most efficient and effective way to conduct transactions across borders rather than being a domestic firm which supplies goods across borders as they possess ownership and internalisation advantages. In support of Porter, (2016) and Hennart, (2012)’s view on the OLI framework, Verbeke, (2013) suggested that domestic firms that supply abroad do not have FSAs to diversify into foreign markets or across the border as such diversification results in value destruction rather than value creation and as such MNEs offer better advantages.

MNEs help create value and improve their performance by participation in the globalised value chain through access to cheaper inputs from host countries, access to knowledge/skills which the firm lacks, risk reduction through geographical diversification and market power exploitation (Contractor, 2012; Contractor, 2013; Williamson et al., 2013). However, “classic international business theory opinions for why firms internationalise do not appear to homogeneously apply to emerging markets” (Ramamurti, 2012).

In summary, MNEs benefit from possession of ownership, location choices and internationalisation. Ownership and location advantages, knowledge and capabilities help firms to create value across the borders. However, this theory was developed based on developed markets MNEs, and there is need to test its applicability on emerging markets MNEs. Extending from Ramamurti, (2012) MNEs emerge from either developed markets or emerging markets. The following section will explain the differences between developed markets MNEs (DMNEs) and emerging markets MNEs (EMNEs).

## 2.2.2 Developed Markets MNE and Emerging Markets MNE

Increased internationalisation of firms has resulted in relaxing of trade barriers and at the same time promoting international integration through the creation of institutions and economic conditions which propel growth strategies of MNEs or firms from either developed markets or emerging markets. While a majority of MNEs have developed market origins, there has been a surge in the MNEs from emerging markets. DMNEs are argued to have better ownership advantages than EMNEs such as better access to capital, technological advancement, and skills of the labour force (Awuah & Anderson, 2013).

Differences in ownership advantages between EMNEs and DMNEs give rise to questioning the applicability of the OLI framework in explaining the success and failures of EMNEs (Amighini, Cozza, Giuliani, Rabellott & Scalera, 2015; Ramamurti, 2012). As such, similarities and differences between DMNEs and EMNEs are understood through a review of the internationalisation process of MNEs from developing markets and developed markets. Table 1 is a summary of the similarities, differences and motives of internationalisation by EMNEs and DMNEs according to Awuah and Anderson, (2013).

**Table 1 Multinational enterprise (DMNEs and EMNEs)**

<b>Dimension</b>	<b>EMNEs</b>	<b>DMNEs</b>
<b>Internationalisation motive</b>	Access to technology, resources, and knowledge thus improving ownership advantages abroad	Develop new capabilities and access to resources
<b>Reduction of liability of foreignness</b>	Acquisition of strategic assets and reputable brands, networking, and investment in research and development	Research and development and reproducing same methods abroad thus enlarging ownership advantages
<b>Competitiveness assets</b>	Suffer from country of origin stereotyping	Benefit from country of origin association or brand
<b>Quality of institutional infrastructure</b>	Low income per capita and weak institutional infrastructure	High income per capita and strong institutional infrastructure
<b>Ownership advantages</b>	Limited ownership advantages e.g. technology, branding	Adequate ownership advantages e.g. technology, branding



<b>Motivation for MNEs</b>	Marketing seeking and strategic asset seeking	Marketing seeking and strategic asset seeking
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Though Table 1 highlights the similarities, differences and motivations of EMNEs and DMNEs, Hassan and Cantner, (2016) argue that there be no evidence that EMNEs are attracted to a particular country or location due to knowledge capabilities and resources and furthermore that their motivations for certain locations are different from DMNEs. Generalising the internationalisation process of EMNEs is misleading as they are heterogeneous regarding countries of origin competitive advantages, industries, internationalisation pathways and target markets. This results in need to assess and identify the aspects of existing literature that is useful and applicable to help understand EMNE strategies, motivation, modes of entry and modes of entry into the foreign markets (Amighini et al., 2015)

There are two contrasting views which were put forward to explain the expansion strategies of MNEs whether from developed markets or developing markets i.e. the OLI model and Uppsala model. Expansion frameworks ought to provide insights into the internationalisation strategies, the basis of sustained competitive advantages and network characteristics (Teece, 2014). In so doing, this help to explain (1) why firms internationalise; (2) products they offer, location choices and firm activities; (3) mode of entry and timing; and (4) drivers of FDI and the role of foreign subsidiaries.

To better explain why MNEs internationalise, the following section will criticise the expansion frameworks to help to explain the expansion strategies of MNEs i.e. Dunning's OLI framework, Uppsala model, and the networks model.

### **2.2.3 Dunning's OLI framework of international expansion**

The OLI framework has been widely used to explain the evolution of the MNEs in developed markets rather than emerging markets. The rising of the emerging markets has resulted in the questioning of the applicability of the OLI framework in explaining the evolution of the MNEs from emerging markets and whether there are no other complementing models (Ramamurti, 2012).

The OLI framework assumes that firms should have ownership advantages or FSAs, location advantages and be efficient in utilising the FSAs. However, Hennart (2012) argues there be little evidence that EMNEs have developed FSAs to ensure sustainability of business such as knowledge-based FSAs or systems integration hence the OLI cannot be

the absolute answer as to how the MNEs in emerging markets have developed. Cuervo-Cazurra, (2012) suggested that the OLI framework which can be used to explain the evolution of the MNEs, it poses a number of disadvantages such as limited access to location advantages, reduction in ownership advantages as MNEs from emerging markets expand into foreign markets and this hurts the internalisation.

The adverse effect of limited location and reduced ownership advantages on internalisation can be reduced through equal consideration of firm level FSAs, location characteristics, and geographical diversification (Verbeke & Kano, 2016a). Ning, Kuo, Strange, and Wang, (2014) further argue that internalisation theory suggest that MNEs must possess ownership and firm-specific advantages that empower them to be competitive and offset the cost of internationalisation.

Though internalisation is said to benefit the growth and performance of MNEs, there are costs of internalisation which are linked to the agency problem wherein managers are working on behalf of the shareholders, and there is a risk of deception. MNEs tend to fail due to an inability by managers to appreciate that there are costs of internalisation. Internalisation benefits should be matched to the size of the foreign subsidiary and also take into account the cost of internalisation (Casson, 2014).

The OLI framework is argued to be better at clarifying the working and configuration of the economic system at macro-level rather than the firm activities and structure at micro-level (Vahlne & Johanson, 2013). They further argue that the assumption which is supported by the internalisation, that the emergence of MNEs is as a result of market failure is based on unrealistic assumptions thus at the firm level, the OLI framework is not suitable to explain the evolution of the MNEs but rather the phenomenon of the foreign direct investment.

In pursuit of understanding the evolution of MNEs, there is a contra-argument to the OLI framework to explain the evolution of the MNEs. This contra argument is based on the Uppsala model wherein it argued that internationalisation starts with MNEs expanding to regions closer to the home country and after that gradually enters markets which are further away.

#### **2.2.4 Uppsala model of international expansion**

The Uppsala model is based on the notion that MNE development should start with expansion into the closer regions and be firm focused rather than being macroeconomic level focused. Firm-level strategies and mode of entry choices into international markets argue that companies enter international markets in a sequential manner. Because of the

risk associated with outward foreign direct investments, MNEs initially occupy regional markets close to home country, and as they gain more experience in internationalisation, they finally expand to more distant regions (Rugman & Oh, 2012). The Uppsala model assumes that the risk of internationalisation to an MNE increases as the distance from home country increase; on the other hand, the OLI framework's assumes that choice of location depends on upon utilisation of firm's ownership advantages and internalisation (Verbeke & Kano, 2012). The premise of the two arguments results in the questioning of the importance of regional strategy and ownership advantages as moderators of M-P relationship.

Ownership benefits and internalisation are at the centre of the existence of an MNE. For a firm to survive there is a need for ownership advantages existing coupled by internalisation. However, such pre-requisites (i.e. ownership benefits and internalisation) in the development of an MNE are not an indication of market failure or market imperfections but the success of the MNE. Neo-economists have mainly used market failure as the best way to explain internalisation for firms (Hitt, Li, & Xu, 2015a). It can be deduced that it is necessary to test the influence of regional strategy and firm factors (technology, knowledge base and management capabilities) on the performance of EMNEs.

Though the Uppsala model is argued to be firm specific when explaining the evolution process of MNEs, it does not account for the evolution of international new ventures (INVs) that are small to medium but those MNEs that have previous international experience (Almodóvar & Rugman, 2014). However, as INVs gain more experience in internationalisation, they learn international activities through the Uppsala model wherein they first expand within the region and then further away once they have gained more experience.

In conclusion, the Uppsala model suggests that MNEs should initially expand into the regions close to the home region and as they gain more experience they then expand further away. Therefore the risk associated with internationalisation increases as the firms set up operations further away from their head office. However, the Uppsala model is argued to have a weakness of not being able to explain the evolution of INVs but more experienced MNEs. On the contrary, the OLI framework suggests that the choice of location be contingent on the MNE's capability to utilise its ownership advantages and its knowledge and capabilities. To further develop and understanding of the international expansion process of MNEs, the following section will look at the internationalisation process which takes into account modes of internationalisation (exports vs. FDI) and factors affecting internationalisation process.

## 2.3 Multinationality and internationalisation

First exploring internationalisation can best explain the concept of multinationality – the process of firms expanding across borders resulting in experiential learnings and commitment building among networks (Vahlne & Johanson, 2013). Benefits that accrue to MNEs differ depending on the strategic intent of the firms. Strategic resource/ asset seeking MNEs look out for opportunities to exploit resources, host country capital markets while taking advantage of market imperfections due to FSAs (Buckley, 2015; Hitt, Li & Xu, 2015; Knight & Liesch, 2016; Kirca et al., 2012; Matysiak & Bausch, 2012). MNEs that are market seeking look out for opportunities to grow their market share and ways to utilise international economies of scale and scope (Benito-Osorio, Colino, Guerras-Martin & Zuiga-Vicente, 2014).

Regardless of the intent of the MNEs, i.e. strategic resource/ asset or market seeking, the number of EMNEs have been expanding into the international market through exports but more so through FDI (Gaur, Kumar & Singh, 2014; Singla & George, 2013). To better understand how firms achieve their strategic objectives through shifting from exporting to FDI, the following section will look into the modes of and factors that influence internationalisation.

### 2.3.1 Modes of internationalisation

Internationalisation of firms is argued to follow certain steps i.e. from licensing to exporting and to FDI and these various stages require a different set of strategies to be used. As a result, firms move from one complex stage of internationalisation to the other over a period and simultaneously amassing knowledge and capabilities as it discovers new opportunities (Kumaraswamy, Mudambi, Saranga & Tripathy, 2012; Li-ying, Li-ying, Stucchi, Visholm & Jansen, 2016). Buckley, Forsans, and Munjal, (2012) argue that geographical and cultural distance between head office and the foreign market determine whether a firm should engage in FDI or exports as it is cheaper to export to regions closer to the home country and it is cheaper to engage in FDI in distant regions.

Gaur et al. (2014) argue that the shift from export to FDI benefit EMNEs in developing new capabilities that can be used in their market and developed markets which can be used together with their existing resources, unlike DMNEs which tend to leverage on exploiting their current ownership - specific advantages. Furthermore, it is easier for EMNEs which have access to resources to shift from exporting to FDI easily. Access to international resources influence firm productivity which in turn affects whether the firms can engage in exporting activities or outward foreign direct investment (OFDI). Based on the productivity

heterogeneity theory, companies that are most productive are associated with high levels of profitability and as a result, can cover high fixed costs associated with OFDI. As a result, it is expected that the most successful exporter will engage in OFDI and resultantly be an MNE (Wei, Zheng, Liu & Lu, 2014).

The shift from exports to OFDI results in the improved acquisition of knowledge and capabilities (firm specific factors) as companies discover new opportunities. MNEs also have better access to foreign resources which influences productivity and performance. Though modes of internationalisation differ with the FDI being the preferred one and factors such as firm factors, resources and intangible assets influence internationalisation.

### **2.3.2 Factors affecting internationalisation**

International business literature is full of studies on the factors that affect internationalisation; in turn, such factors influence the relationship between internationalisation and performance. These factors include location choices and advantages, resources, the cost of doing business in the host country, institutions, market power, sustainable competitive advantage, firm-specific advantages and country specific advantages.

The rise in the emerging EMNEs has resulted in the review of the internationalisation process mode (IPM). Resource, efficiency and market seeking factors are argued to be the major reasons for EMNE OFDI into developing markets. Strategic asset seeking is the primary reason for why EMNEs invest in the advanced markets though they are “inhibited by, and reliant on tangible and intangible assets that they lack or control” (Losada Otalora & Casanova, 2012; Kolstad & Wiig, 2012; Ramasamy, Yeung & Laforet, 2012). EMNEs derive their competitive advantages ) such as economies of scale from country specific advantages (CSAs) as opposed to FSAs which include technology (Bhaumik, Driffield & Zhou, 2015).

#### **2.3.2.1 Home and host country effects on internationalisation strategy**

Over the past 40 years, MNEs have had to acclimatise to the changes and intricacy of global competition due to internationalisation through FDI. As MNEs evolve over time, they face growing challenges due to increased internationalisation and heterogeneity of multiple locations they are based. Multiple embeddedness of MNEs is managed at two levels i.e. at MNE level where the firm has to utilise its networks to exploit similarities and differences in the multiple locations and at a foreign subsidiary level so as to balance and manage the internal factors within the MNE network and also externally.

Mainstream internationalisation strategy supports the idea that effective international extension must be associated with CSAs, FSAs and industry-specific advantages (Verbeke

& Asmussen, 2016; Verbeke & Forootan, 2012 ). However, to the contrary, Verbeke and Kano (2016) argue that a lot of MNEs fail to replicate their successes beyond home-region boundaries.

Multiple embeddedness creates opportunities and challenges which need to be managed (Meyer, Mudambi & Narula, 2011). Multiple embeddedness can be affected by factors such as institutional factors, the cost of doing business in the host country, availability of resources, market power, country characteristics, possession of sustainable competitive advantages and knowledge, capabilities and skilled labour. Marano et al. (2016) argue that "...firms' home country institutional environment affects M-P link and the internationalisation strategy as they push firms to develop resources and capabilities that can sustain or hinder their global competitive advantage..." (p.1082).

Cultural distance amid the MNE's home country and host country affects the MNE's sustainable competitive advantage. For host nations within the same region as the host country, the cultural differences are minimum unlike with afar host countries. The Cultural distance may play a significant role in affecting the MNE's sustainable competitive advantage (Jong & Houten, 2014). Apart from cultural distance, MNE advantages that emanate from the MNE's head office initiatives in the home country reduces as the firm further internationalise thus reducing their competitive advantage while the competitive advantages improve for firms who engage in collaborative initiatives with companies in the host countries (Scott-Kennel & Giroud, 2015).

Though host countries create opportunities and challenges, Rugman and Oh, (2013) argue that national level conditions be less relevant in assessing which region to expand into but firm level relationships and network phenomenon. This is because the value chain cuts across more through regions than throughout the globe. However, Xie, Huang, Peng and Zhuang, (2016) suggest that country conditions and sources do not affect a firm's internationalisation strategy, but such is subjected to the firm's aspirations for growth and positive performance.

CSAs include home or host country institutions. The institution based views of strategy (IBV) argue that institutions have a bearing on the prospect of the firms to thrive in markets at home and abroad. (Yang et al., 2013; Carney, Gedajlovic, Heugens, Van Essen & Van Oosterhout, 2011; Marano, Arregle, Hitt, Spadafora & van Essen, 2016). MNEs that possess strong competencies which were developed at home result in higher utilisation of both

tangible and intangible resources which resulting in higher firm performance (Capar, Chinta & Sussan, 2015).

Firms entering into host countries are not only in competition with local firms from the host nation but also from MNEs from other countries which are located in the host country. This creates a challenge in measuring the strength of own FSAs against those of other firms from other countries (Narula, 2012). Furthermore, resource-based view argues that companies face challenges in reassigning their resources to countries that are not similar to the country of origin thus posing a challenge on measuring the strength of CSAs and FSAs (Jain, Kundu & Newbury, 2014). For EMNEs, they derive their competitive advantages from CSAs unlike for DMNEs who derive the competitive advantages from FSAs (Bhaumik et al., 2015).

While MNEs in host countries face challenges due to foreignness, to what extent do firm factors (FSAs) and country geographical dimensions (CSAs) impacted by access to resources and quality of institutions both at home and from the host country?

### **2.3.2.1 Resources-based-view (RBV)**

Ownership of foreign subsidiaries plays a pivotal role in offering MNEs with the right to use key resources in the host countries so as to improve firm performance; and such MNEs become more lucrative when they align their ownership configurations with home country government policies (He, Chakrabarty & Eden, 2016). However, MNEs from emerging markets face huge challenges as they expand in a foreign country due to home country poor corporate governance, lack of advanced technology, lack of financial support thus increasing the chances of failure or poor performance by the MNES. EMNEs are said to be engaging in competitive catch-up activities through strategic asset seeking due to their lack of FSAs and weak locally available assets hence this results in increased OFDI (Cui et al., 2014).

Four major motives of FDI include efficiencies, natural resource, strategic asset and market seeking (Ramasamy, Yeung & Laforet, 2012; Peng & Su, 2014). Resource-based view (RBV) suggests that resources that are treasured, exceptional, unique and non-substitutable can assist firms to create maintainable competitive advantages and attain above - average returns on investment. Based on this view it can be argued that MNEs from emerging markets ownership structure and support from home country policies can result in firms acquiring key resources in host country thereby increase profitability and competitiveness.

Verbeke and Asmussen (2016b) support the view that resource-based view to internationalisation is associated with location bound FSAs that are transferrable, deployable and can be exploited across the borders resulting in integration benefits centred around

economies of scale, economies of scope and economies of sharing country differences (variances between host and home country). However, such integration benefits are not easy to achieve at a global level but the regional scale (Banalieva & Dhanaraj, 2013; Hennart, 2014). To take advantage of the resources, firms need to generate capabilities that assist with generation, exploitation and sustenance of FSAs which match with CSAs of host countries (Verbeke & Kano, 2012; Zoogah & Peng, 2015).

Firms are argued to be more distributed across cultural and institutional precincts than they are across geographically defined regional boundaries as firm-specific resources such as firm proprietary capabilities (e.g. technology, marketing, and partnering capabilities) have an effect on the location of firm undertakings (Asmussen & Goerzen, 2013). With the prominence of the EMNEs, such MNEs' foreign expansion is based on the ability of the firm's subsidiaries to acquire resources and possess certain capabilities which could be used to enter certain host country untapped markets (Aggarwal, Berrill, Hutson & Kearney, 2011; Li-ying et al., 2016). As MNEs exploit resources, they do so to take advantage of the untapped and imperfect markets. The following section builds resource based view argument that success of MNEs is dependent on their ability to acquire resources, exploit them and benefit from the market.

### **2.3.2.3 Market power (Market Based View)**

The motivation for internationalisation by firms differs in that some firms will be looking at the market - seeking or strategic asset/ resource seeking. Stening (2014) argue that though MNEs expand into foreign markets seeking strategic assets, performance is adversely affected by liability of foreignness thus resulting in a competitive disadvantage.

Internationalisation increases market power, reduces the transaction costs, improves company efficiencies, enhances management resource dependency, and improves the benefits from network embeddedness (Lebedev et al., 2015). Though MNEs have varied motivations in setting up foreign subsidiaries in other countries, emerging market MNEs exhibit more of home- based FSAs and lack host based and non-location bound FSAs hence most of the sales and asset investment is mainly targeted at the home region market than on the global market (Li & Hoon, 2016). Having most of the sales being generated within the home region and to a larger extent assets being invested in the home region is supported by Verbeke and Asmussen, (2016)'s finding that almost 78 percent of the world's biggest MNE's assets were deployed in the home region, and they were linked with 75.5 percent of overall sales". About MNEs, this is argued to be attributable to EMNEs not yet



being able to develop host based FSAs by recombining their home based FSAs and host country CSAs.

#### **2.3.2.4 Firms specific advantages (FSAs) and country specific advantages (CSAs)**

Exploitation of market imperfections presents opportunities for MNEs which would result in the transfer of FSAs across the borders and take advantages of industry and country level specific factors (Matysiak & Bausch, 2012; Kirca et al., 2012). Home country institutions play a pivotal role in firm's capacity to develop, maintain and enhance their competitive advantage at home and across the borders by shaping managerial style and by enabling or constraining the use of capital resources (Cuervo-Cazurra, 2011).

MNEs operate in different countries and as such differences in countries have continuing effect on MNEs' competitive advantage and firm performance (Kim et al., 2015). Differences and similarities in regulatory, cognitive, and normative institutions between the host and home country institutions are referred to as the institutional distance (Chao & Kim, 2012). As firms gain more experience in international business transactions, the experience is reflected in the knowledge base they possess, capabilities and advancement in technologies i.e. firm-specific factors. Such FSAs are central to explaining the multinationality-relations complemented by the strength of CSAs (Verbeke & Forootan, 2012). These FSAs include firm experience and age in multinational transactions, technology, knowledge base, firm size based on assets and number of employees, group affiliation, research and development (R&D) intensity and marketing abilities (Chen, Zhai, Wang & Zhong, 2015; Matysiak & Bausch, 2012; Almodóvar & Rugman, 2014).

Emerging market multinationals (EMNEs) operating in foreign countries derive their competitive advantages from CSAs e.g. economies of scope and scale, as opposed to traditional FSAs such as technology (Bhaumik et al., 2015). Verbeke and Asmussen (2016) argue that regardless of how FSAs are transferred between countries or entities they lead to three types of performance benefits i.e. economies of scale, scope and exploitation of natural differences. Rugman and Oh (2011) and Mohr et al., (2014) further affirms that FSAs are important in determining the MNE performance. However, Hennart (2015) does not agree with the notion that FSAs result in better firm performance, but that MNEs require good governance structures to manage imported and local assets so as to increase MNE performance.

The ability of firms to internationalise within the region and internationally depends on the firm's ownership of the intangible assets or resources "that it can leverage to facilitate expansion into international markets and consequently increasing returns" (Bhaumik et al., 2015). Though MNEs can take advantage of benefits of doing business across borders due to the firm, industry or country specific advantages, this comes at a cost that results in a competitive disadvantage for the MNE subsidiary: the 'Liability of foreignness' (Moeller, Harvey, Griffith & Richey, 2013). To reduce the liability of foreignness (LOF), MNEs need to possess or control FSAs that, along with CSAs and internalisation advantages, affect multinational business transactions (Hillemann & Gestrin, 2016).

Studies on international business "have ignored the significance of location strategy in firms' internationalisation and point out location choice has new implications for emerging economy MNEs" (Yang & Doyle, 2013). Successful expansion of MNEs across borders must be associated with non – location bound FSAs which are transferrable, deployable and can be exploited across the borders thus resulting in integration benefits through economies of scope, economies of scale and manipulating national variances (Verbeke & Asmussen, 2016).

Lacoste (2015) argue that during the initial stages of internationalisation, MNEs suffer a drop in performance due to the LOF or newness. Lacoste (2015) further claims that firms realise an improvement in performance due to increased geographical diversification that happens during the second stage of internationalisation. In the final stage of internationalisation, companies suffer negative performance due to excessive internationalisation. This means that geographical diversification can result in an improvement in performance of MNEs or a drop in performance (Oh & Contractor, 2014).

Ruigrok, Georgakakis and Greve (2013, p8) argue that firms that adopt a regional expansion perspective outperform MNEs with a global strategic position due to "MNEs' possession of unique resources and capabilities (FSAs) that, in combination with home-country advantages (CSAs), enable MNEs to accomplish competitiveness in foreign markets". Exploitation of FSAs and CSAs across and within regions may be as a result of:

- Nature of the MNE that enables the company to influence and pool FSAs and CSAs outside the home region; and
- Features of the MNE ecosystem that allow (or require) firms to pursue and successfully exploit growth prospects outside the home region.

Capar et al. (2015) argue that though international geographical diversification plays a role in explaining the M-P link, firm resources, and capabilities such as research and development, marketing and intangible assets have a dominant influence on firm performance risk. In contrast to Lacoste (2015) who argued that geographical diversification results in only a U-shaped performance effect, Miller, Lavie and Delios, (2016) suggest that international intensity and distance do produce an S-shaped effect on firm performance, while international diversity produces a U-shaped performance effect.

In summary, MNEs operate in different countries, and they are exposed to different challenges and opportunities. Such difficulties and opportunities could be attributable to the institutional distance between home and host countries and firm factors such as knowledge-based acquired through internationalisation experience, technology and capabilities. However, some scholars argue that firm factors do not determine the success or failure of MNEs but MNE's governance structures to manage imported and local assets so as to improve MNE's performance. Studies on international business have neglected the importance of location strategies on the success and failures of MNEs and how such can play a role in explaining the M-P relationship of EMNEs. As such, firm factors and geographical distance or regional strategy are argued to influence the M-P relationship. By MNEs choosing to operate in certain regions and acquiring certain firm factors this impacts on the firm's internationalisation strategy and in turn its performance.

## **2.4 Internationalisation strategy**

When MNEs expand into international markets, they develop an internationalisation strategy or corporate strategy that best fit their objective and strategic intent. According to Gaur et al. (2014), there are two distinction internationalisation strategies as mentioned earlier i.e. exports and FDI. Exporting is argued to be low-risk strategy while FDI is argued to be a high risk, high commitment strategy. The current wave of the MNEs has seen a surge in the EMNEs as a result of increased OFDI from emerging markets. However, though there has been an increase in OFDI and EMNEs, results from international business studies shown inconclusive findings on the impact of various factors on the M-P link.

Some scholars have argued that successes and failure of MNEs be dependent on the firm's regional strategy, mode of entry, quality of institutions and how firms can overcome the liability of foreignness. The following sections will help critique the various entry modes and regional expansion strategies and how such strategies are influenced by home and host country institutions and how they affect the performance of MNEs.

### 2.4.1 Entry modes

Entry mode signifies one of the most critical choices for MNEs expanding overseas to make due to its implications for organisational control, resource pledges and investment risk exposure and, entry decisions entail the timing and speed of entering particular foreign markets (Hitt, Li & Xu, 2015b). Expansion by MNEs into overseas markets through setting up foreign subsidiaries is mainly motivated by asset exploitation and asset exploration motives. Foreign market entry mode e.g. licensing, joint ventures and wholly-owned subsidiary provide a moderating effect on the performance implications of multinationality (Yildiz, 2013; Holmes, Miller, Hitt & Salmador, 2011).

The motivation to internationalise determines the type of value chain activities to be explored across foreign countries and as such the mode of entry into the foreign market help shape the nature of the multinationality (Yildiz, 2013a). Entry mode choices include licensing, exports, joint ventures, and wholly owned subsidiaries. Though entry modes are different, MNEs favour the acquisition of wholly owned subsidiaries for fast urgency entry into the foreign market, acquisition of existing strong brands and acquisition of talent and empire building (Peng, 2012).

Institutional based view supports the position that better-home developed country institutions help EMNEs to expand to foreign countries which are more progressive than the countries of origin while institutional instability in the countries of origin reduces the probability of success of an EMNE (Wu & Chen, 2014).

The FSAs influence International entry mode choices. Such FSAs are not linked to any industry sector (Musso & Francioni, 2012). Buckley, Forsans and Munjal (2012) argued that MNEs invest in foreign subsidiaries so as “to access strategic resources and lessen their institutional and market restrictions at home and overcome their latecomer disadvantage in the global stage”. This was further supported by Buckley, Elia, and Kafouros (2014) who argued that acquisition of foreign firms give emerging market MNEs rapid access to new markets, resources and capabilities. Buckley et al. (2014) further argued that firms that enter into a foreign market and do not intent to exploit their firm-specific advantages run a risk of not being able to create value through manipulating cost-based and revenue improving synergies.

The Uppsala School of thinking argues that the mode of entry into a foreign market is linked to the ownership advantages. In line with the eclectic paradigm, business network features such as the centrality of the foreign subsidiary, density, trust and duration of the internal and

external networks have an influence on the mode of entry and performance of an MNE (Rugman & Oh, 2013). Rugman and Oh (2013) further argued that the geographical strategies or location strategies by MNEs also play a role in defining the choice of entry into a foreign market. The following section will critically analyse regional expansion strategy.

#### **2.4.2 Regional expansion strategy**

Adopting a regional expansion strategy also known as a semi-globalisation by MNEs helps MNEs to maintain local receptiveness and increase ability to exploit region-bound firm-specific advantages (Arregle, Miller, Hitt & Beamish, 2013)

“The world’s largest MNEs have a limited deployment of foreign direct investments across value chain activities outside of their home region: 78 percent of assets were deployed in the home region and these were associated with 75.5 percent of overall sales” (Verbeke & Asmussen, 2016).

Regionalisation is defined as “the concentration of foreign sales in the home region as opposed to a more balanced spreading across the globe” (Verbeke & Kano, 2012). The Uppsala School of thinking considers the international business as more uncertain than local business and also that the risk of doing business increases as the distance from the home base increases. This means that MNEs gradually fan out from geographically and culturally familiar regions with increasing costs to the geographically and culturally remote area of the world from their home country (Rugman & Oh, 2013). Regional effect on firm performance is estimated to only explaining 9% of the firm performance (Elango & Wieland, 2014).

Mohr, Fastoso, Wang and Shirodkar (2014) argue that the major reason why MNEs concentrate their foreign subsidiaries within the home region is because there are high costs associated with transferring the FSAs across borders or far distant regions. This has an adverse effect on the firm performance. Home regional expansion of MNEs is considered as an expansion strategy that minimises transaction costs rather than as an indicator of MNEs having failed to execute genuinely global strategy (Aguilera, Flores, Uk, Flores & Kim, 2015). Complementing the view that the further away a foreign subsidiary is located from its home country it is worthwhile to note that MNEs have a strong home region effect on sales and assets the high the transaction costs (Fleming & Cabral, 2016)

Over the past few decades, the cost of doing business across the borders has reduced resulting in high knowledge activities being located in certain regions/geographies based on skills and capabilities while low knowledge activities being allocated based on transaction cost. This is contrary to the submission made earlier that performance is positively

correlated with transaction costs. Mudambi and Puck (2016) argue that though it is believed that MNEs achieve a higher performance from home regions, such a proposition is biased considering that the assessment is done based on total sales and assets employed and ignores the global value chain. Based on the analogy put forward by Mudambi and Puck (2016) it means the MNE strategies and activities are more global rather than what would appear from merely looking from a regional perspective.

There are some questions raised which haven't been answered from previous research such as:

- To what extent does regional strategy affect foreign subsidiary profitability?
- Is the rate of profitability of foreign subsidiaries consistent across various regions?

Answering these questions would help enhance the understanding of the regional effects on firm performance (Elango & Wieland, 2014). "The need for integrating firm factors and possible moderators is also emphasised by meta-analyses of the M-P relationship" (Kirca et al., 2011; Yildiz, 2013a).

Clegg, Mei, Voss, Yen and Tien (2016) argue that the performance of an MNE does not necessarily depend on the region to which its foreign subsidiary operates from, but it depends on the quality of home politics and its multinationality strategy. Home country government policies and institutions can act as a useful complement for the MNEs expanding into foreign markets or as a side effect suffering should there be a negative relationship between the home country and host country thus requiring MNEs to have a structured internationalisation strategy which is responsive to changes in regional and institutional dynamics.

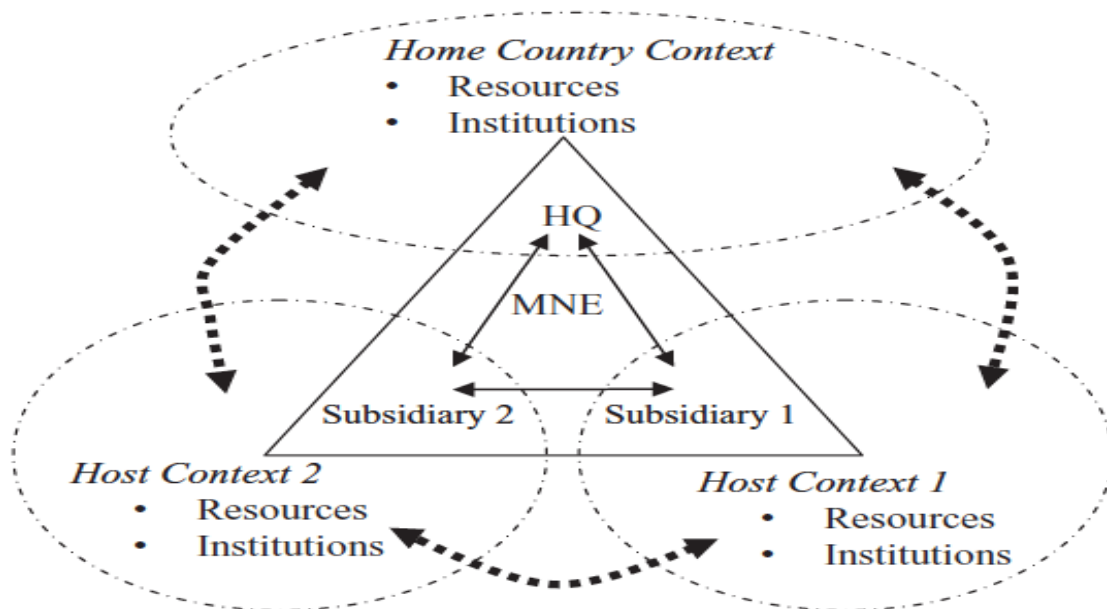
### **2.4.3 Institutional Based View influence on internationalisation strategy**

"Institutions are defined as the rules of the game in society" (Tan & Chintakananda, 2016). Such structures help to restore and maintain order within a society or country thus shaping behaviours, norms, and cultures. These country institutions are split between formal and informal institutions. Tan and Chintakananda, (2016) argue that home country political stability has an effect of reducing firm performance, but positively controls the link between geographical diversity and performance and as such when expanding into the international markets, MNEs need to consider their internationalisation strategy in light of the quality of institutions that support their strategy.

The M-P relationship hinges on the firm’s home country institutional environment (Andersson, Cuervo-Cazurra & Nielsen, 2014). Marano et al. (2016) argue that the reason why there has been mixed findings on M-P relationship is due to scholars’ failure to consider the role of formal and informal institutions. However, as firms expand into the international market, they are also exposed to host country institutions which will require them to shape their strategies in line with the host country institutional requirements.

MNEs strategies are shaped by either their home country context in which they originate or host through their local contexts in the host country in which the foreign subsidiary is based (Meyer, Mudambi & Narula, 2011). This influences the MNE’s modes of internationalisation and internationalisation strategies and in turn, determines the success or failure of firms in host environments. Figure 1 below shows the interconnectedness of host and home country institutions and resources and their rooted behaviour across multiple institutional environments to influence firm strategy and foreign subsidiary performance.

**Figure 1 Multinational Enterprises and their local institutional contexts**



Meyer et al. (2011)

Based on the condition that MNEs’ and their foreign subsidiaries operate in one or more foreign countries means that the subsidiaries are exposed to at least two sets of distinct institutional pressures, and this has an impact on MNE’s and foreign subsidiary’s performance: the MNE is rooted in its home country while being concurrently rooted in the local host country’s context through its foreign subsidiary (Meyer et al., 2011). International

business literature suggests that country-level institutional factors represent critical features for distinguishing the behaviour of home versus foreign MNEs (Chao & Kim, 2012). Kafouros and Aliyev, (2016) in contrast argued that there is limited and inconsistent knowledge as to whether institutional transformations influences internationalisation strategy for EMNEs.

Li, Peng, Lee and Tan (2014) argued that limited amount of research has been carried out in responding to the following inquiry: “How do home country institutions influence MNEs from emerging markets to engage in outward internationalisation?” Though governments in emerging markets have set policies and regulations to facilitate institutional open access, differences still exist within the emerging markets such as Brazil, Russia, India, China and South Africa (BRICS).

Host and home country’s institutional environments impact firms’ entry mode, choice of a competitive strategy, stakeholder management and subsidiary performance (Hitt et al., 2015b). Lebedev et al. (2015) argue that institutions do not directly have an effect on firm performance in isolation but have to relate to other factors such as FSAs, CSAs, and geographical diversification to have a significant impact (Holmes, Miller, Hitt & Salmador, 2013).

#### **2.4.4 Geographical diversity effect on internationalisation strategy and performance**

Over the years some regional or bilateral agreements and investment treaties have been entered into and are in existence throughout the world. Some regional trade agreements have increased their membership thus resulting in expansion of economic activity, increased FDI and this has affected the MNE activities (Hoon and Rugman, 2012). The regional integration results in preferential tariff reduction between partners resulting in macro-economic and institutional factors favouring MNEs that operates and clustered within the home region.

The literature on geographical clustering proposes that sales and production are regionally structured but does not consider the value chain benefits which are derived externally i.e. distant from regional boundaries. International distance, geographical/international diversity and international intensity results in a mixed effect on firm performance (Miller et al., 2016). Figure 2 below shows the different facets that drive benefits and costs due to internationalisation. However, the overall effect of internationalisation on firm performance is mixed i.e. it is either positive or negative.



**Figure 2 Effect of international diversity, intensity and distance on firm performance**

Mechanisms driving the benefits and costs of internationalization.

Mechanisms	International Intensity	International Diversity	International Distance
	L—M—H	L—M—H	L—M—H
- Setup costs (industrial organization economics)	-		
- Consumer ethnocentrism (consumer psychology)	-		
- Economies of scale (industrial organization economics)	-		
- Organizational and inertial impediments (organizational psychology and learning)	-		
- Liabilities of foreignness (cognitive psychology)		-	
- Thinning out of investments (resource-based reasoning)		-	
- Coordination costs (organizational psychology and learning)		-	
- Access to new markets and resources (resource-based reasoning)		-	
- Economies of scope (industrial organization economics)		-	
- Negative transfer (cognitive psychology)			-
- Absorptive capacity and specialized routines (organizational learning)			+
- Access to unique resources (resource-based reasoning)			+
- Excessive national differences (organizational learning)			-
Overall effect	-	-	-

Effect: + Benefit; - Cost; Range: [L] Low levels; [M] Moderate levels; [H] High levels.

Miller et al. 2016

The literature on inter - and intra - regional expansion has resulted in mixed findings on the cost of a regional expansion as an internationalisation strategy and effect on firm performance (Qian et al., 2013; Ambos & Håkanson, 2014).

This raises two questions:

- (1) “does distance between MNE’s home region and host region affect firm performance and
- (2) “do MNE subsidiaries close to home region perform better than those afar?”.

“...MNEs that have been successful in their home region with a regional strategy are more likely to try to emulate such success in other large, regional markets, with the extant home region-level routines and elements of organizational structure easier to adapt than if the firm had to craft these with- out prior home-region-level experience in this matter....” (Verbeke & Asmussen, 2016b)

Though regional strategy, institutions, firm factors and mode of entry strategies influence internationalisation, of concern, is the liability of foreignness for which the following section will critique the liability of foreignness’s influence on MNE’s internationalisation strategy.

### 2.4.5 Liability of foreignness

Liability of foreignness (LOF) is associated with public stigmatisation or negative stereotyping whereby a foreign subsidiary faces natural impediments and deterrents in transferring their knowledge and resources into the ‘host’ country environment (Yildiz & Fey,

2012). During early stages of international expansion, LOF and liability of newness (LON) may cause a decrease in the performance of the MNEs (Jain & Prakash, 2016; Matysiak & Bausch, 2012; Zhou & Guillen, 2015). Apart from the liability of foreignness, Stevens and Shenkar (2012) noted that the perceptions of the home country of MNEs could also pose as a liability to its foreign subsidiary due to perceptions the foreign market would have on its parent company and country of origin.

Contrary to the view put forward by Stevens and Shenkar (2012) and Jain and Prakash (2016), Chinta, Cheung, and Capar (2015) argue that LOF and LON cancel each other at the early stages of internationalisation of MNE's foreign subsidiary as the MNE brings new perspectives as they go through a process of transforming themselves in the host country so as to remain competitive. Resource strategy theory proposes that the superior heterogeneity of countries across regions exposes firms to a LOF when expanding outside of their home region (Mohr et al., 2014)

In order for MNE's foreign subsidiaries to be successful, competitive and overcome LOF, there is a need for the foreign subsidiaries to have FSAs such as parent company's capabilities, resources and recognize the hidden potential in foreign subsidiaries (Zaheer, 2015; Joarfar, Kostova & Wu, 2014; Madhok & Keyhani, 2012). Host country's institutional environment increases the LOF thus influencing the MNE's choice of competitive strategy, stakeholder management approach and performance more than FSAs, CSAs and industry specific advantages (Brockman et al., 2013; Hitt et al., 2015). While the literature suggests LOF and LON have a negative effect on MNE performance, studies have not conclusively demonstrated this – the results are far from conclusive.

Asmussen and Goerzen (2013) argued that growth of multinational enterprises both in size and a number of subsidiaries depend on the MNE and its foreign subsidiaries' abilities to operate in inefficient markets through internalisation. This argument is valid when the MNEs' FSAs and assets are non-location bound e.g. knowledge-based assets. MNEs are exposed to the LOF in different ways as this depends on the size of the subsidiary and also distance from the home country or head office of the parent company. As distance increases from home country to host country, the LOF increases (Zhou & Guillen, 2015).

Though firms expand across the borders for various reasons, their performance is affected by the LOF which is measured as the cost of doing business in foreign regions. To overcome such liability of foreignness of being a late comer, as an internationalisation

strategy, firms would need to acquire strategic assets and reputable brands in the host country (Awuah & Anderson, 2013). Firms overcome the liability of foreignness, newness, and emergingness through adopting an internationalisation strategy that is part of an “an entrepreneurial endeavour to overcome the advantage deficit (of the MNE)... as well as find needed resources that are unavailable at home....” (Madhok & Keyhani, 2012, p.31).

Contrasting views have been put forward on the influence of internationalisation strategy on M-P relationship. Scholars argued over the effect of firm factors, regional strategy, modes of entry and effect of LOF on internationalisation strategy and in turn the M-P relationship. The following sections is a critique of the M-P relationship and reviews some international business studies that were carried out to determine whether firm factors (FSAs), geographical distance/regional strategy and institutions influence the M-P relationship.

## **2.5 Multinationality – performance relationship (M-P relationship)**

Several theoretical and empirical studies have tried to establish whether multinationality had an impact on firm performance and the results have been inconsistent from one scholar to the other (Yang & Driffield, 2012; Yang et al., 2013b; Kirca et al., 2012b; Miller et al., 2016; Hitt et al., 2015b; Fleming & Cabral, 2016). Fleming and Cabral (2016) argued that though there hasn't been any model that can be used to determine whether multinationality has an impact on performance, it is important to consider the influence of FSAs, industry, and country specific advantages on the M-P relationship.

Rugman and Oh (2013) argued that regional strategy of an MNE be the important factor to consider when trying to apprehend the M-P relationship. Furthermore, it is argued that multinationality effect on performance be dependent on the type of multinationality motivations for internationalisation, industry characteristics and home country factors (Jain and Prakash, 2016; Cui, Meyer, and Hu, 2014).

The literature has suggested various heterogeneous perspectives in explaining the M-P relation, but the results have been inconclusive. The suggested perspectives include the role of regional coverage or geographical diversification and product diversification (Oh & Contractor, 2012; Hennart, 2011; Yang et al., 2013), the role of mode of entry and portfolio diversification (Capar et al., 2015). Firm ownership and region specific advantages rather than FSAs were suggested to play a fundamental role in explaining the M-P relationship, but the results were inconclusive (Chen et al., 2015).

Though different perspectives were put forward so as to explain the M-P relationship, the results have been inconclusive (Powell, 2014). However, Yang et al., (2013) found out that there is a clear affirmative M-P link. There is also an argument to the contrary that suggests that multinationality does not necessarily produce better performance (Capar et al., 2015). According to Verbeke and Forootan, (2012), though a significant amount of empirical literature exists on the M-P link, they portray methodological weaknesses due to inability to provide a definitive conclusion on the direction and magnitude of multinationality and performance linkages.

Wide-ranging research has been carried out of the developed markets on how institutions, the LOF, the liability of newness, regional strategy, FSAs, CSAs and industry specific factors impact the M-P relationship and the results have been inconclusive. To further add new knowledge to the literature similar factors were used to test their impact on M-P relationship for MNEs from emerging markets.

### **2.5.1 Empirical review of Multinational – Performance relationship studies**

Varied arguments on the internationalisation theories do not have common answers to the multinationality – performance relationship. As a result, various studies have been performed on the subject to verify the M-P relationship. Factors that affect the M-P relation include CSAs, FSAs, institutions, regions, firm size, age and degree of internationalisation.

#### **2.5.1.1 Review of factors influencing M-P relationship based on empirical research**

Scholars in international business assume that firms decide their internationalisation strategies based on the most advantageous foreign locations for their specific activities. Kirca et al. (2012) suggested that “context can set specific constraints and opportunities that either enhance or reduce the effects of multinationality on a firm`s performance”. A review of empirical studies on the study of M-P relationship revealed the following:

##### **Firm factors (FSAs – knowledge base, capabilities and technology)**

Fleming and Cabral, (2016) and Verbeke and Forootan, (2012a), from their review of factors that influence M-P relationship, argued that there be a positive correlation between multinationality and performance with firm factors acting as a moderator. However, Kirca, Fernandez, and Kundu, (2016) argued that firm factors especially technological assets have a greater influence on the performance of MNEs in the manufacturing sector as compared to service sector as the later is mainly affected by marketing assets. As such, the extent of influence of the firm factors on the M-P relationship across geographies is industry

dependent. Weaknesses of firm factor influences are prone in the manufacturing sectors than in the service industry (Kirca et al., 2016). Scott-Kennel and Giroud, (2015) brought up another dimension where they argued that it is the nature of FSAs or firm factors that influence the M-P relationship such as networks and strategic knowledge instead of general firm-specific factors hence this influences internationalisation strategy.

### **Geographical distance**

According to Powell, (2014), even though MNEs possess FSAs, inefficient and excessive levels of multinationality are both negatively related to financial performance. This view was supported by Miller et al. (2016) by suggesting that international intensity, distance, and diversity do not help explain the M-P relationship but contribute towards building a wide-ranging and integrative model in the study of international business. With increased globalisation by firms seeking to benefit from reduced costs, economies of scale, skilled labour, a regional strategy ignores the effect of the global value chain which is outside the legal boundaries of firms (Mudambi & Puck, 2016). To the contrary, regional strategy helps in explaining the M-P relationship on the condition that the effect of geographical location effects is analysed based on country dimension and at a global level (Verbeke & Asmussen, 2016a). Most firms are argued to achieve higher performance from home regions whilst a few firms that operate from both home and afar regions have shown mixed performances i.e. high and low performance thus giving rise to the question “do regions matter and to what extent do they influence the M-P relationship?” (Oh & Contractor, 2014b; Rugman & Oh, 2013; Chen & Tan, 2012).

### **Institutions**

As firms expand internationally and with their geographical distance increasing from the home country, the effect of institutions varies from one region to the other. Though knowledge of what differentiates more successful foreign subsidiaries of EMNEs from less successful is limited and inconsistent, the effect of institutions is argued to be stronger for MNEs in emerging markets than developed markets (Kafouros & Aliyev, 2016). As such the effect of home country institutions on M-P relationship varies from one firm's home country to another (Marano et al., 2016). To come up with a more certain position on whether institutions influence the M-P relationship, Singla and George, (2013) proposed that international business scholars should consider the effect of age and size of the firm as a moderating factor.

From the review of factors affecting M-P relationship, scholars found that some factors used to define if there is a relationship between multinationality and performance gave inconsistent results. The question remains unanswered as to whether there is a correlation between multinationality and performance taking into account geographical distance (degree of internationalisation) and firm factors (Sangno, Minhó & Davidson, 2015).

### **2.5.2 Degree of internationalisation and performance measurement**

The degree of internationalisation (DOI) is dependent on MNEs access to resources and quality of institutions in various countries and regions (Kirca et al., 2012b). Based on the literature, liability of foreignness, newness and emergingness also plays a role in defining the degree of internationalisation and ultimately the firm performance and quality of institutions influence the performance of MNEs (Singla & George, 2013; Jain, Kundu & Newburry, 2014; Tan & Chintakananda, 2016; Kafouros & Aliyev, 2016; Andersson et al., 2014). LOF and LOE help appreciate the influence of the degree of internationalisation on firm performance (Madhok & Keyhani, 2012; Ietto-Gillies, 2012).

Multinationality or international diversification is determined based on the DOI which is the ratio of foreign sales to total sales (FSTS) or ratio of foreign assets to total assets (FATA) (Rugman & Oh, 2011; Verbeke & Forootan, 2012). Sangno, Minhó and Davidson (2015) proposed a composite –index method of measuring multinationality which takes into account foreign sales, foreign asset, the number of foreign subsidiaries and the number of countries represented.

The most common measure of performance is return on assets, return on equity, earnings before interest and tax, share price growth/movement (Jain & Prakash, 2016; Matysiak & Bausch, 2012; Chen & Tan, 2012, Marano et al., 2016; Benito-Osorio et al., 2014; Kim et al., 2015; Chen et al., 2015). Tobin's Q measures performance calculated as (equity market value + liabilities) / (equity book value + liabilities book value); the advantage of using Tobin's Q over accounting performance indicators such as ROA, ROI, ROS is that market-based measures of expected future returns and current returns are taken into account in calculating Tobin's Q (Chen & Tan, 2012).

## **2.6 Conclusion of the literature review**

The literature started by explaining the different dimensions of multinational enterprises including the differences between firms and MNEs. MNEs expand into international markets for various reasons, and these reasons are not always consistent from one MNE to the other. There has been a surge in the number of MNEs from emerging markets i.e. EMNEs

wherein traditionally MNEs would ordinarily emerge from developed markets. This has led to two opposing views as to whether the existing theory can help explain the evolution of EMNEs or there is a need for new theory. Motives for internationalisation vary between EMNEs and DMNEs, and this determines the evolution of EMNEs. Some scholars argue that EMNEs be attracted to certain locations or regions due to location advantages such as resources and country specific advantages (CSAs) and some scholars claim that one market power, technology, favourable institutions and strategic asset seeking motives attract MNEs.

As firms internationalise, there are two approaches to be considered i.e. through exports and FDI. Export firms initially enter the international market and eventually set up foreign subsidiaries through FDI. This is because exports MNEs are regarded as having strategic market seeking while FDIs are deemed to have strategic resource/asset seeking motives.

As EMNEs expand into foreign markets, there are two divergent views that according to the OLI framework, EMNEs should possess ownership advantages so as to set off against costs associated with the liability of foreignness. On the other hand, the Uppsala model argues that EMNEs internationalise so as to attain ownership advantages that they lack. The OLI framework looks at the macroeconomic system to explain the internationalisation process of MNEs while the Uppsala model argues that when coming up with internationalisation strategies, MNEs should look for firm-level strategies. The Uppsala model further argues that firms first internationalise by entering regional markets and as they gain more international experience they then expand to distant regions.

There are contradictory views regarding how MNEs achieve the sustainability competitive advantages i.e. one stream of scholars argue that CSAs and FSAs be important in determining firm performance while the other one claims that governance structures be more important. This has led to contradictory or mixed findings as to what exactly influences the M-P relationship.

Some factors affect how MNEs internationalise i.e. effect of location, resources, institutions, market power, mode of entry, CSAs, FSAs, sustainable competitive advantages. The success of MNEs is dependent on CSAs and FSAs. However, some MNEs fail to replicate their successes beyond home boundaries. Furthermore, country level conditions are argued to be less important in assessing regions to expand into but firm level relationships, firm factors, and network phenomenon.

The literature has suggested multiple heterogeneous factors explain the M-P relationship, but the results have been contradictory or inconsistent. A review of the factors used to

explain the M-P relationship as per Table 1 has shown mixed findings. Due to MNEs expanding into multiple geographical spaces, this inquiry could expect factors such as geographical diversification, regional strategy, FSAs (firm factors) to contribute immensely in explaining the M-P relationship.

### **Research question 1**

To what extent do firm factors and degree of internationalisation affect firm performance?

### **Hypothesis 1**

The null hypothesis states that firm factors and degree of internationalisation have no effect on the performance of foreign subsidiaries of the MNE.

The alternative hypothesis states that firm factors and degree of internationalisation have an effect on the performance of foreign subsidiaries of the MNE.

Null hypothesis :  $H_{10}: \mu_{MNE (firmfactors)} - MNE (other factors) = 0$

Alternative hypothesis :  $H_{11}: \mu_{MNE (firmfactors)} - MNE (other factors) > 0$

### **Research question 2**

Do South African MNEs experience greater financial performance contribution from their subsidiaries in African states and poorer financial performance contribution from their subsidiaries further afield.

### **Hypothesis 2**

The null hypothesis states that geographic distance from head office has no influence on foreign subsidiary performance.

The alternative hypothesis states that geographic distance from head office has an influence on foreign subsidiary performance.

Null hypothesis :  $H_0: \mu_{MNE (African)} - MNE (non-African) = 0$

Alternative hypothesis :  $H_1: \mu_{MNE (African)} - MNE (non-African) > 0$

In conclusion, this inquiry holds to add to the existing M-P relationship literature by studying SA MNEs (i.e. EMNES) as to whether geographical diversity and firm factors help explain M-P relationship. The inquiry also helps explain whether foreign subsidiaries perform better if they are located closer to the head office or if located further away from head office. In so



doing, this inquiry answers to the call for further academic research on the effect of a regional strategy in EMNEs (Lebedev et al., 2015; Verbeke & Asmussen, 2016a; Fleming & Cabral, 2016; Kirca et al., 2012b).

Chapter 3 will give more detail on the research questions and hypothesis based on the gap identified in the literature.

### 3. Research hypotheses

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#### 3.1 Research question 1

Kim et al. (2015) argue that enhanced geographic diversification (or exposure to more international markets) through location specific advantages combined with MNE firm-specific advantages (e.g. knowledge base, capabilities and technology) which result in improved MNE foreign subsidiary performance. Van Essen, Otten and Carberry (2012) suggest that home country institutions affect the M-P relationship. Some factors affect how MNEs internationalise i.e. effect of location, resources, institutions, market power, mode of entry, CSAs, FSAs, sustainable competitive advantages.

The success or failure of MNEs is argued to depend on CSAs and FSAs. However, some MNEs fail to replicate their successes beyond home boundaries resulting in the question of the influence of firm-specific factors on firm performance (Verbeke & Asmussen, 2016a). Furthermore, country level conditions are argued to be less important in assessing regions to expand into but firm level relationships, firm factors, and network phenomenon.

The literature has suggested multiple heterogeneous factors explain the M-P relationship, but the results have been contradictory or inconsistent. A review of the firm factors used to explain the M-P relationship has shown mixed findings. Due to MNEs expanding into multiple geographical spaces, this inquiry could expect factors such as geographical diversification, regional strategy, FSAs (firm factors) to contribute immensely in explaining the M-P relationship

According to Fleming and Cabral (2016), Kirca et al. (2012b)'s conceptual model explains why various empirical studies' results on M-P relationships have been mixed but " does not explain in detail the effects of firm and country-specific factors' on the M-P relationship".

To what extent do firm factors and degree of internationalisation affect firm performance?

##### 3.1.1 Hypothesis 1

The null hypothesis states that firm factors and degree of internationalisation have no effect on the performance of foreign subsidiaries of the MNE.

The alternative hypothesis states that firm factors and degree of internationalisation have an effect on the performance of foreign subsidiaries of the MNE.

Null hypothesis :  $H1_0: \mu MNE_{(firmfactors)} - MNE_{(other factors)} = 0$

Alternative hypothesis :  $H1_1: \mu MNE_{(firmfactors)} - MNE_{(other factors)} > 0$

### 3.2 Research Question 2

Verbeke and Asmussen (2016) are of the view that the closer the investment is to the home region the better the performance and point out that the world's largest MNEs deploy 78% of their assets in their home region and such assets generate +/-75.5% of overall sales. Regardless of the stage of internationalisation, geographical effects are said to only explain an estimated 9% of the firm performance (Elango & Wieland, 2014).

Studies on international business have ignored the significance of location strategy in firms as this affects the transferability, deplorability, and exploitability of FSAs which influence the M-P relationship. As companies diversify into various regions, this inquiry also expects that MNEs foreign subsidiaries located to closer to the home region outperform those that are far away from the head office.

Based on a sample of firms listed on the Fortune Global 500, Rugman and Oh, (2013) found that home region effect explains between 13% and 35% of the multinationality effect on firm performance while non – home region explains between 14% and 15% of the multinationality effect on firm performance. However, Rugman and Oh (2013) further argued that “the rise of emerging countries possibly affects the economic geography and, therefore, the classification of region” (p.475), and as such their influence on the performance of foreign subsidiaries.

Do South African MNEs experience greater financial performance contribution from their subsidiaries in African states and poorer financial performance contribution from their subsidiaries further afield?

#### 3.2.1 Hypothesis 2

The null hypothesis states that geographic distance from head office has no influence on foreign subsidiary performance.

The alternative hypothesis states that geographic distance from head office has an influence on foreign subsidiary performance.

Null hypothesis :  $H_0: \mu MNE_{(African)} - MNE_{(non-African)} = 0$

Alternative hypothesis :  $H_1: \mu MNE_{(African)} - MNE_{(non-African)} > 0$

## 4. Research Methodology

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### 4.1 Introduction

This chapter outlines the methodology of the research that was used to select, collect and perform data analysis so as to respond to the research hypotheses and research objective.

### 4.2 Research Design

The research design was quantitative in nature. Quantitative research was appropriate to explain the M-P relationship based on the enormous amount of financial data available for MNEs and their foreign subsidiaries from Osiris database. The hypotheses were tested using longitudinal financial information covering the period from 2005 to 2015 based on a sample of publicly listed South African MNEs on the Johannesburg Stock Exchange (JSE). Financial data obtained from OSIRIS database provided assurance on the completeness of the sample of listed MNEs from South Africa and their foreign subsidiaries.

The nature of the inquiry examined the correlations between an MNE's financial performance (Tobin's Q) and its MNEs ability to manage its firm factors across regions. The nature of the data collected did range from 2005 to 2015 (10 years) and covered eight (8) industry sectors i.e. consumer discretionary, consumer staples, energy, industries, materials, telecommunications services, financial services and information technology. This inquiry's objective was to explain various variables of the degree of internationalisation (independent variables), firm-specific factors and their impact on emerging MNE performance (dependent variable) measured using Tobin's Q. Descriptive statistics were carried out to determine the means and standard deviations of variables.

Regression analysis was used to measure causality of variables as recommended by Chen and Tan (2012). Regression analysis was suitable for the available financial data set as the objective of the research was to explore the multinationality impact on the performance of MNEs. Regression analysis was used to measure causality of variables of all companies combined.

The research's emphasis lies in analysing situations or problems (South African MNE foreign subsidiaries' performance) to explain the relationship between variables (the firm factors' impact on MNE performance e.g. FSAs, CSAs, the liability of foreignness, the liability of newness, etc.). MNEs are embedded in multiple national boundaries with each having its competitive advantages (Rugman & Oh, 2013; Verbeke & Asmussen, 2016;

Verbeke & Kano, 2016). However the role of regional strategy and firm factors such as knowledge, capabilities and technology in being the drivers of performance in explaining the impact of multinationality has been under-explored (Hennart, 2015; Kirca et al., 2012; Matysiak & Bausch, 2012; Hennart, 2011). “Various empirical studies have been carried out on the M-P link and the results have delivered evidence of mixed or even contradictory findings” (Xiao, Jeong, Moon, Chung & Chung, 2013, p.118)

### **4.3 Population**

The population included all South African MNE’s and their foreign subsidiaries located on the Osiris database. Based on the available information on Osiris database the total number of SA MNEs listed on the Johannesburg Stock Exchange as its primary listing bourse was 186. These companies were domiciled in South Africa. Osiris database provides details of all publicly traded companies in the world and JSE provides particulars of all publicly traded companies in South Africa hence the confidence that the population of South African MNEs sampled was complete and for which financial information is available from public sources. However, before locating the relevant population of MNEs and their foreign subsidiaries, the inquiry defined the population by selecting all MNEs (or ultimate owners of the subsidiaries) using the Osiris database based on three specific selection criteria:

#### **4.3.1. Company selection criteria**

- The company had to be openly listed and traded in public (publicly listed)
- The company had to have been in existence as an MNE for the past ten years i.e. from 2005 to 2015.
- The company had to own at least 50% of the shareholding in a subsidiary outside South Africa.

#### **4.3.2 First selection criteria**

The primary assortment criterion of “Publicly Listed” firms was used, and a population of all the South African MNEs was provided.

#### **4.3.3 Second selection criteria**

The first step was to select all companies regardless of the industry they represent the population. The second phase was to determine which MNEs were in existence since 2005 to 2015 i.e. 10-year horizon. The third phase will be to categorise the companies based on the characteristics i.e. the industries they belong. The number of companies in each industry category varied due to the strategic intent of the parent company.

#### **4.3.4 Third selection criteria**

The third selection criteria was to determine the publicly listed MNEs that own at least 50% shareholding in their foreign subsidiaries.

#### **1.4 Sampling method and size**

The research reviewed South African MNEs with foreign subsidiaries in all the industry sectors. The sample was then filtered based on the following:-

- Number of foreign subsidiaries each company had;
- The primary industry in which the company operated in; and
- The number of nations in which each MNE was represented.

This assisted in explaining whether the performance was based on the number of countries in which the MNE was represented or number of foreign subsidiaries. The research further looked at the performance of the companies in the long term (10years) based on the accounting results as determined using Tobin's Q such that it can be established if the age and experience of MNE justify its performance.

The size of the sample was 87 companies out of a population of 186 companies. The number of companies sampled reduced because some of the companies did not have full segment reporting information so as to determine the contribution of foreign subsidiaries to the group and assess whether the geographical distance between head office and region had an impact on firm performance. Only MNEs with foreign subsidiaries with accessible data/information formed part of the sample. Foreign subsidiaries whose data was not accessible were excluded from the sample.

#### **4.5 Data gathering process**

Data was gathered from the OSIRIS databases which provided details of all publicly listed South African companies which gave the researcher the confidence that a complete sample of South African MNE firms was available for review. Financial data on foreign subsidiaries was obtained for each company from 2005 to 2015 as group financial statements provide for segment reporting by geographical location sales.

This inquiry was based on multilevel databases that incorporate the following:

- Financial measures of foreign subsidiaries including additional MNE characteristics such as control variables.
- Degree of internationalisation measured on the following basis:

- Combined foreign subsidiaries sales as a percentage of total sales;
- African subsidiaries sales (excluding South Africa) as a percentage total sales;
- Non-African foreign subsidiaries sales as a percentage of total sales
- A list of countries from which South African MNEs were operating from was obtained i.e. both emerging markets and developed markets.

There is no standard methodology for measuring DOI or multinationality in the international business literature (Chen & Tan, 2012). “Frequently used measures of multinationality include foreign to total sales, or foreign to total assets ratio which involves FDI, or overseas employees to total employees ratio, or some plants/offices in foreign locations” (Chen & Tan, 2012).

In this inquiry we focused on sales from foreign subsidiaries as an indicator of internationalisation for two major reasons:-

- Due to the deficiency of resources and capability - companies from emerging markets are said to generally rely on direct exporting as the first and primary conduit, to expose to the international market (Chen & Tan, 2012);
- Previous studies of the M-P relationship of firms from different countries e.g. the US, Japan, India, Taiwan, and China, have used the foreign sales/total sales ratio as a measure of multinationality (Chen & Tan, 2012).

As a result, this inquiry measured the degree of internationalisation within Africa and outside Africa as a percentage of total assets within that region. “This offers the most direct measure of the sales impact of that region to performance when examining the effect of internationalisation within regions on firm performance” (Chen & Tan, 2012).

The OSIRIS database was used to determine South African MNEs’ foreign subsidiaries based in host countries and the UNCTAD (2015) report was used to assist in identifying whether the host country is an emerging market or a developed market. The inquiry obtained South African MNEs financial information from the Osiris database. The Osiris database according to Osiris (2016, p. 1) provided financial results of firms, ratings, earnings estimates, news, industry research, royalty data, corporate actions, stock data and corporate configurations for the world’s +/-80,000 listed companies across the globe i.e. from over 200 countries. A publicly listed company on OSIRIS database is one that is defined “as a

company with publicly traded equity” (Osiris, 2016, p.1). Osiris defined the geographical location of all foreign and local subsidiaries for each particular MNE that was selected.

#### **4.5.1 Financial performance variables**

The MNE foreign subsidiaries that were obtained from the OSIRIS database had the following information available:

- Revenue (generated per subsidiary and region/segment and country);
- Industry sector of the MNE;
- Total assets (used to determine the knowledge base (intangible and tangible assets), scale, capabilities, and complexity of operations); and
- Equity value (market and book value) and liabilities book value were used to measure the Tobin's Q

“The benefit of making use of Tobin's Q over other accounting-based performance measures, such as return on assets (ROA) and return on sales, is that it comprises a market-based measure of anticipated future earnings as well as current earnings, and for firms in active emerging markets, this may well be a significant antecedent for internationalisation. Financial indicators such as ROA or return on equity (ROE) can be manipulated by listed companies, which makes Tobin's Q a favourable measure of publicly traded firms' performance” (Chen & Tan, 2012).

#### **4.5.2 Control variables**

Apart from the degree of internationalisation, there are control variables which also influence the financial performance of the firm (Chen & Tan, 2012). The set of control variables included the following:

##### **4.5.2.1 First control variable – MNE Size**

The size of the SA MNEs was determined based on the value of assets because a large MNE can exploit economies of scale over time. The total assets basis of measuring the size of the firm according to Chen and Tan (2012) is important because it reflects the intensity by which the MNE exploits the available opportunities but also because it creates coordination of transactions across regions costly which may negatively affect the performance of the MNE.

##### **4.5.2.2 Second control variable – MNE Age**

MNE age was calculated by deducting the year in which the MNE started operating from the current year (Chen & Tan, 2012). This was done to help determine whether older firms'



years of experience justify their performance taking into account management's experience, the effect of liability of foreignness, the maturity of technology and openness to new ideas or approaches as compared to new MNEs.

#### **4.5.2.3 Fourth control variable – MNE's foreign subsidiary independence**

Each publicly listed MNE whose information is on Osiris is allocated an independence indicator based on shareholding structure and control. The independence indicators helped to determine the degree of independence of a firm's foreign subsidiary from its shareholders (Osiris, 2016). This Independence Indicator (II) was assigned to each firm according to the parameters defined below denoted as A (A+, A, A-), B (B+,B, B-), C (C+,C), D and U, with further qualifications.

##### **Indicator A**

According to Osiris (2016) indicator A refers to firms with stockholders/shareholders holding less than 25% of total or direct ownership. Such companies with an A Indicator are known as "Independent companies" and were assigned a numerical variable equal to 1 when performing statistical analysis.

##### **Indicator B**

According to Osiris (2016), indicator B refers to firms with shareholders holding less than 50% of total, indirect or direct ownership with only one or more shareholders hold at least 25% of the direct or total ownership. For statistical purposes, Indicator B variable was equalled to 2.

##### **Indicator C**

According to Osiris (2016), indicator C refers to firms with one shareholder holding more than 50% of total or calculated total ownership (indirectly majority owned). For statistical analysis purposes, Indicator C was given an absolute value equal to 3.

##### **Indicator D**

According to Osiris (2016) Indicator D refers to a firm with one shareholder holding more than 50% of total ownership and the company is known as a directly majority owned. For statistical analysis purposes, Indicator D was given an absolute value equal to 4.

##### **Indicator U**

According to Osiris (2016), Indicator U refers to any firm that does not fall into either category A, B, C or D - and as a result, the degree or independence is unknown. However,

firms that fell into this category were excluded from the statistical analysis.

## **4.6 Analysis approach**

Following Oh and Contractor (2014b)'s guidance, in this inquiry the home region is defined as the African continent and outside Africa will be classified as non – African region. Most of the MNE reported their geographic segments according to the requirements of International Financial Reporting Standards. However, out of 186 MNEs, only 81 were tested. However, 94 MNEs only show financial performance of subsidiaries located in South Africa and 6 MNEs did not show any segment reporting information. Thus, 100 firms were removed from the sample. Out of a population of 186 SA MNEs, 86 firms presented their financial performance in the annual reports. The 81 MNEs were spread across 47 countries in the developed markets and 56 countries in the emerging markets. Based on regions, the data was analysed over ten years to enable explanation of individual variables and the dynamics over time. Attention was paid to the mean number of years to which the company was in existence and the mean sales contribution to total sales per region. This was in comparison with the number of companies being sampled as this would avoid heavy reliance on multiple regression analysis. Effect of internationalisation was tested using each of the three measures foreign sales to total sales, home region (African region excluding SA) sales to total sales and rest of world (non-African) sales to total sales.

### **4.6.1 Research question 1**

To what extent do firm factors and degree of internationalisation affect firm performance?

Regression analysis was used to answer the research question and respond to the hypothesis. Regression analysis was used to predict causality of independent and dependent variables also taking into account the control variables that have an effect on performance (Chen & Tan, 2012). The regression analysis was run on the sample of South Africa MNEs foreign subsidiaries. The regression analysis was performed as follows:

- Step 1 – Run descriptive statistics and Pearson correlation matrix.
- Step 2 – Regression analysis taking into account all the industries i.e. consolidated. This helped in identifying whether the firm factors and degree of internationalisation affect firm performance.

### **4.6.2 Research question 2**

Do South African MNEs experience greater financial performance contribution from their subsidiaries in African states and poorer financial performance contribution from their subsidiaries further afield.

To test the hypothesis that responds to the research question, descriptive statistics and regression analysis were performed. Regression analysis was used to predict causality of independent and dependent variables also taking into account the control variables that have an effect on performance (Chen & Tan, 2012). The tests performed were performed as follows:

- Step 1 – Run descriptive statistics to show the sales contribution per region.
- Step 2 – Run regression analysis on African subsidiaries to determine if the closer a subsidiary is to head office results in higher contribution to firm performance (SA MNEs);
- Step 3 – Run regression analysis on non-African subsidiaries to determine if the further away a subsidiary is from head office results in less contribution to firm performance (SA MNEs).

## **1.7 Limitations**

The research had the following constraints:

- The research made use of financial data which was available per firm that contained required information across all eight industries. Out of the 186 South African multinational enterprises that were selected, only 81 firms had all the financial information that could be used in this inquiry. Failure to obtain all the necessary financial information may lead to biased results as not every company was equally examined.
- The inquiry was limited to listed SA MNEs whose information was available on the Osiris database. Non – publicly listed SA MNEs were excluded from this inquiry. The results could have been different should such non – publicly listed MNEs been included in the sample.
- The nature of the study i.e. quantitative lacks qualitative insights of how management culture impact SA MNEs' foreign subsidiaries performance. Furthermore, the research did not cover the effect of specific approaches of running MNEs to improve performance e.g. having multi-domestic and transnational companies.
- The MNEs sampled were from only one country i.e. South Africa hence one should not apply the results of the study to other MNEs from other countries without assessing the characteristics of South Africa and firms researched on.

## 5. Results

This chapter presents findings from data on South African MNEs that was gathered through the Osiris database for this inquiry on the M-P relationship. The chapter also facilitates an understanding of the data and tests that were performed to assist in responding to the set hypotheses and answering the research questions. The chapter starts by highlighting nature of SA MNEs that were sampled per industry category. Descriptive statistics such as mean scores and standard deviation are used to explain Tobin's Q, the contribution of foreign sales to total sales (degree of internationalisation – DOI) and other control variables. The data is displayed and discussed in order of the hypotheses where we tested the effect of firm factors and degree of multinationality on performance, and whether distance or regionalisation has an effect on firm performance. The chapter ends with the summary of the overall findings.

186 SA MNEs formed the population with only 81 SA MNEs qualifying to be part of the sample. 100 were left out of the sample due to some companies not presenting segment financial reports per region and also some only presenting South African financial results. The 81 MNEs were spread across 47 countries in the developed markets and 56 countries in the emerging markets. The following table (Table 2) summarise the qualified companies by industry:

**Table 2 Distribution of firms in sample by primary industry**

Industry classification	Frequency
Basic Materials (Chemicals and resources)	17
Industrials	17
Consumer goods (Automobile, food and household)	15
Consumer services (Retail, media and hospitality)	14
Financial Services	7
Information Technology	5
Energy	4
Telecommunication Services	2
<b>Total</b>	<b>81</b>

## 5.1 Descriptive Statistics

The following descriptive statistics per Table 3 show the Tobin's Q, foreign sales contribution to total sales, the age of the firms, size of the firms based on assets and the independence of the foreign subsidiaries to the parent company.

The Tobin's Q measures the number of times the enterprise market value covers the replacement cost including liabilities of the business. Performance is based on Tobin's Q results over a period of ten years i.e. from 2005 to 2015. "The advantage of using Tobin's Q over other accounting-based performance measures, such as ROA and ROS, is that it includes a market-based measure of expected future earnings as well as current earnings" (Chen & Tan, 2012. p75).

$$\text{Tobin's Q} = \frac{\text{Equity market value} + \text{total liabilities}}{\text{Equity book value} + \text{total liabilities}}$$

The following descriptive statistics per table 3 show the Tobin's Q, foreign sales contribution to total sales, the age of the firms, size of the firms based on assets and the independence of the foreign subsidiaries to the parent company.

**Table 3 Descriptive statistics**

Variable	Minimum	Maximum	Mean	Std. Deviation
Tobin's Q				
(Performance)	0.00	987.21	161.8575	128.24012
Combined foreign sales %	0.00	97.00	28.5683	29.51780
African sales %	0.00	92.58	11.3196	18.76888
Non-African sales %	0.00	95.85	17.2486	23.51376
Size (R'000)	9,598	26,528,203	2,457,248	4,142,082
Independence indicator	1	4	1.93	1.098
Age	11	126	51.35	30.408

## **Tobin's Q**

The sample showed considerable variation across financial performance – the mean Tobin's Q was as follows: ( $M = 161$ ,  $SD = 128$ ). The minimum and maximum Tobin's Q was 0 and 987 respectively.

## **MNE foreign sales**

The sample showed foreign sales contribution to total sales. The sales were split between African foreign sales and non-African foreign sales. The mean of total foreign sales to total sales was 28.56%. A mean of 28.56% shows that subsidiary's foreign sales constitute a third of total sales. The mean total foreign sales were made up of African subsidiaries contributing to total sales as follows: ( $M = 11$ ,  $SD = 18.7$ ) and non- African subsidiaries contributing: ( $M = 17.2$ ;  $SD = 23.5$ )

## **MNE Asset Value/Firm size**

The sample's average asset value was USD 2.4 billion; the minimum asset value being USD 9.6 billion and maximum asset value of USD 26.5 billion i.e. ( $M = 2.4$ ;  $SD = 4.1$ )

## **MNE age**

The average of the sample was 51 years. The minimum age of the sample was 11 years, and the maximum was 126 years ( $M = 51.35$ ,  $SD = 30.4$ ).

## **Subsidiary Independence**

The independence indicator helps determine the degree of independence of a firm with regards to its ownership structure or shareholders (Osiris, 2012). As mentioned in Section 4, there are varying levels of independence from shareholders who own less than 25% of equity either directly or indirectly to those who own more than 50%. The variation in independence may determine the influence the parent company has on the foreign subsidiary operational and financial strategies.

The mean independence indicator of the sample was 1.93 i.e. ~2 i.e. Indicator B: ( $M = 1.93$ ,  $SD 1.098$ ). A mean independence indicator demonstrates that on average, the shareholders own between 25% and 50% of total ownership director or indirectly. However, at least one shareholder directly or indirectly owns at least 25% of the entire shareholding.

## 5.2 Research question 1

To what extent do firm factors and degree of internationalisation affect firm performance?

### 5.2.1 Hypothesis 1

The null hypothesis states that firm factors and degree of internationalisation have no effect on the performance of foreign subsidiaries of the MNE.

The alternative hypothesis states that firm factors and degree of internationalisation have an effect on the performance of foreign subsidiaries of the MNE.

Null hypothesis :  $H_0: \mu_{MNE (firmfactors)} - MNE (other factors) = 0$

Alternative hypothesis :  $H_1: \mu_{MNE (firmfactors)} - MNE (other factors) > 0$

To determine whether firm factors (knowledge, technology and capabilities) and degree of internationalisation have an influence on the firm performance we first look at the Pearson correlations between independent, dependent and control variables.

#### 5.2.1.1. Relationship between the scores and variables

Correlations can be either positive or negative. The correlation coefficients between the variables are given in Table 5. The table also demonstrates that when correlations between variables were tested, there were no multicollinearity problems. Multicollinearity was tested using the Pearson Correlation so as to determine whether there are any multicollinearity problems between independent variables tested. Pearson correlation strength was determined based on Table 4 below:

**Table 4 Correlation strengths**

Strength of association	Coefficient, <i>r</i>	
	Positive	Negative
Small	.1 to .3	-0.1 to -0.3
Medium	.3 to .4	-0.3 to -0.4
Large	.4 to 1.0	-0.4 to -1.0

As per Table 5 below, positive and negative correlations indicated that the degree of internationalisation, the size of the firm, the age of firm, the number of countries represented and the number of foreign subsidiaries have an effect on performance.

**Table 5 Pearson Correlation matrix**

		Correlations					
		Tobin's Q	Combined foreign sales	Age of Firm (years)	Size of Firm (Total Assets USD'000)	Total number of foreign subsidiaries	Total number of foreign countries
Tobin's Q	Pearson Correlation	1	-.012	.045	.109**	.023	.075*
	Sig. (2-tailed)		.744	.203	.002	.511	.032
	N	810	810	810	810	810	810
Combined foreign sales	Pearson Correlation	-.012	1	-.007	.353**	.434**	.386**
	Sig. (2-tailed)	.744		.844	.000	.000	.000
	N	810	810	810	810	810	810
Age of Firm (years)	Pearson Correlation	.045	-.007	1	.030	.025	.029
	Sig. (2-tailed)	.203	.844		.400	.477	.410
	N	810	810	810	810	810	810
Size of Firm (Total Assets USD'000)	Pearson Correlation	.109**	.353**	.030	1	.520**	.568**
	Sig. (2-tailed)	.002	.000	.400		.000	.000
	N	810	810	810	810	810	810
Total number of foreign subsidiaries	Pearson Correlation	.023	.434**	.025	.520**	1	.931**
	Sig. (2-tailed)	.511	.000	.477	.000		0.000
	N	810	810	810	810	810	810
Total number of foreign countries	Pearson Correlation	.075*	.386**	.029	.568**	.931**	1
	Sig. (2-tailed)	.032	.000	.410	.000	0.000	
	N	810	810	810	810	810	810

Correlation is significant at the 0.05 level (2-tailed)



All the other variables are positively correlated except for combined foreign sales and age of firm which negatively correlated with Tobin's Q and combined foreign sales respectively. All the correlation coefficients are significant ( $p < 0.05$ ) except for the correlation coefficient between Tobin's Q and combined foreign sales (statistically insignificant ( $r(810) = -0.012$ ,  $p > 0.05$ )), age of firm in years and Tobin's Q (statistically insignificant ( $r(810) = 0.045$ ,  $p > 0.05$ )), age of firm and combined foreign sales (statistically insignificant ( $r(810) = -0.007$ ,  $p > 0.05$ )), Tobin's Q and total number of foreign subsidiaries (statistically insignificant ( $r(810) = 0.023$ ,  $p > 0.05$ )), age of firm and size of firm (statistically insignificant ( $r(810) = 0.030$ ,  $p > 0.05$ )), age of firm and total number of foreign subsidiaries (statistically insignificant ( $r(810) = 0.025$ ,  $p > 0.05$ )), age of firm and total number of foreign countries (statistically insignificant ( $r(810) = 0.029$ ,  $p > 0.05$ )).

A review of Table 5 indicates that there are no multicollinearity complications between independent variables tested. This was confirmed by the tolerance values which are all above zero (0) as per Table 6 and Table 7.

For the positive relationships that were identified, strong relationships where  $r$  was above 0.4 were identified between the following variables;

- Tobin's Q and age of firm, thus suggesting that with the maturity of a firm based on the number of years since incorporation, performance and market values of the business also increases;
- Combined foreign sales and total number of foreign subsidiaries; this suggest that as number of foreign subsidiaries increases, sales also increases;
- The size of firms based on the total value of assets and a total number of foreign subsidiaries; this suggests that as companies grow into foreign markets, they also increase their investment in assets.
- A total number of foreign countries and size of firm; this suggests that as firms expand into different countries, they increase their investment in assets. As a result investment in some subsidiaries and countries results in more investment in firm assets which might be viewed as having an influence on company performance as measured by Tobin's Q.
- A total number of foreign subsidiaries and the total number of foreign countries ( $r = 0.931$ ); this suggests that there is an absolute relationship between the number of foreign subsidiaries and the number of countries they operate from.

For the negative relationships that were identified, strong relationships where  $r$  was below 0 were determined between the following variables;

- Tobin's Q and combined foreign sales; this suggests that the firm's performance is not necessary based on the extent of its foreign sales. There could be other factors that affect the business's performance as measured by Tobin's Q which takes into consideration the company market value.
- Age of firm (years) and combined foreign sales; the results suggest that the age of an MNE does not necessarily determine the amount of foreign sales to be realised by foreign subsidiaries.

### 5.2.1.2 Regression - Overall

This chapter also analyses the results of the regression models and ANOVA including stepwise regression based on the following:

- The independent variable i.e. degree of internationalisation (foreign sales/total sales);
- Dependent variables (performance) as measured by Tobin's Q; and
- Control variables such as the age of the firm, the age of the firm, the number of foreign subsidiaries and the number of countries in which the subsidiaries are based.

A multiple regression was run to test the hypothesis i.e. to help determine the effect of firm factors and degree of internationalisation on firm performance. Table 6 shows the regression coefficients, standard errors and the four statistically significant variables ( $p < 0.05$ ). These variables statistically significantly predicted the following:  $F(15,794) = 15,294$ ,  $p < .05$ ,  $R^2 = 0.21$ . Variables which were statistically insignificant were dropped/excluded i.e. number of non - African subsidiaries, combined foreign sales and number of non-African countries.

**Table 6 Overall Regression model summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.473 <sup>a</sup>	.224	.210	114.01800

a) Predictors: (Constant), total number of foreign countries outside Africa, age of firm (years), total number of foreign subsidiaries in Africa (excluding SA), foreign subsidiary's independence, combined foreign sales %, total number of foreign subsidiaries outside Africa, Industrials, total number of foreign countries in Africa (excluding SA) (firm factors and degree of internationalisation).

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	13.076	62.404		.210	.834		
Independence Indicator	12.377	3.924	.106	3.154	.002	.865	1.156
African subsidiaries	-3.624	1.381	-.279	-2.623	.009	.087	11.550
Non - African subsidiaries ( <i>dropped</i> )							
Age of firm (years)	-.373	.153	-.088	-2.428	.015	.738	1.355
No. of African countries	9.072	3.082	.321	2.944	.003	.082	12.14
No. of non-African countries ( <i>dropped</i> )							
Combined foreign sales ( <i>dropped</i> )							

a. Dependent Variable: Tobin's Q %

The correlation coefficient ( $r$ ) of 0.473 indicates that the firm factors and degree of internationalisation are moderately correlated to firm performance i.e. Tobin's Q. The adjusted R square in the results shows that firm factors and degree of internationalisation explain 21% of the variability of firm performance (Tobin's Q). The regression coefficient is significant with a  $p$ -value of less than 0.05. The null hypothesis is rejected at 5% level of confidence. The prediction equation of firm performance (Tobin's Q) is, therefore:

$$\text{Tobin's Q} = 13.076 + 12.377 (\text{independence indicator}) - 3.624 (\text{African Subsidiaries}) - 0.373 (\text{Age of firm}) + 9.072 (\text{No. of African countries}).$$

### 5.2.1.3 Stepwise Regression Analysis

A stepwise multiple regression was run to determine the effect of firm factors and degree of internationalisation on firm performance. Stepwise multiple regression uses previous year's variables to predict the future performance. Table 7 shows the regression coefficients, standard errors and the two statistically significant variables ( $p < 0.05$ ). These variables statistically significantly predicted the following:  $F(16,712) = 20,978$ ,  $p < .05$ ,  $R^2 = 0.305$ . Variables which were statistically insignificant were dropped i.e. number of non - African subsidiaries, combined foreign sales, the number of non-African countries, the age of firm (years) and independence indicator.

**Table 7 Overall stepwise regression summary**

<b>Model Summary</b>			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.566 <sup>a</sup>	.320	.305	107.62351

- a. Predictors: (Constant), Combined foreign sales %, age of firm (years), foreign subsidiary's independence, total number of foreign subsidiaries in Africa (excluding SA), total number of foreign countries outside Africa, total number of foreign subsidiaries outside Africa, total number of foreign countries in Africa (excluding SA) (firm factors and degree of internationalisation (DOI))

**Table 8 Overall stepwise regression summary (continued)**

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	71.604	62.101		1.153	.249		
Independence Indicator ( <i>dropped</i> )							
African subsidiaries	-3.110	1.380	-.238	-2.254	.024	.086	11.641
Non - African subsidiaries ( <i>dropped</i> )							
Age of Firm (years) ( <i>dropped</i> )							
No. of African countries	7.499	3.083	.263	2.433	.015	.082	12.266
No. of non-African countries ( <i>dropped</i> )							
Combined foreign sales ( <i>dropped</i> )							

a. Dependent Variable: Tobin's Q %

The stepwise correlation coefficient ( $R$ ) of 0.566 indicates that the firm factors and degree of internationalisation are strongly correlated to firm performance i.e. Tobin's Q. The adjusted R square in the results shows that firm factors and degree of internationalisation explain 30.5% of the variability of firm performance (Tobin's Q). The regression coefficient is significant with a  $p$ -value of less than 0.05. The null hypothesis is rejected at 5% level of confidence. The prediction equation of firm performance (Tobin's Q) is, therefore:  
 Tobin's Q = 71.604 - 3.110 (African Subsidiaries) + 7.499 (No. of African countries)

#### 5.2.1.4 Analysis of Variance (ANOVA)

A two-tailed ANOVA was carried out on the firm factors and degree of internationalisation which help explain the relationship between multinationality and performance.

**Table 9 Analysis of Variance (ANOVA)**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2982348.735	15	198823.249	15.294	.000 <sup>b</sup>
Residual	10322083.503	794	13000.105		
Total	13304432.238	809			

The firm factors are statistically significant to influence M-P link. From the analysis of variance at 95% confidence interval as shown in Table 8 above, the  $p$ -value  $< .05$  suggested that there is strong evidence against the null hypothesis, hence the null hypothesis was rejected.

Hence, the null hypothesis was rejected at a 5% significance level.

The null hypothesis states that firm factors and degree of internationalisation have no effect on the performance of foreign subsidiaries of the MNE. As such, it is evident that the firm factors are statistically significant to influence the M-P relationship.

### 5.3 Research question 2

Do South African MNEs experience greater financial performance contribution from their subsidiaries in African states and poorer financial performance contribution from their subsidiaries further afield.

#### 5.3.1 Hypothesis 2

The null hypothesis states that geographic distance from head office has no influence on foreign subsidiary performance.

The alternative hypothesis states that geographic distance from head office has an influence on foreign subsidiary performance.

Null hypothesis :  $H_0: \mu_{MNE} (\text{African}) - MNE (\text{non-African}) = 0$

Alternative hypothesis :  $H_1: \mu_{MNE} (\text{African}) - MNE (\text{non-African}) > 0$

Results of the hypothesis tested are split into the effect of distance on African subsidiaries and effect of distance on non – African subsidiaries to understand the effect of distance on the firm performance.

### 5.3.1.1 Effect of distance between African subsidiaries and head office

The effect of geographical distance was analysed through descriptive statistics and regression analysis at three levels. Step 1, regional descriptive statistics, step 2 regression analysis - did not take into account effect of prior year measures in predicting the future of M-P relationship and step 3 regression analysis - which took into account effect of previous year measures on future M-P relationship

#### Step 1 Regional descriptive statistics

The descriptive statistics help determine the mean sales contributed by foreign subsidiaries per region. In this case, as per Table 9, it says that African subsidiaries only contributed 11% to total sales while non – African subsidiaries contributed 17%.

**Table 10 Regional descriptive statistics**

	SA MNEs Mean	Standard deviation
African subsidiaries sales %	11.3196	18.76888
Non-African subsidiaries sales %	17.2486	23.51376

Though the descriptive statistics showed that non-African subsidiaries contribute more sales to total sales, regression analysis was also run to test causality between geographical distance and firm performance and the results are as per step 2 and step 3.

#### Step 2 – Normal regression (African Subsidiaries)

A multiple regression was run to test the hypothesis i.e. to help determine whether the distance from the parent company or head office has any influence on firm performance. Table 10 shows the regression coefficients, standard errors and the four statistically significant variables ( $p < 0.05$ ). These variables statistically significantly predicted the following:  $F(15,794) = 15,461$ ,  $p < .05$ ,  $R^2 = 0.211$ . Variable which was statistically insignificant was dropped i.e. African sales.

**Table 11 Regression Summary – African Subsidiaries**

Model Summary				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
.475 <sup>a</sup>	.226	.211	113.87904	

a. Predictors: (Constant), age of firm (years), total number of foreign subsidiaries in Africa, foreign subsidiary's independence, African sales %, total number of foreign countries in Africa (Excluding SA)

	Coefficients						
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	Beta	Std. Error	Beta			Tolerance	VIF
(Constant)	28.920	63.125		.458	.647		
Independence Indicator	11.512	3.966	.099	2.903	.004	.845	1.183
African subsidiaries	-3.671	1.380	-.282	-2.660	.008	.087	11.553
Age of Firm (years)	-.331	.154	-.079	-2.156	.031	.735	1.361
African countries	9.316	3.081	.329	3.024	.003	.082	12.157
African Sales % ( <i>dropped</i> )							

a. Dependent Variable: Tobin's Q %

The correlation coefficient (*R*) of 0.475 indicates that the distance between head office and African subsidiaries are moderately correlated to firm performance i.e. Tobin's Q. The adjusted R square in the results shows that the closer a foreign affiliate (African subsidiaries) is to the firm head office contribute 21.1% to firm performance (Tobin's Q). The regression coefficient is significant with a *p*-value of less than 0.05. The prediction equation of firm performance (Tobin's Q) is, therefore:

**Tobin's Q** = 28.920 + 11.512 (independence indicator) - 3.671 (African Subsidiaries) - .331 (Age of firm) + 9.316 (No. of African countries)

The null hypothesis is rejected at 5% level of confidence.



## Step 2 – Stepwise regression (African Subsidiaries)

A stepwise regression was also run to determine whether the distance between the head office and African subsidiaries has an effect on M-P relationship. Table 11 shows the results of the stepwise regression analysis. Three statistically significant variables ( $p < 0.05$ ), the regression coefficients and standard errors can be found in Table 11. These variables statistically significantly predicted the following:  $F(16,712) = 21,060$ ,  $p < .05$ ,  $R^2 = 0.306$ . Variables which were statistically insignificant were dropped i.e. African sales i.e. degree of internationalisation, the age of firm and subsidiary independence indicator.

**Table 12 Stepwise Regression Summary (African Subsidiaries)**

Model Summary				
	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.567 <sup>a</sup>	.321	.306	107.55600

a. Predictors: (Constant), total number of foreign subsidiaries in Africa (Excluding SA), age of firm (years), foreign subsidiary's independence, African subsidiaries sales %, total number of foreign countries in Africa (Excluding SA)

The stepwise correlation coefficient ( $R$ ) of 0.567 indicates that the distance between head office and African subsidiaries are strongly correlated to firm performance i.e. Tobin's Q. The stepwise adjusted R square in the results shows that the closer a foreign affiliate (African subsidiaries) is to the firm head office contribute 30.6% to firm performance (Tobin's Q). The regression coefficient is significant with a  $p$ -value of less than 0.05. The prediction equation of firm performance (Tobin's Q) is, therefore:

$$\text{Tobin's Q} = 83.446 - 3.164 (\text{African Subsidiaries}) + 7.730 (\text{No. of African countries})$$

**Table 13 Stepwise Regression Summary (African Subsidiaries) (continued)**

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	83.446	62.736		1.330	.184		
Subsidiary's Independence ( <i>dropped</i> )							
No. of African subsidiaries	-3.164	1.379	-.242	-2.294	.022	.086	11.647
Age of Firm (years) ( <i>dropped</i> )							
No. of African countries	7.730	3.083	.271	2.508	.012	.081	12.282
African subsidiaries sales % ( <i>dropped</i> )							
Tobin's Q t-1 %	.361	.035	.361	10.346	.000	.783	1.278

a. Dependent Variable: Tobin's Q % (*t-1*)

Based on the normal and stepwise regression performed, it shows that the closer a foreign subsidiary is to its head office it contributes between 21.1% and 30.6% to firm performance.

### 5.3.1.2 Effect of distance between non- African subsidiaries and head office

As per section 5.3.1.2, regression analysis was performed at two levels i.e. step 1 (normal regression) and step 2 (stepwise regression).

#### Step 1 - Regression Summary – non - African Subsidiaries

A multiple regression was run to test the hypothesis i.e. to help determine whether the further away a subsidiary is from the parent company or head office has any influence on firm performance Table 12 shows the regression coefficients, standard errors and the five statistically significant variables ( $p < 0.05$ ). These variables statistically significantly predicted the following:  $F(15,794) = 15,294$ ,  $p < .05$ ,  $R^2 = 0.21$ . Variables which were statistically insignificant were dropped i.e. number of non - African subsidiaries and number of non-African countries.

**Table 14 Regression Summary – Non-African Subsidiaries**

Model Summary				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
.473				
a	.224	.209	114.04569	

a. Predictors: (Constant), Total number of foreign countries outside Africa, Age of Firm (years), Foreign Subsidiary's independence, non-African sales %, Total number of foreign subsidiaries outside Africa

The correlation coefficient (R) of 0.473 indicates that the distance between head office and non - African subsidiaries are moderately correlated to firm performance i.e. Tobin's Q. The adjusted R square in the results indicates that the closer a foreign affiliate (African subsidiaries) is to the firm head office contributes 20.9% to firm performance (Tobin's Q). The regression coefficient is significant with a  $p$ -value of less than 0.05. The prediction equation of firm performance (Tobin's Q) is, therefore: **Tobin's Q** = 16.872 + 12.389 (independence indicator) – 1.006 (non - African Subsidiaries) -.345 (Age of firm) + 3.339 (No. of non- African countries) + .094 (non-African sales)

**Table 15 Regression Summary – Non-African Subsidiaries**

	Coefficients						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	16.872	62.991		.268	.789		
Independence Indicator	12.389	3.932	.106	3.151	.002	.862	1.160
Non-African Subsidiaries ( <i>dropped</i> )							
Age of Firm (years)	-.345	.156	-.082	-2.207	.028	.710	1.407
Non-African countries ( <i>dropped</i> )							
Non-African Sales % ( <i>dropped</i> )							

a. Dependent Variable: Tobin's Q %

**Step 2 – Stepwise regression (non - African Subsidiaries)**

A stepwise regression was run for non - African subsidiaries to determine whether the distance between the head office and non - African subsidiaries has an effect on M-P relationship. Table 13 shows the results of the stepwise regression analysis. Table 13 shows the regression coefficients, standard errors and statistically insignificant variables ( $p > 0.05$ ). These variables statistically significantly predicted the following:  $F(16,712) = 20,978$ ,  $p < .0$ ,  $R^2 = 0.304$ . All variables per table 13 were statistically insignificant and were dropped.

**Table 16 Stepwise Regression Summary (non - African Subsidiaries)**

Model Summary				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
.565 <sup>a</sup>	.320	.304	107.68280	

a. Predictors: (Constant), Age of Firm (years), non - African sales %, Foreign Subsidiary's independence, Total number of foreign countries outside Africa, Total number of foreign subsidiaries outside Africa.

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	72.260	62.634		1.154	.249		
Foreign Subsidiary's independence ( <i>dropped</i> )							
No. of non-African subsidiaries ( <i>dropped</i> )							
Age of Firm (years) ( <i>dropped</i> )							
No. of non-African countries ( <i>dropped</i> )							
Non-African sales % ( <i>dropped</i> )							
Tobin's Q t-1 %	.363	.035	.363	10.399	.000	.784	1.275

a. Dependent Variable: Tobin's Q %

The stepwise correlation coefficient ( $R$ ) of 0.565 indicates that the distance between head office and non - African subsidiaries is strongly correlated to firm performance i.e. Tobin's Q. The adjusted  $R$  square in the results indicates that the closer a foreign subsidiary (African subsidiaries) is to the firm head office contributes 30.4% to firm performance (Tobin's Q).

The results per Table 11 and Table 12 show distance between head and non- African subsidiaries contributes between 20.9% and 30.4% to firm performance. Comparing the financial performance contribution made between African subsidiaries and non-African subsidiaries it is evident that African subsidiaries contribute between 21.1% and 30.6% while non-African subsidiaries contribute between 20.9% and 30.4% to SA MNE's firm performance.

## 5.4 Conclusion

The results in this chapter can be summarised as follows:

- There is a strong relationship between the degree of internationalisation and control variables such as the size of the firm, the age of firm, the number of countries in which the SA MNEs' foreign subsidiaries.
- The degree of internationalisation and firm factors has an influence on the enterprise performance.
- The distance between head office and subsidiaries whether African or non-African only contributes between 20 and 30% of firm performance hence it appears as if there is no difference in the impact of distance on firm performance.

## 6. Discussion of Results

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### 6.1 Research question 1

To what extent do firm factors and degree of internationalisation affect firm performance?

#### 6.1.1 Hypothesis 1

**Firm factors and degree of internationalisation have an effect on the performance of foreign subsidiaries of the MNE.**

The findings based on Table 6 show that firm factors (i.e. knowledge base, technology and capabilities) have statistically significant effect on the performance of foreign subsidiaries of the MNE and degree of internationalisation has statistically insignificant impact on firm performance. Firm factors (FSAs) play a role in explaining the M-P relationships complemented by the strength of CSAs which include institutions and resources (Verbeke & Forootan, 2012). Firm factors include firm experience and age in multinational transactions, firm size (based on assets), number of foreign subsidiaries, number countries represented, knowledge and capabilities, technology, group affiliation and marketing capabilities (Chen, Zhai, Wang & Zhong, 2015; Matysiak & Bausch, 2012; Almodóvar & Rugman, 2014).

As per Table 5, there was a positive correlation of firm factors and the DOI, and as such, there were no multicollinearity problems of the various variables. Tobin's Q and age of firm, combined foreign sales and the total number of foreign subsidiaries, the total number of foreign countries and size of the firm and a total number of foreign subsidiaries and the total number of foreign countries were positively correlated.

##### 6.1.1.1 Firm factors

The findings show that firm factors influence the relationship between performance and multinationality. Based on Table 3 combined foreign sales amount to 28% of total sales. Furthermore, the regression analysis per Table 6 shows that firm factors and degree of internationalisation help explain 21% of firm performance. Firm factors i.e. firm-specific advantages include size, the age of firm, knowledge base, capabilities, and technologies. Though resources can be considered as FSAs, they will be discussed in the next section (Section 6.1.1.2.1)

##### 6.1.1.1.1 Size and age of firm

Table 5 shows a positive correlation between performance (Tobin's Q) and age of firm. According to Singla and George (2013), the age of firm, the size of firm and business

affiliations moderately influences the relationship between performance and multinationality. Firms that are more experienced have a greater command of reliability and legitimacy, have benefited from the learnings over the long period of internationalisation, and are associated with first mover advantages. EMNE features such as the size of firm and age of firm enhance the acceptability of emerging markets firms thus reducing the liability of foreignness in foreign markets.

Firm size is positively correlated with a total number of foreign subsidiaries suggesting that that as firms grow into foreign markets they also increase their investment in assets. As a result of international expansion, performance also increases because the size of the firm is typically symbolic of a broad resource base. According to Kirca et al. (2011) increase in the economies of scale and scope aids firms to have more resources with which to invest in innovations, pursue aggressive expansions, and able to absorb the costs and risks associated with internationalisation. Such costs include liability of foreignness and newness.

The positive correlation between a total number of foreign countries and size of firm suggest that as firms expand into different countries, they increase their investment in assets. As a result investment in some subsidiaries and countries results in more investment in firm assets which might be viewed as having an influence on company performance.

#### **6.1.1.1.2 FSAs - Knowledge base, technology, and capabilities**

According to Verbeke and Kano (2016a), as firm expand into the international market and also with firm age, their experience improves in line with the knowledge base possessed, advancement in technology and capabilities e.g. marketing capabilities. These firm factors influence the relationship between multinationality and firm performance. This is consistent with this inquiry's finding that firm factors have an impact on the M-P relationship. It is also assumed that MNEs i.e. EMNEs and DMNEs pursue international strategies based on the location that is most beneficial to their specific activities hence they internalise their markets to a point where profits from further international expansion surpass total costs of expansion. According to Fleming and Cabral (2016) "enlargement of an MNE's value due to internationalisation is a function of internationalisation and the firm's intangible assets that it possesses". This analogy makes an assumption that firm factors function as a moderating factor of the M-P relationship.

While the results show that firm factors have a positive influence on the multinationality performance relationship, Bhaumik et al. (2015) argue that EMNEs such as SA MNEs be technology-seeking and they internationalise into developed markets seeking new



technology. Though this argument is somewhat acceptable within emerging markets context, according to the Global Competitive Report (2016), South Africa was ranked number 50<sup>th</sup> country regarding the technological readiness thus showing that SA MNEs utilise their advanced technology to influence firm performance.

The findings further extend the argument put forward by Verbeke and Asmussen (2016) that firm-specific factors result in economies of scale, scope and exploitation of natural resources. Such exploitability can be achieved through utilisation of the firm's knowledge base, technology, and capabilities which form part of the firm's internalisation. With the surge in SA's MNEs into Africa and the rest of the world, it is argued that EMNEs' foreign expansion should be based on the ability of the firm's subsidiaries to acquire resources and possess certain capabilities which can be used to enter certain host country untapped markets (Aggarwal, Berrill, Hutson & Kearney, 2011; Li-ying et al., 2016). The ability of an SA MNE's subsidiary to build such capabilities can result in better performance of the MNE but at the same time need to respond to the liability of foreignness and newness.

Though the findings show that firm performance depends on firm factors and degree of internationalisation, different industries are affected by various firm factors at a different magnitude. According to Kirca, Fernandez and Kundu, (2016b), the firm performance of manufacturing EMNEs depends on the firms' technological assets. However, service EMNEs are more reliant on marketing assets so as to succeed in international markets. This inquiry did not look at the role of industry context in emerging markets to demonstrate whether the degree of internationalisation and firm-specific factors weakens or strengthens the effects of multinationality on performance more on one industry than the other EMNE's industry.

The inquiry combined the firm factors and degree of internationalisation to determine the influence of multinationality on firm performance. Regardless of the mixed findings on the M-P relationship, this was done because it is widely argued that a combination of quality of institutions, FSAs, CSAs, geographical diversification, and resources have an effect on the M-P relationship (Lebedev et al., 2015; Capar et al., 2015).

According to Kirca et al. (2011) and Fleming and Cabral, (2016), firm performance is positively correlated with the degree of internationalisation after taking into account firm factors.

### **6.1.1.2 Degree of internationalisation (DOI)**

Results from the statistical analysis performed on the South African multinational enterprises (MNEs) show that degree of internationalisation is statistically insignificant to influence the firm performance. DOI was measured based on the contribution of combined foreign sales to total sales.

DOI is influenced by MNEs access to resources and quality of institutions. Based on the literature, LOF, liability of newness and emergingness also plays a role in influencing the DOI and ultimately the firm performance. The findings from SA MNEs contradict the literature in that access to resources (Singla & George, 2013; Jain, Kundu & Newburry, 2014; He et al., 2016), market power (Contractor, 2012; Contractor, 2013; Williamson et al., 2013) and quality of institutions (Tan & Chintakananda, 2016; Kafouros & Aliyev, 2016; Andersson et al., 2014) influence the performance of MNEs. Liability of foreignness and emergingness help understand the impact of DOI on firm performance (Madhok & Keyhani, 2012; Ietto-Gillies, 2012).

#### **6.1.1.2.1 Resources**

A degree of internationalisation is dependent on the accessibility of resources in the host country. According to Awuah and Anderson, (2014) access to resources and control of the markets are vital factors in determining the extent of foreign direct investment in different international markets and ultimately has an influence on the internationalisation process. On the other hand, firms that are associated with business groups i.e. MNEs can meet institutional challenges and increase their ability to procure resources and capabilities as they expand internationally. This view has influences how multinationality impacts on firm performance. Singla and George (2013) further affirm that firms affiliated to MNEs are more efficient at meeting institutional challenges and procuring resources and capabilities than firms that are not.

The principal motivation for foreign direct investment activity is asset/resource seeking. Due to the surge in regional and bilateral trade agreements, the FDI has since increased and this leads to MNEs from emerging economies acquiring resources and capabilities from foreign markets to gain competitive advantage locally and globally. The competitive environment puts pressure on MNEs especially EMNEs to seek resources and capabilities such as technology and knowledge bases that are not available in the home country. However, Singla and George (2013) argue that FDI transactions be risky, expensive and they require enormous resource commitment when entering into foreign markets thus increasing transaction costs and impact on MNE's foreign subsidiary performance.

As firms enter the international market, such firms with valuable, inimitable and no substitutable resources contribute to their sustainable competitive advantage that generates above average returns as compared to other firms with no valuable and substitutable resources (Jain, Kundu & Newburry, 2014; He et al., 2016). Furthermore, it should be noted that greater participation in international markets through FDI results in higher exploitation of intangible and tangible resources and in turn leads to higher firm performance and reduced performance risk (Capar et al., 2015). The ability of an MNE to efficiently and effectively allocate resources across international markets enables MNE to gain competitive advantage through exploitation of imperfect markets. This view supports the argument that there is a linear relationship that exists between multinationality and performance.

#### **6.1.1.2.2 Institutions**

Institutional development and capabilities have an impact on the performance of foreign subsidiaries. Foreign subsidiaries respond to the institutional pressures in the host countries as such institutional dynamics create incentive-constraint structures in the host countries which ultimately affect how firms operate and their performance (Kafouros & Aliyev, 2016). As such institutional development affects how foreign subsidiaries grow and perform. Foreign subsidiary performance depends on how effectively and efficiently management understands the interaction between firm's intangible assets and host country institutions. The transfer of such intangible assets from the MNE to its foreign subsidiaries is more useful in developed institutional environments (Kafouros & Aliyev, 2016).

According to Holmes et al. (2013), regulatory, political and economic institutions influence the attractiveness of MNE's strategic investment and inward FDI and as such influences the firm performance. Regulatory institutions that control firm activities tightly discourage inward FDI and as MNEs seek to minimise the government's involvement in how management runs their business. This discourages human capital development, innovation and results in a negative effect on performance.

Institutional environment is one of the determining factor of a firm's behaviour and structure. Institutional distance influences the multinationality – performance relationship in that an enormous institutional distance between home and host country make it difficult for the MNE to transfer strategic resources to its foreign subsidiary and reduces its legitimacy in the host country thus affecting the foreign subsidiary performance (Chao and Kim, 2012). According to Andersson et al., (2014) they acknowledge that institutions play a moderating role between the multinationality – performance link and that performance vary depending on the home country quality of institutions. Higher home country quality institutional environments

benefit from multinationality compared to lower quality institutional environments and in turn, result in higher subsidiary performance.

#### **6.1.1.2.3 Liability of foreignness**

The findings on the impact of DOI on firm performance are statistically insignificant suggesting that LOF negatively affects firm performance. The findings while they are expected, they are surprising as the average age of each SA MNE tested is 51 years (Table 3), and the youngest SA MNE was 11 years old.

International expansion of South African MNEs i.e. EMNEs results in their foreign subsidiaries facing a LOF, newness and emergingness due to the stigma associated with the country of origin perception and reputation, products, brands, employees and organisational image. SA MNEs such as Woolworths Limited recorded losses (Douglas, 2016), MTN recorded a market capitalization loss of R32 billion in 2015 (Chris & Neo, 2015) and Tiger Brands have recorded failures in Nigeria (Mark, 2016) in the past two years.

As firms expand into foreign markets, they confront significant challenges and incur additional transactional costs compared to local firms. An emerging theme in Africa is the influence of politics on business operations and in turn company performance. Political factors influence policy making wherein changes in governments will result in a shift in the company strategic direction. An example is that when there was a change in government in Nigeria in 2015, MTN Nigeria, a subsidiary of MTN, was fined USD5.2 billion for not implementing and enforcing the regulations (Geoffrey, 2015).

#### **6.1.2 Hypothesis 1 summary**

Summarising the previous results, firm factors and DOI have an impact on firm performance. Looking at the firm factors and DOI this inquiry will enable an understanding of how firm factors also referred as FSAs (i.e. size of firm, age of firm, technology, knowledge, and capabilities) and DOI factors (resources, institutions and LOF) would play moderating role in the M-P relationship.

While the extant literature has reported mixed results on the M-P relationship (Powell, 2014; Marano et al., 2016; Verbeke & Forootan, 2012b; Kirca et al., 2012a; Fleming & Cabral, 2016; Mudambi & Puck, 2016; Verbeke & Kano, 2016b).

The results of hypothesis 1 revealed that firm factors and DOI affect SA MNEs performance by 21%. The importance of the findings in international business is that much research on the M-P relationship has been carried out on MNEs from developed markets (Lebedev et al.,

2015) but this inquiry focusses on the firm-specific factors and degree of international business specifically for South African multinational enterprises who are considered EMNEs. EMNEs and DMNEs compete against each other across emerging markets, and DMNEs are argued to have first mover advantage, and EMNEs suffer from last mover disadvantages (Buckley et al., 2012). Below is a summary of the differences between DMNEs and EMNEs.

**Table 17 Dimensional differences between DMNEs and EMNEs**

<b>Dimension</b>	<b>EMNEs</b>	<b>DMNEs</b>
<b>Internationalisation motive</b>	Access to technology, resources, and knowledge thus improving ownership advantages abroad	Develop new capabilities and access to resources
<b>Reduction of liability of foreignness</b>	Acquisition of strategic assets and reputable brands, networking, and investment in research and development	Research and development and reproducing same methods abroad thus enlarging ownership advantages
<b>Competitiveness assets</b>	Suffer from country of origin stereotyping	Benefit from country of origin association or brand
<b>Quality of institutional infrastructure</b>	Low income per capita and weak institutional infrastructure	High income per capita and strong institutional infrastructure
<b>Ownership advantages</b>	Limited ownership advantages e.g. technology, branding	Adequate ownership advantages e.g. technology, branding
<b>Motivation for MNEs</b>	Marketing seeking and strategic asset seeking	Marketing seeking and strategic asset seeking

Awuah and Anderson (2014)

Size and age of firm were found to be statistically significant in moderating the M-P relationship for SA MNEs. The minimum age of firms sampled was 11 years and the oldest was 102 years with an average firm age of 51 years. The age of the firms did fit with the parameters of longitudinal data i.e. looking at data on companies over a period of 10 years. It is argued that the older the firm, the lower the reduction in the liability of foreignness for

EMNEs and improvement in firm performance. The size and age of the firm also reflect on the reliability and legitimacy of the learnings EMNEs they benefit from over a period resulting in an improved experience in international business transactions. It would appear that SA MNEs' size and age influences the M-P relationship. This is in line with the findings of Singla and George (2013) who argued that age and size of firm and business affiliations moderately influence the M-P relationship.

With the increase in age and size of the SA MNEs, such firms' experience in international market result in improvement in the knowledge base and capabilities with greater investment in technology. The findings of the inquiry are consistent with Fleming and Cabral (2016) who argued in the context of SA MNEs that performance of firms due to multinationality is a function of multinationality and the firm's intangible assets that it possesses.

Though the results of the findings might not differ from those of Bhaumik et al. (2015), who argued that EMNEs are technology seeking. Though SA is considered an emerging market, it is highly ranked regarding technology readiness as per the Global Competitive Report (2016). As a result, it can be argued that SA MNEs not be technology-seeking firms, but they utilise the technology they are exposed to from their home country through their international markets expansion resulting in better performance.

The findings further show that degree of internationalisation is not statistically significant to influence the firm performance. The findings conflict with the extant literature in the resources, quality of institutions and ILOF are significant to influence the M-P relationship. As firms enter the international market, such firms with valuable, inimitable and no substitutable resources contribute to their sustainable competitive advantage that generates above average returns as compared to other firms with no valuable and substitutable resources (Jain, Kundu & Newbury, 2014; He et al., 2016). In support of extant literature, it can be argued that foreign subsidiaries respond to the institutional pressures in the host countries as such institutional dynamics create incentive-constraint structures in the host countries which ultimately affect how firms operate and their performance (Kafouros & Aliyev, 2016).

Based on the results considering that the DOI is seen as statistically insignificant to influence the M-P relationship of SA MNEs, this appears as if the liability of foreignness negatively affects firm performance.

However, it should be pointed out that the Pearson correlations are indicative of the presence of multicollinearity and the possible relationship between performance variables,

firm factors and degree of internationalisation variables; they help explain the extent to which firm factors and degree of internationalisation impact SA MNEs' performance.

The following research question and hypothesis used multiple regression analysis to determine whether African subsidiaries of SA MNEs perform better than those of non-African subsidiaries taking into account the geographical distance between head office and subsidiary host region. Regression analysis was also used to determine to what extent geographical distance affects subsidiary distance. Subsidiaries were grouped into African and non-African subsidiaries.

## **6.2 Research question 2**

Do South African MNEs experience greater financial performance contribution from their subsidiaries in African states and poorer financial performance contribution from their subsidiaries further afield?

### **6.2.1 Hypothesis 2**

**Geographic distance from head office has no influence on foreign subsidiary performance.**

The findings show that geographical distance does not have an effect on the foreign subsidiary performance support the null hypothesis. African subsidiaries of SA MNEs contribute 11.32% in sales to the total sales while non – African subsidiaries of SA MNEs contribute 17.25%. By merely looking at the sales contribution, non-African subsidiaries performance is higher than African subsidiaries. The findings show that regional strategy does not affect performance in that the effect of African region and non - African region on firm performance is the same i.e. +/-21%. This is contradictory to the findings by Verbeke and Asmussen (2016a) who argue that 78% of firm assets of the largest MNEs be invested within the home region of the MNE, and they produce 75.5% of the MNEs' sales.

The results show that apart from considering the effect of region on firm performance, there are other factors to consider when assessing whether a South African MNE is to invest within the home region or further away from the home region. The results for African subsidiaries show firm performance is influenced by the age of the firm independence of the foreign subsidiary, and concentration of the subsidiaries within the region. On the other hand, the results for non-African subsidiaries show that the age of the firm and independence of the foreign subsidiary influences the non-African subsidiaries' firm

performance. Table 6.1 show the summary of the influence of various variables on firm performance.

**Table 18 Effect of variables on regional performance**

Variables	African Subsidiaries		Non-African Subsidiaries	
	Statistically significant (p<0.05)	Statistically insignificant (p>0.05)	Statistically significant (p<0.05)	Statistically insignificant (p>0.05)
Degree of internationalisation		<b>X</b>		<b>X</b>
Foreign Subsidiary's independence	<b>X</b>		<b>X</b>	
Age of firm	<b>X</b>		<b>X</b>	
Number of countries represented	<b>X</b>			<b>X</b>
Number of subsidiaries represented	<b>X</b>			<b>X</b>

The inquiry found (Table 6.2), using the OSIRIS database's foreign subsidiary independence (1.93) indicates that SA MNEs foreign subsidiaries were not independent of the head office. This suggests that SA MNE's subsidiaries would be incorporated into the organisational structures and are closely managed thus resulting in more reliance on the ultimate owners for guidance. As a result, South African MNEs conglomerate type structure speaks directly to the need to provide asset strategies or coping mechanisms for products or services or firms that are not in existence in the host country thus head office is more involved in the operations of the foreign subsidiaries. This supports the finding that degree of internationalisation (or regionalisation) is not a significant factor to consider as foreign subsidiaries are not independent of their head office.



**Table 19 Descriptive statistics of SA MNEs**

	SA MNEs Mean	Standard deviation
Age of firm (years)	51.35	30.408
Asset size (R'000)	2,457,248.31	4,142,082.56
Foreign subsidiary Independence indicator	1.93	1.098
African subsidiaries sales %	11.3196	18.76888
Non-African subsidiaries sales %	17.2486	23.51376

### 6.2.1.1 Geographical distance

The findings show that the geographical distance does not affect subsidiary firm performance. This is based on the finding that for African subsidiaries and non-African subsidiaries, the regional effect can only explain 21% of firm performance. These findings support Rugman and Oh (2013) who conducted a variance component analysis on Global 500 firms and their results indicate that region effect on firm performance varies between 21% and 83%. However, there was a bit of contradiction between the findings of this inquiry and those of Rugman and Oh (2013). This enquiry found that both home region (African region) and non – home region (outside Africa) explain 21% of firm performance while Rugman and Oh, (2013) found that home region effect explains between 13% and 35% of multinationality effect on firm performance whilst non – home region explains between 14% and 15% of multinationality effect on firm performance. On the other hand, according to Elango and Wieland (2014), regional effect explains 9% of the multinationality effect on firm performance.

The variance between the findings of this study and that of Rugman and Oh (2013) is attributable to the fact that this enquiry focused on all South African multinational enterprises of all sizes i.e. firms with assets between US\$9.6 million to US\$256.5 billion (table 5.2) whereas Rugman and Oh (2013) focused on Global 500 firms. Global 500 firms are determined based on sales, assets, number of employees and significance of profits. Based on the size of the Global 500 firms, the Global 500 firms do not fit the broader scale of the SA MNEs under study. However, in order to reconcile the differences between the findings of this study and that of Rugman and Oh (2013) and Elango and Wieland (2014) there is need to look at the regional effect on across various industries, firm types, time periods i.e.

longitudinal and short periods as this presents another interesting avenue to further this research.

The findings are also surprising in that the Uppsala school considers that international business is riskier as the distance from home region increases. This supports the view that greater asset investment is placed within the home region resulting in higher home region than afar regions (Verbeke & Kano, 2016a). Furthermore, the findings are surprising in that home region strategy is considered an expansion strategy that minimises transaction costs rather than it being considered as an indicator of failure to execute MNE expansion globally.

Though the findings are surprising, Mudambi and Puck (2016) raised a point that justifies the results in that when considering what a home region is, this is based on the ratio of foreign sales per region to total sales. This ratio is biased in that with the emerging of the global value chain theme; It can be argued that some SA MNEs rely to a greater extent on value created outside the foreign subsidiary's legal boundaries and underestimates the actual extent of the global footprint of their MNE's activities. Failure to acknowledge the effect of the global value chain activities by SA MNEs may result in systemic errors arising in determining the prospective future performance of foreign subsidiaries and the survival prospects of such subsidiaries. Furthermore, Ruigrok, Georgakakis and Greve (2013, p.8) argue that firms that adopt a regional expansion perspective outperform MNEs with a global strategic position due to "MNEs' possession of unique resources and capabilities (FSAs) that, in combination with home-country advantages (country-specific advantages or CSAs), enable MNEs to achieve competitiveness in foreign markets"

In support of the findings of this inquiry, over-reliance on the regional strategy results in over focusing on the customer and foreign subsidiary output capabilities and a less interest placed on the firm's innovation capabilities. Such overreliance on regional strategy perspective by EMNEs results in foreign subsidiaries concentrating on imitation (based on output capabilities) and less innovation (Awate, Larsen & Mudambi, 2015).

Home country government policies, political stability, and institutions play a moderating role in the M-P relationship. This view is supported by Clegg et al. (2016) who argued that firm performance does not depend on the region in which the foreign subsidiary operates from but in the quality of home country politics and the MNE's multinational strategy. Furthermore in order to understand whether foreign subsidiaries in home region perform better than those that are further away from the home region, future research should consider effect of institutional dynamics in the home and host countries on the business environment through

assessment of cultures, norms, political risk, law and quality, corruption and quality of governance of host and home country.

Effect of geographical distance on SA MNEs' performance can be moderated by regional or bilateral agreements and investment treaties in place that has been signed by the South African government which then influence business activities of SA MNEs and their foreign subsidiaries. Such regional or bilateral agreements could favour SA MNEs' foreign subsidiaries in that they can gain preferential tariff reductions thus leading to improved performance.

The findings of this inquiry have some implications on the multinationality of SA MNEs and the relationship between multinationality and firm performance. First, the descriptive statistics (Table 3) show that African subsidiaries contribute 11% of total sales and non – African subsidiaries contribute 17% of the total sales, this shows that it is not about foreign sales that matter in assessing the M-P relationship but the regions from which the foreign sales are being generated. This is consistent with the arguments made in other studies which argue that it is important to consider host country and region effects when deciding on internationalisation strategy (Chen & Tan, 2012; Verbeke & Asmussen, 2016a). Secondly, how a region can be defined can influence the results. In this inquiry, the home region is defined as the African region based on psychic and cultural distance. This is consistent with other studies which have considered the role played by psychic and cultural distance in the study of international business (Buckley et al., 2012).

## **6.3 Conclusion**

From the review of results of Chapter 6, the findings can be condensed into two theoretical propositions:

### **6.3.1 Proposition 1**

**A conceptual model that summarises all firm, industry and country factors and analyse their combined effect of factors on the multinationality – performance relationship**

The findings showed that firm factors have a higher influence on the M-P relationship while the degree of internationalisation has a lower influence on the M-P relationship. However, based on the regression analyses (Table 5.5) largely ignores the industry context and mode of entry as internationalisation strategy.

Industry conditions may result in different cost-benefit dynamics which may lead to various firm performances. DOI's failure to significantly influence the M-P relationship appears to stem from non-consideration of industry specific factors and role of mode of entry by SA MNEs. Industry performance seems to be affected by industry specific factors rather than assuming that industries are homogeneous and are impacted by similar factors.

Industries differ depending on the extent of the regulations imposed by the government. According to Kirca et al. (2012b), service industries are more regulated and controlled by governments and other regulatory institutions. Such regulations are argued to prevent the services industry from gaining the same extent of benefits from economies of scale and scope as that of manufacturing industry. For example, in South Africa, financial services firms are regulated by the Financial Services Board (FSB) and telecommunications industry is governed by the Independent Communications Authority of South Africa (ICASA).

Furthermore, according to Kirca et al. (2012b), it is hard for services industries to adapt the needs of customers in host countries because of the nature of their intangible nature. This leads to higher adaptation costs than for the manufacturing sector.

The inquiry argued that there has been a shift from export MNEs to FDI-linked MNEs. However, the research did not look at the impact of export product diversification on firm performance and determine whether firm factors have same implication on company performance. Consideration of the mode of entry would help identify the effect of the global value chain on firm performance and aid shape the nature of multinationality.

Consequently, M-P relationship moderation should also take into account industry context and mode of entry rather than just firm factors and degree of internationalisation.

### **6.3.2 Proposition 2**

#### **Global value chain impact on subsidiary firm performance as compared to geographical distance**

The results showed that it does not matter whether the foreign subsidiaries operate within the home region or further away regions. The impact of geographical distance on the firm performance was 21% across both regions. As foreign subsidiaries relocate further away from the home region, it is expected that the geographical distance impacts the performance of foreign subsidiaries.

However, based on the findings, it is argued geographical distance is not the ultimate factor that moderates the M-P relationship. Considering the globalisation for SA MNEs and the liability of foreignness, newness and emergingness all play a role in the M-P relationship. However, based on the results such factors have failed to convenience the geographical distance influence the foreign subsidiary performance.

This inquiry agrees with the proposition that regional perspective does not necessarily affect the performance of foreign subsidiaries as determined by the geographical distance between home country and that of the host country. Consideration of the effect of the global value chain in understanding the effect of sales and production will help to segment actual regions as the use of sales to total sales in a particular region disregarding global value chain effects results in a biased view (Mudambi & Puck, 2016). Due to globalisation, some trade and bilateral agreements have been put in place between various regions and countries, and this affects the degree of internationalisation. This proposition agree with that which was presented by Rugman and Oh (2011) who argue that:

- Components of the value chain for example sales could be regional, another element which forms part of the supporting activities like financing, research and development, human resources, procurements might be global hence influencing the global value chain and degree of internationalisation.
- Value chain could be regional, but if considered as a whole, the degree of internationalisation could be much higher.

According to the UNCTAD (2015), it is demonstrated that the global value chain activities underpin a majority of world trade and are the major drivers of FDI in lower labour cost countries. Figure 3 below shows the global value chain and the regional strategy perspective which emphasise that higher the knowledge required the high the importance of outsourcing activities hence under such circumstances there is an increasing bias when using the regional strategy perspective while ignoring the global value chain.

Figure 3 Global value chain and the regional strategy perspective



Mudambi and Puck (2016)

## 7. Conclusion

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### 7.1 Summary of findings

This inquiry sought to gain an understanding of how firms' firm factors (i.e. knowledge base, management capabilities and technology), the degree of internationalisation and geographical distance between head office and regions affect SA MNEs foreign subsidiaries and the ultimate impact on the SA MNE's performance. The inquiry found that SA MNEs subsidiaries' performance was affected by the ability of firms to own firm-specific assets such as knowledge base, technology and capabilities. Having operations within the home region or further away from home country did not have an effect on subsidiary performance as both African and non-African subsidiaries performance were impacted equally by geographical diversification of SA MNEs. However, based on the mean of foreign sales, non-African subsidiaries contributed more to total foreign sales than African subsidiaries: African subsidiaries contributed 11% to total sales while non - African subsidiaries contributed 17%.

The average age of the firms sampled was 51 years with minimum age being 11 years and a maximum of 102 years. Age of firm coupled with the size of the firms should allow firms to build capabilities, knowledge-base and possess firm-specific assets resulting in a positive performance

This inquiry finds a multinationality effect on firm success and corporate strategy depends on firm knowledge, management capabilities and knowledge base. In theory, expansion into foreign markets is beneficial as firms benefit from economies of scale and scope. The findings justify the proposition that firms benefit internationalisation as 28% of firm revenue was generated from foreign subsidiaries.

The finding that degree of internationalisation is not significant to influence firm performance is surprising In that it would tend to contradict the literature that actively encourages firms to embed operations in foreign countries. This study could not determine the degree of influence arising from the liability of foreignness or specific market conditions on firm performance.

Based on the findings, geographical distance is not statistically significant in determining whether firm success or failure is based on subsidiaries' regional location. SA MNEs with subsidiaries based within their home region of Africa only contributed 11% to total sales while subsidiaries outside Africa contributed 17%.

In sum, the findings contradict the Uppsala school of thinking which argues that the further away an MNE sets up foreign subsidiaries, the riskier it becomes to control the foreign subsidiaries and that impacts negatively on firm performance. The results show that regional expansion strategy over an international expansion strategy does not necessarily produce superior performance – subsidiary distance from head office did not affect subsidiary performance over a ten year period.

The findings on the effect of geographical distance of firm performance are inconsistent with Rugman and Oh (2013) who found that home region effect explains between 13% and 35% of the multinationality effect on firm performance while non – home region explains between 14% and 15% of the multinationality effect on firm performance. On the other hand, according to Elango and Wieland (2014), regional effect explains 9% of the multinationality effect on firm performance.

The findings have managerial implications in that managers need to understand the strengths of their firm capabilities, technologies and knowledge base. As foreign subsidiaries are embedded in foreign markets managers need to consider the effect of politics in emerging markets and abroad and talent management.

To improve management capabilities across the various international markets from which MNE foreign subsidiaries operate, there is a need for effective translation of enterprise talent management strategy. The talent management strategy would require an efficient implementation to suit host country conditions. Employing suitable talent, developing the talent into effective local management capability and recognizing host country knowledge and capabilities are likely to be important elements of managing talent for MNEs who have foreign subsidiaries. This would help with reducing negative effects of cultural conflict and institutional differences. Talent management enhances local level decision making, community relations and skills development and diversity.

Based on emerging themes on internationalisation theory and international business, opportunities in emerging markets are more pronounced compared to developed markets. The findings show that revenue from Africa was only 11% as compared to revenue from non-African states of 17%. The effects of political stability have an impact on the EMNE strategy and operational performance which ultimately influences its performance as emerging markets. African states have been viewed as transitioning into democracy and the seamless shift of government policies from one regime to the next is still a challenge. The



policy instability from the different regimes creates a level of instability for the EMNE operating in that country and poses a challenge in long-term planning.

## **7.2 Emerging Markets Internationalisation Strategy Model (EEISM)**

The recommended emerging markets internationalisation strategy model (EEISM) is an extension to the internationalisation process model (IPM) that was developed by Meyer and Thaijongrak (2013) who proposed the following four steps of experiential learnings to be followed when firms are pursuing international markets:

Step 1 - MNEs need to learn through business networks

Step 2 – Learning by observing peers

Step 3 – Learning through local joint ventures and acquisitions

Step 4 – Learning through strategic asset seeking FDI

Meyer and Thaijongrak (2013) through their IPM model emphasized that for MNEs to be successful, they need to appreciate the benefit of learnings gathered from their business networks, observing peers and the outcomes from their strategic asset seeking FDI intentions. Meyer and Thaijongrak (2013) does not account for the importance of developing firm-specific advantages and how such factors influence firm internationalisation strategy. Not accounting for firm-specific factors results in firms entering foreign markets without adequate capabilities, technologies and knowledge as these are considered to be crucial for the success of an MNE based on the results of this inquiry.

The proposed EEISM incorporates for steps of experiential learnings of the IPM model after taking into account the findings from this inquiry. The EESIM proposes that the model should be made up of four steps as follows:

- |        |  |
|--------|--|
| Step 1 | Understanding the firm’s knowledge base, capabilities, and technology  |
| Step 2 | Understanding the host market operating environment  |
| Step 3 | Understanding the international market through learnings gathered from peers, business networks, joint ventures and acquisitions (experiential learnings). |
| Step 4 | Review the current internationalisation strategy in light of the firm factors possessed and learnings gained over the period.                              |

### **Step 1                    Understanding the firm's knowledge base, capabilities, and technology**

Companies seeking to expand into international markets through FDIs should consider whether they have the adequate knowledge about the market, an internal knowledge base which can be used to benefit the foreign subsidiaries, technologies and management capabilities to be competitive and also reduce the risk of uncertainty associated with operating outside the home country. Based on the firm management capabilities, advanced technology, firms need to understand what is the problem they intend to solve or solution they intend to provide in the foreign markets and how best their knowledge base, management capabilities and technology can be best utilized in foreign markets. Management capabilities would need to be improved by employing and developing local talent as thus would reduce culture conflicts or language barriers

### **Step 2                    Understanding the host market operating environment**

As the EMNEs expand into the international markets through their foreign subsidiaries, they encounter various regulatory jurisdictions with different laws and regulations. Though it was found that degree of internationalisation influences the M-P relationship to a lesser extent, factors such as the liability of foreignness are argued to influence the firm performance. The EEISM does not specify the granular steps as the framework is supposed to consider factors that reduce the liability of foreignness in the host country. The granular steps would also respond to the industry specific issues.

### **Step 3                    Understanding through learnings gathered from peers, business networks, joint ventures and acquisitions.**

This step is based on the IPM model for which it is being modified to be part of the EEISM as it only looked at a single aspect of internationalisation process compared to EEISM which is a better model to help managers understand the bigger picture of the internationalisation process. The EMNEs need to establish from their business networks or peers as to how developing firm-specific factors have helped them to reduce the risk of uncertainty associated with internationalisation process. This will help reduce the liability of foreignness and newness. Learnings gathered from peers and business networks would aid to modify the internationalisation process.

#### **Step 4 Review the current internationalisation strategy in light of the firm factors possessed and learnings gained over the period.**

Once EMNEs have understood and tested their firm factors in the home country and considered how to overcome the liability of foreignness, the next step is to design an internationalisation strategy. The internationalisation strategy entails how to overcome the liability of foreignness, exploiting host country resources, markets and at the same time taking into account home country and host country institutions. This includes taking into account the political, regulatory and social environments in the host countries. The owners of the foreign subsidiaries should not merely look at expanding so as to exploit the host countries but further build their own firm-specific factors. Synergies should be created between CSAs and FSAs.

As knowledge base, firm capabilities and technology increases, an increase in the interaction between CSAs and FSAs would result in the strengthening of firm performance. This will lead to the firms continually reinvesting in its firm factors and also work together to invest in the institutions of the host country thus reducing the liability of foreignness and increase in firm performance.

### **7.3 Recommendations**

The recommendations have been split into three sections i.e. MNEs and host governments.

#### **7.3.1 MNEs**

- Considering the influence the knowledge base, capabilities and technology have on the multinationality – performance relationship, continuous reinvestment in these firm-specific factors result in the improvement of firm performance both at parent company and foreign subsidiary level.
- As the findings show that regional strategy or geographical distance does not significantly influence firm performance, it is recommended that firms when exploring international markets, they consider country dimensions as compared to regions so as to better understand the benefit they can derive from such countries.
- To ensure consistency and reduced cultural distance between the EMNE and foreign subsidiary, management need to invest in its knowledge base where there is consistency in the running of the business and employees can access the same pool of information. This will help improve the amount of employees who share similar information thus guaranteeing going concern of the firm. Consistent training and development and interaction of employees from diverse backgrounds and cultures would result in

increased creativity and innovation and improved response times which in turn improves performance.

- Improvement in capabilities and skills from a management point of view would result in improved contextual intelligence by management who will be able to respond to issues promptly and effectively. This leads to management having a better understanding of the foreign and local markets thus resulting in making the right decisions which would improve performance. Human resources policies should promote mobility of employees such that they are acquainted with all the operations of the business thus resulting in improved performance. Furthermore, human resources policies should be in line with the laws of the host country.
- Investment in advanced technology results in improved innovation, efficiencies, and improved cost containment or reduction. As such improved efficiencies and reduced costs would result in improved costs thus firms might reinvest in the host country and contribute to the host country's economy and institutions.

### **7.3.2 Host governments**

- Host markets should come up with policies that favour long-term sustainable inward foreign direct investment and future reinvestment in the host country by MNEs. Favourable policies to foreign companies will result in reduced liability of foreignness, reinvestment in technology and knowledge base thus resulting in improved performance.

### **7.4 Limitations and future research**

- The research made use of financial data which was available per firm that contained required information across all eight industries. Out of the 186 South African multinational enterprises that were selected, only 81 firms had all the financial information that could be used in this inquiry. Failure to obtain all the necessary financial information may lead to biased results as not every company was equally examined.
- The inquiry did not test effect technology, management capabilities, knowledge base, the degree of internationalisation and geographical distance on firm performance per industry. Future research should look to broaden the study by using similar variables across different industries. An obvious question would be: "Do firm factors and geographical distance influence firm performance in the context of manufacturing and services industries?"
- Changes in governments, corruption and political interference could bring about instability in institutions and changes in policies. This inquiry did not look into the

influence of politics on M-P relationship. Future research should consider the effect of changes in governments and political environment on MNE performance.

- With the increase in globalisation, this inquiry did not test the effect of the global value chain on firm performance. Future research should focus on country dimension and the role of the global value chain in influencing the M-P relationship for firms from both developed and developed markets.
- The MNEs sampled were from only one country i.e. South Africa hence one should not apply the results of the study to other MNEs from other countries without assessing the characteristics of South Africa and firms researched on.

### **7.5 Concluding remarks**

This inquiry contributes to the study of international business in that emerging market multinational enterprise's performance of parent company and foreign subsidiaries is significantly influenced by factors such as knowledge base, technology and management capabilities. This is in line with scholars who argued that firm-specific factors help in explaining the relationship between multinationality and performance. Furthermore, it aligns with the scholars that argued that there is no need for new theory to explain the multinationality – performance relationship for EMNEs as the existing theories are adequate.

This inquiry further contributes to the extant regional strategy and international business literature's theoretical pursuit by providing an empirical perspective of EMNE's interaction with various regions in which their subsidiaries operate from and how this is reflected in the firm performance. It can be observed that geographical distance or regional strategy does not influence performance. These findings contradict a vast amount of literature on regional strategy perspective which argues that firms archive better performance when located closer to the home region. However, the results of this inquiry are consistent with the emerging theory on global value chain and country dimension as suggested by Mudambi and Puck (2016) who state that due to regional strategy can only explain 9% of firm performance hence the need to consider country dimensions rather than effect of regions

This inquiry concludes that knowledge base, technology and management capabilities influence the firm performance while the degree of internationalisation and geographical distance does not significantly affect the firm performance. The EEISM model has been developed to help managers of SA MNEs to revisit their MNEs' internationalisation strategy and reduce the risk associated with further internationalisation further away from the region. The inquiry also encourages host governments to focus on building relationships with

investing MNEs so as to promote a mutually beneficial relationship and improve sustainable competitive advantages.

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## 9. Appendix 1 – Ethical Clearance Confirmation

11/5/2016

Gmail - Apologies



Hylee Choto <hylee.choto@gmail.com>

### Apologies

6 messages

Jeff Y-J Chen <chenj@gibs.co.za>

8 July 2016 at 11:49

To: "hylee.choto@gmail.com" <hylee.choto@gmail.com>

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of Business Science**  
University of Pretoria

"Broaden your networks and  
stay abreast of developments  
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Dear Hylee

I am writing this personal note to you to express my sincere apologies with regards to your ethical clearance application. There was a mess up on my system. But that is that a sufficient excuse. I was the committee member who messed up so I have to own up to my mistake. I have now approved your application and appreciate your understanding.

I wish you all the best with the remaining part of your MBA journey and I hope that will keep us posted with your achievements after your completed the MBA.

Once again, please accept my sincere apologies.

Regards

Jeff

**Dr Jeff Y-J Chen, PhD**  
*Lecturer*  
The University of Pretoria's Gordon Institute of Business Science

Main Tel: +27 11 771 4000  
Direct Tel: +27 11 771 4304  
Fax: -  
Email: [chenj@gibs.co.za](mailto:chenj@gibs.co.za)  
Web: [www.gibs.co.za](http://www.gibs.co.za)

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Gmail - Apologies

Physical address: 26 Melville Road, Illovo, Johannesburg

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---

**hylee.choto** <hylee.choto@gmail.com>  
To: Jeff Y-J Chen <chenj@gibs.co.za>

8 July 2016 at 11:57

Dear Jeff

Thank you so much for coming back to me and the feedback. I truly appreciate.

Sure, I will keep you updated.

Thank you once again.

Kind regards

Hylee Choto  
[Quoted text hidden]

---

**2 attachments**

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of Business Science  
University of Pretoria



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**Jeff Y-J Chen** <chenj@gibs.co.za>  
To: "hylee.choto" <hylee.choto@gmail.com>

8 July 2016 at 12:09

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## 10. Appendix 2 – Turnitin report (first 5 pages)

11/6/2016

Turnitin Originality Report

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Final submission by Hylee Choto  
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