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REIMAGINING RHODES' CAPE TO CAIRO DREAM OR COLUMBUS' NEW WORLDS VOYAGES? THE PERFORMANCE IMPLICATIONS OF EMERGING MARKET MULTINATIONALS EXECUTIVES' INTERNATIONAL EXPANSION DECISIONS

Leah Ndanga

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A Dissertation Presented

by

LEAH Z.B. NDANGA

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REIMAGINING RHODES' *CAPE TO CAIRO* DREAM OR COLUMBUS' *NEW WORLD* VOYAGES? THE ROLE OF MANAGERS IN EMERGING MARKET MULTINATIONALS' INTERNATIONAL EXPANSION DECISIONS

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Leah Ndanga

Approved as to form and content by:

_____
Mzamo P. Mangaliso, Chair

_____
Steven W. Floyd, Member

_____
Jessica Pearlman, Member

_____
Raza Mir, Member

_____
George R. Milne, Ph.D. Program Director
Isenberg School of Management

DEDICATION

"Until the lion tells his side of the story, the tale of the hunt will always glorify the hunter." African Proverb

For my parents:

My father, for teaching me the value of telling my own story; and my mother, for helping me believe I had a story to tell.

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ABSTRACT

REIMAGINING RHODES' *CAPE TO CAIRO* DREAM OR COLUMBUS' *NEW WORLDS* VOYAGES? THE PERFORMANCE IMPLICATIONS OF EMERGING MARKET MULTINATIONALS EXECUTIVES' INTERNATIONAL EXPANSION DECISIONS

MAY 2018

LEAH Z.B. NDANGA, B.Sc., UNIVERSITY OF FORT HARE

M.Sc., UNIVERSITY OF PRETORIA

M.S., PURDUE UNIVERSITY

Ph.D., UNIVERSITY OF MASSACHUSETTS AMHERST

Directed by: Professor Mzamo P. Mangaliso

The extant literature has viewed internationalization through the lens of the expansion of developed markets multinational enterprises (DMMs) and newly industrialized markets' multinational enterprises (NIMMs), largely overlooking emerging markets' multinational enterprises (EMMs). The central argument of this study is that the internationalization of EMMs follows a different trajectory from that of DMMs. It addresses the question of how EMMs internationalize in terms of the countries to which they expand, the decision-making processes involved, and the impact of home country factors on the chosen internationalization processes. Methodological triangulation was used to collect data from interviews with senior executives of five large South African EMM firms, document analysis, and quantitative analysis based on a sample of over 800 firms traded on the Johannesburg Stock Exchange.

The findings from the case studies and document analyses show that the internationalization paths of the sample EMMs from South Africa were, indeed, different from those pursued by DMMs, with each of the case study firms following different trajectories. Moreover, in the target countries, the performance of EMMs was influenced by psychic distance. The findings of the study also suggest that a U-shaped relationship exists between psychic distance and performance of EMMs in the target market. The study finds support for the first hypothesis that an increase in the levels of uncertainty will have a more negative effect on the performance of foreign firms compared to domestic firms. Furthermore, the findings contradict Hypothesis 2 that a reduction in institutional barriers will have a more positive effect on foreign firms than on local firms.

The analysis of the internationalization process of EMMs in the study was used to generate a model of the stages of their internationalization. The model highlights how the historical developments of the home country were a major factor in determining firms' trajectories. Government ties, political stability, information availability and home country uncertainty played major roles in the internationalization decisions. Future studies will need to rigorously test the findings that the internationalization paths of EMMs differ from DMMs as more accurate information becomes available from emerging markets to match similar information from developed markets.

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LIST OF ABBREVIATIONS

AR	Abnormal return
BEE	Black Economic Empowerment
BoP	Balance of Payments
BRICS	Brazil, Russia, India, China & South Africa
CAGE	Cultural, Administrative and Political, Geographical, and Economical
CAR	Cumulative abnormal returns
CD	Cultural Distance
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
COL	Common Official Language
CSR	Corporate Social Responsibility
CTL	Coal-to-liquids
DMM	Developed markets multinational
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
EMBI	Emerging Markets Bond Index
EMGP	Emerging Market Global Players
EMM	Emerging markets' multinational
FDI	Foreign direct investment
FE	Fixed effects
FTSE	Financial Times Stock Exchange
GDP	Gross domestic product
GLOBE	Global Leadership & Organizational Behavior Effectiveness
GNI	Gross national income
GNP	Gross national income
GTL	Gas-to-liquids
HDI	Human Development Index
HRPO	Human Research Protection Office
IB	International Business
ICC	International Colourant Corporation
ID	Institutional Distance
IMF	International Monetary Fund
IPQ	Interaction between the firm's initial price and Quarter
IT	Internalization Theory
JSE	Johannesburg Stock Exchange
LOF	Liability of foreignness
MNC	Multinational corporation
MNE	Multinational enterprise
MSCI	Morgan Stanley Capital International
OLI	Ownership-Location-Internalization
PD	Psychic Distance
PDS	Psychic Distance Stimuli
PIM	Packaging Industries Malawi

PIP	firm price / initial price
PPD	Perceived psychic distance
PPP	Purchasing power parity
R&D	Research and development
RE	Random effects
S&P	Standard & Poor's
SA	South Africa
StatsSA	Statistics South Africa
TCE	Transaction Cost Economics
TCT	Transaction Cost Theory
TMT	Top management teams
UAE	United Arab Emirates
US	United States of America
WITS	World Integrated Trade Solution

CHAPTER 1

INTRODUCTION

It is generally accepted that multinational enterprises (MNEs) are a vehicle for knowledge exchange (Bartlett & Ghoshal, 1989; Chang, Gong, & Peng, 2012; Kogut & Zander, 1993), and that exploiting knowledge-based resources is key to gaining a competitive advantage for MNEs (Kogut & Zander, 1992). As firms become more global and expansion continues into (and out of) emerging market countries, particular factors affecting management and international knowledge transfer become even more important to examine (London & Hart, 2004). Luo and Tung (2007) found that five out of the top six most attractive global business locations in 2005 were the emerging market countries of China, India, Russia, Brazil, and Mexico. After thirteen years, this has not changed: according to the World Investment Report 2017 (UNCTAD, 2017: 9), five out of the top six, and seven of the top 10 prospective host economies for MNEs for 2017–2019 will be the emerging market countries of China, India, Indonesia, Thailand, Brazil, Mexico and the Philippines. In addition to being attractive hosts, these markets are also home to international firms that are engaged in outward foreign direct investment (FDI) and undertake value-adding activities in one or more foreign countries (Luo & Tung, 2007). This international expansion of emerging market multinationals (EMMs) is particularly interesting in its divergence from the early internationalization paths, which came from industrialized countries, such as the US, Europe and Japan, as well as the paths of newly industrialized economies, like Singapore, Hong Kong and Taiwan. EMMs have access to large populations (consumer and workforce) and have grown from inward

internationalization in their home countries, as well as from strategic alliances with global partners with access to technological and organizational skills. This combination of factors has allowed these EMMs to take the non-traditional expansion path of only undertaking outward internationalization later in their growth cycle (Luo & Tung, 2007).

The expansion into these emerging markets where rapid growth is taking place had led some authors to optimistically predict that this global expansion would result in the convergence of cultures, consumption patterns, and markets (Levitt, 1983; Fukuyama, 1992). However, emerging markets do not resemble traditional, western conceptions of good management; rather, in emerging markets, a diversity of industries, firms, cultures, legislative practices, and economies continue to be discovered (Beugelsdijk de Groot, Linders & Slangen, 2004; Mithas & Whitaker, 2007). Additionally, emerging markets are environments rife with uncertainty, where social contracts dominate more than legal contracts (de Soto, 2000), and where limited accessibility to reliable information and high information asymmetries abound (Grosh & Glewwe, 1995; London & Hart, 2004). Therefore, in pursuing such markets, and competing with firms from these environments, developed market multinationals (DMMs) and newly industrialized economy multinationals (NIMMs) need to understand and adjust to these peculiar complexities.

The following sections describe emerging markets and some of the characteristics of these markets that distinguish them from other markets; furthermore, they discuss the firms originating from emerging markets, and highlight a number of issues associated with knowledge transfer and exchange, particularly in MNEs, as emerging market firms expand into developed economies.

1.1 Defining Emerging Markets

Hoskisson, Eden, Lau and Wright, (2000:264) define emerging economies as "low-income, rapid-growth countries using economic liberalization as their primary engine of growth." The authors use the International Finance Corporation (IFC, 1999) identification of 51 high-growth developing countries in Asia, Latin America, and Africa/Middle East, along with the European Bank for Reconstruction and Development's (EBRD, 1998) 13 transition economies in the former Soviet Union to define their 64 emerging market economies (Hoskisson, et al., 2000). This is in contrast to the term "newly industrializing countries," a term applied to a few fast-growing and liberalizing countries in Asia and Latin America in the early 1980s (Hoskisson, et al., 2000; Wright, Filatotchev, Hoskisson & Peng, 2005). Although structural differences, especially with respect to the institutional framework, continue to persist in many of these economies, there are significant differences in the rates of economic and institutional development among these 64 economies. While some emerging economies appear to have stagnated, some continue to mature. In this way, these emerging economies are following the example of many of the newly industrialized economies that came before them (Wright, et al., 2005; Hoskisson, et al., 2013; Xu & Meyer, 2013).

In order to keep the notion of 'emerging economies' meaningful, and in light of the changes since their initial identification by Hoskisson et al. (2000), Hoskisson, et al., (2013) proposed a four-quadrant typology of emerging economies that classifies markets according to institutions and factors markets as follows:

- Quadrant 1: Traditional Emerging Economies suffer from both a lack of institutional development and a lack of infrastructure and factor market development
- Quadrant 2: Mid-Range Emerging Economies (Type 1) - low institutional development and high infrastructure and factor development
- Quadrant 3: Mid-Range Emerging Economies (Type 2) - high institutional development and low infrastructure and factor development
- Quadrant 4: Newly Developed Economies - high institutional development and high infrastructure and factor development

Quadrants 2 and 3 are defined as emerging economies, whereas quadrant 1 is defined as the developing economies and quadrant 4 as the economies that have graduated from the 'emerging' phase and become what we call 'newly developed economies,' (e.g., South Korea) (Hoskisson, et al., 2013). Most new or emerging multinationals originate from mid-range emerging economies (Quadrants 2 and 3). Emerging economies such as Brazil and Mexico fall within a third type of mid-range economy that is characterized by some improved democratic political institutions and improved infrastructure and factor market development (Hoskisson, et al., 2013).

Although some authors, such as Luo and Zhang (2016), and Luo and Tung (2007) continue to refer to the 64 countries identified by Hoskisson et al. (2000) as emerging markets, including transition economies and developing countries, other authors and financial institutions have developed a plethora of new emerging market lists that significantly cut down the number of countries. The financial institution listings include the International Monetary Fund (IMF), Financial Times Stock Exchange (FTSE), Morgan Stanley Capital International (MSCI), Standard & Poor's (S&P), Emerging

Markets Bond Index (EMBI), Dow Jones, Russell, and the Columbia University Emerging Market Global Players (EMGP). Pollavini, (2010) defined their emerging market segment according to the MSCI and Dow Jones Total Stock Market Index. In 2010, the MSCI identified 21 Emerging Economies in the world, whereas the Dow Jones listed 35 countries as Emerging Economies; in 2015, the MSCI had 24 countries and Dow Jones had 22 economies. As at September 2017, the FTSE classification of markets, lists 11 Advanced Emerging Markets and 12 Secondary Emerging Markets, most of which overlap with the other listings. Luo, Sun and Wang (2011) and Makino et al. (2004) both examine BRIC countries (Brazil, Russia, India and China). Table 1.1 shows some of new terms created to describe the largest emerging countries.

From Table 1.1, it is evident that there is significant variation in what constitutes emerging economies; moreover, it is also evident that a few countries appear in every list of the fastest growing emerging economies – namely, the BRIC countries, Mexico, and Turkey. The IMF (2015) defines a developing economy as one where there are low levels of per capita income level, degree of export diversification, and global financial integration. This dissertation is not concerned with developing countries. Instead, this study focuses on what the IMF terms a transition economy: an economy where there is market liberalization, where the macroeconomy is stabilizing, where there is restructuring of the financial sector and significant privatization, and where the legal and institutional policies are being reformed (IMF, 2000). Arnold and Quelch (1998) assert that the identification of an emerging market should be based on the average GDP per capita and a market's subsequent shift towards a relative balance of agrarian and industrial/commercial activity; additional characteristics include an assessment of a

market's GDP growth rate and its movement towards a stable, free market economy characterized by the openness and reliance of the market. In this way, although there are no commonly agreed upon parameters for the identification of an emerging economy, it is generally agreed upon that emerging economies fall between the "developing" and the "developed" status (Luo & Zhang, 2016).

For the purposes of this study, emerging markets will be defined as "*countries whose national economies have grown rapidly, where industries have undergone and are continuing to undergo dramatic structural changes, and whose markets hold promise despite volatile and weak legal systems*" (Luo & Tung, 2007:483). These economies are heterogenous in national-level political, economic, socio-cultural, and institutional conditions, and in firm-level capabilities and strategies, but share a reliance on a relational-based strategy and invest more in networks (Gammeltoft et al., 2010); for example, institutions play a central part in firm operations (Xu & Meyer, 2013), the economies are growing rapidly and undergoing a market-oriented structural transformation (Luo and Tung, 2007; Luo & Zhang, 2016), and the legal systems do not yet match the developed economies' systems (Luo & Tung, 2007; Filatotchev, et al., 2009).

The next section discusses these characteristics and the challenges that define emerging markets.

1.2 Characteristics of Emerging Markets

Several authors have asserted that the emerging market contexts challenge the theories that developed under more advanced market conceptions and thus their assumptions of perfect competition markets (Hoskisson, et al., 2000; Peng, 2003; Wright, et al., 2005; Xu & Meyer, 2013). Some of the characteristics of emerging markets that challenge advanced market theories include a lack of well-defined property rights and legal frameworks; missing market institutions and infrastructure; high levels of government involvement; the presence of the "Bottom Billion" and the informal sector; as well as strong social ties within the market (Khanna & Palepu, 1997,2000; La Porta et al., 1998; Wright, et al., 2005). Additionally, the lack of macroeconomic stability creates high levels of uncertainty. This political, economic and institutional instability deters both domestic and foreign investments because of the difficulty of predicting parameters such as business cycles, government actions, or the outcome of legal proceedings; all of these unknowns subsequently increase uncertainty and risk for investors (Hoskisson, et al., 2000; Xu & Meyer, 2013). This type of characteristic uncertainty will be discussed further in Chapter 3. In this chapter, the main characteristics discussed are the ones in contrast to those found in advanced markets: institutional voids, the Bottom Billion, high level of government involvement, a large informal sector, and social ties. Importantly, these characteristics are not uniform across emerging markets both because of the political changes within the countries and the pace of the respective economic development, and also because the size of economic gains have not been uniform across

the emerging market economies (Hoskisson, et al., 2000). Some of the characteristics of emerging markets discussed in the literature are listed in Table 1.2.

1.2.1 Institutional Voids

Institutional voids describe the market environment in which the institutions that make up the market ecosystem (e.g. labor markets, product markets, and capital markets) are either missing or not functioning as expected in emerging economies (Khanna & Palepu, 1997). The institutional context of the economy has an important influence on EMMs (North, 1990; Chacar & Vissa, 2005). Because of the significant variation across countries regarding the ways in which both formal and informal rules are enforced, the variety of home country government systems, the attendant political risk within the host countries, and the institutional voids therein, firms' strategic actions and outcomes are necessarily shaped according to this inherently varied environment (Cuervo-Cazurra and Genc, 2008; Luo & Zhang, 2016).

As emerging markets have transitioned from developing economies, their institutions and infrastructure have been slow to follow. The importance of institutions in emerging economies has been investigated in prior studies (Carney et al., 2009; Filatotchev et al., 2012; Hoskisson et al., 2000; Krug and Hendrischke, 2012; Meyer and Peng, 2005; Peng, 2003; Wright et al., 2005; Hoskisson, et al., 2013).

The slow development of institutions and legal infrastructure in emerging market countries make contract enforcement and effective corporate governance difficult (Filatotchev et al., 2003; Khanna & Palepu, 1997; Wright, et al., 2005 EBRD, 1998; Hoskisson, et al., 2000). Also, the missing institutional features, such as shortages of

skilled labor, thin capital markets, and limited transparency, ensure less efficient markets due to the higher monitoring and enforcement costs (Hoskisson, et al., 2000; Xu & Meyer, 2013). Although the predominant view is that the institutional environments in emerging markets do not favor competition (Hoskisson et al., 2000), some authors have argued that competition is just as strong, or may even be stronger, in emerging markets (Tybout, 2000; Chacar & Vissa, 2005).

Institutional voids describe the market environment in which the institutions that make up this market ecosystem, e.g. labor markets, product markets, and capital markets are either missing or not functioning as expected in emerging economies (Khanna & Palepu, 1997). However, in South Africa during apartheid, the government compiled a system of 317 pieces of legislation based solely on the color of a person's skin. These laws directly restricted Black participants' access to education and economic participation in the formal economy, as well as where non-White South Africans could live (Mangaliso, 1992; Andrews, 2008; Fafchamps, 2001). Additionally, as South Africa was formalizing its apartheid laws, the trend in the rest of the world was moving toward recognizing equality for all. As a result of South Africa's adherence to the apartheid laws, several countries instituted economic sanctions against South Africa and there were calls for multinationals to divest from their South African investments (Andrews, 2008; Fafchamps, 2001). These measures made it difficult for South African multinationals to expand beyond their borders. As a result, South African firms faced institutional "restraints," as opposed to the traditional institutional voids. Institutional restraints describe a heavily-legislated market environment in which the government mandates

restrict a free market ecosystem. Examples of similar restricted market environments include Russia and China, both of which were late globalizers (Ramamurti, 2008).

1.2.2 Bottom Billion

In major emerging economies, such as the BRICS nations of China, India, Brazil, and South Africa, a significant segment of the population belongs to what is known as the 'bottom of the pyramid,' or the 'bottom billion' (Bruton, 2010). This refers to the estimated one billion people continuing to live on less than $1 a day, on average, and who remain only loosely connected to the global economy, partly due to their absorption in the informal economy (Bruton, 2010; Xu & Meyer, 2013). These individuals represent one of the largest untapped market opportunities for multinational firms (Prahalad, 2005; Prahalad & Hammond, 2002; Bruton, 2010). Additionally, the success of EMMs in economies where poverty is dominant presents a challenge to traditional global strategy because the knowledge, cost economies, and capabilities they achieve at the bottom of the pyramid in their home countries can be applied in other environments, but the opposite is not true (Luo & Tung, 2007). A new strategic approach that investigates if and how local and foreign-invested firms enter emerging economies would highlight the adversity advantages that EMMs employ in order to capitalize on their home markets. Such an approach would also highlight how at the same time foreign MNEs face liabilities of foreignness (Hart & Milstein, 1999; London & Hart, 2004; Prahalad & Lieberthal, 1998; Bruton, 2010; Wright, et al., 2005; Ramamurti, 2008; Xu & Meyer, 2013; Luo & Tung, 2007).

1.2.3 Government Involvement

Emerging markets are characterized by high levels of government involvement (Khanna & Palepu, 1997,2000; La Porta et al., 1998; Wright, et al., 2005). The role that government takes is of utmost importance (Li et al., 2012; Zhou & Delios, 2012). In emerging markets, governments and government-related entities are active players in the economy, as well as policymakers; for example, through state-owned or state-controlled firms and parastatals, as well as private-public partnerships, governments have a decided hand in economic dealings (Hoskisson, et al., 2000; Wright, et al., 2005; Xu & Meyer, 2013). These government arrangements may provide support to encourage firms to undertake initial internationalization through the provision of privileged access to information, along with other arrangements about particular host countries and their access to networks that help reduce the liability of foreignness (Cui & Jiang, 2010; Luo et al., 2010; Hoskisson, et al., 2013); or, they may partner with organizations missing resources and expertise in ventures facing challenges in new markets (Eisenhardt & Schoonhoven, 1996). This is of particular importance given the high information asymmetries in emerging markets (Khanna & Palepu, 1997, 2000) and the high costs and uncertainties involved in internationalization (Dunning, 1979; Elgar, 2003; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977).

Additionally, in emerging markets, government requirements often stipulate that foreign MNEs partner with a local firm to ensure market access in the emerging economies (Blodgett, 1991; London & Hart, 2004). In emerging markets, the foreign firms that brave the difficult environment in emerging economies are often able to establish early relationships with the governments and thus reap the benefits of first-

mover advantages; one of these advantages includes government-controlled access to licenses, which yields tangible benefits to the foreign firms (Hoskisson, et al., 2000). The government benefits also apply to reverse investments where EMMs invest abroad and create a subsidiary in a foreign country, and then use the subunit as the 'foreign' entity to invest back home to receive financial privileges (e.g., tax breaks and cheaper land fees) and non-financial privileges (e.g. access to scarce resources and regulatory support) offered by the home country emerging market governments (Luo & Tung, 2007).

The section on EMMs in this chapter will include a discussion on the diversity of organizational forms of firms in emerging economies. In emerging economies, particularly BRICS nations such as China and Russia, an interesting phenomenon has been the continued domination of state-owned enterprises (SOEs) even as the economy develops. This contradicts the prediction that as economies develop and market institutions strengthen, less efficient and improperly governed SOEs will gradually die out and be replaced by private firms as the open market takes over control, as was noted in Central and Eastern Europe (Xu & Meyer, 2013; Michailova & Hutchings, 2006).

1.2.4 Informal Sector

In developing and emerging economies, it is often difficult for entrepreneurs to enter the formal economy due to high unemployment and high transaction costs, including heavy taxation; furthermore, the missing legal infrastructure and institutions in both developing and emerging economies increases the entry difficulties for entrepreneurs. As a result, in emerging economies there is often a second, immense, and fast-growing informal sector that plays a substantial role in the economy. The informal economy

includes small-scale, seasonal (or sporadic) members (e.g. street vendors and garbage recyclers), as well as larger, regular enterprises (e.g. South Africa's spaza shops--convenience stores often run from people's homes); the informal economy is also comprised of self-employed garment workers working from their homes, as well as informally regular, seasonal, or day-laborers employed in formal enterprises. The sector includes a thriving community of small enterprises, barter exchanges, sustainable livelihood activities, subsistence farming, and unregistered assets (Chambers, 1997; London & Hart, 2004). Informal sector employees may be wage-workers, non-wage-workers, or a combination of both (Carr & Chen, 2001; ILO, 2013; London & Hart, 2004; *The Economist*, 2017).

Due to the informal nature of the sector, the ILO (2013) gives only a tentative picture. Informal, non-agricultural employment makes up 48% of the sector in North Africa, 51% in Latin America, 65% in Asia, and 72% in Sub-Saharan Africa, while the sector including agricultural work can be beyond 90% in agrarian-based economies such as India and most of sub-Saharan African. This is in comparison to estimates of around 15% for developed countries (ILO, 2013). In 2000, it was estimated that the informal sector included more than $9 trillion in unregistered assets (de Soto, 2000: 35). These vast informal economies are not officially recorded as part of the official gross domestic product (GNP), gross national income (GNI), or purchasing power parity (PPP) statistics (Prahalad & Hart, 2002;). In developing economies, in addition to assets, the value of economic transactions in informal sectors may match or even exceed what is recorded in the formal economic sectors (Henderson, 1999; London & Hart, 2004). This means that in emerging economies, there are often two distinct patterns of economic development

and that a substantial amount of economic activity will be conducted in the unregistered, legal, and economic loophole in which the informal sector resides, and where informal social contracts are used as binding arrangements (de Soto, 2000; London & Hart, 2004). It is noteworthy that as these developing economies develop, and emerging market economies keep growing, the informal sector has shown significant decline in the last 20 years (*The Economist*, 2017).

1.2.5 Social Ties

It is important to acknowledge that social contracts and social institutions dominate, and that social performance matters in emerging economies (London & Hart, 2004; Hoskisson, et al., 2000). Because of the informal sector's strong influence, and the government and civil society in these markets, firms operating in emerging markets need to develop relationship-based strategies that assimilate the wide range of stakeholders in a joint effort that addresses societal issues (Hoskisson, et al., 2000; Sen, 1999). As previously alluded to, emerging market economies have significant informal sectors in which relationships based on social, not legal, contracts bridge the gap between the formal and informal economies (de Soto, 2000), as well as connect organizations to government and civil society contracts (Aturupane et al., 1994; Chambers, 1997; Sen, 1999; London & Hart, 2004).

The strong social orientation puts pressure on firms (both domestic and foreign) to address societal issues such as poverty eradication, environmental protection, and other issues that afflict most low-income resource-rich economies (London & Hart, 2004). This social orientation also puts pressure on the markets to support institutions and

stakeholders (financial and otherwise) who facilitate and encourage entrepreneurship (George & Prabhu, 2000). In order to address the multiple societal concerns and still achieve competitive advantage, firms need to create relationships with non-traditional state and informal sector partners (London & Rondinelli, 2003), and subsequently appease the diverse stakeholders. This requires the development of trust, social capital, and permeable boundaries (London & Hart, 2004). Additionally, firms that develop social capabilities outside of their boundaries can leverage these capabilities and local social development to improve economic performance locally, or transfer these capabilities to other emerging markets with institutional voids (Hoskisson, et al., 2000; Stiglitz, 2002; London & Hart, 2004). Some of these developed capabilities might include a firm's compensation for a country's poor institutional infrastructure and its subsequent lack of proprietary technology and intellectual property protection, In this way, firms operating in emerging markets need to assimilate the different stakeholders, organizations, institutions, and the knowledge in the environment into their strategy if they hope to achieve competitive advantage (London & Hart, 2004). This often means that networks become a key factor in understanding industry structures and ownership patterns in emerging markets, as the strong social tradition influences the nature of firm interactions (Peng, 2000, 2003; Wright, et al., 2005; Xu & Meyer, 2013).

1.3 Emerging Market Multinationals

For the purposes of this study, emerging market multinationals (EMMs) are defined according to Luo and Tung (2007), and Luo and Zhang, (2016), who stipulate that EMMs

are firms from emerging markets that meet the following three key criteria: (a) engaging in outwards FDI; (b) effectively controlling its international activities; and (c) international expansion focusing on value-adding activities. This definition includes large multinational enterprises from emerging markets, as well as small and medium enterprises (SMEs), including born global companies and international entrepreneurial firms (Luo & Zhang, 2016). This characterization means that these are small, medium or large firms that originate in the highly dynamic, social environments that are impeded by institutional voids and infrastructural shortcomings (i.e., the emerging market environment) discussed in the preceding section. As a result of these challenges, various authors have identified different types of firms operating in emerging markets. Wright, et al., (2005) identify four strategic options as the market develops:

i. Firms from developed economies entering emerging economies: these firms are often in the early stages of development and usually exploit the skills developed in their home markets.
ii. Domestic firms competing within emerging economies: these incumbent and start-up firms develop exploratory strategies as markets improve in their developing domestic market.
iii. Firms from emerging economies entering other emerging economies: these firms may seek to enter other emerging economies and exploit the expertise and adversity capabilities developed in their domestic markets.
iv. Firms from emerging economies entering developed economies.

As the economies become more developed and the institutions and infrastructure change, the strategies may change (Wright, et al., 2005). Xu and Meyer (2013) agree with

the categorization by Wright, et al., (2005) about the four types of firms in emerging markets. However, Xu and Meyer (2013) assert that as there are few EMMs that explicitly operate only in developed countries or only in emerging economies— the four contexts can instead be collapsed into three contexts, namely: (1) MNEs operating in emerging economies; (2) local firms in emerging economies; and (3) MNEs from emerging economies (Xu & Meyer, 2013). The latter two groups are of particular interest in this research.

In addition to the entrepreneurial start-ups and foreign firms operating in emerging markets, the significant organizational heterogeneity is represented by the diversity in the types of incumbent firms. The domestic firms are primarily business groups, state-owned enterprises (SOEs), and privatized firms (Peng, 2003; Peng et al., 2004; Wright, et al., 2005). Compared to advanced and newly industrialized countries, the higher percentage of SOEs in emerging economies is unsurprising, given the high levels of government involvement that is characteristic of emerging markets. Although the ownership patterns vary across emerging economies, EMMs are state-owned for historical, political, and economic reasons (Andreff, 2002; Kalotay, 2004; Wright, et al., 2005).

Luo and Tung (2007) base their identification of EMMs on ownership and the level of international diversification (i.e., the breadth of geographical coverage of international markets through outward investment). The authors identify four distinct types of EMMs:

i. Niche Entrepreneurs: these are non-state-owned MNEs who typically do not receive government funding nor possess rich industrial experience, and whose geographical and product coverage in international markets is narrowly focused to leverage their strengths.

ii. World-Stage Aspirants: these are non-state-owned MNEs that are relatively diversified in their product offerings and geographical coverage in the international marketplace. These firms may lack the scale and scope of internationalization of big MNEs from advanced markets, but they are formidable competitors in low-cost markets that pertain to products that are mass manufactured and technologically mature.

iii. Transnational Agents: these are state-owned MNEs that generally operate in vital sectors that are of strategic importance to their respective countries, but have invested extensively abroad for their business expansion, while still being subject to home-government instructions or influences. The home governments are usually the largest shareholders and the firms have expanded internationally to seize opportunities presented by a better investment climate that fosters business growth while supporting economic development in their home countries.

iv. Commissioned Specialists: these are state-owned MNEs whose outward investments focus on only a few select foreign markets in which they leverage their competitive strengths, while at times fulfilling governmentally-mandated initiatives. These specialists emphasize certain geographic domains and operate along a focused line of business or products to play their dual roles; this allows them to reap the fruits of international expansion as a legitimate business and, concurrently, to fulfill their state-assigned mandates within their area of expertise.

Hoskisson, et al., (2013) assert that most new or emerging multinationals originate from mid-range emerging economies that either have low institutional development and high infrastructure and factor development, or high institutional development and low

infrastructure and factor development. These EMMs fall in the middle, between MNEs from newly developed economies, such as South Korea, which were active about a decade earlier than EMMs, but better than MNEs from developing countries, which are at the early development stages (Kim et al., 2010, 2012b). New MNEs from emerging markets, particularly the small and medium sized technologically-driven companies that "internationalize during the early stages of their organizational lives" (Almor, 2006: 2), are garnering enormous research attention as a new breed of global competitors (Gammeltoft et al., 2010, 2012; Guillén & García-Canal, 2009; Luo & Tung, 2007; Peng, 2012; Sun et al., 2012). These firms are often referred to as "born global" firms, or as "international new ventures" (Almor, 2006; Autio, Sapienza, & Almeida, 2000; Oviatt & McDougall, 1994; Zahra, Ireland, & Hitt, 2000; Filatotchev, Liu, Buck & Wright, 2009). 'Born global' firms are just one example of how emerging market entrepreneurs leverage their capabilities, particularly their social embeddedness, to understand the base of the pyramid-market environment. Furthermore, emerging market entrepreneurs create collaborations and non-traditional partnerships that co-invent custom solutions regarding the lack of sizable scale of internationalization, as well as solutions for the market and infrastructure issues they face (London & Hart, 2004; Luo & Tung, 2007).

The preceding discussion identified characteristics of emerging markets and the different configurations of EMMs. The literature lists competitive disadvantages that range from a lack of key technologies and sustained innovation to a dearth of scale of production, to a shortfall of managerial expertise (Luo & Zhang, 2016). However, depending on which type of EMMs one is discussing, there will be benefits in the control of ownership (Bhaumik et al., 2010): for example EMMs may choose to concentrate

CEO power (Liu et al., 2011); or, they may choose a country-specific monopoly power to finance internationalization (Hennart, 2012). The social nature of emerging markets will create advantages based on the home country generated networking available with foreign partners (Anwar & Nguyen, 2011), business ecosystem players (Mesquita & Lazzarini, 2008), and government agencies (Kotabe et al., 2011). There will also be advantages to cost innovation and knowledge leveraging (Pananond, 2013; Bonaglia et al., 2007). Ultimately, the EMMs have cost, network, and speed advantages due to the benefits of adversity that create combinative, hardship surviving, intelligence, networking, and absorptive capabilities (Luo et al. 2011; Luo & Zhang, 2016) including ambidexterity and strategic resilience (Luo & Rui, 2009). This basically means that in order to compensate for some of the characteristic hardships of operating in emerging markets, and to offset their late-mover disadvantages, EMMs develop creative internal and external co-adaptation and co-opetition partnerships, along with transactional and relational techniques that overshadow the adversities and that may become transferable capabilities in other similar conditions (Luo & Zhang, 2016). This assertion is supported in literature.

There are prior studies that support the idea that EMMs undertake outward FDI to catch up with their global competitors (Cui et al., 2014; Li et al., 2012) and that EMMs conduct capability upgrading and catch-up in global completion (Luo & Tung, 2007; Rui & Yip, 2008). There are also studies that support the notion that the EMMs' capability upgrading translates into improved performance outcomes (Awate et al., 2012; Lu et al., 2010; Del Sol & Kogan, 2007; Luo & Zhang, 2016). An important aspect of capability upgrading is knowledge transfer and learning in the firm. Given that MNEs are

essentially effective structures for knowledge transfer, it is important to understand the issues associated with knowledge transfer and exchange, particularly in MNEs, as emerging market firms expand into developed economies. This is addressed in the next section.

1.4 Challenges of Knowledge Transfer in Emerging Markets

Emerging markets are highly dynamic markets where social contracts are more prevalent because of weak institutional infrastructure. The relational nature of the markets and people make knowledge transfer and exchange particularly difficult. The ensuing discussion will cover some of the more pertinent challenges associated with knowledge transfer in emerging markets.

1.4.1 Knowledge Characteristics & Sources

Transnational knowledge transfer is particularly difficult due to the tacit nature of some components of the knowledge that needs to be transferred. This is especially so because tacit knowledge is embodied in the individuals and the culture of the organization (Polanyi, 1966). Therefore, the effective utilization and transfer of knowledge across borders requires an understanding of the institutional, thus contextual factors that affect an organization's absorptive capacity (Sarala & Vaara, 2010; Schlegelmilch & Chini, 2003; Yakhlef, 2007). Some of the factors that are hypothesized to affect the knowledge transfer process include the following types of knowledge (Ranft & Lord, 2002): the level of absorptive capacity and the complexity of the knowledge

being transferred (Simonin, 1999a; Lane, Salk & Lyles, 2001); the knowledge distance (Duan, Nie & Coakes, 2010); the integration strategy (Birkinshaw, 1999; Buono, 1997); employee reactions (Empson, 2001); general communication (Bresman, Birkinshaw & Nobel, 1999; Buono, 1997); geographical distance (Bresman, et al., 1999; Schlegelmilch & Chini, 2003); social systems as they pertain to motivation, trust and openness (Dayasindhu, 2002; Duan, et al., 2010); and cultural awareness (Duan, et al., 2010), distance (Bresman, et al., 1999; Schlegelmilch & Chini, 2003), and differences between the source and the recipient of knowledge (Dayasindhu, 2002; Yakhlef, 2007).

1.4.2 Culture

Culture is a major factor that complicates cross-border knowledge transfer (Javidan, Stahl, Brodbeck & Wilderom, 2005; Schlegelmilch & Chini, 2003). An awareness of the culture and the cultural differences in the different organizations and their locations is important because cultural variables particularly impact tacit knowledge factors such as individualism vs. collectivism, power distance, uncertainty avoidance, and masculinity vs. femininity in the business context (Dayasindhu, 2002; Duan, et al., 2010; Hofstede, 1991; Javidan et al., 2005).

The predominant thought is that cultural distance hinders knowledge transfer (Kostova, 1999; Javidan et al., 2005; Morosini, Shane & Singh, 1998; Park, 2011; Stahl, Bjorkman & Vaara, 2004; Van Wijk et al., 2008). The greater the cultural distance between the sender and receiver of the knowledge, the more prevalent barriers to knowledge acquisition become. The three different types of potential barriers are

cognitive, communicative (including language), and meaning-system (Ambos & Ambos, 2009; Javidan et al., 2005; Schlegelmilch & Chini, 2003).

1.4.3 Governance

Firms' expansion into new regions necessitated the transfer of knowledge from the parent company to the new subsidiaries, as well as the transfer of lessons learned in these host countries back to the parent firm and to the other subsidiaries. It is generally agreed upon that each organization has its own stock of organizational knowledge that is embedded and carried through organizational culture and identity, policies, routines, documents, systems, and employees (Grant, 1996). With the advent of colonialism, each host country had a different culture and environment, and this created differentiated local knowledge that could potentially be used in other environments (Bresman, et al., 1999). In other words, these foreign markets gave the firms access to new ideas and ways of thinking that the international firms could apply to their other markets. This knowledge was therefore of high value and its transfer was of utmost importance (Bartlett & Ghoshal, 1989; Bresman, et al., 1999).

When MNEs expand into developing markets in a bid to protect proprietary technology and knowledge, they seek local partners who understand and value the western capitalist system (de Soto, 2000). These local partners are usually large domestic firms. However, in emerging economies, the large-scale firms form the minority in these environments (London & Hart, 2004). Growth in the emerging economies has accelerated largely as a result of the larger poorer populations who have driven economic

development at the base of the economic pyramid. This does not follow familiar patterns found in the developed world (Arnold & Quelch, 1998; London & Hart, 2004).

Most emerging economies are a plethora of localized specificities of culture, ideology, and politics (Westwood & Jack, 2007) and to attempt to simply transplant western ideas of work ideals, culture, power distances, etc. would be erroneous. The environment, as function of the cultural, political and legal system, is very different in emerging economies as compared to the developed markets (Peng, 2001; Westwood & Jack, 2007). The assumption that emerging market environments will evolve into western economic settings over time (Westwood & Jack, 2007; London & Hart, 2004) reeks of the 'imperialist mindset' (Prahalad & Lieberthal, 1998) that everyone must want to "look and act like Westerners." It is not necessary for emerging markets to follow a homogeneous pattern of economic development in which all markets evolve toward a more Western-style business environment, and their success in developing and developed markets highlights this contradiction.

Makino, Isobe and Chan, (2004) note that external effects, such as country-level arbitrates, are more important in shaping firms' behavior and strategic choices in developing countries such as Brazil, Russia, India, China and South Africa (i.e. the BRICS nations), than in advanced countries. Hoskisson et al., (2000) highlight the challenges of operating in emerging economies note that the rule of law is often poorly enforced. Although the wealthy minority population may participate in global capitalism, the majority is not privy to this, and instead depends on the large, often thriving informal sectors in these economies (Luo et al., 2011; London & Hart, 2004). Whereas MNEs usually possess adaptive skills of national responsiveness, or the centralized control

inherent in global efficiency, these may not be sufficient for emerging markets and thus they may need to focus on the wealthy, rising middle class, and not on the poor customers across country markets (Hart & Milstein, 1999). In these economies, local firms are at an advantage and London and Hart (2004: 355) warn against the neo-colonialist western market entry strategy that relies on "imported business models based on extracting knowledge and protecting and controlling resource flows." They instead encourage a full partnership model with greater degrees of reciprocity.

In a similar stream of thought, Mudambi and Swift (2011) propose that MNEs need to establish internal knowledge markets akin to the internal capital market in order to access the knowledge from internal networks of practice. They note that top-down hierarchy is unlikely to be optimal in emerging markets because there is a need to create incentives to leverage the creativity from the assortment of MNE units (Mudambi & Navarra, 2004; Mudambi & Swift, 2009; 2011; Schotter & Beamish, 2011). However, they warn that there needs to be a balance between knowledge inflows and outflows because while encouraging the internal networks of practice will assimilate knowledge for the MNE and is thus beneficial for the firm, because the MNE needs to protect its knowledge, it may not wish to share this with the community. The need to not share knowledge and innovation (through knowledge spillovers) with the local community, and the direct efforts of the MNEs to fit with the corporate strategy, may limit the cooperative knowledge exchange and create frustration among the MNE's own research and development (R&D) scientists (Mudambi & Swift, 2009; 2011). This results in the innovation–integration dilemma: the situation whereby the MNE is under pressure to retain enough autonomy for local R&D workers to fuel their innovative energies, while

also directing their efforts toward integration with the MNE's corporate goals (Mudambi & Swift, 2011).

1.4.4 Social Embeddedness

Acquiring knowledge requires not only absorptive capacity but also the ability to overcome socially construed organizational barriers (Cohen & Levinthal, 1990; Szulanski, 1996). A relationship built only on a contract or on a partial ownership may not suffice for effective knowledge transfer to occur in emerging markets (Dhanaraj, Lyles, Steensma & Tihanyi, 2004). In turbulent environments, such as emerging markets, social aspects play a critical role in knowledge transfer because of the informal and mostly social nature of contracts and business (Martin & Salomon, 2003b; Minbaeva et al., 2003; Dhanaraj, et al., 2004). Emerging economies seem to have an integrated approach to economic development and poverty alleviation, and this focus may inhibit firms unable to become locally embedded (London & Hart. 2004). Relational embeddedness will also be of particular importance because this integrated approach is especially vital in low-income markets where economic, social, and environmental considerations are so closely intertwined (Chambers, 1997; Sen, 1999). Firms seeking to expand to these markets without a capacity to appreciate and create social value, or to become locally embedded in the social infrastructure that dominates low-income markets, may struggle to overcome their liability of foreignness (London & Hart, 2004).

1.4.5 Liability of Foreignness

The assumption of a liability of foreignness underlies the theory of MNEs (Hymer, 1976; Kindleberger, 1969; Buckley & Casson, 1976; Dunning, 1977; Caves, 1982; Hennart, 1982). Whereas liability of foreignness was previously conceptualized as synonymous with the costs of doing business abroad (Hymer, 1976; Zaheer, 1995), Zaheer (2002) redefined it to focus more on the subtler structural or relational and institutional costs of doing business abroad instead of just the market-driven costs (e.g. Kindleberger, 1969; Caves, 1982) or the cultural distance present (Kogut & Singh, 1988). In the new definition, Zaheer (2002: 351) stresses that liability of foreignness (LOF) relates more to structural "costs associated with a foreign firm's network position in the host country and its linkages to important local actors, which are both likely to be less developed relative to those of a local firm, resulting in poorer access to local information and resources." The costs of doing business abroad that could result in a liability of foreignness could arise from a number of sources, such as higher coordination costs, a lack of knowledge about the host environment, from a lack of embeddedness in the local environment, and from the possible exclusion of foreign firms from political processes; the foreign firm's unfamiliarity with the local culture, regulatory restrictions on foreign firms and other aspects of the local market, a lack of information networks or political influence in the host country, or the foreign firm's inability to appeal to nationalistic buyers (Zaheer, 1995; Zaheer & Mosakowski, 1997; Eden & Miller, 2004).

LOF is thus the [institutional] costs associated with a foreign firm's distance from the cognitive, normative, and regulatory domains of the local institutional environment (Scott, 1995; Kostova, 1999). While culture is still an important concept, LOF is a

broader concept encompassing politics, ideology, law, and other societal institutions, in addition to culture. It is generally assumed that a foreign firm would be at a competitive disadvantage relative to a local firm in a country. LOF is a relative concept that dissipates in time. This is because when firms initially enter new markets, the tacit and hidden aspects of the local culture that creates LOF simultaneously creates hardships and the need for local partners not subject to this distance. However, with time, the foreign actors develop a better understanding of the local environment and have less difficulty interpreting informal processes and norms in the local environment, even though they may not embrace the local practices and may still face internal cultural conflict (Zaheer, 2002; Ramamurti, 2008; 2012).

Although LOF is defined as the competitive disadvantage that foreign firms face in any foreign market, access to local knowledge is particularly complex in emerging markets due to the social nature of the environment. Given the fact that laws and regulations can be subject to "interpretation," the dominance of the informal sector, the highly unstable and dynamic environment, and the weak institutions and infrastructure in foreign markets further complicate this "competitive disadvantage" (Meyer, Wright, & Pruthi, 2009; Lamin & Livanis, 2013). In emerging markets, MNEs need to adapt to a particularly different environment that is constantly changing, thus making the LOF more difficult to counter.

In addition to the liability of foreignness that all MNEs are faced with when entering foreign markets, Madhok and Keyhani (2012) assert that EMMs face a 'liability of emergingness' (LOE). LOE is described as the additional disadvantage EMMs face by virtue of being from emerging market countries. This disadvantage ensures that EMMs

have a different starting point and in terms of rent generation, less robust resources and capabilities (Madhok & Keyhani, 2012). This liability is even more pronounced when internationalizing to more advanced markets. Although Brewer (2007) also acknowledges the historical influence in the case of Australian MNEs, EMMs have a more significant "shadow of the past" due to the strong influence of their colonial histories on the firms' routines and strategies (Madhok & Keyhani, 2012). The liability of emergingness may also be an asset through the heightened entrepreneurial alertness and learning agility that develops from being forged in the volatile emerging market context (Madhok & Keyhani, 2012).

1.4.6 Reverse Investment

An additional factor that emerges with the economic growth of emerging economies is a new facet of reverse knowledge transfer, as well as the expansion of emerging market firms into developed economies. Luo and Tung (2007) focus on MNEs from major emerging markets such as China, India, Brazil, Russia, and Mexico. Although most of the research on international developed-emerging market transfer refers to knowledge transfer in the case of MNEs from developed countries in emerging economies, there are some MNEs and small and medium enterprises (SMEs) that are expanding from the emerging countries to the developed markets. The firms are usually from countries whose national economies are rapidly growing and from industries that are undergoing structural change, but whose legal systems do not yet match the developed economies' systems (Luo & Tung, 2007; Filatotchev, et al., 2009). This includes firms from emerging markets such as Poland, Ukraine, Thailand, South Africa, Chile, Argentina, Turkey, and

Malaysia. Firms from these countries face some similar constraints, share similar motives, and have common experiences in international business (London & Hart, 2004; Wright, et al., 2005; Xu & Meyer, 2013; Luo & Tung, 2007; Hoskisson et al., 2000, 2013).

Traditional global strategy describes knowledge transfer in DMMs operating in various economies as the more developed MNE partner imparting knowledge on the local, emerging market partners and the local partners or subsidiaries unlearning their practices in order to absorb the new knowledge (Mudambi & Swift, 2011; Narayanan & Fahey, 2005 London & Hart, 2004; Wright, et al., 2005; Xu & Meyer, 2013; Luo & Tung, 2007; Hoskisson et al., 2000, 2013). However, emerging markets are regulated by informal rules, social contracts, and shared use of assets (de Soto, 2000). This suggests that in emerging markets, the foreign MNEs may be the ones that need to unlearn the advanced market systems, and instead the local way of conducting business (Chambers, 1997; Autio et al., 2000; Dawar & Chattopadhyay, 2002; London & Hart, 2004). Additionally, as with knowledge transfer, the capabilities developed in emerging economies may have the opportunities to challenge existing capabilities developed in top-of-the-pyramid markets, but the advanced market capabilities are not always viable in emerging economy environments because of the informal social nature of the culture and its rampant institutional voids (London & Hart, 2004; Luo & Tung, 2007).

1.5 Research Gap

The preceding discussion has highlighted the various ways in which EMMs are different from developed country MNEs. These differences create problems for international knowledge transfer and affect how both the EMMs and developed market multinational enterprises (DMMs) think about internationalization. EMMs are forged in environments that are host to institutional voids and highly dynamic environments, both of which necessitate flexibility and the ability to innovate, create, and assimilate new knowledge in a timely manner to capture new opportunities. Wright, et al., (2005) and Xu and Meyer (2013) note that there is limited research on the internationalization of emerging economy firms either into other emerging economies or into developed economies. In contrast to the internationalization through MNE expansion of the advanced economies and newly industrialized economies, emerging economies have developed rapidly due to the benefits of domestic inward internationalization (Luo & Tung, 2007). This creates a dilemma for international organizations (and researchers) because the strength of these economies sans-Western cultures means that traditional western theoretical frameworks are inadequate to address the new structures and internationalization paths of EMMs (Mudambi & Swift, 2011; Narayanan & Fahey, 2005). The diversity problem created by the success of alternative models means that traditional western strategies of expansion can no longer simply be transplanted.

Traditionally, internationalization has been theorized from an economic perspective. Prevailing internationalization theories assume risk reduction and uncertainty avoidance in foreign markets (Hilmersson & Jansson, 2012; Håkanson & Ambos, 2010; Johanson &

Vahlne, 2009). However, there is a growing recognition that firms do not necessarily need to be entrenched in the home market to expand, nor do they need to follow stage-wise internationalization (Brewer, 2007; Carlsson, Nordegren, & Sjoholm, 2005). Additionally, although traditional theories suggest that MNEs possess certain ownership advantages, such as size, superior technology, unique products, or special managerial/marketing know-how (Chen & Chen, 1998), many internationalizing firms are small, with limited resources and capabilities (Wright, Westhead, & Ucbasaran, 2007). Moreover, traditional theory does not provide an adequate explanation for EMMs' motivation, nor for the mechanism of their internationalization. (Filatotchev, et al., 2009). Numerous studies have attempted to offer theoretical extensions to the "goldilocks debate" (Cuervo-Cazurra, 2012) that tailors MNE and FDI theories towards EMMs (Buckley et al., 2007; Luo et al., 2010; Morck et al., 2008; Luo & Zhang, 2016). This study attempts to fill this gap.

We argue that EMMs need to transform risk and uncertainty by using means-driven approaches to create new opportunities. Instead of the traditional internationalization theories that assume causation processes, some firms are entrepreneurial, implying effectuation processes due to the orientation of the management (Autio, 2005). Firms can engage in either (or both) causation or effectuation internationalization processes, based on the structure of the firm and the orientation of the managers. The internationalization decision-making process determines whether the firm follows an emergent or deliberate internationalization strategy (Andersson, 2011; Bhowmick, 2008; Mainela & Puhakka, 2008; Schweizer, Vahlne, & Johanson, 2010; Harms & Schiele, 2012).

1.6 Research Questions

The overarching question in this study is *how do EMMs internationalize*? Specifically,

- To where do they expand? Regionally or overseas? To other emerging markets or to developed economies?
- How do they make internationalization decisions? What level of management is involved in the process? Is it through deliberate or emergent strategy?
- How do home country factors, such as political risk or uncertainty, affect internationalization?

The central argument of this study is that the internationalization of EMMs follows a different trajectory from that of DMMs in which institutional factors and access to knowledge and information play a more crucial role. The developments in advanced and newly industrialized economies ensure more stable markets, while the EMM's genesis in economies in such flux, and subject to institutional voids, ensure their flexibility and ability to adapt to differing situations.

This study contributes to internationalization literature by developing an internationalization model that assimilates both causation and effectuation processes, instead of assuming a choice. The study also develops a dynamic aggregate psychic distance measure that incorporates the factors that are important in understanding differences between home and host country markets, especially when the home country is an emerging market economy, as well as how these factors change with time. Additionally, the study contributes to the discussion of how country effects, such as changes in policy, affect three different types of firms: local firms operating in the

domestic market; local firms that operate internationally; and foreign firms operating in the domestic [emerging] market. Furthermore, the study contributes to strategy research by testing whether [internationalization] strategy follows structure, or if structure follows strategy through its investigation on the impact of manager orientation on the decision-making process.

This study makes a timely contribution the emerging markets and EMM literature by discussing the factors that distinguish EMMs from DMMs, as well as how these distinguishing factors inform a difference in the internationalization strategies that EMMs pursue. These differences also ensure that a variety of factors are more important for MNEs from emerging market contexts and therefore different distance measures need to be conceptualized. Additionally, due to the constant changes and fast-growing pace of economic development, a dynamic measure of psychic distance is important because the status of the emerging market, as well as what was relevant in the past, will change with time. Therefore, through this study's exploration of not only the relevant factors affecting the internationalization process, but also the people and processes involved in strategy making in the internationalization of EMMs, (and the subsequent results of these decisions), this study furthers the understanding of the internationalization of EMMs.

1.7 Research Design

The data for the dissertation were collected in three stages. First, an instrumental case study approach of five South African firms with varying levels of international expansion was undertaken. This yielded qualitative data collected from interviews with executives.

This data was supplemented with information from company annual reports and other documents. The quantitative analysis used data obtained from sources such as the Johannesburg Stock Exchange (JSE), the World Bank, and the International Monetary Fund (IMF). The sample of senior executives interviewed for the study was selected using the snowball technique. The qualitative analysis used the latter interviews and document analysis from the sample of five large South African firms. The quantitative analysis involved testing for the impact of uncertainty and policy changes that are hypothesized to yield differential effects on foreign and domestic firms based on a sample of over 800 firms traded on the JSE over a 27-year period (1990-2016).

1.8 Organization of study

Chapter 2 discusses the internationalization models more extensively. The chapter will include a discussion of emerging market internationalization, a review of traditional internationalization models in economics and management, as well as propose relationships that will aid in the understanding of the internationalization of EMMs. The data, models and constructs are discussed in Chapter 3. This is followed by a discussion of each of the five case studies in Chapter 4. Chapter 4 will also provide a model of the internationalization strategy process based on the case analyses. Chapter 5 will discuss the results of the quantitative analysis. Chapter 6 will be a general discussion of the findings, followed by a conclusion.

Table 1.1: Common Emerging Market Listings

Acronym	Countries included
10 Big Emerging Markets (BEM)	Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea and Turkey
BRICET	Brazil, Russia, India, China and Eastern Europe and Turkey
BRICM	Brazil, Russia, India, China and Mexico
BRICS	Brazil, Russia, India, China and South Africa
BRICK	Brazil, Russia, India, China and South Korea
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa
MINT	Mexico, Nigeria, Indonesia and Turkey
Next Eleven	Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam

Source: Garten, 1998; Pollavini, 2010; IMF, 2015

Table 1.2: Characteristics of Emerging Markets

Characteristics	Authors
Lack of well-defined property rights that convey exclusivity, transferability, and quality of title	Devlin, Grafton and Rowlands, 1998
A lack of strong legal frameworks which encourages opportunism, rent shifting, bribery, and corruption	Nelson, Tilley and Walker, 1998; Luo and Tung, 2007
Frequent and large macroeconomic and political instabilities and shocks increase exogenous uncertainty as formal rules may change overnight	Wright, et al., 2005
Political hazards (e.g., political instability, unpredictable regulatory changes, government interference, bureaucratic red tape, corruption in public service and government sectors, and extremely discretionary explanation or enforcement of ambiguous laws and rules)	Luo and Tung, 2007
A still weak or missing market-based system, underdeveloped factor markets, and inefficient market intermediaries	Hoskisson, et al., 2000
Rampant opportunistic behavior due to the prohibitively high costs of obtaining information for monitoring, difficulties in constructing legal contracts, and shifts in relative bargaining power	Hoskisson et al., 2000; Luo and Tung, 2007
Weak market institutions and infrastructural shortcomings due to uncertainties arising from economic and political instabilities and a lack of market-based management skills	Wright, et al., 2005; Luo and Tung, 2007; Narayanan and Fahey, 2005
Information asymmetries	Hoskisson, et al., 2000; EBRD, 1998; Xu and Meyer, 2013; Santangelo and Meyer, 2011
Underdeveloped law enforcement, lack of legal protection for property rights, weak labor protection, poor enforcement of commercial laws, non-transparent judicial and litigation systems and lack of transparency	Xu and Meyer, 2013; Luo and Tung, 2007
Non-profit organizations and other socially oriented institutions can play an important role in business development	Rondinelli and London, 2003

CHAPTER 2

LITERATURE REVIEW

The previous chapter defined emerging markets as low-income, high-growth countries in Asia, Latin America, Africa and the Middle East whose markets are promising despite volatile and weak legal systems (Hoskisson, et al., 2000; Wright, et al., 2005; Hoskisson, et al., 2013; Xu & Meyer, 2013; Luo & Zhang, 2016; Luo & Tung, 2007). Within these emerging markets there exist large MNEs and SMEs who engage in outward FDI and international expansion, thus creating these EMMs (Luo & Tung, 2007; Luo & Zhang, 2016). It is the international expansion of these EMMs that this study is concerned with. This chapter discusses the internationalization strategies noted in the case of EMMs, contrasts these with the traditional internationalization models conceptualized for industrialized countries, and then proposes that broadening psychic distance could enhance our understanding of EMM internationalization.

2.1 Emerging Market Internationalization

Luo and Tung (2007) argue that emerging market multinationals (EMMs) systematically and repeatedly pursue internationalization strategies to reduce their vulnerability to home country institutional and market constraints, and to acquire critical resources needed to compete more effectively against their global rivals at home and abroad (Luo & Zhang, 2016). EMMs pursue outward FDI for a number of reasons: to

alleviate domestic institutional constraints; to compensate for their competitive disadvantages such as poor governance and accountability, lack of global experience, managerial competence and professional expertise, and weak technological and innovation capabilities; to overcome their latecomer disadvantages; to counter-attack global rivals' major foothold in their home country market; and to bypass stringent trade barriers, such as quota restrictions, anti-dumping penalties, and special tariff penalties (Luo & Tung, 2007). This means that in contrast to DMMs, EMMs pursue internationalization due to disadvantages rather than advantages (Moon & Roehl, 2001; Madhok & Keyhani, 2012).

EMMs' motives behind these springboard behaviors can be broadly summarized as asset seeking, opportunity seeking, or both (Cui et al., 2014; Elango & Pattnaik, 2007; Luo & Tung, 2007; Luo & Zhang, 2016). In order to improve economic and social development in their home countries and to compensate for firm-level competitive disadvantages, EMMs seek assets including technology, research and development (R&D) facilities, human capital, brands, consumer bases, distribution channels, managerial expertise, and natural resources (Luo & Tung, 2007). In advanced markets, EMMs attempt to expand firm size and reputation through a variety of means: by tapping into niche opportunities that complement their existing capabilities; by taking advantage of opportunities in unrelated but promising areas; and by bypassing trade barriers into advanced markets. Furthermore, EMMs leverage their home country's cost-effective manufacturing capabilities for a variety of reasons: in order to seize opportunities in developing markets; in order to gain preferential government financial and non-financial treatment in either the home or host country; and in order to operate globally to escape

institutional or market constraints at home, such as governmental control over foreign exchange usage and the limited domestic market. In contrast to NIMMs' outward FDI as an export-production platform (Wells, 1983; Levy, 1988), EMMs are less likely to seek cost minimization opportunities because their domestic supply or manufacturing bases allow them to continually enjoy low-cost advantages through their vertically integrated global production systems (Luo & Tung, 2007)

Often, this springboard behavior is similarly driven by a variety of rapid changes: changes in the technological and market landscapes; fluctuations in the encouragement, and support, from home governments; variations in competitive pressure from, and willingness by, global players in advanced countries to sell or share strategic resources; changes in corporate entrepreneurship and strong motivation to enter key foreign markets; and the increasing integration of the world economy and global production (Luo & Tung, 2007). A growing research stream on international entrepreneurship focuses on internationalization strategies (Kotha, Rindova, & Rothaermel, 2001; Lu & Beamish, 2001; McDougall et al., 1994; Zahra et al., 2000). It is suggested that MNEs' efforts to leverage their organizational learning and innovation capabilities may, to an extent, drive internationalization (Filatotchev, et al., 2009) because internationalization is influenced by the extent to which firm resources are interchangeable, or mobile, in the various economies (Meyer et al., 2009).

Although most EMMs retain their home country markets as their primary markets, these domestic emerging markets have been infiltrated by developed market MNEs (DMMs) and newly industrialized economy multinationals (NIMMs) and EMMs recognize that if they aspire to become transnational they need to gain a presence in key

foreign markets (Luo & Tung, 2007). Therefore, EMMs seek sophisticated technology, or advanced manufacturing expertise, (particularly in advanced markets), through path-independent and proactive steps such as mergers and acquisitions. These allow the firms to acquire foreign firms, or subunits, and therefore gain access to proprietary technology that helps alleviate some latecomer or newcomer deficiencies in areas such as consumer base, brand recognition, and technological leadership (Luo & Tung, 2007). As emerging markets evolve, EMMs may shift from resource seeking to market seeking (Peng, 2012; Sun et al., 2012), and they may leverage the capabilities gained and transform resources accessed at early stages of evolution into the basis for market seeking activities (Ramamurti, 2012; Hoskisson, et al., 2013).

EMMs' springboard strategies are often a series of aggressive, risk-taking measures that are often not path-dependent or evolutionary in the selection of entry modes and location (Luo & Tung, 2007; Madhok & Keyhani, 2012). This is evidenced in the popularity of EMM internationalization through acquisitions in advanced economies (Madhok & Keyhani, 2012). In addition to international springboarding, EMMs also reap cumulative benefits from inward investment before undertaking outward FDI. They also pursue competition with global stakeholders in both domestic and foreign markets, and follow leapfrog trajectories that mirror springboard strategies such as internationalizing rapidly and making radical market choices contrary to conventional theories (Luo & Tung, 2007).

Ramamurti (2008) proposes five internationalization strategies based on Rugman's (2008) country-specific advantages (CSAs) and firm-specific advantages (FSAs). The CSAs include natural resource wealth, capital abundance, access to cheap labor, and

unanticipated advantages from protectionist policies that incubate indigenous firms in technology-based industries. Ramamurti (2008) argues that EMMs need to learn over time how to obtain alliances with local players and form good relations with the local government before they can exploit a country's CSAs. In other words, in order to acquire FSAs through mergers and acquisitions (M&As), EMMs need to develop deep local knowledge and embeddedness within the respective locality. The five types of EMMs based on these strategies are discussed below:

i. *Natural-resource vertical integrator EMMs* engage in cross-border forward integration to secure downstream markets or cross-border backward integration to secure upstream natural resources for conversion into end products for the home market

ii. *Local optimizer EMMs* develop FSAs from optimizing products and production processes for the distinctive conditions of the home market, thereby creating new business models aimed at making products ultra-affordable to low-income consumers. These EMMs are tough competitors in their home markets and potentially strong competitors to DMMs in other emerging markets.

iii. *Low-cost partner EMMs* are usually from emerging market countries with access to large pools of low-wage, skilled, and unskilled workers who can leverage the CSAs to become supplier-partners of companies in high wage countries. These EMMs may also expand into other emerging markets to diversify the supply locations from which it serves customers in high wage countries. Although low-cost partner EMMs help some DMMs lower cost, improve quality, reduce time-

to-market, and speed up innovation, these EMMs threaten the business models of other MNEs.

iv. *Global consolidator EMMs* build global scale in mature mid-technology industries by using low-cost locations and facilities, adding new capacity, upgrading old capacity, hiring workers, and growing sales and profits often to globally standardized products and processes. These EMMs consolidated their position in the home market through acquisitions and greenfield investments to become dominant suppliers with strong cash flows, and used these strong cash positions to acquire their usually larger counterparts with greater technical expertise in other emerging economies and/or in developed countries, thereby leapfrogging rivals by investing in modern plants and technologies.

v. Global first-mover EMMs operate at the global technology frontier as trailblazers in a new emerging industry through a combination of greenfield investments in emerging markets and mergers or acquisitions in developed countries. These EMMs combine global reach with a strong foothold in low-cost countries, which forces their rivals to rethink their value-chain configurations.

These different EMMs and their strategies highlight how some EMMs, particularly the natural-resource vertical integrator firms, may follow similar internationalization paths as DMMs; however, other new strategies have also emerged (Ramamurti, 2008). Although traditional internationalization process models suggest that firms start internationalization in markets that are psychically close, e.g. through regionalization, before sequentially expanding to markets with successively greater psychic distance (Johanson & Vahlne, 1977; Davidson, 1980; Rugman, 2000), many EMMs, particularly

world-stage aspirants and transnational agents, often venture first into advanced markets with highly psychically-distant destinations from their home countries. EMMs' success in these psychically-distant markets could be because of a myriad of factors: first, EMMs rely on experts in the host country to organize and manage sophisticated activities; second, EMMs make direct purchases of technologies, key components, product development, and brands in the host country; and third, through their acquisitions of and/or mergers with DMMs (or subunits), EMMs secure tacit knowledge and distinctive resources in the host country (Luo & Tung, 2007).

In stark contrast to traditional stage internationalization process models lies the growing field of "born global" firms, or "international new ventures" (Almor, 2006; Autio, Sapienza, & Almeida, 2000; Oviatt & McDougall, 1994; Knight & Cavusgil, 2004; Zahra, Ireland, & Hitt, 2000; Jones, Coviello & Tang, 2009; Filatotchev, Liu, Buck & Wright, 2009). This is a growing field of increasing importance for particularly technologically-driven, small, and medium sized firms that internationalize within a few years of the firm establishing, or from its inception, before gaining a home country stronghold (Almor, 2006; Pillalamarri & Mekki, 2016). Although most of the Born Global literature focuses on developed market contexts, there is growing recognition that born globals may emerge in any market open to internationalization trade (Wright, 2005), and in any industry that allows for competition based on quality and value through innovative technology and product design (Oviatt & McDougall., 1994; Madsen & Servais, 1997; Pillalamarri & Mekki, 2016).

The following section discusses conventional internationalization theories. The major challenges to traditional theories are emphasized according to the extent to which

emerging markets' social, political and economic environments, as well as institutional contexts, differ from those of advanced economies (Wright, 2005). Traditional theories fail to explain the behaviors of EMMs based on these differences. Conventional theories cannot explain the internationalization of SMEs (Etemad, 2004), nor can they contemplate how the implementation of strategic options like springboarding or leapfrogging may be common (Hedlund & Kverneland, 1984; Luo & Tung, 2007; Pollavini, 2010). However, they provide a foundation on which to develop a revised understanding of internationalization that is relevant in the context of the emerging market.

2.2 Traditional Internationalization Theories

Internationalization is defined as "the method of adapting organizations' operations (resources, strategy, structure,) to foreign environments" (Calof & Beamish, 1995: 116). Internationalization refers to firms' international expansion; it is the various movements of a firm's international activities over time— a process of increasing international involvement (Johanson & Vahlne, 1977; Welch & Luostarinen, 1986; Melin, 1992; Pollavini, 2010). Internationalization is a complex process encompassing the different geographic locations and the scale of the operations and activities in these locations, as well as the intensity of integration of these activities in the different locations. Internationalization is a dynamic process that addresses the question of how, over a certain time period, changes in foreign operations affect firm performance (Vermeulen & Barkema, 2002; Hutzschenreuter, et al., 2014). Different theories have been designed to

explain internationalization, some of which include the Diamond model (Porter, 1990), Transaction Cost Theory (Coase, 1937; Williamson, 1979), the Internalization Model (Dunning, 1979) and the Uppsala Model (Elgar, 2003; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). All of these theories encompassed in the internationalization literature, have stressed the potential constraints arising from differences in countries (Hutzschenreuter & Voll, 2008; Hutzschenreuter et al., 2011; Vermeulen & Barkema, 2002; Hutzschenreuter, et al., 2014). In contrast to multinationality literature, internationalization literature focuses on how MNEs manage a change in distance as the firms' operations expand (Melin, 1992; Hutzschenreuter, et al., 2014). Building on this work, this study investigates the performance impact of various distance factors during a period of EMMs' international expansion. As such, it is important to understand the traditional internationalization theories, as well as discuss their shortcomings in the case of EMMs, and subsequently propose distance aspects that are likely to impact EMMs' performance as the firms internationalize. This is discussed in the sections to follow.

2.2.1 Diamond Model

Porter's (1990) Diamond model is an economics model developed to explain why certain industries become competitive in specific locations. The theory hypothesizes that specialized factor conditions (human, physical, capital or knowledge resources) for a particular industry; home market demand conditions; cost effective inputs from related and supporting industries; firm strategy, structure and rivalry; government; and chance events interact with each other to create conditions where innovation and improved

competitiveness occurs. The theory analyzes firms at the industry level where the success and the competitiveness of a single firm is associated with the performance of other firms and factors together in a number of areas: in the value-added chain, the customer-client relationship, or in a local or regional context (Porter, 1990). Porter (1990) argues that nations are most likely to succeed in industries or industry segments where the national *diamond* is the most favorable.

2.2.1.1 Double Diamond Model

As previously discussed, Porter's (1990) Diamond has four interrelated components: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry; Diamond also has two exogenous parameters: government and chance. Although the model integrates the important variables determining a nation's competitiveness into one model, substantial ambiguity remains regarding the signs of relationships and the predictive power of the *model* (Grant, 1991). Dunning (1992) incorporates the effects of multinational activities as a third exogenous variable in Porter's Diamond which allowed Rugman and D'Cruz (1993) to build on it in their development of the Double Diamond model. The Double Diamond model asserts that managers build upon both domestic and foreign diamonds to become globally competitive in terms of survival, profitability, and growth. Because firms, especially those from small countries, seek resources and markets domestically and internationally, the home country's competitiveness therefore depends on both the domestic diamond, which has fluctuating size according to the size of the market and its competitiveness, and on the international diamonds relevant to its firms. Both outbound and inbound

foreign direct investment (FDI) is included in the international and/or multinational activities represented in the difference between the international diamond and the domestic diamond (Rugman & D'Cruz, 1993).

However, both the Diamond and the Double Diamond model seeks to explain national competitiveness from an economist's lens and to view internationalization simply as a rational resource or a market seeking endeavor; thus, neither seek to understand the underlying logic in the choice of a particular geographic location.

2.2.2 Transaction Cost Theory

The field of economics assumes all economic actors are rationally working towards profit maximization for the firm and utility maximization and for consumers. Economics also assumes that firms operate in a perfectly competitive environment where all the actors have access to full, timely, and reliable information. Transaction Cost Economics (TCE) diverts from this a little through its assertion that given information asymmetry, economic actors cannot be assumed to be perfectly rational (Coarse, 1937; Ghoshal & Moran, 1996; Tadelis & Williamson, 2012; Williamson, 1981, 2005). Instead, the concept of bounded rationality is introduced as a more feasible assumption in organizations (March & Simon, 1958; Cyert & March, 1963). Organizations exist as a nexus of contracts (Fama & Jensen, 1983). TCE explains boundaries and says more expensive contracts should be brought in because organizations exist to minimize costs, i.e., the efficiency motive (Coase, 1937; Williamson, 1975; 1981; 2005).

Transaction costs are the internal and external costs incurred in all economic transactions. Transaction Cost Theory explains and predicts the scope, i.e. the boundaries

of the firm. The theory asserts that markets and firms have differential costs broadly split into search and information costs, bargaining costs, and policing and enforcement costs. It also assumes that all economic actors act with guile. Therefore, according to the Transaction Cost Theory, the firm seeks to have higher external transaction costs than internal costs to keep costs low and to guarantee the growth of the firm. If internal transaction costs are higher than external transaction costs, the firms will have to outsource some functions and downscale operations (Anderson, 1997; Oviatt & McDougall, 1994; Rugman & Verbeke, 2005).

Internationalization decisions are made based on the following criteria: a rational evaluation of market choices; a comparison of the costs of transactions associated with different market choices; and the different entry modes into a new boundary market. Transactions characterized by asset specificity, (particularly firm-specific assets in a foreign market), the uncertainty of the market (internal and external), and the frequency of the transaction all help to determine whether or not utilization should be undertaken in that market; if utilization is recommended, it suggests that the firm should establish operations in that location in order to ensure success. The organizational structure is therefore an arrangement to establish and safeguard transactions, and thus reduce transaction costs across organizational and national boundaries (Oviatt & McDougall, 1994; Rugman & Verbeke, 2005; Ghoshal & Moran, 1996; Tadelis & Williamson, 2012; Williamson, 1981, 2005). According to Transaction Cost Theory, because of the firm's specialized role as a nexus of contracts, as well as its size, MNEs are more efficient than their markets and contracts in organizing interdependencies between their agents that are

located in different countries (Anderson, 1997; Anderson & Gatignon, 1986; Donaldson & O`Toole, 2007).

Transaction Cost Theory posits that firms select organizational forms and locations to minimize transaction costs (Donaldson & O`Toole, 2007). However, firms are more than efficient structures for efficient transactions. The theory fails to acknowledge the impact of the differences in firm strategy on firm performance (Anderson & Gatignon, 1986; Masten, 1993). According to Transaction Cost Theory, a firm should wait to externalize and continue to expand operations within the firm until the external sources have a cost advantage, at which point the firm may consider either entering a foreign market or establishing some other form of collaboration with the external partners as their externalization effort (Williamson, 1975; 1979; Ghoshal & Moran, 1996; Tadelis & Williamson, 2012). In this way, the firm seeks to always minimize transaction costs during all decision-making processes, as well as in transactions with other economic agents (Oviatt & McDougall, 1994; Rugman & Verbeke, 2005). This is closely related to Internalization Theory.

2.2.3 Internalization Theory

Internalization Theory (IT) is an economics theory that developed from the Transaction Cost Theory (Buckley & Casson, 1976; Rugman & Simon, 2012). The theory focuses on imperfections in intermediate product markets (Rugman, 1981) and argues that MNEs internalize activities across national boundaries when intermediate product markets are imperfect, as this provides an incentive to bypass the imperfect markets (Buckley & Casson, 1976; Hennart, 1977; 1982). Although most of the research

citing the theory focuses on knowledge flows within the MNEs, IT posits that there are two kinds of intermediate goods: knowledge flows linking research and development (R&D) to production, and flows of components and raw materials from upstream production facilities to downstream ones (Markusen, 1995). The spotlight on knowledge flows is particularly relevant to a theory that focuses on imperfect intermediate markets, especially when discussing emerging markets where intellectual property rights such as patents and trademarks, are weak, and where proprietary knowledge is often appropriated. Also, by assimilating TCE assumptions of bounded rationality and opportunistic behavior in markets which would lead to measurement and enforcement costs (Coase, 1937; Williamson, 1976), Internalization Theory asserts that firms will seek to internalize the knowledge markets within the firm, rather than license their knowledge to independent local producers, and this will thus lead to a larger MNE within which knowledge is a public good (Buckey & Casson, 1976; Buckey, 2009).

As in Transaction Cost Theory, internalization occurs only when firms perceive the benefits from in-house transactions to exceed the costs of market transactions (Buckley & Casson, 1976). A firm makes internalization decisions on the basis of location-bound and non-location-bound firm-specific advantages (FSAs) and country-specific advantages (CSAs) (Rugman 1981; Rugman & Verbeke, 1992; 2003; 2004). The firm often encounters political and commercial risks in new foreign markets as a result of the Liability of Foreigness (Zaheer, 1995). However, if these costs are high for CSAs, the firm may engage a local partner; alternatively, it may produce at home and export to the country instead if they are not CSAs (Hymer, 1976; Hennart, 1982). In a Transaction Cost Theory mindset, the firm also internalizes to guarantee quality or continuity of

supply, or for tax advantages from transfer pricing, thus reducing search and information costs. Managing the interactions between FSAs and CSAs not only leads to distinct patterns of competence-building across borders in MNEs and necessitates entrepreneurial action, but it also minimizes transaction costs and the need for external resource seeking (Rugman & Verbeke, 2001).

As already mentioned, IT and Transaction Cost Theory (TCT) developed from the same roots (Coase, 1937) and many similarities exist between the two theories. However, TCT blames bounded rationality for market imperfections, while IT focuses on information asymmetry and weak property rights; furthermore, IT focuses on links between R&D and production, whilst TCT looks at links between production facilities (Simon & Schuster, 1985); additionally, TCT is most often applied in domestic analyses, while IT is applied specifically to international analyses (Buckey & Casson, 2010). The Internalization Theory was the first international business theory to highlight the interaction between the external environment (i.e. CSAs) and the internal FSAs' (i.e. knowledge and other intermediate product) flows between MNE parent firms and their subsidiaries. As highlighted in the preceding discussion, prior internationalization models focused on the impact of the economic, financial, political, and cultural dimensions of the external environment on the firm, and not on their interaction (Rugman & Verbeke, 1992; 2003).

Many changes have taken place in the global economy since the theory's inception; furthermore, the governance structures of MNEs have subsequently been complicated as a result of these changes. Despite these continuing fluctuations in the context of the global economy, IT continues to be used as a reference point for analyzing entry mode

choices, structural and strategic governance in international activities, navigation and structure of the interface with external economic actors, and the rise of international new ventures (INVs). However, new transaction and economic actors have emerged in a rapidly changing global economy which calls into question the validity of the model and its limited explanation of the causal mechanisms of MNEs (Rugman & Verbeke, 2003). The Eclectic Paradigm aims to address some of these shortcomings.

2.2.3.1 The Ownership-Location-Internalization (OLI) Model

The OLI model, also known as the Eclectic Paradigm, is an economics theory that further develops the Internalization Theory (Dunning, 1977, 1988, 1993; Dunning & Lundan, 2008). The Internalization Theory is used as one of the components of the OLI Model. Based on the Transaction Cost Theory, the Internalization Theory asserts that a firm internalizes costs if market costs are higher than internal costs, as is the case due to imperfect markets (Rugman & Verbeke, 1992; 2001; 2003; Buckley & Casson, 2010). Dunning (1979) asserts that it is not the internalization advantages (i.e. FSAs and CSAs) that explain the existence and functioning of the MNE, but that it is instead the interaction of ownership, location, and the internalization advantages that are necessary for an MNE.

The OLI Model determines the form of market entry the firm should pursue. In order to determine the form, a variety of advantages are examined. For example, ownership advantages include trademark, production technique, entrepreneurial skills, and returns to scale; location advantages include the existence of raw materials, low wages, special taxes or tariffs; and internalization advantages are the advantages gained by the firm

pursuing internal production rather than outsourcing through a partnership arrangement such as licensing or a joint venture. International activities will only occur if the firm has at least net material and/or immaterial ownership advantages. If a firm has ownership advantages, but no location advantages, then exporting is appropriate. If the firm has ownership and location advantages but no internalization advantages, then licensing is appropriate. Firms are more likely to engage in Foreign direct investment (FDI) if there are greater competitive advantages for the investing firms. FDI can be distinguished into resource seeking investments and market seeking investments; these can both be further broken down into efficiency seeking investments, strategic seeking investments, and support investments (Dunning, 1979; Stopford, Strange & Henley, 1991). FDI is only appropriate when the firm has ownership, location, and internalization advantage (Dunning, 1979; 1981; 2000; 2004). The Eclectic Paradigm also suggests conditions for trade and FDI patterns for industries and countries that are similar to those suggested by Porter's Diamond of national competitiveness (Stopford, et al., 1991).

2.2.4 Uppsala Model

The Uppsala Model is a management theory that is based on the learning and the evolutionary perspective derived from the Behavioral Theory of the Firm (Cyert & March, 1992). The Behavioral Theory asserts that the behavioral actions of the customers and the firm’s country of emergence explain the nature of the firm (Cyert & March, 1992). The Uppsala Model explains a stage-wise intensification of firms’ activities in foreign markets (Elgar, 2003; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). According to the Uppsala Model, firms first gain experience and knowledge from

the domestic market before they expand to foreign markets; the firms start their foreign operations from culturally and/or geographically and religiously proximate countries and progress gradually to culturally and geographically more distant countries; firms start their foreign operations by using traditional exports and gradually move to using more intensive and demanding operation modes, such as sales subsidiaries, both at the company and target-country-level (Johanson & Vahlne, 1977; Elgar, 2003; Sousa & Lager, 2011).

According to the Uppsala Model, internationalization evolves at a relatively slow pace due to organizational learning and the need for a step-wise approach to increasing commitment: as the firm acquires increasing levels of experiential knowledge about local market regulations, internationalization occurs (Elgar, 2003; Nordström & Vahlne, 1992). The model specifies the need for general or objective knowledge that can be taught, and for market-specific or experimental tacit knowledge that can only be learned through experience (and is thus difficult to transfer or separate from its original source) (Penrose, 1959; Johanson & Vahlne, 1977; Nonaka, 1994). Without knowledge on how to conduct business in a foreign market, the firm's activities would be infeasible (Carlson, 1966). Experiential knowledge is more difficult to acquire than objective knowledge and the lack of experiential knowledge in the new market forces the firm to use the "Establishment Chain," which is a stage-wise gradual process of internationalization (Johanson & Wiedersheim-Paul, 1975).

The Uppsala Model specifies that firms will tend to successfully enter new markets in which they have a closer geographic and psychic distance. Psychic distance is "the summation of factors that [hinders] the flowing of information from one market to

another market; these include differences in language, education, business practices, culture, and industrial development" (Johanson & Vahlne, 1977:24). The introduction highlighted how differences in culture and the socio-cultural environment have been shown to play a big role in determining differences in the ways of life of the people, organizations, and government from that of the home country of the entering firm. These differences necessitate different strategies that incorporate these differences. Through this assimilation-learning model, it becomes clear why it takes longer for firms to acquire experiential knowledge in the new markets, and they are then able to learn from this process themselves (Johanson & Vahlne, 1990; Anderson, et al., 1994).

The firm increases its commitment as it acquires increasing levels of experiential knowledge, where commitment is defined as the product of the size of the investment multiplied by its degree of inflexibility (Johanson & Vahlne, 1990). The firm's commitment may decrease through downscaling, or cease through divestments, if the firm's performance and prospects are not sufficiently met (Johanson & Vahlne, 1990; Elgar, 2003).

The Uppsala Model has been criticized for being too deterministic by assuming that the internationalization process will proceed regardless of the strategic decisions made once the process has started (Johanson & Vahlne, 1990). The model takes agency from the firm, as all advances are controlled by the environment within which the firm operates. Additionally, the firm's principles are predicted by the evolution of time without acknowledging the interdependencies present between the different countries' markets that a firm operates under. This being said, the model does have some relevance in physical product industries (i.e. the primary and secondary industries according to the

Standard Industrial Classification system) that usually enter distant markets slowly because of the scale of operations and capital commitments needed. Ultimately, the model fails in assuming that other environmental explanatory variables remain static and does not consider how the foreign firms' entrance may change the market dynamics (Elgar, 2003).

From this it is clear that although each of the internationalization models have strengths and shortcomings, it should also be noted that their relevance is stronger under certain conditions. An understanding of these boundary conditions allows a better conceptualization of internationalization. This is of particular importance in discussing emerging market countries as their characteristics have already been noted to ensure that EMMs' internationalization has a different starting point and trajectory to that of MNEs from advanced markets (Madhok & Keyhani, 2012).

The following section discusses the measures of internationalization distance which aid in the understanding of the differences between home and host country markets for MNEs.

2.3 Measures of Internationalization Distance

An important factor in the discussion of internationalization models, especially in the recent management models, is that of differences between the home country of the firms and the host foreign countries in which the firms establish operations. These differences are captured in different distance measures, e.g. cultural, psychic, and institutional distances. The complexity and challenges an MNE encounters increase as the firm enters

each foreign market (Daft, 2009). It is generally assumed that regardless of the dimension, the complexities the MNEs have to face and the inferred challenges to gaining and sustaining successful operations in foreign countries will be greater as the distance increases (Vermeulen & Barkema, 2002; Wagner, 2004; Hutzschenreuter, et al., 2014). The challenges arise due to the liability of foreignness, discussed in Chapter 1 (Scott, 1995; Kostova, 1999; Zaheer & Mosakowski, 1997; Meyer, et al., 2009; Lamin & Livanis, 2013; Zaheer, 2002; Luo, et al., 2007), and increase depending on the magnitude of the difference to which the home country context differs from the host country context; additionally, the additional organizational resources and capabilities, and the adaptations and networks required to run a foreign expansion add complexity to this already complex system (Fredrickson, 1986; Hutzschenreuter et al., 2011; Meyer et al., 2011; Tan and Mahoney, 2006; Hutzschenreuter, et al., 2014).

The rationale outlined above implies that greater distance leads to higher complexity because of the increased challenges that may reduce firm performance if the respective MNE possesses insufficient capabilities and resources to handle this increase in complexity. Although it is generally argued that distance in general leads to higher complexity, authors such as Gooris and Peters (2014), Ghemawat, (2001) and Hutzschenreuter, et al., (2014) have argued for a differentiated theory in which different dimensions of distance may cause varying degrees of complexity. This school of thought argues that several distinct dimensions affect different phenomena and mechanisms and subsequently lead to different challenges and complexities, or possibly even opportunities that may mitigate the effect of increased complexity (Hutzschenreuter, et al., 2014). Therefore, it is necessary to investigate the underlying constructs of distance to

distinguish the distinct effects it has on performance (Gooris & Peters 2014; Ghemawat, 2001; Hutzschenreuter, et al., 2014). This is especially important in order to understand the intricacies of emerging markets and EMM internationalization.

The next sections discuss each of the three main distance measures: cultural, institutional, and psychic, as well as their attendant underlying dimensions.

2.3.1 Cultural Distance

Hofstede (1980: 7) defines culture as "the collective programming of the mind which distinguishes the members of one human group from the other." This collective programming forms the basis for shared knowledge, particularly tacit understandings of context and expectations of behavior (Håkanson & Ambos, 2010). The frequency of miscommunications and misunderstandings increases and makes communication difficult; the farther apart the home and host cultures differ, the more interpersonal interactions and the context of decision-making for the firm are affected (Adler, 1986; Boyacigiller, 1990). Traditionally, differences between the home country and host country markets were evaluated in terms of cultural distance (Hofstede, 1980; Whitley, 1992; Inglehart, 2004; Kogut & Singh, 1988; Barkema, Bell & Pennings, 1996; Hennart & Larimo, 1998; Ionascu, Meyer & Estrin, 2004; Dow & Karunaratna, 2006; Brewer, 2007; Berry, Guillén & Zhou, 2010; Gooris & Peters, 2014; Hutzschenreuter, Kleindienst & Lange, 2014). Therefore, cultural distance is an indication of the extent to which interpersonal interaction is hindered (Manev & Stevenson, 2001), as larger cultural distance indicates greater difficulties for firms to identify and interpret incoming signals

in foreign markets (Eriksson et al., 2000; Håkanson & Ambos, 2010; Sousa & Bradley, 2006; Hutzschenreuter, et al., 2014).

Most studies often refer to national culture when they discuss culture and cultural distance (Johanson & Vahlne, 1977; Boyacigiller, 1990; Evans, Treadgold & Mavondo, 2000). However, culture is usually made up of both national (of the home and host countries) and organizational (of the parent and subsidiary firms) elements. Organizational culture is "a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behavior for various situations" (Ravasi & Schultz, 2006: 437). National culture is the collective programming of the mind acquired by growing up in a particular country (Hofstede, 1991; Sarala & Vaara, 2010). The two are often discussed together because they are closely aligned; furthermore, both organizational and national cultures may act as major impediments to cooperation, communication, and subsequent knowledge transfer if the cultural distance is high (Park, 2011; Sarala & Vaara, 2010; Simonin, 1999).

This study takes the predominant view and uses the term 'culture' to encompass national culture, as it shapes the citizens' (and residents') socially-constructed realities and interpretations (Hofstede, 1991). National culture is also the most prominent proxy when modeling contextual differences between MNC units (Ambos & Ambos, 2009; Sarala & Vaara, 2010; Morosini, Shane & Singh, 1998). Therefore, this study defines [national] cultural distance as the extent to which the shared norms and values in one country differ from those in another (Drogendijk & Slangen, 2006; Hofstede, 2001; Kogut & Singh, 1988; Gooris & Peeters, 2014). The reliance on national cultural distance is also preferred because it usually affects a variety of different components in the MNE:

routines (Morosini, et al., 1998), decision-making practices and power and control structures (Hofstede, 1980; Morosini, et al., 1998), and legal systems, incentives and administrative practices (Hofstede, 1991; Morosini, et al., 1998). All of these potentially affected components lead to differences in operating procedures, routines, and knowledge bases that generate internal uncertainty in the MNE (Anderson & Gatignon, 1986), and subsequently inhibit the firm's ability to achieve success (Gooris & Peeters, 2014). Prior research has also illustrated the negative relationship between cultural distance and foreign commitment (Gatignon & Anderson, 1988; Kogut & Singh, 1988; Chang & Rosenzweig, 2001; Hutzschenreuter et al., 2011). Cultural distance is moderated by foreign entry attributes, as well as by the nature of the foreign activities and the experience of the MNE (Chang & Rosenzweig, 2001; Brouthers & Brouthers, 2003; Erramilli & Rao, 1993).

[National] cultural distance is the most widely acknowledged form of psychic distance stimulus, and together with differences in language, religion, and political systems, is discussed in the literature as a central tenet of psychic distance (Håkanson & Ambos, 2010; Johanson & Vahlne, 1977; Boyacigiller, 1990; Evans et al., 2000; Dow & Karunaratna, 2006). Cultural distance is hypothesized to raise the uncertainty of the internationalization process and to encourage low resource commitment entry modes (Johanson & Vahlne, 1977; Gooris & Peeters, 2014). Psychic and/or cultural distance has been included in empirical studies as an antecedent or moderator (Kirkman, Lowe & Gibson, 2006; Tihanyi, Griffith & Russel, 2005) to explain outcomes such as entry mode (Kogut & Singh, 1988; Morosini, et al., 1998; Tihanyi, et al., 2005; Shenkar, et al., 2008), export behavior and trade flows (Brewer, 2007; Dow, 2000; Dow & Karunaratna, 2006),

sequence of international expansion (Nordström & Vahlne, 1994), strategy (Sousa & Bradley, 2005) and organizational performance (Evans & Mavondo, 2002; Holzmüller & Kasper, 1991). Similarly, Hennart and Larimo (1998) used cultural distance, measured using Hofstede's data, in their analysis of distance from a transaction-cost perspective. These studies hypothesize that cultural distance will have a negative relationship on EMM performance due to the increased uncertainty and LOF.

2.3.2 Institutional Distance

Institutions are defined as the rules that guide and structure actions of the firms (North, 1990). Institutions form mechanisms that reduce transaction costs and provide a stable environment that facilitates interactions, thereby limiting agents' uncertainty (Anderson & Gatignon, 1986; Hoskisson et al., 2000; Meyer, 2001; Gooris & Peeters, 2014). Therefore, the institutional distance, or institutional gap, reflects "the extent of similarity or dissimilarity between the regulatory, cognitive, and normative institutions of two countries" (Xu & Shenkar, 2002: 608). Institutional distance includes institutional voids (Khanna & Palepu 1997) and the institutional instability of institutions (Delios & Henisz 2003). Kostova and Zaheer (1999) argue that institutional costs affect the legitimacy, or liability of foreignness of the foreign firm relative to a local firm, as well as the extent of local learning the foreign firm must engage in.

By conceptualizing national markets as institutional settings, Hilmersson and Jansson (2012), Peng (2003), Wright et al., (2005) assert that institutional distance is a more suitable measure of cross-national differences because it is a broader concept than either psychic distance or cultural distance (Santangelo & Meyer, 2011; Xu & Shenkar, 2002).

Both psychic and cultural distance are captured within the definition of institutional distance, which identifies three fundamental layers of institutional dimensions: regulative, normative and cognitive (Eden & Miller, 2004; Hofstede & Bond, 1988; Scott, 1995). A recent research stream emerged that was driven by the insight that cultural distance does not entirely capture the complexity of inter-country differences (Berry, et al., 2010; Delios & Beamish, 2001; Henisz, 2000; Jackson & Deeg, 2008; Pajunen, 2008; Kostova & Roth, 2002; Kostova et al., 2008), particularly regarding the role of regulatory and governance institutions (Xu & Shenkar, 2002). Although, Xu and Shenkar (2002) suggest that cultural distance has similar effects on trade as institutional distance, this assertion depends on which aspects of trade are being researched. For example, the choice of low or high commitment market entry is expected to have differential effects on cultural and institutional distance because cultural distances are not as important in low commitment modes of entry as they are in high commitment modes (Beugelsdijk, de Grootb, Lindersb & Slangena, 2004).

Institutional distance, often referred to as governance distance, administrative, or political distance, refers to the extent to which two countries differ with regard to the regulations, laws, and government policies included in the regulatory and governance system (Kostova & Zaheer, 1999; Scott, 1995; Hutzschenreuter, et al., 2014). As previously discussed, according to institutional theory, firm behavior and structure is determined to a large extent by the institutional environment as defined most commonly in the regulatory pillar of institutions (DiMaggio & Powell, 1983; Scott, 1995). The latter describes the governance— the existing laws and rules that are present in a country and promote or restrict certain firm behavior (Scott, 1995). Internationalization in markets

with large governance distances increases the uncertainty and the costs of the interaction and communication with stakeholders (e.g. government, suppliers, customers, and competitors) (Dow & Karunaratna, 2006). Therefore, unfamiliar regulatory environments increase demand of resources to adapt and build the necessary capabilities (Kaufmann & O'Neill, 2007; Hutzschenreuter, et al., 2014), impede decision making (Pedersen & Petersen, 2004), increase the risks of misjudging situations and reactions, and increase the frequency of miscommunications with the various local stakeholders (Dow & Karunaratna, 2006; Evans & Mavondo, 2002; Pedersen & Petersen, 2004). Additionally, differences in the level of corruption or political stability may exacerbate the uncertainty and the liability of foreignness in the unfamiliar governance system (Zurawicki & Habib, 2010; Hutzschenreuter, et al., 2014), thus further impeding decision-making and increasing the costs of the foreign operations.

It is widely accepted that advanced market MNEs are typically ill-equipped to operate in markets with institutional voids (Khanna & Palepu, 1997; 2004), and thus often select low commitment modes of entry such as alliances with local partners (Manning et al., 2011) to moderate the institutional uncertainty (Lu & Beamish, 2001; Gooris & Peeters, 2014). It has also been argued that a weak regulatory body and an unstable political system in the host market will increase the uncertainty and liability of foreignness of foreign firms (Hutzschenreuter, et al., 2014). However, the same cannot be said for EMMs. The undeniable influence of institutional voids in EMMs' entry and their internationalization process-decisions are succinctly described in two perspectives: institutional escape and institutional arbitrage. The institutional escape view argues that EMMs pursue internationalization to avoid the "institutional voids" and imperfections of

their home economy despite their lack of a competitive advantage in global markets (Kalotay & Sulstarova, 2010; Perez- Batres & Eden, 2008). In contrast, the institutional arbitrage view argues that EMMs leverage their familiarity with weak institutions to focus on internationalizing into other markets with weak institutional environment; here, EMMs can gain a comparative advantage over the DMMs (Boisot & Meyer, 2008; Luo & Wang, 2012; Wang et al., 2012; Cuervo-Cazurra & Genc, 2008; Luo & Zhang, 2016).

Institutional distance is conceptualized differently in the different International Business literature. Zaheer (2002) focuses on institutional distance rather than cultural distance (Kogut & Singh, 1988) because institutional distance allows culture as well as politics, ideology, law, and other such societal institutions to be considered. Ionascu, Meyer and Erstin (2004) test a version of the institutional distance measure that uses three (normative, regulatory and cognitive) indices taken together to jointly capture the relevant aspects of distance to international business. They test this version because institutional distance captures the differences in institutions, integrates several other factors that affect the decision maker, and thus can potentially alter the decision-making process in the MNE. In contrast, Meyer et al., (2009) conceptualize institutional distance as only the regulative layer, or the formal institutions, because they argue that formal institutions cover many components of the country environment such as the legal framework, property rights, their enforcement, legal information systems, and regulatory regimes.

Following Ghemawat's (2001) four-dimensional [C.A.G.E.] approach: cultural, administrative, geographic, and economic distance, Berry, Guillén & Zhou, (2010) provide a comprehensive conceptualization of institutional distance that measures cross-

national distance alongside multiple dimensions because different types of distance can affect firm, managerial, or individual decisions in different ways depending on the dimension of distance under examination. However, Berry, et al., (2010) fail to take into consideration finance, politics, demography, knowledge, or global connectedness, and the authors make no attempt to provide guidance on how to measure each dimension given this array of variables (Gooris & Peeters, 2014). Similarly, Hutzschenreuter, et al., (2014) test whether added distances along the four dimensions have a negative performance effect in international expansions. The authors do not find support for all their distance measures, which implies that some distances may be more important than others in internal expansions.

It is hypothesized that a greater institutional distance will call for greater local adaptation. MNEs will adapt in terms of learning and adopting the local regulative practices in order to operate in the host market because the transfer and replication of home country routines, practices, and structure may be hazardous, costly, and difficult (Xu & Shenkar, 2002; Eden & Miller, 2004). This difficulty stems from the increased risk of conflicts and regulative frictions with the local to comply with the host institutional system (Eden & Miller, 2004; Xu & Shenkar, 2002; Gooris & Peeters, 2014).

2.3.3 Psychic Distance

As already alluded to in the discussion of the Uppsala Model, psychic distance is defined as factors that prevent, or disturb, the flow of information between the firm and the foreign market, and thus make it difficult for firms to understand foreign

environments (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; 2009; Johanson, et al., 1994; Håkanson & Ambos 2010; Schweizer, et al., 2010; Hilmersson & Jansson, 2012). The definition often includes differences in culture, institutions, language, religion, education, political systems, business practices, level of education, level of industrial development, time zone, migration, marketing infrastructure, and industry structure and legislation between the firm's home country and the foreign country (Boyacigiller, 1990; Brewer, 2007; Chetty & Campbell- Hunt, 2004; Child, Ng, & Wong, 2002; Conway & Swift, 2000; Dow, 2000; Dow & Karunaratna, 2006; Evans & Mavondo, 2002; Evans, Treadgold, & Mavondo, 2000; Stöttinger & Schlegelmilch, 2000; Johanson & Wiedersheim-Paul, 1975; O'Grady & Lane, 1996; Sousa & Lages, 2011; Berry, Guillén & Zhou, 2010; Johanson & Vahlne, 1977; Barkema, et al., 1996; Evans et al., 2000).

The definition has been expanded to include Johanson and Vahlne's (1977: 26) definition: "the lack of knowledge …about markets and operations in those markets…in the minds of individuals;" and Nordström and Vahlne's (1994: 42) assertion that "factors preventing or disturbing firm's learning about and understanding of a foreign environment". Both of these definitions introduce a cognitive viewpoint and the importance of individuals in understanding psychic distance (Dow & Karunaratna, 2006; Nebus & Chai, 2014). The literature makes an important distinction between objective and perceptual views of psychic distance (Evans & Movando, 2002; Nebus & Chai, 2014; Norstrom & Vahlne, 1994; Håkanson & Ambos, 2010; Sousa & Lages, 2011). This is similar to Sousa and Lages' (2011) argument that psychic distance is composed of country-level and individual-level dimensions. Dow and colleagues (Dow and

Karunaratna (2006), and Dow and Larimo, (2009)) assert that these objective country-level factors should instead be defined as Psychic Distance Stimuli (PDS), while the perceptual aspect will be captured in the perceived psychic distance (PPD) of managers (Nebus & Chai, 2014). Evans and Movando (2002: 516) argue for the inclusion of a perceptual viewpoint because "it is the mind's processing … that forms the basis of psychic distance." Dow and Karunaratna (2006: 580) assert that "if one is attempting to predict the behavior of the specific firm, then the psychic distance stimuli needs to be measured with respect to the decision makers" within firms. The objective stimuli are related but distinct from PPD, and the latter can be considered as a function of PDS (Dichtl et al., 1990; Dow & Karunaratna, 2006).

2.4 Theoretical Development

The concept of 'psychic distance' can be traced to the revival of Beckerman's (1956) term by the Uppsala researchers (Hörnell et al., 1973; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) to denote degrees, and/or perceptions of dissimilarity between home and host markets (Ambos & Håkanson, 2014). The term was reinforced by Kogut and Singh's (1988) introduction of an index for 'cultural distance',based on Hofstede's (1980) identification and measurement of cultural dimensions: uncertainty avoidance, power distance, individualism, and masculinity. Kogut and Singh's (1988: 430) claim that "[c]ultural distance is, in most respects, similar to the 'psychic distance' used by the Uppsala school" has led to the dominance of approximations of psychic distance with objective country-level factors such as the

cultural distance index proposed by Kogut and Singh (1988) despite a lack of evidence that "culture is the central or even the most important element of psychic distance" (Brewer, 2007: 47).

A key debate in the literature on psychic and/or cultural distance involves theoretical research critiquing the psychic (or cultural) distance construct and its operationalization (Bae & Salomon, 2010; Drogendijk & Zander, 2010; Dow & Karunaratna, 2006; Evans, et al., 2000; Shenkar, 2001, 2012; Shenkar, et al., 2008; Stöttinger & Schlegelmilch, 2000; Tung & Verbake, 2010; Zaheer, Schomaker & Nachum, 2012; Nebus & Chai, 2014). Traditionally, cultural distance is evaluated in terms of Hofstede's (1991; 2001) cultural value, while other studies (Ambos & Ambos, 2009; Li, 2005; Sarala & Vaara, 2010; Morosini, Shane & Singh, 1998) use a variation of the cultural distance measure introduced by Kogut and Singh (1988). In this measure, cultural distance is measured as the aggregate differences over the four cultural dimensions between *ith* home country (i.e. South Africa) and host country scores. The formula corrects for the variance of each cultural dimension and averages across the four cultural dimensions. Sarala and Vaara (2010) updated the Kogut and Singh (1988) measure. They used the GLOBE practices scores to develop their index. Despite some refinements to the original, the Kogut and Singh (1988) measure is still the most common starting point when measuring cultural distance. It is employed extensively as an index of psychic distance (Morosini, et al., 1998; Goerzen & Beamish, 2003; Tihanyi, et al., 2005) because it uses secondary data, which makes it easy to obtain. Despite the criticisms of its overemphasis (Dow & Karunaratna, 2006), oversimplification, erroneous assumptions of symmetry, stability, and linearity (Shenkar, 2001) and inconsistent results (Benito & Gripsrud, 1992;

Erramilli & Rao, 1993; Kim & Hwang, 1992; Padmonabhan & Cho, 1996), Kogut and Singh's (1988) index remains the dominant measure of cultural distance. This study uses the Kogut and Singh (1988) index to compute cultural distance, and as part of the composite psychic distance measure.

Barkema, Bell, and Pennings (1996) measured psychic distance in terms of cultural distance and cultural blocs of countries, despite their acknowledgment of linguistic, institutional, cultural, and political factors as part of the construct. Similarly, the CAGE (Cultural, Administrative and Political, Geographical, and Economical) framework captures culture as one of the country-level factors that relate to linguistic differences and translation difficulty, cultural distance, the economic situation, and the political and legal system of the country (Ghemawat, 2001). Despite the wide acceptance of Ghemawat's (2001) CAGE-framework, apart from cultural distance, limited studies have analyzed other psychic distance stimuli (PDS), or the effects of multiple PDS in a single study in empirical investigations (Berry et al., 2010; Brewer, 2007; Dow & Karunaratna, 2006; Hutzschenreuter, Kleindienst & Lange, 2014). Håkanson and Ambos (2010) provided the first comprehensive empirical analysis of the relationship between PDS and perceived psychic distance (PPD). From this it is clear that although culture, and cultural distance, are not the most important factors in measuring distance, they are important to psychic distance and warrant inclusion (Brewer, 2007; Håkanson & Ambos, 2010). Some authors (Klein & Roth, 1990; Lee, 1998) use cultural distance and psychic distance interchangeably.

Psychic distance is usually measured in terms of the objective country-level PDS, rather than the more difficult to measure PPD. Evans and Mavondo (2002) argue that

PDS should examine the stable, tangible stimuli of managers' perceptions that are more applicable in large-scale empirical research involving firm performance (Dow & Larimo, 2009; Håkanson & Ambos, 2010; Hutzschenreuter, et al., 2014). Several researchers have called for improvements in the measurement of psychic distance that go beyond cultural distance (Petersen & Pedersen, 1996; Dow, 2000; Vahlne & Weidersheim-Paul, 1977; O'Grady & Lane, 1996; Fletcher & Bohn, 1998). Dow and Karunaratna (2006) propose an alternative, more complex measure of psychic distance. However, their involved formulas, especially for the language differences, make it difficult to calculate in a country like South Africa with 11 official languages, and the second highest GINI Coefficient in the world, which indicates high inequitable wealth distribution (World Bank, 2015).

Brewer (2007) developed an index that includes commercial, political, historical, geographic, and social ties, as well as information availability and level of development. An interesting, and particularly relevant component of this index to emerging markets, is that the historical ties measurement acknowledges former colonies and their colonizers (Brewer, 2007). The formula also allows for non-symmetric psychic distance depending on which partner is assessing the distance, in contrast to cultural distance, which is always symmetrical between a pair of countries (Brewer, 2007; Dikova, 2009). This conceptualization of psychic distance highlights the importance of understanding not only just the level of development, but also the historical relations that may connect some nations in a post-colonial era. However, even after capturing the historical ties in psychic distance that may exist between some emerging and developed nations, emerging markets

are still expected to have a low psychic distance with other emerging markets compared to advanced economies.

Berry, et al., (2010) argue that psychic or cultural differences increase uncertainty by preventing information or knowledge flows between markets, thus increasing the liability of foreignness and the costs of doing business across borders. Distance has been found to mediate and moderate International Business phenomena such as firms' internationalization process (Johanson & Vahlne, 1977), foreign entry mode choices (Kogut & Singh, 1988), subsidiary control mechanisms (Wilkinson et al., 2008), and the effectiveness of knowledge transfers in multinationals (Ambos & Ambos, 2009). Previous research on the effect of psychic distance has focused on subsidiary performance and the results have been inconclusive (Dikova, 2009). Stöttinger and Schlegelmilch, (1998) found a negative relationship between psychic distance and subsidiary performance in some studies and a positive relationship in other studies—often referred to as the psychic distance paradox (Evans & Mavondo, 2002; O'Grady & Lane, 1996). This study proposes that performance is highest in markets with low psychic distance, (e.g. highly volatile emerging markets), because EMMs have experience in similar markets. Performance, we argue, is also high in markets with high psychic distance. These are stable, advanced economy markets with readily available market information. Performance is lowest in moderate psychic distance markets, such as newly industrialized countries, because they are unfamiliar and have both emerging market and advanced market characteristics, therefore making it difficult for EMMs to operate successfully. This leads to the following propositions:

Proposition 1: There is a U-shaped relationship between psychic distance and EMM performance.

Psychic distance and PDS are often criticized for the ambiguity regarding the meaning of the term, (due to their broad, unspecific definitions), as well as inconsistencies that have developed over time between the operationalization of the perceptual measures and those of the objective measures (Håkanson & Ambos, 2010; Sousa & Bradley, 2006, 2008; Nebus & Chai, 2014). No unanimous agreement on the definition and operationalization of psychic distance has been reached (Hutzschenreuter, et al., 2014). This study attempts to contribute to the debate by arguing that both the subjective perceptual and objective country-level measures are relevant. However, we focus on the macro-, country-level factors (i.e. PDS), as opposed to the subjective, perceptual factors often measured at an individual level (PPD) because the macro level factors frame the conditions and create the environment in which the managers are embedded, and within which the managers form their perceptions and make their decisions (Dow & Karunaratna, 2006; Nebus & Chai, 2014; Håkanson & Ambos, 2010). This study heeds the recent call for a differentiated study of the impact of distance in IB (Ambos & Ambos, 2009; Berry et al., 2010; Håkanson & Ambos, 2010; Nachum & Zaheer, 2005; Gooris & Peeters, 2014) by splitting psychic distance into separate measures and testing for the effect of each of the distance measures, as well as the aggregate of the distance measure composite.

Hutzschenreuter, et al., (2014) explored the performance effects of added cultural, governance, geographic, and economic PDS within 91 German MNEs' international

expansion paths. The authors split the aggregate measures into their respective constituents in order to compare the effects of individual PDS. Their results revealed that added cultural, governance, and geographic distance have a negative effect on MNE performance; furthermore, they added that governance distance had the strongest negative effect on performance and that geographic distance had only a limited effect on performance (Hutzschenreuter, et al., 2014). Nebus and Chai (2014) defined the material systems and ideational systems 'context' as the multiple elements of the foreign setting, locale, or environment at a particular time as conceptualized by Child (2000, 2009). From this conceptualization, the authors used a mixture of both subjective and objective measures of 'context' (Nebus & Chai, 2014). Dow and Karunaratna (2006) also argued that an average measure of PDS was necessary to investigate aggregate behavior across a population of firms. The authors recommended that psychic distance be divided into a sequence of related objective constructs (i.e. PDS) such as language, culture, and religion, all of which were identified by researchers such as Johanson and Vahlne (1977), Boyacigiller (1990), and Evans et al. (2000), as the most commonly cited examples (Dow & Karunaratna, 2006).

It follows that if psychic distance is to be measured using objective, country-level, secondary data, the index of the indicators should include not only culture, but other factors such as political, historical, social, language, and geographic differences as well because all of these factors create the context in which managers make decisions; the factors therefore affect managers' decision making (Nebus & Chai, 2014; Berry et al., 2010; Brewer, 2007; Dow & Karunaratna, 2006). This study supports this line of thought by also proposing an aggregate psychic distance that includes cultural, institutional,

economic, administrative, geographic, information availability and development distances, as follows:

Proposition 2: Aggregate Psychic Distance = CD + ID + ED + PLD + AD + GD + IAD + DD

where

CD = Cultural Distance

ID = Institutional (Governance) Distance

ED = Economic Distance

PLD = Political & Legislative Distance

AD = Administrative Distance

GD = Geographic Distance

IAD = Information Availability Distance

DD = Development Distance

Each of these distance measures are discussed below.

2.4.1 Economic Distance

The economic distance is reflected in the differences in net trade and net Foreign Direct Investment (FDI) between the respective countries; it is traditionally considered a reflection of the differences in market potential between the countries.

The economic development of countries has traditionally reflected the market potential of the respective country (Evans & Mavondo, 2002; Malhotra et al., 2009). A small economic distance is hypothesized to mean similar demand structures, consumption patterns, and distribution channels, all of which foster inter-country trade (Linder, 1961)

as well as the easy transfer of business models, business-to-business communication, and interaction norms of firms within the respective country (Ghemawat, 2001; Mitra & Golder, 2002; Dow & Karunaratna, 2006). Larger economic differences would introduce additional costs, coordination demands, and uncertainty into MNEs' international business transactions, which would likely negatively affect MNEs' performance during international expansion. However, Hutzschenreuter, et al., (2014) argue that economic distance may be more transparent and easier to adjust for than differences in culture and governance. Therefore, the authors hypothesize that the effect of economic distance on MNE performance is weaker as compared to the effects of cultural and governance distance.

Conversely, economic distance can also create opportunities and benefits that potentially outweigh the associated costs. (Ambos & Håkanson, 2014; Evans & Mavondo, 2002). Economic distance may have a positive effect on MNE performance if the MNEs are able to achieve cost or pioneering advantages that outweigh the costs associated with the increased complexity of managing the expanded firm in the foreign market (Evans & Mavondo, 2002; Hutzschenreuter, et al., 2014). The economic distance may also result in the EMM counteracting phenomena and mechanisms and may subsequently have an ambiguous effect (Hutzschenreuter, et al., 2014). Given the contradicting results, it is unclear whether economic distance would have a positive or negative effect on EMM performance.

2.4.2 Political & Legislative Distance

Political and legislative distance is assessed in terms of the trade agreements and differences in the regulatory systems. Large differences in the regulatory systems are likely to increase the costs and risks of doing business in a foreign country because of the potential risks and misunderstandings, particularly in the business to- government and government-to-business communications and interactions, and in the regulation of the various business-to-business and business-to-consumer interactions, as well as in the monitoring and enforcement of contracts and anti-competitive behavior (Dow & Karunaratna, 2006).

As emerging markets develop, regional trading agreements at country and industry levels may help reduce entry barriers, which essentially reduces the uncertainty and associated 'distance' costs to trading partners and therefore makes it easier for EMMs to pursue internationalization (Hoskisson, et al., 2013). Government policies may stimulate initial internationalization because weak institutional environments provide a learning experience before wider internationalization for EMMs. However, with time, the EMMs' international knowledge and experience may complement or substitute the home country's government support internationalization (Hoskisson, et al., 2013). There is also evidence to suggest that the performance of EMMs' overseas acquisitions is unlikely to be better than the global average, possibly due to governance failures (Hoskisson, et al., 2013). EMMs' potentially elevated levels of managerial hubris and lower capital costs (as a result of government support) often result in a systematic tendency to overbid on the acquisition of assets in advanced markets, and this subsequently leads to poor acquisition performance (Hope et al., 2011).

2.4.3 Administrative Distance

Following Dow and Karunaratna, (2006) and Brewer (2006), this study explores the existence of a colonial relationship and language similarities between the home and host country to assess the administrative distance. Former colonial ties have been used to illustrate where geographic distance and psychic distance diverge (Johanson & Wiedersheim-Paul, 1975), and are a potential antecedent to differences in the major language, (e.g. English in former British Commonwealth colonies and political systems), which subsequently may influence information and trade flow patterns (Dow & Karunaratna, 2006). Differences in language create inefficient communication and hinder knowledge transfer (Tushman, 1978). Additionally, different political systems will also make business operations difficult and increase the transaction costs of operating in the foreign market. This is especially true of emerging markets, most of which are former colonies in which the colonizer initiated the 'formal' political system and the 'official' language.

2.4.4 Geographic Distance

Traditionally, the higher transportation and communication costs of countries that are physically separated by large distances has made geographic distance an indicator of trade resistance (Beckerman, 1956; Leamer, 1974). Although the costs have been greatly reduced with the advances in transportation and communication technologies, there are still transportation and communication costs that are directly related to geographic distance (Håkanson & Ambos, 2010; Hutzschenreuter, et al., 2014 Zaheer & Hernandez,

2011). Additionally, larger geographic distances are also associated with difficulties related to face-to-face communication and direct interactions (Bell & Kozlowski, 2002; Hinds & Bailey, 2003; Stringfellow et al., 2008), increased monitoring complications (Carr et al., 2001; Malhotra et al., 2009), and coordination issues, particularly if there are time zone differences (Gooris & Peeters, 2014; Hutzschenreuter, et al., 2014); all of these factors ensure that larger geographic distances increase the complexity and uncertainty of international expansion and reinforce the asymmetry of information and the risk of incorrect execution of the tasks (Gooris & Peeters, 2014; Kumar et al., 2009)

In the initial phases of internationalization, regional internationalization to countries in closer proximity may be an especially important and feasible initial route to internationalization for EMMs, especially if these markets share similar weak-factor markets. This is because the geographic proximity of these markets reduces the liability of foreignness and the resource needs required for wider internationalization (Qian et al., 2010; Rugman and Verbeke, 2004; Hoskisson, et al., 2013). The same cannot be said for DMMs and NIMMs whose domestic markets do not suffer from institutional voids and have less developed factor markets. EMMs may also pursue regional internationalization to locate near other similar firms in a bid to mitigate the higher information and search costs (Figueiredo, Guimara˜es, & Woodward, 2002). EMMs' agglomeration or co-location creates opportunities for knowledge sharing and relationship building in environments with high information (Tan & Meyer, 2011). Clustering subsequently reduces uncertainty and compensates for the liability of foreignness (Lamin & Livanis, 2013).

2.4.5 Information Availability Distance

Information accessibility will be evaluated in terms of the net immigration and the differences in the numbers of Internet hosts because these are indicators used in Brewer (2006) and Berry, et al. (2010). Internationalization involves a liability of foreignness often due to the uncertainties and misunderstandings in the foreign market. Access to information and knowledge about the foreign market is a function of the connectedness the firm feels to the market (Lamin & Livanis, 2013).

2.4.6 Development Distance

The development distance measures difference in the levels of economic development and corruption between the countries, as well as differences in the economic activity, education, and the presence of computers between the home and host countries. Differences in education levels among countries are identified as an underlying factor of psychic distance (Johanson & Vahlne, 1977; Cavusgil, 1980), and are thus incorporated in empirical analyses (Davidson & McFetridge, 1985; Dow & Karunaratna, 2006; Kobrin, 1976; Vahlne & Wiedersheim-Paul, 1977). It is hypothesized that large differences in education levels between markets will increase the risk and uncertainty regarding communication, shared cognition and knowledge transfer within the market (Dow & Karunaratna, 2006). The level of education of a market is considered an indicator of economic development. Additionally, the level of the economic development is assumed to be a function of the nature of the economy that subsequently affects business norms and practices, as well as communication and interactions between and within firms in the foreign markets, as illustrated in the empirical analyses (Vahlne &

Wiedersheim-Paul, 1977; Kobrin, 1976; Davidson & McFetridge, 1985; Dow & Karunaratna, 2006).

In emerging markets, the development market-supporting political, legal, and economic infrastructure and institutions are noted as being a crucial dimension of economic development transition from a developing market to an emerging economy (Peng, 2003; Hoskisson, et al., 2013). EMMs' competitive advantage in their domestic markets depends on continuous value-chain improvements based on specialized knowledge and skills because both factor markets and institutions are less developed in their domestic country's context. One school of thought asserts that outward FDI may perform better than in similar environments and may struggle in markets with more developed factor markets and institutions (Porter, 1990; Hoskisson, et al., 2013). Kim et al., (2012) found that Korean firms expand internationally to less-developed economies where they have superior resource advantages and/or go to more-developed economies to learn and build skills beyond their basic upstream capabilities. A similar trend was noted with MNEs from Latin America (Hoskisson, et al., 2013). Pollavini, (2010) found that in general (except for Muslim countries), EMMs prefer to internationalize to developed markets with better developed institutions and factor markets, and to those that comply more with western customs even though the institutional environment of regionally-proximate host countries may be more conducive to market entry because of shared systems and institutional voids. Economic development supersedes geographical proximity, but not cultural distance. EMMs can reap performance benefits in either developed, developing, or emerging environments.

2.5 Other Mitigating Factors

2.5.1 International Knowledge

If internationalization ventures are conceptualized as strategic initiatives in that they are undertakings aimed at altering capabilities, (Burgelman, 1983a; 1983b; 1991; Hansen, Podolny & Pfeffer, 2001; Lechner, Frankenberger & Floyd, 2010), the evolution of internationalization strategies, like broad organization's strategies, are determined by the extent to which the initiatives draw on existing knowledge. Burgelman (1983a; 1991) posits that there are induced and autonomous processes in strategy making and that the selection of the process is dependent on the type of initiative. The deliberate or induced process concerns initiatives that are within the scope of the organization's current strategy and that build on existing organizational learning. This is similar to the causation theory of internationalization that assumes rational, planning behavior based on analysis and a distinct goal (Sarasvathy, 2001, 2008; Chandler et al., 2011). The autonomous process concerns emergent initiatives that emerge outside of the firm's current capabilities and provide the potential for new organizational learning. Similarly, effectuation models of internationalization involve accidental, opportunity seeking, serendipitous, and improvised approaches, i.e. emergent strategies (Evers & Gorman, 2011, Hennart, 2014, Chandra et al., 2012, Crick & Spence, 2005).

Therefore, if internationalization ventures are viewed as strategic initiatives, it becomes necessary to include the degree of exploration and the subsequent level of internationalization knowledge as a defining characteristic of strategic initiatives (Lechner et al., 2010; Hansen et al., 2001). The degree of exploration **r**epresents the

extent to which strategic initiatives draw on existing knowledge within a firm (more exploitive initiatives), or on knowledge that is new to the firm (more exploratory initiatives). Internationalization knowledge is the knowledge or experience firms exploit and gain as they enter new markets (Hilmersson & Jansson, 2012). Internationalization knowledge is firm-specific, transferrable, international experience relevant in all markets (Blomstermo et al., 2004; Eriksson et al., 1997). This is because as the firm expands into more markets, the firm learns more about international operations, and thus needs less tacit knowledge generated in each foreign market (Meyer & Estrin 1997); this renders the knowledge more general, as knowledge generated in one international context is accumulated and modified for use in another (Blomstermo & Choi 2003; Choi & Eriksson 2001; Choi, Eriksson, & Lee 2003, Hilmersson & Jansson, 2012). It therefore follows that a firm has more internationalization knowledge the longer it is active in foreign markets.

Prior research (Hilmersson & Jansson, 2012; Dikova, 2006; Carlsson, Nordegren, & Sjoholm, 2005; Evans & Mavondo, 2002; O'Grady & Lane, 1996) acknowledges that experiential knowledge by the investing firm may influence the relationship between psychic distance and subsidiary performance. This is because when firms enter foreign markets they exploit previous experiences and gain new experiences (Hilmersson & Jansson, 2012). The international knowledge facilitates a firm's learning about and understanding of a foreign environment (Dikova, 2006) Therefore, the level of internationalization knowledge of the EMM would theoretically positively moderate the relationship between psychic distance and the firm's performance.

The prior discussion and propositions have focused on the factors that affect EMMs' internationalization paths. The discussion focuses on EMMs and their interaction with host markets. The ensuing discussion will now shift to the home country context in which the EMMs are forged. Inherent in this upcoming discussion is the assumption that domestic firms are different from the foreign firms operating in emerging markets. Domestic firms include both domestic firms with only local operations, and domestic firms with international operations. Foreign firms include any foreign firms operating in the home [emerging] market, regardless of their country of origin. The ensuing home country context discussion will follow from Section 1.2 of the introduction, but specifically focuses on uncertainty and institutional changes.

2.5.2 Home Country Context

It is well known that institutional frameworks in emerging economies differ greatly from those in developed economies (Cuervo-Cazurra & Genc, 2008; Luo & Zhang, 2016; Khanna, Palepu, & Sindha, 2005; Meyer & Peng, 2005; Wright et al., 2005; Gelbuda, Meyer, & Delios, 2008; Meyer, Estrin, Bhaumik & Peng, 2009). As previously discussed, emerging market countries are characterized by market environments with weak or missing legal and market institutions, (i.e. institutional voids) (Khanna & Palepu, 1997). The institutional context of the economy has an important influence on EMMs (North, 1990; Chacar & Vissa, 2005). In emerging markets, the dominant perspective underpinning strategy research is the institution-based view (Hoskisson et al., 2000; Peng, 2007; Wright et al., 2005; Yamakawa, Peng, & Deeds, 2008; Meyer & Peng, 2005). This is because the constraints that the institutional context puts on managers and

entrepreneurs are reflected in the strategic choices as much as, if not more than, industry conditions and firm capabilities (Peng, 2006). Prevailing internationalization theories assume that firms seek to reduce risk and avoid uncertainty in foreign markets. They seek to limit this risk and uncertainty through opportunities to gain "insidership" in the host markets without considering the home country institutions (Johanson & Vahlne, 2009; Schweizer, Vahlne & Johanson, 2010).

In emerging markets, the limited number of institutions designed to reduce uncertainty, the instability of the regulatory environment, and the volatility of the markets are a constant source of uncertainty. The ability of EMMs to adapt to the changing environment is a vital capability in emerging economies (Cuervo-Cazurra & Genc, 2011; Santangelo & Meyer, 2011; Xu & Meyer, 2013). The regulatory uncertainty of the home country accentuates the global planning, execution and management of the foreign operations (UNCTAD, 2015; Luo & Zhang, 2016). Newman (2000) warns that it is possible for EMMs to be subjected to too much change in markets with ever increasing environmental uncertainty and stress. With frequent institutional volatility and pressure for organizational learning, the search for the appropriate organizational template may become impossible and the firm may become obsolete (Wright, et al., 2005). However, the latter situation is more likely in economies in collapse. This is not the case in South Africa, which is the emerging country selected for this study. This study hypothesizes that home country institutions, risk, and uncertainty are equally relevant, and that uncertainty will have a more negative effect on foreign firms than it will on local firms, therefore:

Hypothesis 1: An increase in the levels of uncertainty will have a more negative effect on the performance of foreign firms compared to domestic firms.

Uncertainty is a consequence of environmental factors that results in a lack of knowledge about the organization's environment and a lack of information about cause–effect relationships, which subsequently leads to an inability to assign probabilities to the likelihood of future events, assess means-ends relationships, make decisions, and accurately predict the probabilities of their outcomes (Mangaliso, 2010; Hilmersson & Jansson, 2012; Milliken, 1987; Carpenter & Frederickson, 2001). It follows therefore, that better information about the environment reduces uncertainty and leads to more strategic choices. Emerging markets are typically lacking in market information, institutions, and stability. Uncertainty is a perceived notion (Hilmersson & Jansson, 2012; Milliken, 1987). If decision makers within the firm perceive the environment in their home country to be uncertain, they are more likely to engage in international initiatives in foreign markets, possibly to diversify risk, or because they have become accustomed to uncertainty and are insusceptible to risk, i.e. escalation of commitment.

The traditionally high degree of concentration in South Africa's formal economy is a result of the organizing logics of racial segregation and separatism reminiscent of the apartheid era. These organizing logics deemed large, concentrated firms with close relationships an appropriate economic structure at the top of the economy. Capital, management control, commercial, and even interpersonal relationships in big firms were a closed domain to business actors without the appropriate social and racial profile. This systematic exclusion of non-white South Africans from the mainstream economy led to

the institutionalization of a highly closed and concentrated formal economic structure in South Africa, and other primary commodity-based countries' formal economies (Andrews, 2008; Fafchamps, 2001). The resultant structure is the now institutionalized dual economy in South Africa.

Scott (1995), DiMaggio and Powell (1983), and Meyer and Rowan (1977) assert that organizations must conform to the rules and belief systems prevailing in the environment they operate in in order to survive because institutional isomorphism, both structural and procedural, will earn the organization legitimacy. New institutionalism recognizes that institutions operate in an environment consisting of other institutions, called the institutional environment, and that every institution is influenced and, in some senses, pressured to conform by the broader environment in order to survive. Some of those pressures in the institutional environments have been noted to influence competitive strategy and hiring practices (Dacin, et al., 2002; Scott, 2005). The social, economic, and political factors that constitute the institutional environment “reward” firms with advantages for engaging in specific types of activities, and firms tend to perform more efficiently if they receive the institutional support. Firms need to establish legitimacy within the world of institutions and in order to do so they need to do more than succeed economically; they need to accept the prevailing structures, including schemes, rules, norms, and routines (Scott, 2001; 2005). Despite the implied stability of the institutional environment, institutions are subject to both incremental and discontinuous change processes (Scott, 2005; Dacin, et al., 2002). It is these changes in the institutions that this study seeks to investigate.

There are three key mechanisms of change: Institutional Entrepreneurs, Structural Overlap, and Event Sequencing. It could be hypothesized that institutions such as the University of Massachusetts who were the first to divest their holdings from South Africa during apartheid were institutional entrepreneurs. Structural overlap is when individual roles and organizational structures and functions that were previously distinct are forced into association. This is similar to the situation in South Africa's transition to a democratically elected government. Event sequencing is defined as "the temporal and sequential unfolding of unique events that dislocate, rearticulate, and transform the interpretation and meaning of cultural symbols and social and economic structures" (Thornton & Ocasio, 2008). Changes in the institutions, especially changes that seem to embrace global standards are seen as reductions in institutional voids and herald the odyssey away from 'developing' towards 'emerging.' Such changes include examples such as the end of apartheid and the inception of democracy; the incorporation of corporate governance legislation, as seen in the issuance of the King II guidelines on corporate governance; or the integration of corporate social responsibility regulations, such as the Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice. Therefore, this study hypothesizes that:

Hypothesis 2: A reduction in institutional voids will have a more positive effect on foreign firms than on local firms.

This chapter has discussed EMM internationalization strategies that have been noted and contrasted them with the traditional internationalization models. An in-depth analysis of the measures of internationalization distance concluded the chapter. This study

proposes that the psychic distance measure include both cultural distance and institutional distance, as well as economic, administrative, geographic, information availability, and development distances. Additionally, a firm's international knowledge is proposed to moderate the relationship between the distance measures and MNE performance. Adding to the the growing stream of literature that calls for an aggregate measure of psychic distance (Ambos & Ambos, 2009; Berry et al., 2010; Håkanson & Ambos, 2010; Nachum & Zaheer, 2005; Gooris & Peeters, 2014), this study makes an important contribution to the conversation surrounding the impact of certain factors in emerging markets compared to those in advanced markets. Finally, the differential impact of home country uncertainty and institutional voids on domestic and foreign firms is tested. The methodology used is discussed in the next chapter.

CHAPTER 3

METHODOLOGY

This study investigates emerging market multinationals' (EMM) internationalization paths and focuses on the international expansion decisions that emerging market multinationals (EMMs) make—particularly the process by which participation strategic decisions are made. The research addresses the role of managers in the decision to expand regionally or globally, and the subsequent impact of these decisions on firm performance. The overarching research question is: *how do local (emerging market) firms competitively break into the international arena?* This study explores the entry modes they pursue, factors conditions that impact this choice, and factors the impact that the success (or failure) of ventures make, as well as the subsequent impact of these decisions on firm performance.

In this way, the process by which participation strategy decisions are made is investigated. The question of "*how*" indicates the need to study a process, thus an ethnographic methodology is utilized. A constructivist perspective is adopted to inductively build theory. In order to achieve the study's objectives, an instrumental case study approach of five predominantly business-to-business, resource, and intermediate industry South African firms with varying levels of international expansion are used. The data are case study interviews and document analyses, as well as quantitative analysis of secondary data in the form of company reports and press releases. Interview participants were executives involved in strategy formulation and restructuring processes. This

information is combined with quantitative data from the Johannesburg Stock Exchange (JSE), World Bank, and International Monetary Fund (IMF) data to create a fuller understanding of firms operating in South Africa. In this way, data analysis takes some form of an ethnography focused on building theory (grounded theory) and analytic induction (Taylor & Bogdan, 1998; Schram, 2003).

The study is effectively divided into a qualitative and quantitative analysis. The information obtained from interviews and supplemented by the document analysis was used to develop a model of the effect of executive orientation on the internationalization decision-making process, and subsequently on the firm's internationalization strategy. The quantitative data from the JSE, IMF, World Bank, etc., was used to test the hypotheses drawn in the preceding section. A discussion of both the qualitative and quantitative data samples is given in the following section.

3.1 Sample

The qualitative part of the analysis was based on interviews with executives of five South African firms selected through the snowball technique, discussed below. Each firm had varying levels of international expansion. It should be noted that all the firms are in the primary sector, which includes agriculture, forestry, fishing, and mining. Packaging is also included in the sector since producers typically sell to other businesses. These firms mainly engage in resource seeking expansion.

1. Firm A is a multinational mining company based in Johannesburg, South Africa and London, United Kingdom. It is the world's largest producer of platinum, with around 40% of the world's output, as well as being a major producer of diamonds,

copper, nickel, iron ore and metallurgical and thermal coal. The company has operations in Africa, Asia, Australasia, Europe, North America and South America.

2. Firm B is an industrial brand management company, founded in Durban, South Africa in 1902, selling wool products, and later engineering equipment. It was expanded by the founder's son into the sale and service of Caterpillar products. He then entered the motor business, and eventually expanded into the manufacture of cement, paint, stainless steel, and household appliances, as well as mining through the acquisition of a mining company. Firm B was once a large, diversified conglomerate with many unrelated businesses, ranging at various times from mining, information technology, and building materials to motor vehicles. However, it has repositioned itself as an industrial brand-management company and unbundled many of its assets. The group's subsidiaries include Firm B Automotive, Firm B Handling, Firm B Logistics and Firm B Equipment. In March 2005, Firm B bought a transportation company and acquired full ownership of it. Firm B unbundled its interests in a resource company—the below described Firm C— in 2007.
3. Firm C is Africa's leading diversified packaging manufacturer. Firm C operates from 28 sites in South Africa, contributing approximately 47% to trading profit; has 16 sites in the rest of Africa, contributing 47% to trading profit; and has 8 sites in the United Kingdom, contributing 3% to trading profit. Firm C has four major divisions: Firm C Metals (made up of a beverage canning company with operations in South Africa, Angola and Nigeria; a food canning company based in

three regions in South Africa; and a general metal packaging company based in Kenya, Nigeria, Tanzania, Zambia and Zimbabwe); Firm C Glass based in Roodekop Gauteng, South Africa; Firm C Paper based in Kenya, Nigeria, Malawi, Zambia, and Zimbabwe; and Firm C Plastics based in various sites in South Africa, Botswana, Ethiopia, Nigeria and the United Kingdom.

4. Firm D is a South African pulp and paper company founded in 1936, headquartered in Johannesburg. Firm D produces and sells commodity paper products, pulp, chemical cellulose, and forest and timber products for Southern Africa and export markets. In 2013, it was the world's largest producer of dissolving wood pulp. Firm D is a global company focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 160 countries. Firm D has ferociously explored an international acquisition strategy. Firm D has almost 12,500 employees in over 20 countries and manufacturing operations on three continents (seven mills in Western Europe, three mills in the United States of America and four mills in South Africa) with products sold and distributed across more than 150 countries.
5. Firm E is an integrated energy and chemical company based in Johannesburg, South Africa. The company was formed in 1950 in Sasolburg, South Africa. It develops and commercializes technologies, including synthetic fuels technologies, and produces different liquid fuels, chemicals, and electricity. Firm E has exploration, development, production, marketing and sales operations in 37 countries across the world, including Southern Africa, the rest of Africa, the

Americas, Europe, Middle East, Northern Asia, Asia, Southeast Asia, Far East, and Australasia.The Firm E group's structure is organized into two upstream business units, three regional operating hubs, and four customer-facing strategic business units. Operating Business Units comprise the mining division and exploration and production of oil and gas activities, all of which are focused on feedstock supply. The regional operating hubs include operations in Southern Africa, North America and Eurasia. The strategic business units include the energy business and the chemical business.

A summary of the firms selected for the case study analysis is given in Table 3.1.

The quantitative analysis uses data from 800+ firms traded on the Johannesburg Stock Exchange (JSE) for each quarter, as illustrated in Figure 3.1.

Hypotheses 1 and 2 are tested on the full sample of firms listed, which include South African firms with international operations, and those with only domestic activities, as well as foreign firms listed on the JSE. The JSE sample included 96,490 observations where 97% of the sample listed the JSE as their main listing and 3% had the JSE as an alternative listing. Although most of the samples from 1990 to 2016 were firms that were still actively listed, the sample also included suspended (3.5%) and terminated listings (0.07%). The sectors included are given in Table 3.2.

3.3 Qualitative Analysis

The data were collected in three stages. An instrumental case study approach of five South African firms with varying levels of international expansion yielded qualitative data collected from interviews with executives and supplemented with information from

company annual reports and other documents. The quantitative analysis, discussed in the next section, used data obtained from sources such as the Johannesburg Stock Exchange (JSE), the World Bank, and the International Monetary Fund (IMF). Previous researchers have asserted that case studies are the most appropriate method for studying new and emerging phenomena, as well as complex phenomena and processes such as knowledge transfer and the decision-making process of EMMs' internationalization across country borders (Eisenhardt, 1989; Hitt, Harrison, Ireland & Best, 1998; Hoskisson, et al., 2000; Birkinshaw, Brannen, & Tung, 2011; Awate, et al., 2015).

The literature makes distinctions among several categories and types of case studies (Baxter & Jack, 2008; Stake, 1995; Yin, 2003). The most notable distinction for the purposes of the present study is between intrinsic and instrumental case studies. In the intrinsic case studies, researchers focus exclusively on the case at hand since the intention is to better understand the specifics of the case. In an instrumental case study, a small group of subjects is selected in order to examine a certain pattern of behavior (Stake, 1995; Zainal, 2007; Baxter & Jack, 2008; Grandy, 2010). The aim of the instrumental case study, on the other hand, is to provide insights into issues from a small group of selected cases that can be generalized to the larger population of similar cases. The broader goal of an instrumental case study is to accomplish something other than understanding a particular situation and, in some cases, to refine theory (Scheib 2003).

All research was conducted in South Africa, relying on a non-probability snowball sampling technique. Contact was made with a senior executive in one of the firms in the study. This executive then introduced the principal of the research to the executives of the other firms. A letter of consent was forwarded by the existing study subject to recruit

future subjects from among their acquaintances. This letter is provided in Appendix A. Although there was some interest from firms beyond the sample, only predominantly business-to-business resource sector firms were selected for the case studies to allow for easier interpretation. The interviewees were decision makers engaged in international operations in each of the five South African firms selected. The interviews were conducted concurrently so as to allow for a comparative, inductive, sense-making process. The sample was predominantly male executives[1]. While it is possible for women to be in senior level management, they will be in the minority. Natesan (2013) reported that South Africa boasted 17.9% female representation on the boards of the 59 companies included in their 2013 research, and the African Development Bank (2015) reported 17.4% female representation on the boards of directors in the JSE top 40 firms. The study participants did not receive any compensation. Each subject was interviewed once and the interview lasted 45 minutes to an hour. They each signed an informed consent form that asked whether the participant agreed to let the interview be audio recorded, and if not, for the interviewer to take handwritten notes. The informed consent form is provided in Appendix B.

Audio recordings were uploaded to a secure online data storage website and the originals were deleted from the device once they had been stored online. The device, iCloud backup, and laptop were all password protected. The interviewer also took supplementary notes on some of her observations. These notes were transcribed together with the pre-visit and post-visit statements. All the data collected, notes taken, and audio recordings were stored on a password-protected laptop. The names of the firms and the

[1] There was a woman in attendance during the Firm B interview. However, she served in a support role and was not the main respondent.

participants were changed to ensure confidentiality. The researcher was the only person with access to the raw data from the interviews, observations, and internal data. The researcher personally performed the first round of transcriptions and two transcribers were hired to cross-check the results. A number of "inaudible" sections remain in the transcription due to the difficulties in understanding the different accents.

The transcriptions, notes and memos, and company documents were uploaded into NVivo 11 where coding was undertaken. NVivo is a research software tool used to store, organize, categorize, and analyze qualitative and mixed-methods data (QSR International, 2018). Data analysis was an ongoing process of discovery, coding, and making adjustments after each interview. Coding served as a means for developing interpretations and creating typologies of analytic themes that subsequently lead to the analysis propositions presented in Chapter 4 (Taylor & Bogdan, 1998; Schram, 2003).

Data collection followed a similar procedure to those used by other researchers (Grant, 2003; Jones & Caviello, 2005). The first step was reaching out to the first executive, who was the first contact for the research. This executive was instrumental in contacting other executives in the snowball sampling process to set up the interviews. Information obtained from the interviews was supplemented with an analysis of research papers, company reports and other documents to capture the dynamic profiles of the firms' internationalization behavior. This information enabled us to map the changes in the composition of foreign market entry modes and the countries over a period of time. Based on the information collected from interviews with the executives of the South African firms during a qualitative pilot study such as annual reports, company documents and macro level data, we developed a theoretical model of internationalization from an

emerging market perspective. This model acknowledges factors such as tax legislation, trade agreements or management details which would otherwise be missed or suppressed in research conducted from a western-based perspective.

The interviews, together with the company reports, were used to draw up case narratives for each firm that chronicle the history of the firm's internationalization process, the evolution of its firm structure, and the psychic distances of the markets in which the firm was active (Langley, 1999). The case narratives made use of extensive citations from both the interview data and the secondary sources to create an objective view of the firms (Awate, et al., 2015). Each firm's internationalization process was described in the respective case narratives, and where further clarification or information was necessary, the primary contact in the firm in question was contacted again (Grant, 2003). A full account of the qualitative analysis is provided in Chapter 4.

3.4 Quantitative approaches to analyzing internationalization processes

In viewing internationalization as a strategy process, Melin (1992) asserts that there is a need for approaches that analyze the longitudinal development of the internationalization process. Melin (1992) posits four types of internationalization process, illustrated in Figure 3.2.

Hypothesis 1 asserted that:

Hypothesis 1: An increase in the levels of uncertainty will have a more negative effect on the performance of foreign firms compared to domestic firms.

To test this hypothesis, we utilized Melin's Type D approach. Hypothesis 2 posited that:

Hypothesis 2: A reduction in institutional voids will have a more positive effect on foreign firms than on local firms.

Melin's Type A approach (time series events) was used to test this hypothesis.

In Type D approaches, the internationalization process is seen as the biographic history of a firm which captures the entire development from the time of its founding to the present time. In the original conceptualization, the time period may vary considerably amongst the firms (Melin, 1992; Lechner et al., 2010). This study attempts to triangulate the process by using qualitative data from the case studies and document analyses to investigate the entire biographic history of the firms from before 1994, when South African firms faced economic sanctions, to post 1994 with the end of apartheid and the opening of the economy, and ultimately to South Africa's advancement as one of the fastest growing emerging economies. Additionally, the study uses a sample of firms traded on the JSE for the period of 1990 – 2016. This model tests for the differential effect of uncertainty on local and foreign firms in South Africa during this period. The data from the JSE were used for measures of performance; furthermore, annual reports, and company documents provided the proxy for internationalization knowledge, and macro level data from the World Bank, IMF and other sources were used as measures of psychic distance, as previously described in Chapter 2.

Event study methodology was chosen in line with the works of other researchers to estimate a Type A approach of the internationalization process (Sherer & Lee, 2002; Wright, Ferris, Hiller, & Kroll, 1995; Wolramans & Sartorious, 2009; Melin, 1992). Type A approach was used to test the effects of certain key events in South Africa's history on the performance of local firms compared to foreign firms operating in the country. The

assumption is that these key events represent institutional changes that would effectively reduce institutional barriers and subsequently some of the instability and uncertainty. The study assumes that stock prices incorporate the most relevant information about a firm and reflect investors' expectations about the discounted value of all future cash flows, thus reflecting the firm's true value (McWilliams & Siegel, 1997; Brishammar & Odemann, 2013).

Certain key events are expected to influence the firm's perception of home country uncertainty about the steps that will be taken to enhance the firm's performance. Kostova and Zaheer (1999) argue that institutional costs add to the liability of foreignness of the foreign firm relative to a local firm. The expectation is that compared to foreign firms, the South African firms will have advantages because they know the markets, and thus have home country advantages, because to them the uncertainty is more familiar. South African MNEs are also expected to have an advantage over smaller, local firms that only operate domestically because their international operations allow them to increase investments in markets independent of the uncertainties induced by country-specific events. The three key events selected for this study are: (1) the end of apartheid in April 1994; (2) the issuance of the King II guidelines on corporate governance in March 2002 (Monks & Minow, 2003); and (3) the gazetting of the Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice in February 2007 (DTI, 2013).

Event 1: End of Apartheid

Apartheid was a system of institutionalized racial segregation and discrimination in South Africa that was authoritatively abolished at the first multi-racial elections in 1994

(South African History Online, 2011). Beginning in 1961 when South Africa withdrew from the British Commonwealth as a result of the British condemnation of apartheid, several other countries and institutions such as the United Nations General Assembly called for disinvestment from South Africa and economic sanctions against the country (Mangaliso, 1992). The end of apartheid in 1994 meant an end to the economic sanctions and opened up the South African economy to the global economy.

Event 2: King II Report

The King II Report on Corporate Governance provided revised guidelines for the governance structures and operation of companies in South Africa (Institute of Directors in Southern Africa, 2002), including new sections on sustainability (Stewart, 2010), the role of the corporate board (Monks & Minow, 2003), and risk management (Berwick, 2007). Although the code is not enforced through legislation, it co-exists with laws such as the Companies Act, and it is enforced by regulations such as the JSE Securities Exchange Listings Requirements, thus making compliance mandatory for firms listed on the JSE.

Event 3: B-BBEE

Broad-Based Black Economic Empowerment (B-BBEE) is the economic empowerment program that was launched with the intention of distributing wealth across as broad a spectrum of previously disadvantaged South African society as possible (DTI, 2004 & 2012). The BEE Act and its associated Codes of Good Practice are only legally binding on government departments, state-owned enterprises (SOEs), and other public

entities. Private-sector firms may choose not to comply, but this may harm their business, especially in terms of securing government tenders or getting licenses renewed (Embassy of Japan in South Africa, 2010; DTI, 2012 & 2013).

3.5 Model Specification

The study uses the standard event study approach of estimating market-related returns and then calculating abnormal returns for the periods before and after the event (Wolramans & Sartorious, 2009; McWilliams & Siegel, 1997) using 27-year quarterly data to estimate the returns. Efficient markets, unanticipated events, and no confounding events are assumed. Stock prices are assumed to incorporate all relevant information available to market traders (McWilliams & Siegel, 1997; Brishammar & Odemann, 2013). We used quarterly data because the regulatory changes had been expected and therefore daily data would have had a higher possibility of a greater signal to noise ratio (Binder, 1998; Lamdin, 2001). Because we are investigating the effect of regulatory changes, there is not a concise event window. This is due to the difficulty in finding unanticipated regulatory changes. The event window is also extremely difficult to estimate because of the staggered event sequence from the time when the issue was first substantively broached, to the negotiations, and to the end of apartheid on April 27, 1994. The King II report was mandated on May 26, 2002; and the Codes of Good Practice were gazetted on February 9, 2007. Table 3.3 illustrates the multiple events (Lamdin, 2001; Binder, 1985).

Non-parametric testing is used to identify outliers. McWilliams and Siegel (1997) suggest that if the non-parametric tests yield many outliers that need to be excluded and the sample size drops significantly, use of “bootstrap” methods, particularly a random

effects models, is advisable. The use of the all-share index and market returns controls for market wide confounding effects, and the use of sector variables controls for sector wide confounding effects was utilized (McWilliams & Siegel, 1997).

Additionally, a second set of models that used a dummy variable that breaks the time-window into before the event and after the event was also estimated to test the impact of these institutional changes on the share prices.

3.5.1 Estimation

The two main models estimated for panel data are the random effects and the fixed effects models. The random effects models assume that the individual–specific effects are uncorrelated with the independent variables, i.e. Corr (u_i, X) = 0 (assumed). The fixed effect model assumes that the individual–specific effects are correlated with the independent variables, i.e. Corr (u_i, X_b) = variable number (Hsiao, 2003; Greene, 2011; Gujarati & Porter, 2009).

Traditionally, random effects models are estimated when some observations are correlated. The models assist in controlling for unobserved heterogeneity in panel data when this heterogeneity is constant over time and correlated with independent variables. They combine information from different levels within a grouping variable. Random effects models are especially useful when there are many levels, relatively little data on each level (although there are multiple samples from most of the levels), and uneven sampling across levels (Hsiao, 2003; Greene, 2011; Gujarati & Porter, 2009). In this study, random effects modeling was useful in estimating the average price returns by Alpha code because there was a large dataset containing observations of firms' price

returns and alpha codes. Some alpha codes were well-represented in the dataset, but others had only a few price observations.

In the basic fixed effects model, the effect of each predictor variable (i.e., the slope) is assumed to be identical across all the groups, and the regression merely reports the average within-group effect. The model explores the relationship between predictor and outcome variables within an entity. In this study, each entity is a firm. The fixed effects model assumes each individual firm (or Alpha code) is different and has its own individual characteristics that may or may not influence the predictor variables—i.e. the stock price. Additionally, the models assume that those time-invariant characteristics are unique to the individual entity and should not be correlated with other individual characteristics. Therefore, each entity's error term and the constant (which captures individual characteristics) should not be correlated with the others. Fixed effects models remove the effect of those time-invariant characteristics, to allow for an assessment of the net effect of the predictors on the outcome variable (Hsiao, 2003; Greene, 2011; Gujarati & Porter, 2009).

For the event study method, two fixed effects models were run for each measure of abnormal return (AR). Equation 3.1 shows the first equation used to determine the rate of return on share prices:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \qquad \text{Equation 3.1}$$

where:

R_{it} = return on share i in quarter t

R_{mt} = return on market portfolio in quarter t. The All-Shares Index on the JSE

α_i = intercept term for share i

β_i = systematic risk of share *i*

ε_{it} = error term

From Equation 3.1, the abnormal returns were calculated as shown in Equation 3.2:

$$AR_{it} = R_{it} - (a_i + b_i R_{mt}) + \gamma_i Foreign_i + \tau_i Sector_i \quad \text{Equation 3.2}$$

where:

AR_{it} = abnormal return of firm *i* in quarter *t*

R_{it} = observed return of firm *i* in quarter *t*

$(a_i + b_{it}R_{mt})$ = firm *i*'s forecast return in quarter *t*, based on market return

γ_i = impact of the type of firm on firm returns

τ_i = impact of a firm's sector on firm returns

$Foreign_i$ = dummy variable for the type of firm where 0 = South African firms with international operations; 1 = Foreign firms operating in South Africa

$Sector_i$ = the sector variable

As is common practice in event studies, the returns for the different event periods were estimated to be around the three event dates. The cumulative abnormal returns (CAR) as the sum of the AR terms are calculated over the six different periods in question (i.e., before and after each event). AR is defined as the difference between the predicted return ($R= a+bR_{mt}$) and the actual return (R_{it}) for a period. If parametric tests reveal that CARs differ from zero, this means that the deviation is statistically significant (Meznar, et al. 1994). If the event has had a positive impact on firm prices, the average of R4, R5 and R6 would be significantly positive (Wolramans & Sartorious, 2009).

Equation 3.3 shows the first set of the random effects model run to test Hypothesis 1. This hypothesis tests the effect of uncertainty on the performance of foreign firms compared to domestic firms listed on the Johannesburg Stock Exchange (JSE).

$$R_{it} = \alpha + \beta GDPChange + \varphi InflationChange + \delta PVEst + \gamma Foreign + \tau Sector + \vartheta GDPForeign + \omega InfForeign \quad \text{Equation 3.3}$$

where:

R_{it} = observed firm returns

α = intercept term

β = impact of GDP change on firm returns

φ = impact of inflation change on firm returns

δ = impact of the perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism

γ = impact of the type of firm on firm returns

τ = impact of a firm's sector on firm returns

ϑ = impact of the interaction between GDP change and the Domestic variable on firm returns

ω = impact of the interaction between inflation change and the Domestic variable on firm returns

GDPchange = annual year-on-year changes in the percentages of Gross domestic product (GDP) at constant prices using 2010 as the base year, where the expenditure-based GDP is total final expenditures at purchasers' prices (including the free-on-board value of exports of goods and services), less the free-on-board value of imports of goods and services.

InflationChange= annual year-on-year changes in the percentages of end of period consumer prices using 2012 as the base year

PVEst = an estimate of the Political Stability and Absence of Violence/Terrorism

Foreign = dummy variable for the type of firm where 1 = South African firms; 0 = Foreign firms operating in South Africa

Sector = sector variable

GDPForeign = interaction between GDP change and the Foreign variable

InfForeign = interaction between inflation change and the Foreign variable

The second set of models was run to test the effect of three events hypothesized to reduce the institutional barriers on the performance of foreign firms compared to domestic firms listed on the JSE. To test Hypothesis 2, a base random effects model was estimated, as well as a second modified random effects model, and a fixed effects model given in Equations 3.4, 3.5, and 3.6, respectively:

$$SharePrice_{it} = \alpha + \beta Quarter + \gamma Foreign + \tau Sector + \vartheta Eventi + \omega EiForeign$$

Equation 3.4

$$PIP_{it} = \alpha + \beta Quarter + \gamma Foreign + \tau Sector + \vartheta Eventi + \omega EiForeign$$

Equation 3.5

$$SharePrice_{it} = \alpha + \beta Quarter + \gamma Foreign + \tau Sector + \vartheta Eventi + \omega EiForeign + \rho IPQ$$

Equation 3.6

where:

$SharePrice_{it}$ = observed firm share prices

α = intercept term

β = impact of time on firm share prices

γ = impact of the type of firm on firm share prices

τ = impact of a firm's sector on firm share prices

ϑ = impact of event on firm share prices

ω = impact of the interaction between an event and the Domestic variable on firm share prices

ρ = impact the interaction between the firm's initial price and Quarter

Quarter = time variable.

Foreign = dummy variable for the type of firm where 0 = South African firms; 1 = Foreign firms operating in South Africa

Sector = sector variable

$Event_i$ = dummy variable for the 3 events where 0 = before $Event_i$ and 1 = after $Event_i$

$E_iForeign$ = interaction between the events and the Foreign variable

PIP = firm price / initial price. This controls for firm size assuming rate of change is proportional to size, as measured by the initial price

IPQ = interaction between the firm's initial price and Quarter. This too controls for firm size assuming firms with different initial prices react differently

Three sets of models were estimated, with each model making different assumptions. In the random effects models estimated using Equation 3.4, the assumption is that the estimated unit change is approximately the same across the sample; in other words, β estimates the average effect across firms. This model assumes that regardless of the firm's initial price, change over time is on the same scale. However, this estimation is

imprecise because of the wide range in the adjusted prices from ZAR 0.16 to ZAR 18,087.00. The other models tried to resolve this erroneous assumption by controlling for firm size, as measured in firm prices. The second set of random effects models were estimated using Equation 3.5, which included *PIP*, and assumes the rate of change is directly proportional to the initial size, as measured in the initial price. The third set of models assumed that growth was not proportionate to size, but instead that growth (as measured in firm prices) is firm dependent. Therefore, a fixed effects model was estimated that controlled for the initial price's trajectory across time.

3.6 Constructs

3.6.1 Dependent Variable: Performance

Firm performance is measured in terms of firm share prices and firm share price returns for the periods before and after the event for the firms traded on the JSE. The sample will only include firms traded on the JSE. As discussed above, in Type A, the study uses the standard event study approach of estimating market-related returns and then calculates abnormal returns for the periods before and after the event (Wolramans & Sartorious, 2009; McWilliams & Siegel, 1997). Firm share price data from a sample of firms traded on the JSE and the past period are used to estimate the returns. These are the standard modifications to the Fama, Fisher, Jensen and Roll (1969) model employed in most studies using event study methodology (Binder, 1998).

3.6.2 Independent Variables

3.6.2.1 Psychic Distance

This represents the factors that prevent the flow of information between the firm and the host market and thus make it difficult for firms to understand host market environments (Johanson & Vahlne, 1977; 2009; Anderson, et al., 1994; Håkanson & Ambos 2010; Schweizer, et al., 2010; Hilmersson & Jansson, 2012). A modified version of distance was formulated that uses a combination of Brewer's (2006) psychic distance index indicators and Ionascu, et al's (2004) three (normative, regulatory and cognitive) institutional distance indices taken together to jointly capture the relevant aspects of distance to international business. The index indicators are highlighted in Table 3.4. The study tested each of the aggregate dimensions, as well as the composite psychic distance measure, as in Gooris and Peters (2014).

This study uses secondary country-level data to measure psychic distance indicators. Due to the extreme differences in measurements (e.g., millions of dollars for trade and single units for trade agreements) in the various indicators, each of the distance indicators was divided by the variances. We created standardized distances for Indicators 1-6, 8, 15, 18-20 & 13; and dummies for Indicators 9, 11 & 12 (Language similarities, Trade agreements and Colonial relationships). Due to the use of different international sources, Indicators 7; 10; 14; 16; 17 and Cultural Distance had no Country Codes and had to be merged into a similar format. Summation of the individual psychic distance elements for each country leads to an index number on an interval scale. The larger the index number, the larger the psychic distance between South Africa and the respective country. In accordance with Brewer, (2007), in this study's summation each indicator is accorded

equal weight in the absence of evidence that points to a more appropriate weight. The psychic distance measures were dynamic, despite Cultural Distance, Language similarities, Trade agreements, and Geographic proximity indicators being invariant to time.

3.6.2.2 Cultural Distance

This study uses the Kogut and Singh (1988) index to compute cultural distance, and as part of the composite psychic distance measure as found in the studies by Ambos and Ambos, (2009); Li, (2005); Sarala and Vaara, (2010); Morosini, et al., (1998). This follows Hofstede's (2001) cultural value scores based on four dimensions (uncertainty avoidance, power distance, individualism, masculinity). Cultural distance is measured as the aggregate differences over the four cultural dimensions between i^{th} home country and host country scores, where the US is the host country for all the firms in the sample. The formula corrects for the variance of each cultural dimension and provides averages across the four cultural dimensions. Following Sarala and Vaara (2010), who although use the Kogut and Singh (1988) measure, conversely used the GLOBE practices scores, the following index was used:

$$CD_j = \Sigma_i[(I_{ij}-I_{iu})^2/V_i] / 4 \qquad \text{Equation 3.5}$$

where:

CD_j: Cultural distance between the j^{th} country and the South Africa.

I_{ij} - I_{iu}: The difference in Hofstede's score in the i^{th} cultural dimension between the j^{th} country and the u^{th} country where the South Africa is the u^{th} country

V_i: The variance in the Hofstede scores of the i^{th} cultural dimension

3.6.2.3 Institutional/ Governance Distance

To measure Institutional/ Governance Distance, we use the six Worldwide Governance Indicators of the World Bank as is widely used in IB literature: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann et al., 2009; Dikova, 2009; Globerman & Shapiro, 2003; Håkanson & Ambos, 2010; Malhotra et al., 2009; Rao et al., 2005; Slangen & Beugelsdijk, 2010; Slangen & van Tulder, 2009; Buckley et al., 2007; Venaik & Brewer, 2010; Gooris & Peeters, 2014; Hutzschenreuter, et al., 2014). Each dimension ranges from −2.5 to 2.5; higher scores indicate higher advancement in the governance system. To calculate the governance distance between any pair of countries, we used the formula for the Kogut and Singh index on the six governance dimensions (Gooris & Peeters, 2014). As with cultural distance, higher values indicate more dissimilar institutional environments.

3.6.2.4 Economic Distance

Indicator 7: Two-way trade

We used the difference in absolute value of the net trade from the World Integrated Trade Solution (WITS). The Trade Balance (US$ Thousand) measures the difference between a country's total value of exports and total value of imports. Depending on whether a country imports more goods or exports more goods, net exports can be a positive or negative value. This indicator was divided by the variance to standardize it.

Indicator 8: Net Stock of Foreign investment

We used the difference in absolute value of the net FDI using World Development Indicators of the World Bank, particularly the Foreign direct investment net inflows (BoP, current US$). For the purposes of the measure, FDI refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control, or a significant degree of influence, on the management of an enterprise that is resident in another economy. Ownership of 10% or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. This indicator was standardized.

3.6.2.5 Political & Legislative Distance

Indicator 9: Trade agreements

We used binary dummy values based on Department of Trade and Industry (DTI) data for this indicator, where 0 indicates countries with trade agreements with South Africa, and 1 indicates countries with no trade agreements with South Africa. The reverse dummy assignment is because countries with trade agreements will have a smaller distance than countries with no trade relationships.

Indicator 10: Regulatory distance

We used the Heritage Foundation's Index of Economic Freedom based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom:

- Rule of Law (property rights, government integrity, judicial effectiveness)
- Government Size (government spending, tax burden, fiscal health)
- Regulatory Efficiency (business freedom, labor freedom, monetary freedom)
- Open Markets (trade freedom, investment freedom, financial freedom)

Each of the twelve economic freedoms within these categories is graded on a scale of 0 to 100. A country's overall score is derived by averaging these twelve economic freedoms, with equal weight given to each. The overall score was used and standardized.

Indicator 11: Colonial relationship

Mayer and Zignago (2011) identified the United Kingdom and the Netherlands as former colonizers of South Africa. The indicator denotes direct colonial relationship = 0, membership of the same empire = .5, and no colonial relationship = 1. This indicator uses reverse dummy assignment because shared colonial relationships between countries will reduce the distance between countries.

Indicator 12: Language similarities

We used the Common Official Language (COL) measure from the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) in this analysis. The COL is a binary dummy measure of either 0 or 1 where zero indicates that the country shares a

common language, in this case English, with South Africa. The shared common language is especially important with countries such as South Africa with many spoken languages.

3.6.2.5 Geographic Distance

Indicator 13: Geographic proximity

The indicator uses Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) data, in particular its data on country-specific bilateral geographical distances between the geographical coordinates of their capital cities. The geographic distance was standardized because of the extreme distances between countries

3.6.2.6 Information Availability Distance

Indicator 14: Immigration numbers

We used differences in the net migration statistics from the Statistics South Africa (StatsSA) and the Department of Economic and Social Affairs of the United Nations Secretariat. The data was measured at five-year intervals and standardized.

Indicator 15: Internet in host country

We used the standardized differences in the Individuals using the Internet (% of population) from the World Bank's World Development Indicators. The indicator measures Internet users as individuals who have used the Internet (from any location) in the last 3 months and the Internet can be used via a computer, mobile phone, personal digital assistant, games machine, digital TV etc.

3.6.2.7 Development Distance

Indicator 16: Level of development of host country

We used the standardized differences in the United Nations Human Development Index (HDI). The HDI is a composite statistic (composite index) of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development. The HDI combines three dimensions: a long and healthy life, as measured though life expectancy at birth; the education index as measured through the mean years of schooling and expected years of schooling; and a decent standard of living measured through the GNI per capita (PPP US$).

Indicator 17: Level of corruption of the host country

We used standardized differences in the Transparency International Corruption Perception Index that annually ranks countries "by their perceived levels of corruption, as determined by expert assessments and opinion surveys on a scale from 100 (very clean) to 0 (highly corrupt)."

Indicator 18: Economic Activity in host country

We used the standardized differences in the World Bank's World Development Indicators, particularly, the Labor force with advanced education (% of total working-age population with advanced education). This indicator measures the percentage of the working-age population with an advanced level of education (short-cycle tertiary education, a bachelor's degree or equivalent education level, a master's degree or equivalent education level, or doctoral degree or equivalent education level according to

the International Standard Classification of Education 2011 (ISCED 2011) who are in the labor force.

Indicator 19: Education in host country

We used standardized differences in the Barro-Lee: Average years of total schooling, people age 15+, and the total from the World Bank measured at 5-year intervals.

Indicator 20: Computers in host country

We used standardized differences in the International Telecommunication Union World Telecommunication Development Report and database and World Bank estimates of self-contained computers designed for a single individual per every 100 people.

Uncertainty – This can be interpreted as "the degree of accuracy with which one can predict the future" (Tosi, Aldag & Storey, 1973: 30). Uncertainty is measured using the changes in gross domestic product and the changes in the inflation rate as measured through World Bank indicators (Song, 2014).

3.6.3 Control variables

The study controls for industry, the size of the firm, and whether the firms are domestic or foreign. Sector refers to the industry in which a company competes. Industry may also influence the potential for initiative success. Industries in which the degree of technological or market uncertainty is high may experience fewer successful internationalization initiatives. IPQ refers to the interaction between the initial price and

the time variable. It tests if there are differences in the prices across time for firms that start at different price points. This essentially controls for the firm size, as firms of different sizes will have different initial prices.

The next two chapters discuss the key findings from the case study analyses, as well as the results of the quantitative data analysis. The study closes with a discussion of the results, limitations, and the conclusions made through the research undertaken.

Table 3.1: Case Study Firms' Summaries

	Firm A	Firm B	Firm C	FIRM D	Firm E
Origin	Johannesburg, South Africa - 1917 (Firm A Corporation) London, UK - 1999 (Firm A plc)	Durban, South Africa - 1902		Johannesburg, South Africa - 1936	Sasolburg, South Africa - 1950
Listings	London Stock Exchange Botswana Stock Exchange Johannesburg Stock Exchange (JSE) Nasdaq Stock Market Schweizer Borse Swiss Exchange	Johannesburg Stock Exchange (JSE) London Stock Exchange	Johannesburg Stock Exchange (JSE)	Johannesburg Stock Exchange (JSE) London Stock Exchange New York Stock Exchange	Johannesburg Stock Exchange (JSE) New York Stock Exchange
Headquarters	London, United Kingdom Johannesburg, South Africa	Sandton, South Africa	Bryanston, Sandton, South Africa	Braamfontein, Johannesburg, South Africa	Johannesburg, South Africa
Industry	Metals and Mining	Conglomerate - Motor vehicle dealerships car rental industrial equipment logistics	Diversified packaging manufacturer	Pulp and paper	Chemical & Oil and gas
Products	Copper, diamonds, iron ore, metallurgical coal, nickel, platinum and thermal coal	Equipment and Handling (earthmoving, power systems, materials handling and agriculture), Automotive and Logistics (car rental, motor retail, fleet services, used vehicles and disposal solutions, logistics	Firm C Metals, Firm C Glass, Firm C Paper, Firm C Plastics, Firm C Inspection and Coding Solutions, Firm C Research and Development	Commodity paper products, pulp, chemical cellulose and forest and timber products	Develops and commercializes technologies, including synthetic fuels technologies, and produces different liquid fuels, chemicals and electricity

		management and supply chain optimization)			
Employment (No.)	135,000	19,745	6663	12800	30,100
Subsidiaries	De Beers	Firm B Automotive Firm B Handling Firm B Logistics Firm B Equipment Avis Southern Africa			
Countries Active	Africa, Asia, Australasia, Europe, North America and South America	Andorra, Angola, Botswana, Cape Verde, China, Democratic Republic of the Congo, Ghana, Lesotho, Malawi, Mozambique, Namibia, Portugal, Russia, Sao Tome and Principe, South Africa, Spain, Swaziland, Tanzania, United Arab Emirates, United Kingdom, Zambia, Zimbabwe	South Africa, Kenya, Angola, Tanzania, Malawi, Botswana, Nigeria, Zambia, Zimbabwe, Ethiopia, Swaziland, UK & Ireland	manufacturing operations on three continents (seven mills in Western Europe, three mills in the United States of America and four mills in South Africa). Range of products is sold and distributed across more than 150 countries	36 countries, including Southern Africa, the rest of Africa, the Americas, Europe, Middle East, Northern Asia, Asia, Southeast Asia, Far East, and Australasia

Table 3.2: Industry Sectors in JSE sample

Industry Long Name	Frequency	Percent
Additional	438	53.22
Basic Materials	68	8.26
Consumer Goods	26	3.16
Consumer Services	49	5.95
Financials	134	16.28
Health Care	11	1.34
Industrials	70	8.51
Oil & Gas	5	0.61
Technology	15	1.82
Telecommunications	6	0.73
Utilities	1	0.12
Total	**823**	**100**

Table 3.3: Time Periods for the abnormal Returns

	Event 1	Event 2	Event 3	Measure of AR*
	End of Apartheid	King II report	Codes of Good Practice	
Event date	April 1994	March 2002	February 2007	
Quarters Relative to Event	-4 to +4			R1
	-8 to +8			R2
		-4 to +4		R3
		-8 to +8		R4
			-4 to +4	R5
			-8 to +8	R6

*AR = abnormal returns

Table 3.4: A Description of the Psychic Distance Dimensions and Indicators*

The Index Indicators	Description	Theoretical sources in the Institutional literature	Examples of empirical studies in the International business literature	Data Sources
Cultural Distance	Differences in attitudes toward authority, trust, individuality, and importance of work and family	Whitley (1992); Hofstede (1980); Inglehart (2004)	Johanson and Vahlne (1977); Kogut and Singh (1988); Barkema et al. (1996); Hennart and Larimo (1998); Ionascu, et al., (2004)	Distance on four cultural dimensions defined by Hofstede (1980; 2001) and amended by Kogut & Singh (1988): power distance, individualism, masculinity, uncertainty avoidance
Institutional/ Governance Distance	Differences in regulations, laws, and government policies included in the regulatory and governance system	Delios and Beamish (2001); Henisz (2000); Jackson and Deeg (2008); Pajunen (2008); Kostova and Roth (2002); Kostova et al. (2008)	Berry, et al., (2010); Ionascu, et al., (2004)	
Indicator 1: Control of Corruption	Differences in the perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests			Worldwide Governance Indicators of the World Bank

Indicator 2: Government Effectiveness	Differences in the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies			Worldwide Governance Indicators of the World Bank
Indicator 3: Political Stability and Absence of Violence/Terrorism	Differences in the perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism			Worldwide Governance Indicators of the World Bank
Indicator 4: Rule of Law	Differences in the perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence			Worldwide Governance Indicators of the World Bank
Indicator 5: Regulatory Quality	Differences in the perceptions of the ability of the government to formulate and implement sound			Worldwide Governance Indicators of the World Bank

	policies and regulations that permit and promote private sector development			
Indicator 6: Voice and Accountability	Differences in the perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media			Worldwide Governance Indicators of the World Bank
Economic Distance	Differences in economic development and macroeconomic characteristics	Whitley (1992); Caves (1996)	Campa and Guille´n (1999); Iyer (1997); Yeung (1997); Zaheer and Zaheer (1997)	
Indicator 7: Two-way trade	South Africa's exports sold to Host market plus South Africa's imports bought from Host market (Brewer, 2007)			The World Integrated Trade Solution (WITS)
Indicator 8: Net Stock of Foreign investment	Foreign direct investment, net inflows (BoP, current US$)			World Development Indicators of the World Bank
Political & Legislative Distance	Differences in political stability, democracy, and trade bloc membership	Whitley (1992); Henisz (2000); Henisz and Williamson (1999)	Gastanaga, Jeffrey, Nugent, and Pashamova (1998); Delios and Henisz (2000, 2003); Henisz and Delios (2001); Garcı´a-Canal and Guille´n (2008)	
Indicator 9: Trade agreements	Bilateral and regional trade agreements involving both			Department of Trade and Industry (DTI)

	South Africa and Host market (Brewer, 2007)			
Indicator 10: Regulatory distance	Distance on the level of regulations and restrictions to operate a business (Ionascu, et al., 2004)			The Heritage Foundation's Index of Economic Freedom
Administrative Distance	Differences in colonial ties and language	Whitley (1992); Henisz (2000); Ghemawat (2001); La Porta et al. (1998)	Lubatkin, Calori, Very, and Veiga (1998); Guler and Guille´n (2010)	
Indicator 11: Colonial relationship	Whether there is a direct colonial relationship between South Africa and Host market (in either direction) - Direct colonial relationship = 1, membership of the same empire = .5, and no colonial relationship = 0. Values are added for each country and normalized (Brewer, 2007)			
Indicator 12: Language similarities	Similarity of national language, business language, or alphabet - English is widely spoken = 0, English is widely spoken in business = .25, other languages that use the Roman alphabet are spoken = .5, and other languages that use other			Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)

	alphabets are spoken = 1 (Brewer, 2007)			
Geographic Distance	Great circle distance between geographic center of countries	Anderson (1979); Deadorff (1998)	Wolf and Weinschrott (1973); Hamilton and Winters (1992); Fratianni and Oh (2009)	
Indicator 13: Geographic proximity	The direct distance between the closest two major port cities in South Africa and Host market in kilometers (Brewer, 2007)			Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)
Information Availability Distance	Differences in immigration and Internet use	Nelson and Rosenberg (1993); Guille´n and Sua´rez (2005)	Oxley and Yeung (2001)	
Indicator 14: Immigration numbers	Permanent immigrants and visitors from South Africa and Host market living in the other country plus temporary visitors from each to the other (Brewer, 2007)			Statistics South Africa (StatsSA); Department of Economic and Social Affairs of the United Nations Secretariat – 5yr intervals
Indicator 15: Internet in host country	Internet users (per 100 people) - Internet users are individuals who have used the Internet (from any location) in the last 12 months. Internet can be used via a computer, mobile			World Development Indicators of the World Bank

	phone, personal digital assistant, games machine, digital TV etc.			
Development Distance	Differences in economic development	Whitley (1992); Caves (1996); Henisz (2000); Ghemawat (2001); La Porta et al. (1998)	Huynh, Mallik, and Hettihewa (2006); Rueda-Sabater (2000); Capron and Guille´n (2009); Campa and Guille´n (1999); Iyer (1997); Yeung (1997); Zaheer and Zaheer (1997)	
Indicator 16: Level of development of host country	The United Nations Human Development Index (Brewer, 2007)			The United Nations Human Development Index
Indicator 17: Level of corruption of the host country	Transparency International corruption index (Brewer, 2007)			Transparency International Corruption Index
Indicator 18: Economic Activity in host country	Labor force with tertiary education (% of total)			World Development Indicators of the World Bank
Indicator 19: Education in host country	Mean years of schooling (ISCED 1 or higher), population 25+ years, both sexes			World Development Indicators of the World Bank
Indicator 20: Computers in host country	Personal computers (per 100 people)			World Development Indicators of the World Bank

Adapted from Brewer (2006) and Ionascu, et al., (2004)

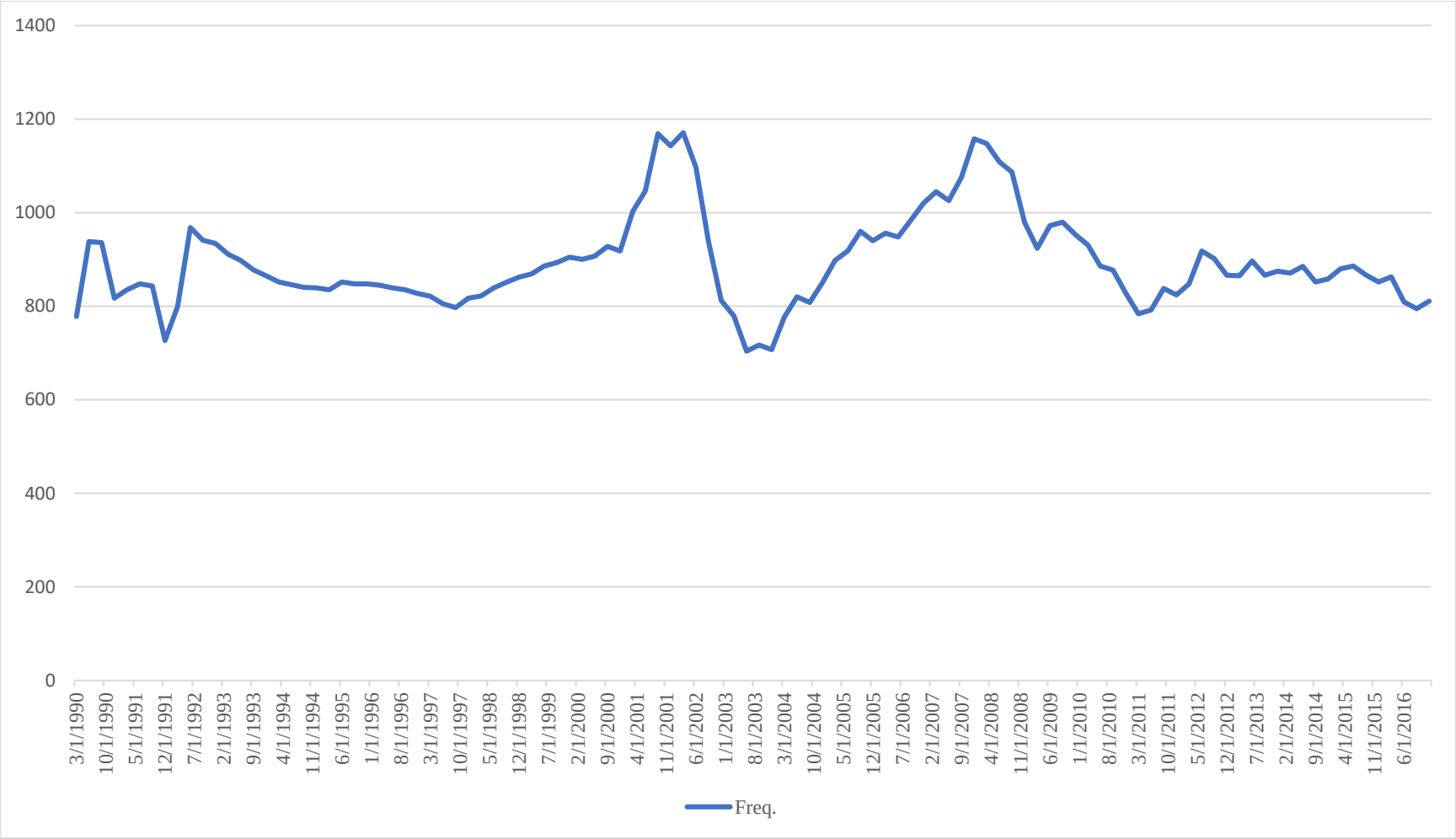

Figure 3.1: Number of Listed Firms on the Johannesburg Stock Exchange

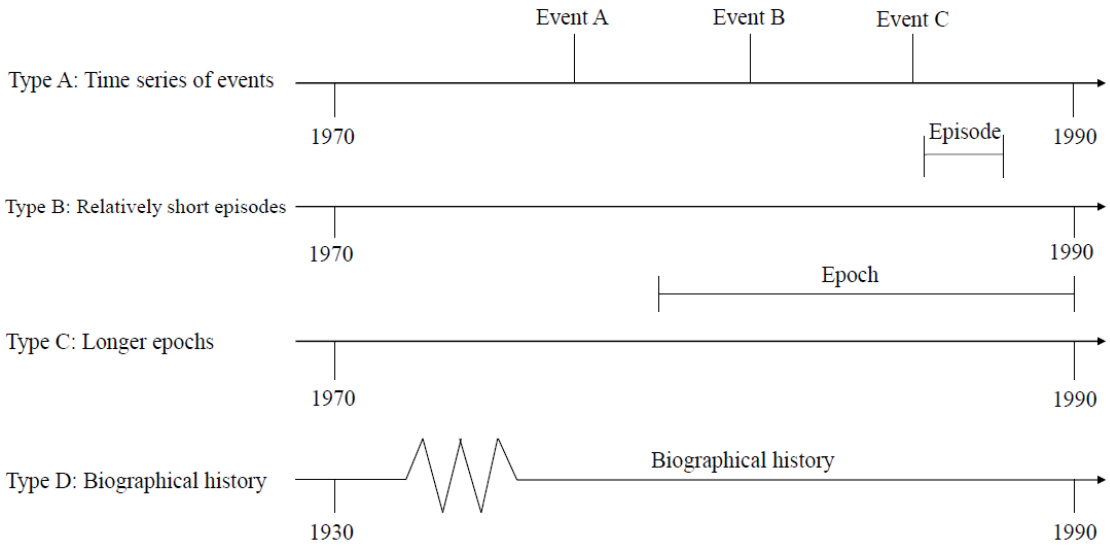

Figure 3.2: Four types of internationalization processes captured by different longitudinal approaches (Melin, 1992)

CHAPTER 4

CASE ANALYSES

This chapter discusses each of the five case studies in terms of their histories and evolutionary timelines, as well as how they all tie in together. The information discussed in this chapter predominantly originates from the interviews with the executives and the document analyses. Additionally, a discussion of the psychic distance measures enhances the argument for a dynamic, aggregate measure of psychic distance.

The five firms selected for the case studies are all South African multinational organizations. They are large-scale, resource sector firms that predominantly engage in business-to-business sales. All the case study firms are engaged in international expansion and have been for over 30 years. Despite the institutional restraints the firms faced, they grew and garnered a strong foothold in the domestic market as they expanded abroad. Each of their timelines is discussed in the following sections.

4.1 Firm A

Firm A is a South African multinational mining company founded in 1917 using financial resources raised from UK and US sources. The firm focuses on natural resources, such as iron ore, metallurgical and thermal coal, base metals (copper, nickel, niobium, phosphates), platinum, and diamonds. Although the firm began as a gold mining company in Witwatersrand, in 1926, it acquired and merged with an alluvial diamond

mining company in South-West Africa (now Namibia) to become the majority stakeholder in a major diamond corporation. In the 1930s, the firm built significant operations in the copper belt of Northern Rhodesia (now Zambia). In 1945, it expanded into the coal industry by acquiring Coal Estates of South Africa. In addition to expanding its mineral breadth, the firm also bought and developed many other gold mines and fields in the late 1940s and 1950s to become the world's largest gold mining group.

On 31 May 1961, South Africa gained independence from Britain and became a republic. In the same year, for the first time, Firm A expanded outside of southern Africa by becoming a major investor in a mining and smelting company in Canada. In 1967, the firm moved into the steel industry through an acquisition. Between the 1960s and 1980s, it steadily expanded into Zambia and Zimbabwe (1967), Canada (1961), Brazil (1973), Chile (1978), and to a lesser extent the UK. During this same period, it kept abreast of changes in the southern Africa region's politics by changing names as countries gained independence, as well as engaging in joint ventures with the new governments. From 1967 to 1975, the firm continued to grow and expand through the establishment of a number of ventures, including the timber, paper, and pulp industry, as well as the consolidation of several mining operations in South Africa.

During the 1980s, the chairmanship of the board of Firm A and its major subsidiary, the diamond firm, shifted from the founder's family. In 1990, its newly elected chairman and chief executive made international expansion a focus. International expansion continued in the 1990s with the acquisition of coal, copper, and nickel mines in Chile, Colombia, and Venezuela. In 1999, the firm merged with Luxembourg-based Minorco to form a plc, and one of the world's largest mining companies with its primary listing on

the London Stock Exchange and secondary listings in Johannesburg, Switzerland, Botswana, and Namibia.

In 2000, Firm A became a market leader in the UK's aggregates markets and the ready-mix cement market through an acquisition. It also made substantial investments and acquisitions to secure a foothold in the Australian coal mining sector. In 2002, it made major acquisitions to secure copper operations in Chile, as well as expansions into iron ore operations in South Africa 2003. The firm also opened a representative office in Beijing, China in 2002.

In 2007, under the firm's first non-South African and first female chief executive officer, the firm divested their non-core assets, including aggregates, metals, phosphates, and zinc, de-merged the paper and packaging business, and reduced its stake in its gold subsidiary. Between 2007 and 2009, it approved a development project in Chile, acquired a copper project in Northern Peru, acquired substantial interest in a greenfield iron-ore project in Brazil, and acquired a 50% stake in a copper project in Alaska. Additionally, it opened a representative office in New Delhi, India.

In 2008, Firm A (excluding its diamond subsidiary) had operations in 45 countries with the biggest project being an iron ore mine and pipeline in Brazil. It spent $212 million on copper, nickel, niobium phosphates, and zinc exploration in 21 countries. The firm's exploration projects were mostly (70%) Greenfield and Brownfield projects.

According to a firm executive (personal communication, 2015), a downturn in many of the commodity markets started in 2011. As a result, in 2011, the firm sold its share of the Chilean copper unit to Japan's Mitsubishi Corporation; in 2012, it sold its major steel making unit and connected companies, in South Africa; and in 2015, it sold 50% of its

shareholding in a building materials joint venture, to cement maker Lafarge SA. At the end of 2015, the firm announced that they would be cutting nearly two thirds of their global workforce and merging divisions in restructuring efforts. Firm A's financial losses continued from 2015 through 2016 with the firm selling off major Australian coal mines and suspending stock dividends, and with shares on the London Stock Exchange dropping to a record low.

4.2 Firm B

Firm B is an industrial brand management company that was founded in Durban, South Africa in 1902, to sell wool product. When the founder died and his son took over, the latter, along with a colleague, negotiated the Cat dealership for South Africa with Caterpillar in 1927. After World War 2, the firm expanded operations to South-West Africa (Namibia), and Rhodesia (Zimbabwe), where it supplied mining equipment and developed new mining technologies for both of these mineral rich countries. In 1959, it entered the motor business by acquiring Ford's Nagington motor dealership, and by 1960, the firm had entered into steel and building materials, handling equipment, consumer electronics, steel manufacturing, and sales, and had acquired trading interests in the UK, Zimbabwe, Botswana, and Namibia. In 1969, Firm B, which listed on the Johannesburg Stock Exchange for the first time in 1941, also listed on the London Stock Exchange.

In 1970, Firm B acquired Rand Mines Limited, to form Firm BR. The firm delisted from the Harare stock exchange in Zimbabwe. During the 1980s, the firm expanded into information technologies, electrical engineering, and textiles; managed brands such as

IBM and Merck in SA; and purchased dealerships for Hyster fork lifts in Britain and the south-eastern US. In 1982, the firm acquired Tiger Oats. The firm launched a takeover of a British industrials and agricultural concern in 1985. By the late 1980s, the firm had become a conglomerate, with about 245,000 employees, the 4th largest employer in the US and number 79 on the Fortune 500.

The 1990s were a period of change for the firm. In 1992, it bought the Caterpillar dealership in Spain; in 1993, it unbundled its Rand Mines' interests, including food groups, pharmaceuticals, and Firm C. Between 1993-1994, firm BL emerged from the unbundling. Between 1995 and 1998, there was more consolidation and expansion globally, with acquisitions in Australia, as well as the distributorship for the Perkins brand in Southern Africa and the Cat brand in Siberia. In 1997, there was further renaming after the minority shareholders were bought out; in 1998, the new CEO led a greenfields entry into Russia.

In 2000, the name changed to its current permutation; the firm invested in freightliner dealerships in the US through a purchase, purchased 26.3% of Avis Southern Africa, and disposed of the remainder of a global IT provider. In 2001, it expanded further with Sterling Freightliner dealership in the US, Lanes Paint in Australia, a laboratory company based in the UK, and a cement business in Zimbabwe. The firm also launched its logistics division as a separate business unit in 2001.

The firm celebrated its 75-year relationship with Caterpillar during its centenary year in 2002. During the same year, Firm B disposed of its stakes in Natal Portland Cement and Ash Resources, UK Coatings, and the Robor Stewarts and Lloyds steel distribution

outlets, and divested of the firm's half share of steel trading company Stemcor (SA), and of Mitsubishi motor dealership in Australia.

In 2003, Firm B acquired freightliner truck dealerships in the US, but disposed of six motor dealerships and exited from the specialty paper business through the sale of Henry Cooke in the UK; its Cat dealership expanded in Siberia in partnership with the US-based Cat dealership in Mongolia, New Mexico, and Colorado; and it acquired the balance shares in Avis Southern Africa, International Colourant Corporation (ICC), and Hyster dealerships in the Netherlands. In 2004, the firm acquired the Budget business in Norway, and extended its reach across the Copperbelt by diversifying into maintenance and repair contracts. In 2005, Firm B acquired Hyster in Northern Ireland, the Hamilton Brush and Budget franchises in Sweden, and Avis and Budget in Denmark.

The appointment of a new CEO in 2006 was followed by major restructuring in 2007. In 2007, it unbundled and separately listed PPC and Freeworld coatings; sold scientific businesses in the UK and US; and entered into a 50:50 joint venture with its Cat dealership counterpart in the DRC. In 2008, the logistics unit acquired a Dubai-based transportation and logistics company and its affiliates in the far east, India, UAE, Africa, and Germany. In 2010, the firm acquired Wagner International's 50% shareholding in Vostochnaya Techna, making Firm B the 100% owner of the Cat dealership in western Siberia, eastern Siberia, Yakutia, and Russia's far-east region. In 2011, the Russia operations produced the best performance in Firm B's 12-year history.

Firm B provides integrated industrial solutions in distribution, fleet services, product support, rental, and logistics through its four units. Its Equipment division has been partnered with Caterpillar for 90 years and is currently the Cat dealer for earthmoving

and power generation equipment in 11 southern African countries, Iberia (Spain and Portugal), Russia (Eastern and Western Siberia), Yakutia, and the Russian Far East). The Equipment business sells and supports the most comprehensive opencast and underground mining equipment product line in southern Africa and Russia. The Equipment division also represents MaK and Perkins engines. The Handling division represents Massey Ferguson and Challenger (AGCO) agricultural products and Hyster and Utilev materials handling equipment in southern Africa. The Automotive division comprises Avis and Budget Rent a Car, Avis Fleet, Barloworld Motor Retail, and Digital Disposal Solutions. The Logistics unit provides supply chain solutions to businesses in southern Africa with complementary operations in the Middle East, the United Kingdom, and the United States through its long-term partnerships with blue chip clients such as Illovo, Nike SA, PPC, Mars, BP, Toyota SA, Unilever, and Corobrik.

4.3 Firm C

Firm C is Africa's leading diversified packaging manufacturer. It was formed through acquisitions in 1968 and listed on the Johannesburg Stock Exchange in 1969. The firm was bought by Reed Corp and sold to Firm B in the 1970s. In 1983, Firm C acquired 51% of Metal Box and the remaining 49% in 1988. In the 1990s, the firm was unbundled from Firm B, expanded to the UK through acquisition of BlowMocan and into Europe through acquisition of Plysu Plc, and acquired Crown Cork South Africa. In 2002, Firm C acquired Crown Cork's operations in Anglophone Africa and Malbak Ltd. The firm entered into a joint venture with Wiegand Glass in 2005. Firm C established Nigeria

Cartons and Labels in 2007. In 2011, it opened Angola's first beverage can plant and acquired minority shareholdings in Nigeria Metals and Malawi operation (PIM). The firm acquired the remaining 50% shareholding in Nampak Wiegand Glass from Wiegand Glass and the remaining 50% of Elopak SA in 2012. In 2013, it acquired the remaining shares in Packaging Industries Malawi and commissioned the first aluminium beverage can line at Bevcan Springs in South Africa. In 2014, it successfully concluded the acquisition of the Nigeria Bevcan operations, commissioned the plastic closures line for still water and carbonated soft drinks in Nigeria, sold the Cartons and Labels division, commissioned the third furnace for glass, and purchased the remaining 51% interest in Bullpak Ltd in Kenya. In 2015, the firm sold its tissue, corrugated, and sacks divisions; its flexible division; and its recycling division; as well as its 50% shareholding in Sancella SA (Pty) Ltd.

4.4 Firm D

Firm D is a South African pulp and paper company founded in 1936, that produces and sells commodity paper products, pulp, chemical cellulose, and forest and timber products for Southern Africa and export markets. In 1938, Firm D erected its first full-scale pulp and paper mill on a greenfield belonging to Geduld gold mine. In the late 1940s, Firm D abandoned the use of straw feedstock and partnered with a Canadian pulp and paper company in Montreal, and learned to make wood pulp, fine paper, newsprint, and kraft packaging paper. In 1954, the firm established a second mill in KwaZulu-Natal which focused on kraft packaging paper and made its first pulp. The firm ordered a

newsprint machine from the US, which it installed at the first mill in 1961. In 1964, Firm D acquired a 20-year-old Italian-owned firm specializing in packaging paper and fiber board for local vehicle manufacturers in Port Elizabeth. In 1967, it launched a greenfield pulp mill near Nelspruit Mpumalanga, built to process timber from the firm's plantations. That same year, it branched into tissue manufacture and the production of paper for sacks. In 1968, Firm D, together with a French partner who supplied the oxygen, developed a new technology that perfected the oxygen bleaching process. The structure of Firm D changed into 3 autonomous companies: Fine papers, Kraft, and Forests, also in 1968.

Firm D acquired a mill that produced coated fine paper and tissue from bagasse, the waste residue of sugar cane, in early 1978. In 1980, the head office transferred to Braamfontein. In 1981, Firm D established a greenfield kraft mill in Milnerton in Cape Town to serve local packaging customers and utilizing 100% waste paper, as well as timber industries divisions in Mpumalanga. The firm acquired a chipboard manufacturer with plants in Port Elizabeth and White River in 1982. In 1984, it moved all its divisions into a single building. The Kraft Liner board machine was commissioned in early 1985. In 1987, the International division began by setting up low profile marketing and sales offices in Zurich, Switzerland, Houston, Texas, and Hong Kong. In 1988, South African Industrial Cellulose company (Saiccor) joined the firm. Firm D made its first overseas acquisition in the early 1990s with the acquisition of mills in Britain thus establishing the firm's Europe division. Firm D Europe was launched in Russia through the acquisition of Hannover Papier in Germany in 1991.

In 1994, Firm D submitted, and won, a bid to purchase a coated fine paper mill in North America. In 1997, the firm acquired KNP Leykam, a Dutch company, for shares and cash. In 1999, a senior financial publication announced the firm as “SA’s most global Company”; the firm closed a mill in Mobile, Alabama, put several British mills up for sale, and closed ageing paper machines in Westbrook. Firm D sold chipboard factories, and mining, timber, and boxwood operations in 2000. In 2000, it bundled some of its investments into “Forest products”, regrouped another set as “Fine Papers Southern Africa” managed by the office in London, and established several branches in Latin America, Asia, and Australasia.

In 2002, Firm D bought Potlatch Corporation Mill in Cloquet, Minnesota. The London office closed in 2003. The firm also announced that it was taking a minority share in a lightweight coated paper mill in partnership with the Chinese company Shangdong Chenming in 2003. In 2008, the new non-executive chairman and chief executive officer completed a major expansion at Saiccor, strengthened Fine Paper Europe, and acquired M-Real of Finland, taking over 4 mills and closing 2 of them. In 2011, the board approved two projects: the closing of one of the two paper pulp lines in Ngodwana and switching it to chemical cellulose, and the conversion of an entire mill in Cloquet Minnesota into chemical cellulose production.

4.5 Firm E

Firm E is an international integrated chemicals and energy company that was established in 1950 in Sasolburg, South Africa. In 1955, the firm started producing

synthetic fuels and chemicals and the first eight drums of creosote at the original coal-to-liquids (CTL) complex. It dispatched its first product and the Synthol reactor completed its first reaction later that year. The South African Gas Distribution Company, which is now the firm's gas division, was formed in 1966 to market and distribute pipeline gas. Natref oil refinery, in 1971, started fuel production and supplied the firm's petrol, developed for Formula One motor racing, for the first time through a joint venture. In 1976, the construction of a second site commenced, thus establishing a second town in South Africa. Firm E privatized and listed on the Johannesburg Stock Exchange in 1979. In 1980, it completed the synfuels and chemicals complex and dispatched the first product, ammonia, to the fertilizer industry. A third complex started production in 1982. In 1983, it formed a new company to manufacture and market ammonium nitrate fertilizers as the second and third complexes were running smoothly and to capacity. It commissioned the 100 bbl/day Sasol Phase Distillate demonstration reactor in 1989 and established a high purity ethanol plant in the first town in 1990. The first Advanced Synthol reactor went online in the second town in 1995.

Although pre-2000 expansion had focused on inward FDI, starting in 2000, Firm E explored an investment in Malaysian ethylene and polyethylene plants and signed an agreement with the Mozambican government to develop gas reserves. The firm acquired the International Condea chemical business in 2001. In 2003, the firm listed on the New York Stock Exchange in the United States and commenced construction of a gas-to-liquids (GTL) venture outside South Africa in Qatar. The first natural gas from Mozambique arrived in the firm's second complex through the cross-border pipeline in 2004. During the same year, Firm E's oil division merged with Exel Petroleum and the

firm entered the South African retail fuel market. Between 2006 and 2007, it commissioned the GTL plant in Qatar and its first product became available; the firm also opened an office in Shanghai to expand its chemicals business in China. In 2008, Firm E created New Energy Holdings and was awarded a coal block in India, in partnership with Tata. In 2009, the firm signed a joint venture agreement with Uzbekneftegaz and PETRONAS of Malaysia for development and implementation of a GTL project in Uzbekistan, signed a Memorandum of Understanding with Gassnova SF to explore the possibility of becoming a participant in European Technology Centre Mongstad which would investigate carbon capture and storage, and the technology division opened a state-of-the-art fuel testing facility in Cape Town, South Africa.

In 2010, Firm E got approval for construction of a new ethylene purification unit in the original town; the mining division concluded a coal broad based BEE transaction with Investment WIPCoal; the firm's, and world's first, fully synthetic jet fuel took to the skies; and the firm's Olefins and Surfactants entered the high purity Tri-ethyl aluminium merchant market.

In 2011, the firm acquired a 50% interest in shale gas assets in Montney Basin, British Columbia, Canada. During the same year, Firm E partnered with the Nigerian National Petroleum Corporation and Chevron Nigeria at an existing oil and gas facility in Escravos to provide technical and manpower support. The firm also initiated a feasibility study for the GTL plant in Western Canada and commenced a feasibility study to build the first GTL facility in the United States at Lake Charles, Louisiana. Additionally, Firm E announced plans to build a gas-to-power energy plant in Mozambique in partnership

with state-owned Electricidade de Moçambique and entered into a joint venture with Origin of Australia to explore coal bed methane in Botswana.

In 2012, Firm E's New Energy division constructed a 140-megawatt electricity generation plant in the firm's main town; the firm commenced the front-end engineering and design phase for an integrated gas-to-liquids facility in the United States; it inaugurated a new limestone ammonium nitrate granulation plant at its second plant; and it completed its expansion at the Central Processing Facility at Pande and Temane, Mozambique.

These extended firm histories reveal some distinct phases in their timelines. The following section discusses the different internationalization timelines of each, as well as the common threads between them.

4.6 Internationalization Strategy Process

This biographical historical analysis follows from the seminal work of Chandler (1962) who substantiated his *Structure follows Strategy* thesis with four case studies of American conglomerates that dominated their industry from the 1920s onward. In a similar way, Scott (1971) developed a model of corporate growth among 70 US companies; Salter (1968), Stopford and Wells (1972), and Franko (1971) showed that international geographical diversification of product markets was associated with the adoption of geographically based divisional structures; and Wrigley (1970), Pavan (1972), Thanheiser (1972), Dyas (1972), Channon (1973), and Rumelt (1974) showed that diversification and divisionalization were related in the United States and Western

Europe. However, Rumelt (1974) and Channon (1975), Grinyer, Yasai-Ardekani, and Al-Bazzaz (1980), and Grinyer and Yasai-Ardekani (1980) applied statistical analysis in addition to case studies, using, respectively, a sample of United Kingdom service companies, 48 large UK companies, and 45 UK electrical engineering firms. Following from these examples, each of the firm's timelines are broken down into various phases and a model of EMMs' internationalization is presented.

4.6.1 South African Multinationals' Internationalization Paths

The preceding section discussed the five case study firms' timelines in detail. The timelines exhibit some distinct phases. All of the firms have been operating in South Africa for at least 50 years. Three of the five had their initial Birth phase while South Africa was still under British colonial rule. Even the two whose inception is unclear, still emerged during South Africa's embattled history – colonial or apartheid rule. During the initial phase, the firms expanded within South Africa, the Southern African region, and other British colonies, as well as the UK. Following these early stages, the firms restored, diversified, and reorganized to different degrees. The ensuing discussion presents each firm's internationalization path.

Firm A's internationalization can break down into 5 phases, as illustrated in Figure 4.1:

Phase 1: Birth (1917-1960)

Firm A was established as a family-owned and internationally financed primary industry firm. It diversifies into other related products, in this case other minerals, in surrounding countries, i.e. other British colonies and protectorates in southern Africa.

Phase 2: Overseas Expansion (1961-1981)

The still-family-managed firm, though with a different chairperson, expands beyond the region to overseas markets – both developing and developed markets, e.g. Brazil, Chile, the UK, and Canada. In the developed countries it ventures beyond the primary industry. The firm also engages with the government and yields to government changes and pressures.

Phase 3: Restructuring (1982-1998)

A non-family chairperson takes over and makes some subsidiaries independent. Another chairman makes international expansion a focus area and continues the broad expansion of mostly primary industry activities.

Phase 4: Mergers (1999-2006)

A merger opens new doors and new markets. The firm ventures into more developed markets and more secondary industry ventures.

Phase 5: Reorganization (2007 – current)

In a bid to be internationally competitive, the firm breaks from tradition by electing a female, non-South African chair. However, due to a downturn in the mining sector, it divests non-core assets, and temporarily suspends dividends for some periods, while increasing stakes in better yielding investments (greenfields, partnerships, etc.), particularly in North and South America. The firm also invests in Corporate Social Responsibility (CSR) in the domestic market.

Figure 4.2 shows Firm B's 5 phases which can be described as follows:

Phase 1: Birth (1902-1944)

The firm was initially formed as a family-owned firm that sold agricultural products. Upon the death of the founder, the son negotiated the acquisition of the Caterpillar dealership in South Africa, and this fueled their growth. The firm listed on the Johannesburg Stock Exchange in 1941.

Phase 2: Overseas Expansion (1945-1969)

After WWII, Firm B diversified into mining equipment and expanded to mineral rich countries within the region. It also diversified into secondary industries, such as Ford dealerships, sale of steel and building materials, consumer electronics, and handling equipment. Additionally, it acquired trading interests in the region, i.e. other British colonies and protectorates in southern Africa and the UK. Firm B listed on the London Stock Exchange in 1969.

Phase 3: Diversification (1970-1991)

Firm B changed names with the acquisition of a mining firm, thus integrating primary industry – mining. The firm managed international brands and dealerships, particularly US and UK firms in southern Africa as international firms divested from South Africa. It accomplished enough growth to include takeovers in advanced countries. Firm B was officially a conglomerate by 1985, and the 4th largest US employer by the late 1980s.

Phase 4: Consolidation (1992-1999)

The firm unbundled many firms, including Firm C. It rebranded then underwent consolidation and global expansion beyond southern Africa by expanding through Caterpillar to Europe – Spain and Siberia, acquisitions in Australia, and further distributorships in southern Africa. A new CEO led greenfields entry into Russia.

Phase 5: Reorganization (2000-current)

The name changed again. Firm B made multiple investments in advanced countries such as the US, Australia, and the UK, as well as several countries in Europe (Norway, Denmark, and Ireland). The firm also diversified into primary industry in southern Africa. Additionally, it separated business divisions with specific investment areas in each, such as a Dubai expansion for logistics, and Russia and the US for Cat dealerships.

Figure 4.3 illustrates that firm C has 2 phases:

Phase 1: Emergence (1968-1993)

Firm C was formed through acquisitions and listed on the Johannesburg Stock Exchange the following year. It was bought and sold to Firm B. It expanded its breadth of packaging with an acquisition of another packaging firm in metal packaging. It was unbundled from Firm B in 1993.

Phase 2: Overseas Expansion (1994-current)

Firm C expanded into the UK, Ireland, and Anglophone [sub-Saharan] Africa through acquisitions and joint ventures. It sold tissue, corrugated, and sacks; flexibles; and recycling divisions. The firm grew the breadth of its packaging materials, and integrated inspection and coding, as well as research and development.

Firm D's internationalization went through 3 phases, as highlighted in Figure 4.3:

Phase 1: Emergence (1936-1979)

Firm D emerged as a paper and pulp manufacturer from another firm. It built mills, established towns, and used technology from advanced countries. It also perfected

technology and acquired firms. It focused on primary industry expansion in the domestic market using lessons from external sources.

Phase 2: Overseas Expansion (1980-1999)

The firm moved the different divisions into a single building. It continued domestic expansion as the International Trading division set up offices in advanced countries. Its first overseas acquisitions in the early 1990s heralded the establishment of the Europe division. More purchases followed in North America. However, it sold off some mills in the US and UK. This period involved a mixture of primary, secondary, and tertiary industries, and mostly advanced country expansion.

Phase 3: Reorganization (2000-current)

The firm sold off many of its primary industry investments. Regrouping led to management of the Forests division by the office in London, with several branches established in Latin America, Asia, and Australasia. The firm had further primary industry expansion in Europe, the US, and China. Firm D made significant CSR investments in the domestic market. The constantly evolving technology in the secondary industry led to closures of outdated mills.

The 3 phases of Firm E's internationalization are shown in Figure 4.3:

Phase 1: Birth (1950-1979)

The original plant was established as a coal-to-liquids (CTL) complex. The firm progressed into gas distribution and oil refinery through a joint venture. Construction of a second complex commenced. The firm privatized and listed on the JSE in 1979. This period involved mostly inward FDI, with negligible international inclusion.

Phase 2: Overseas Expansion (1980-2002)

Firm E constructed a third complex during this period. The firm expanded into the manufacture and marketing of ammonia and ammonium nitrate fertilizers, as well as ethanol. Firm E explored international expansion through ethylene and polyethylene plants in Malaysia, and joint ventures for gas reserves with the Mozambique government. There was limited primary and secondary industry internationalization during this period.

Phase 3: 2003-current

Firm E listed on the New York Stock Exchange and commenced construction of a gas-to-liquids (GTL) venture outside South Africa in Qatar. The firm established a cross-border gas pipeline with Mozambique and entered the retail fuel market through a merger. It made primary industry investments (joint ventures, mergers and acquisitions) in coal and shale gas in both developed and developing countries, in Africa (Nigeria, Malawi, etc.), India, Uzbekistan, Canada, Malaysia, Australia, and the US. It also branched into energy generation, technology and testing, and CSR investments in the domestic markets. Additionally, it opened a Shanghai trade office. Therefore, during this phase, it expanded in all industry sectors in the domestic market and underwent mostly primary, and some secondary and tertiary, industry expansion in the global arena.

Figure 4.4 presents the model of South African multinationals' internationalization process, based on these timelines. The model highlights how South Africa's history was a major factor in determining firms' trajectories.

Prior to World War II, the firms were family-owned and managed, and focused on primary industry activity. As the economy developed, secondary sectors emerged, as well

as regional expansion to other southern African countries under British rule. When South Africa got its independence from Great Britain, firms expanded beyond Anglophone Africa. Firms often expanded into both primary and secondary sectors in advanced countries more than in developing countries. The most common advanced countries were the UK, the US, and Canada. During the 1980s, economic sanctions hindered firms' expansion into advanced economies, and this meant large firms had to diversify their acquisitions. When the end of apartheid brought an end to sanctions, many firms unbundled non-core assets to focus on their core competencies and consolidated their businesses thereby allowing for global expansion.

After 2000, to shake the perceived economic stigma of being a multinational from an emerging market, i.e. the liability of emergingness, many firms listed on advanced markets' stock exchanges and established trade offices in advanced countries. The firms also sought to signal their international status through the integration of international standards of management, and the adoption of Corporate Social Responsibility (CSR). Additionally, technological advances necessitated research and development divisions, and the scale of operations demanded separate management of each of the business units, with some headquartered in other countries. Some of the firms' internationalization strategies targeted several regions for expansion – Africa, Europe, North and South America, Asia, and Australia; while others purposely chose limited expansion. Firms A, B, D, and E have expanded to the Americas, Europe, Asia, and Australia, and Firm C has targeted expansion across Africa. Expansion into the Middle East has only recently started, such as the new investments in the UAE by Firm B and in Qatar by Firm E.

From the interviews with the executives and the document analyses, certain themes emerged. All the firms in the case study sought to maintain their core assets and to expand based on their core competencies. Secondary industry expansion often translated to some form of following their major client, especially in the case of dealerships and packaging. Research and development to keep abreast of technological changes, and trading offices to capitalize on fast-growing markets, accounted for the tertiary expansion. Primary sector firms were constantly exploring new ventures. Primary expansion continued as new resources continued to be discovered. However, primary industry functions often were combined with some secondary functions, i.e. processing, to limit the production and transportation costs. Additionally, some trading offices and research and development locations consolidated the primary, secondary, and tertiary functions. Ultimately, South African firms' strong domestic economy, particularly its mineral wealth, and the intricate history, created a distinct internationalization process that differed from the traditional conceptualization of international expansion.

4.6.2 EMMs' Internationalization Paths

The extant literature identifies MNEs at three stages of internationalization based on country-specific advantages (CSAs) and firm-specific advantages (FSAs) (Rugman, 2008; Ramamurti, 2008; 2012). These are the infant MNE in the initial phases of internationalization, mostly relying on exports and modest overseas production in a few countries; the adolescent MNE with overseas investment and production in several countries, but with a strong foothold in the home market; and the mature MNE which has extensive overseas production and research and operates in most major markets and

regions. The firms in this study fall within the adolescent and mature stages of this MNE distinction. The limited nature of the infant MNEs' internationalization operations make it of limited theoretical interest. Therefore, the following discussion is that of adolescent and mature EMMs.

Figure 4.5 provides a model of EMMs' internationalization paths. In its simplest form, the model posits that EMMs leverage their advantages, to confront the home country and host country contexts to make the decision to pursue exploitation, exploration, or ambidextrous internationalization strategies. The model highlights how firms possess particular FSAs, from competencies that they have developed and leveraged in their stages of internationalization. The EMMs are embedded in different industries, which provide specific *Industry Specific Advantages* (ISAs), and in their home country environments which afford them CSAs. Context plays an important role, in terms of home country factors and host country factors. The firms use their advantages to confront their difficult home country markets and its factors, and base their internationalization directions on the perceived attractiveness of the host country factors. Some firms pursue an exploitation, or exploration strategy, others diversify from one to include the other, while others are ambidextrous and pursue both strategies in different markets.

In the present case studies, firms leveraged their competencies, including their institutional restraints, rich mineral wealth, lower labor costs, and strong domestic market, to pursue distinct strategies in different host markets as determined by host country factors, such as tax legislation, government requirements, and level of market development. The factors included in the discussion of psychic distance indicators define

the home and host country factors that are important in strategic internationalization decisions. Institutional, economic, and development factors seem to yield the most influence. Political and legislative factors that are inconsistent with the other factors can dissuade or attract EMMs to countries. This appears in the prominence of Hong Kong, Singapore, and other Asian locations, as locations for trading firms despite their geographic distance and high psychic distance. The EMMs also use these factors to determine their level of involvement. Some countries have government regulations that stipulate the need for a local partner, other governments put restrictions on the processing, and others have restrictive political and institutional environments. Based on these decisions and the perceived riskiness, firms engage in joint ventures, alliances, or mergers and acquisitions (M&As). Most firms have a whole range of international arrangements, from exports to strategic alliances, joint ventures, and M&As, and more emerge as the EMM continues its expansion and diversifies beyond its core function.

Only one of the case study firms, Firm A, which is a mining EMM, explicitly used the word "exploration". In mining, as in many firms in the primary industry, exploration refers to seeking new deposits and pursuing new ventures, which is congruent with the definition provided by March (1991), Levinthal and March (1993), and Schulz (2001) of exploration as a process that generates new knowledge and exploitation as the development and use of existing knowledge. The firms' respondents did not use these management terms and many professed an emergent strategy, rather than an intended strategy (Mintzberg, 1978). However, company reports included five-year and ten-year plans with explicit international foci. The nature of the business also stipulated how strategy could be enacted: Firms A and E had scientists continuously scouting for new

ventures, Firms B and D pursued markets in which their large clients expanded into, and Firm C pursued a limited approach. Additionally, Firm B was ambidextrous as a result of its conglomerate nature.

The case studies have followed a time honored historical analysis following from Chandler (1962). The firms pursue modified versions of the internationalization strategies put forward in Ramamurti (2008). Firm A mostly follows a natural-resource vertical integrator strategy and Firm C is mainly a low-cost partner. However, some EMMs pursue more than one of the strategies, or a hybrid of the strategies. For example, Firm E is a natural-resource vertical integrator with strong R&D investments that allow the firm to also pursue global first-mover strategies by leveraging their technical expertise in the energy and chemicals sector; Firm B is a global consolidator and local optimizer in terms of its core business. This highlights how EMM strategies follow either exploration, exploitation, or ambidextrous strategies. In general, independent of the industry, exploration internationalization strategies took longer than exploitation strategies. The former strategies often took many years and involved at least some government involvement. However, due to the preponderance of M&As in exploitation strategies, the latter are rapid and finalized in less than a year. The strategies may evolve, and firms may diversify, but the choice will depend on the firms' advantages (firm, industry, and country) and the home and host country contexts.

The need to understand the context, necessitates a discussion of the difference between the home and host country contexts. This difference between the contexts is investigated in International Business as "distance". As previously discussed, this study uses Psychic Distance to measure differences between the home and host country market

contexts. The next section discusses the results of the calculations for the proposed Psychic Distance measure.

4.7 Psychic Distance

Table 4.1 provides the descriptive statistics for the psychic distance indicators. It is interesting to note that some measures, such as colonial relationships and geographical proximity, are time invariant, while others are dynamic. The means and standard deviations vary substantially, with the largest mean differences being in the levels of human development. The numbers of observations also vary among the indicators due to data limitations.

One of the major difficulties in investigating emerging countries is the limited availability of data. The latter ensured that despite the theoretical need to produce a standard dynamic measure, in practice some indicators were present in some years, and not in others. Six different psychic distance measures were calculated at 5-year intervals from 1990-2015. Each of the years measured had indicators for cultural, institutional, economic, administrative, political and legislative, geographic, information availability, and development distance. The following equations were calculated for each of the measures:

Equation 4.1: $\mathbf{PsychicDistance_{1990}} = CultDist + FDIdis_{90} + TA + CR + CL + GP_{SA} + (NMdis_{90} + IUdis_{90}) + (HDIdis_{90} + TSdis_{90} + PCdis_{90})$

Equation 4.2: $\mathbf{PsychicDistance_{1995}} = CultDist + (TBdis_{95} + FDIdis_{95}) + TA + CR + CL + GPsa + (NMdis_{95} + IUdis_{95}) + (HDIdis_{95} + TSdis_{95} + PCdis_{95})$

Equation 4.3: $\mathbf{PsychicDistance_{2000}} = CultDist + (CCdis_{00} + GEdis_{00} + PVdis_{00} + RLdis_{00} + RQdis_{00} + VAdis_{00}) + (TBdis_{00} + FDIdis_{00}) + TA + CR + CL + GP_{SA} + (NMdis_{00} + IUdis_{00}) + (HDIdis_{00} + TSdis_{00} + PCdis_{00})$

Equation 4.4: $\mathbf{PsychicDistance_{2005}} = CultDist + (Cdis_{05} + GEdis_{05} + PVdis_{05} + RLdis_{05} + RQdis_{05} + VAdis_{05}) + (TBdis_{05} + FDIdis_{05}) + (TA + RDdis_{05}) + CR + CL + GP_{SA} + (NMdis_{05} + IUdis_{05}) + (HDIdis_{05} + CPIdis_{05} + TSdis_{05} + PCdis_{05})$

Equation 4.5: $\mathbf{PsychicDistance_{2010}} = CultDist + (CCdis_{10} + GEdis_{10} + PVdis_{10} + RLdis_{10} + RQdis_{10} + VAdis_{10}) + (TBdis_{10} + FDIdis_{10}) + (TA + RDdis_{10}) + CR + CL + GP_{SA} + (NMdis_{10} + IUdis_{10}) + (HDIdis_{10} + CPIdis_{10} + AEdis_{10} + TSdis_{10})$

Equation 4.6: $\mathbf{PsychicDistance_{2015}} = CultDist + (CCdis_{15} + GEdis_{15} + PVdis_{15} + RLdis_{15} + RQdis_{15} + VAdis_{15}) + (TBdis_{15} + FDIdis_{15}) + (TA + RDdis_{15}) + CR + CL + GP_{SA} + (NMdis_{15} + IUdis_{15}) + (HDIdis_{15} + CPIdis_{15} + AEdis_{15})$

The correlation tables for each of the indicators and the corresponding indicators are given in Appendix B. Table 4.2 highlights the differences between the time invariant Cultural Distance, the limited Institutional Distance, and our expanded dynamic Psychic Distance measures. Table 4.3 recalculates the Psychic Distance using limited indicators.

The Institutional Distance (ID) and Psychic Distance (PD) are shown to vary significantly between the years for each of the countries. The PD measures from the 1990s are substantially different from those in 2000s. The PD measures for the BRIC nations illustrate a similar relationship to Cultural Distance (CD) where India has the smallest distance, China and Brazil are in the middle, and Russia has a high distance. The advanced countries seem to fall within similar PD and CD ranges, respectively. However,

in contrast to each other, the PD ranges show substantially large distances, and the CD shows very small distances. Other contradictory measures highlight that psychic distance is dynamic and significantly different from cultural and institutional distances. One could argue that PD changes over the years due to differences in Equations 4.1 - 4.6, Table 4.3 illustrates the differences in psychic distance using the same formula across the years. The differences among the years are still evident in Table 4.3, albeit on a smaller scale, highlighting that psychic distance is indeed dynamic.

4.8 Discussion

We hypothesized a U-shaped relationship between the performance of EMMs and level of market development of the target market. Performance is *high* where the *psychic distance is low*. We expected this to be the case in other emerging markets because of the similarity of factor conditions in both markets (Porter, 1990). This relationship appears in the success of all of the case study firms within the southern Africa region, particularly in other former British colonies that share similar cultural beliefs, a similar history of colonialism, comparable administrative and political and legal structures, and a close geographic proximity. We expected performance to be *high* where *psychic distance is high*, as would be the case in developed markets where ease of access to information and the stability of factor conditions facilitates strategy execution. Table 4.2 shows some of the advanced nations that have high psychic distances but which all of the firms revealed to be successful markets. Another case is that of Russia, which Firm A revealed as its most successful market despite the high psychic distance, due to a focus on core competencies and adversity advantages. Performance is *low* where *psychic distance is*

moderate, such as in emerging markets and Muslim nations, since unfamiliarity with factor conditions would make strategy execution difficult. The unfamiliarity with these regions has meant that firms have invested in mostly joint ventures and the establishment of trading offices in countries such as India, China, and Malaysia. The firms in the case studies have only begun to explore internationalization into the Middle East in the last ten years as information availability and knowledge on the region, as well as the region's openness to trade, has vastly increased. This also supports the proposition that the level of internationalization knowledge of the EMM moderates the relationship between psychic distance and performance. The case study firms with substantial international experience have developed competencies that allow them to diversify into unfamiliar markets and achieve significant support, as noted in Firm B's success in Russia.

The discussions with the various executives revealed that some aspects of the firms' international expansion do adhere to traditional models of internationalization. This appears in the way that the South African firms initially expanded regionally and to Anglophone Africa. However, this was due to the historical entanglements that dictated that South Africa, as a British colony, engaged with other British colonies. This relationship is not a feature of developed market internationalization. The reliance on the primary sector was also a feature of the historical system in which colonies engaged in extraction-based trade under the supervision of British rule. After South Africa attained independence from the British, economic sanctions hindered their internationalization. This meant that until the end of apartheid, many firms had to invest heavily in the domestic market, as evidenced in the diversified inward FDI of Firm B in particular, which unbundled and consolidated back to its core assets when the economy opened and

the firm was able to freely expand internationally. The effect of the political and legal, administrative, and historical factors is particularly important to many emerging markets that share a colonial legacy. However, South Africa's case is further complicated by the economic sanctions and divestments from South Africa in response to apartheid.

The question of to where South African multinationals internationalize has evolved throughout the timeline. Although the firms were initially hindered by colonialism and expanded to other British colonies, the period during which many southern African countries gained independence, the 1960s to 1980s, meant many changes in the region. These changes forced many firms to expand to friendlier economies, such as South America, in which the laws and regulations were not as stringent as those in advanced nations. Table 5.2 shows how countries such as Brazil and Venezuela have shorter psychic distances to South Africa, as compared to west African countries such as Nigeria. This is because although the cultural distance may be larger against South American countries, the institutional, political and legal, economic, and development distances are shorter, and therefore in terms of ease of entry, these markets are easier. These markets were also preferred because when advanced nations boycotted South Africa, these markets were still open, and the respective governments signed trade agreements that aided in investment.

By the time apartheid ended in the 1990s, South African firms had engaged in substantial domestic FDI, and built core competencies and financial resources. These ensured that they could engage in mergers and springboarding acquisitions in advanced economies to gain legitimacy and access to technologies and resources that could further fuel their growth (Mangaliso, 1992). Being forced to focus within a closed economy also

meant that their core competencies could be applied to other markets that had similar harsh economic environments. This is evidenced in Firm B's success in Russia, which it notes as its most substantial international market based on its core business of drilling equipment dealerships that it has perfected over its 115-year history. Despite Russia being culturally, institutionally, and psychically distant from South Africa, the firm's success is based on the ability to leverage its core expertise in a closed economy environment that is equally as harsh as where the firm emerged. The adversity advantages, as well as the international knowledge and focus, allow EMMs to operate in environments that DMMs would steer clear of.

Many South African firms have also sought to shake off their tortured history by signaling their emergence from the cloud of the stigma of colonization, then apartheid, sanctions, and being labeled as a developing economy. They did this by listing on advanced market stock exchanges and establishing their tertiary operations, particularly their trading offices, in newly industrialized markets such as Hong Kong and Singapore. The firms have also embraced international standards of good management such as the adoption of CSR practices and the hiring of international executives. Despite these developments into advanced and newly industrialized markets, the EMMs continue to maintain a strong base in the domestic market, and in developing markets, particularly within the region. Although some firm executives expressed interest in more expansion into Sub-Saharan Africa, the scale of the operations, required for a breakeven return, would be limited by the political instability and risks, as well as the small markets available in these countries. It should be noted that this restriction applies to the resource

seeking firms investigated in this dissertation, not the market seeking firms that would have large enough populations to fuel their growth.

There are however, some firms, Firm C in particular, that have chosen to limit their expansion to Anglophone African countries due to the nature of their operations. Firm C expands with its major customers in a form of symbiotic secondary expansion in which its main function is to provide inputs to a specific firm in the foreign country, but also allows for the integration of new clients in that location. A lighter form of this symbiotic expansion is noted in Firm A: the firm has major brands and dealerships and competes or acquires their contracts in new regions. In this way, the firm leverages its already developed capabilities and brand recognition to catapult ahead, instead of establishing a new entity in the host market.

The discussions with the firm executives yielded a wealth of knowledge that highlighted how the case of South African multinationals is a particularly interesting one in that the firms have emerged, despite their difficult beginnings in a restrictive environment, to become world-class internationally competitive firms. Similar to the findings of the present case study, a recent study of another South African multinational – SABMiller – revealed distinct phases in the firm's trajectory to become the second largest brewery in the world. Because of the restrictions, the firm could only grow within South Africa and the region during its early years and only began rapidly internationalizing beyond the sub-Saharan African region in 1992 with a merger with a DMM. In 2016, SABMiller became a business division of Anheuser-Busch InBev SA/NV, a Brazilian-Belgian corporation, i.e. another EMM (Luiz, Stringfellow & Jefthas, 2017).

The South African government has made significant strides to create a more conducive environment for trade and economic development, including, but not limited to, substantial privatization, several trade agreements, and the establishment of multiple data and information centers. This has ensured a reduced home country government impact, growing information availability and accessibility, increased trade and internationalization support, and an overall more conducive environment. All of these factors bode well for South African firms' internationalization.

Table 4.1: Psychic Distance Measures' Descriptive Statistics

The Index Indicators & Variables	Observations	Mean	Standard Deviation
Cultural Distance	68	1.631745	.954387
Institutional/Governance Distance			
Indicator 1: Control of Corruption			
$CCdis_{00}$	197	.8974625	.8021535
$CCdis_{05}$	205	.9039131	.8257785
$CCdis_{10}$	210	-.112464	.853393
$CCdis_{15}$	208	-.0230088	.7061863
Indicator 2: Government Effectiveness			
$GEdis_{00}$	195	.6197508	.6356545
$GEdis_{05}$	204	.728163	.7173988
$GEdis_{10}$	209	-.2988606	.7600365
$GEdis_{15}$	208	-.2000734	.7626376
Indicator 3: Political Stability and Absence of Violence/Terrorism			
$PVdis_{00}$	189	.848032	.8984884
$PVdis_{05}$	206	.9020812	.9375875
$PVdis_{10}$	211	.0163911	.5556985
$PVdis_{15}$	210	.1378054	.6453973
Indicator 4: Rule of Law			
$RLdis_{00}$	202	.9263852	.9433438
$RLdis_{05}$	209	1.004961	.9958787
$RLdis_{10}$	211	-.1397241	.9873455
$RLdis_{15}$	208	-.0743857	.8360041
Indicator 5: Regulatory Quality			
$RQdis_{00}$	195	.4989342	.6478112
$RQdis_{05}$	204	.4984542	.5774349
$RQdis_{10}$	209	-.1987024	.5453014
$RQdis_{15}$	208	-.1866409	.6663392
Indicator 6: Voice and Accountability			
$VAdis_{00}$	201	.4355519	.5288817
$VAdis_{05}$	208	.4570905	.5671939
$VAdis_{10}$	211	-.1916458	.3172894
$VAdis_{15}$	203	-.1875025	.2856001
Economic Distance			
Indicator 7: Two-way Trade			
$TBdis_{95}$	185	-2.57e-08	1.55e-06
$TBdis_{00}$	208	-1.14e-07	2.02e-06
$TBdis_{05}$	216	-1.25e-07	1.06e-06
$TBdis_{10}$	222	-2.16e-09	7.48e-07
$TBdis_{15}$	214	-5.66e-08	6.01e-07
Indicator 8: Net Stock of Foreign Investment			
$FDIdis_{90}$	199	3.82e-23	2.19e-22
$FDIdis_{95}$	225	1.97e-23	1.12e-22
$FDIdis_{00}$	235	7.04e-25	4.36e-24

$FDIdis_{05}$	244	7.42e-25	4.36e-24
$FDIdis_{10}$	246	8.51e-37	2.95e-36
$FDIdis_{15}$	245	3.91e-37	1.36e-36
Political & Legislative Distance			
Indicator 9: Trade Agreements			
TA	320	.721875	.4487771
Indicator 10: Regulatory Distance			
$RDdis_{05}$	155	.0016396	.0035848
$RDdis_{10}$	179	.0012826	.002897
$RDdis_{15}$	178	.0013049	.0031591
Administrative Distance			
Indicator 11: Colonial Relationship			
CR	320	.8640625	.2297383
Indicator 12: Language Proximity			
CL	194	.6494845	.4783659
Geographic Distance			
Indicator 13: Geographic Proximity			
GP_{SA}	223	2.408395	.9904339
Information Availability Distance			
Indicator 14: Immigration Numbers			
$NMdis_{90}$	260	-1.91e-08	9.23e-08
$NMdis_{95}$	260	2.31e-06	.0000152
$NMdis_{00}$	260	2.44e-06	.0000164
$NMdis_{05}$	260	1.91e-06	.0000133
$NMdis_{10}$	260	1.17e-06	7.63e-06
$NMdis_{15}$	260	7.13e-07	4.69e-06
Indicator 15: Internet Use in Host Country			
$IUdis_{90}$	253	2.574502	13.87727
$IUdis_{95}$	170	.0131929	.0559272
$IUdis_{00}$	240	.0009798	.0023918
$IUdis_{05}$	243	.0004059	.0007909
$IUdis_{10}$	248	7.93e-06	.0000229
$IUdis_{15}$	247	-9.48e-06	.0000572
Development Distance			
Indicator 16: Level of Development of Host Country			
$HDIdis_{90}$	144	21.70036	27.71728
$HDIdis_{95}$	148	18.97398	24.96752
$HDIdis_{00}$	168	31.04671	32.75798
$HDIdis_{05}$	182	38.48436	36.02006
$HDIdis_{10}$	188	44.0261	40.6914
$HDIdis_{15}$	188	45.22463	42.51199
Indicator 17: Level of Corruption of the Host Country			
$CPIdis_{05}$	159	.1511073	.1757153
$CPIdis_{10}$	177	.178988	.1980946
$CPIdis_{15}$	167	.0016344	.0020034

Indicator 18: Economic Activity in Host Country			
$AEdis_{10}$	78	-.0000225	.0000377
$AEdis_{15}$	80	-.0001201	.0001627
Indicator 19: Education in Host Country			
$TSdis_{90}$	143	.116549	.123453
$TSdis_{95}$	143	.0658928	.0824908
$TSdis_{00}$	143	.1025436	.1130275
$TSdis_{05}$	143	.0724466	.0906251
$TSdis_{10}$	143	-.0079102	.0165246
Indicator 20: Computers in Host Country			
$PCdis_{90}$	74	.0067458	.0160156
$PCdis_{95}$	123	.0025753	.0057074
$PCdis_{00}$	177	.0008229	.0019484
$PCdis_{05}$	187	.0003266	.0007976

Source: Own Calculations

Table 4.2: Psychic Distance Measures

Country	Cultural Distance	Institutional Distance				Psychic Distance					
		2000	2005	2010	2015	1990	1995	2000	2005	2010	2015
BRIC nations											
Brazil	1.12	0.73	1.08	-0.59	-1.28	2.77	2.68	6.73	14.02	14.29	15.33
Russia	3.16	5.92	4.92	-3.95	-3.31	14.91	6.56	20.10	37.55	37.23	36.27
India	0.67	1.59	1.86	-2.11	-1.50	29.96	24.51	22.41	10.10	4.67	2.86
China	1.55	2.74	3.56	-2.76	-1.78	16.01	11.58	8.76	9.96	8.18	12.14
MINT nations											
Mexico	1.75	0.97	1.08	-1.86	-1.58	5.31	4.94	11.13	22.73	21.92	19.83
Indonesia	1.96	5.70	5.34	-3.06	-1.88	11.21	9.49	10.92	10.70	2.45	3.54
Nigeria	1.67	7.09	8.83	-5.71	-4.74	2.17	2.17	9.26	37.75	28.17	32.35
Turkey	1.49	1.25	0.73	-0.93	-1.45	5.09	5.04	5.39	12.19	18.77	20.47
Advanced Countries											
Canada	0.27	6.23	5.69	5.84	6.06	65.92	27.57	67.94	110.22	123.67	123.44
Germany	0.25	6.10	5.37	5.10	5.58	30.25	22.70	65.69	112.03	132.13	130.02
United Kingdom	0.49	6.21	4.52	4.95	5.56	20.28	22.08	67.04	108.03	121.24	113.66
United States	0.37	5.08	3.49	4.35	4.49	163.45	32.53	76.06	113.18	128.00	121.96
Central & South America											
Argentina	0.91	0.87	1.95	-2.28	-2.10	8.37	6.71	25.43	43.79	53.20	47.67
Venezuela	2.37	3.76	7.50	-6.29	-6.33	5.55	5.42	11.12	27.33	22.37	17.49
Panama	3.60	0.98	0.89	-0.85	-0.02	7.91	7.51	16.68	31.18	29.63	33.49
Africa											
Egypt	1.18	2.36	3.02	-2.89	-3.91	6.98	6.36	5.39	6.72	1.66	-0.09
Ghana	1.67	0.77	1.39	-0.73	-0.64	23.36	22.41	25.21	16.34	13.12	15.21
Zambia	1.25	3.25	3.72	-2.54	-1.60	40.01	40.12	50.13	27.55	14.22	13.83
Asia											

Malaysia	2.68	0.57	1.01	0.72	1.33	5.55	5.74	15.67	25.85	36.53	33.85
Korea, Rep.	2.29	0.80	1.20	2.31	2.30	14.83	15.54	45.39	88.31	107.84	107.40
Pakistan	1.62	5.54	7.09	-5.22	-4.47	40.53	35.57	44.22	26.63	20.21	23.97
Arab Nations											
United Arab Emirates	1.18	2.01	1.75	1.17	2.82	12.16	11.37	36.36	64.94	62.27	61.22
Saudi Arabia	1.18	2.73	2.51	-1.34	-1.16	8.26	6.68	20.12	38.63	47.96	61.74

Source: Own Calculations

Table 4.3: Psychic Distance Measures Using Limited Indicators

	1990	1995	2000	2005	2010	2015
BRIC nations						
Brazil	2.77	2.68	6.00	12.91	14.87	16.62
Russia	14.91	6.56	14.18	32.50	40.94	39.58
India	29.96	24.51	20.82	8.16	6.74	4.36
China	16.01	11.58	6.03	6.34	10.92	13.92
MINT nations						
Mexico	5.31	4.94	10.16	21.61	23.71	21.41
Indonesia	11.21	9.49	5.22	5.19	5.42	5.42
Nigeria	2.17	2.17	2.17	28.70	33.71	37.09
Turkey	5.09	5.04	4.14	11.42	19.72	21.92
Advanced Countries						
Canada	65.92	27.57	61.71	104.05	117.05	117.37
Germany	30.25	22.70	59.59	106.24	126.56	124.42
United Kingdom	20.28	22.08	60.84	102.99	115.89	108.09
United States	163.45	32.53	70.98	109.38	123.37	117.47
Central & South America						
Argentina	8.37	6.71	24.57	41.75	55.38	49.76
Venezuela	5.55	5.42	7.36	19.68	28.42	23.80
Panama	7.91	7.51	15.70	30.25	30.45	33.50
Africa						
Egypt	6.98	6.36	3.03	3.66	4.49	3.81
Ghana	23.36	22.41	24.44	14.91	13.86	15.85
Zambia	40.01	40.12	46.87	23.72	16.69	15.43
Asia						
Malaysia	5.55	5.74	15.10	24.82	35.81	32.52
Korea, Rep.	14.83	15.54	44.60	87.10	105.49	105.10
Pakistan	40.53	35.57	38.69	19.37	25.26	28.44
Arab Nations						
United Arab Emirates	12.16	11.37	34.34	63.10	60.97	58.40
Saudi Arabia	8.26	6.68	17.39	36.08	49.31	62.89

Source: Own Calculations

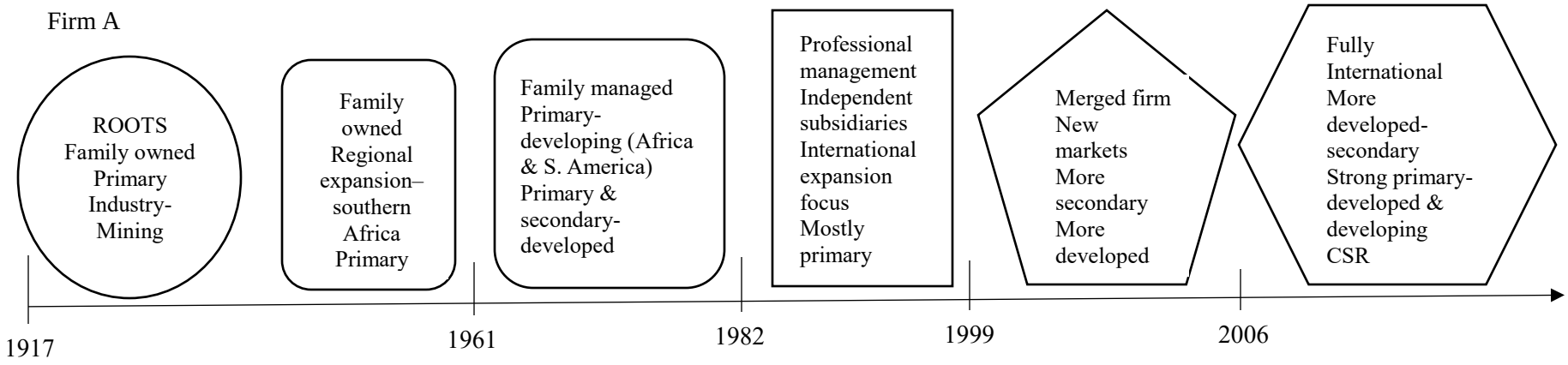

Figure 4.1: Firm A Timeline

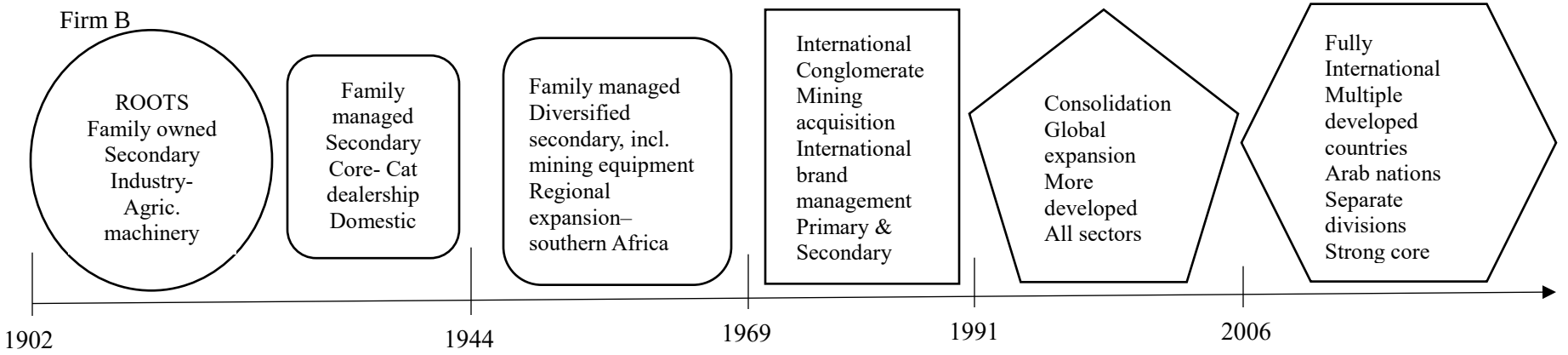

Figure 4.2: Firm B Timeline

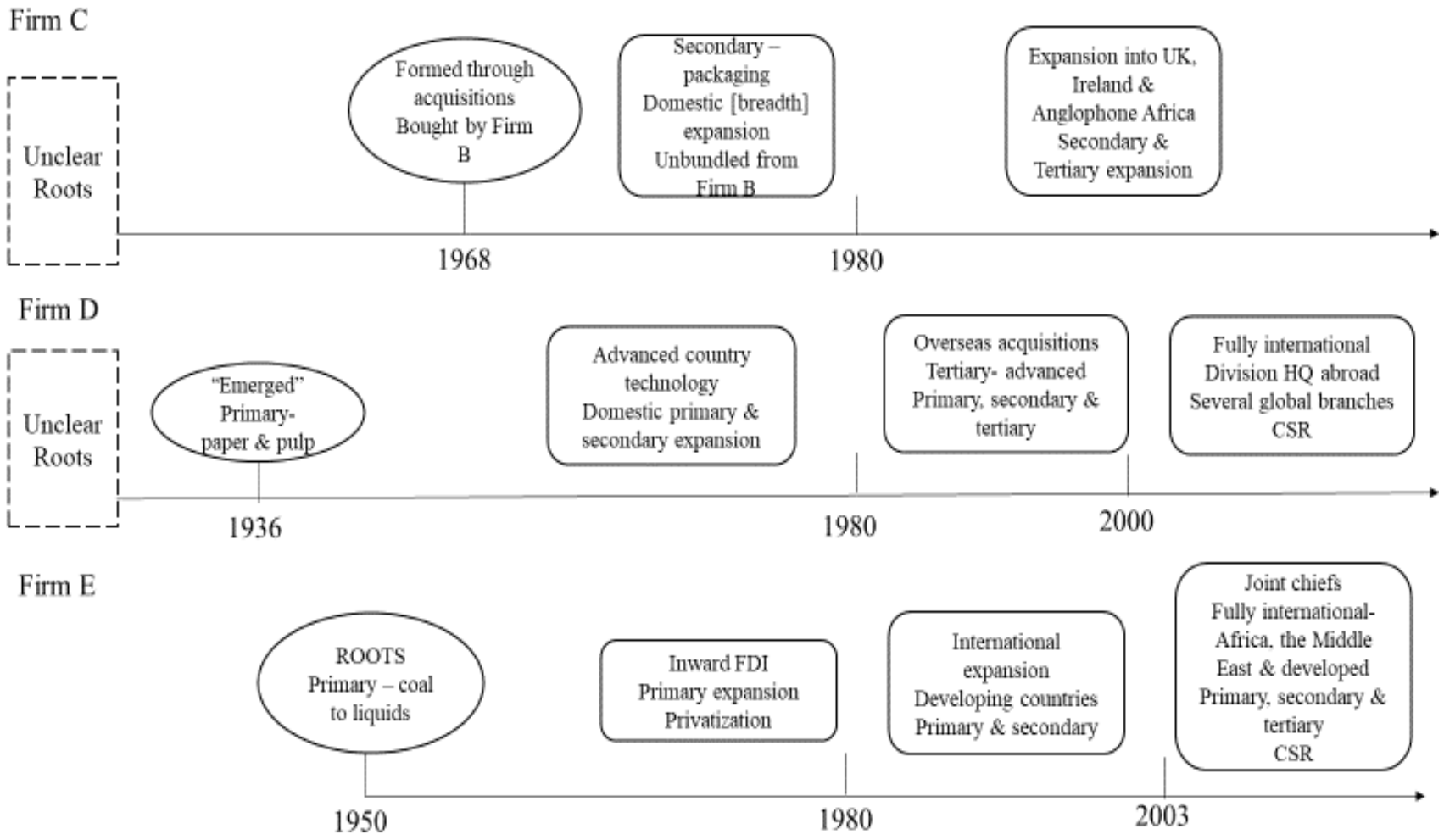

Figure 4.3: Timelines for Firms C, D, & E

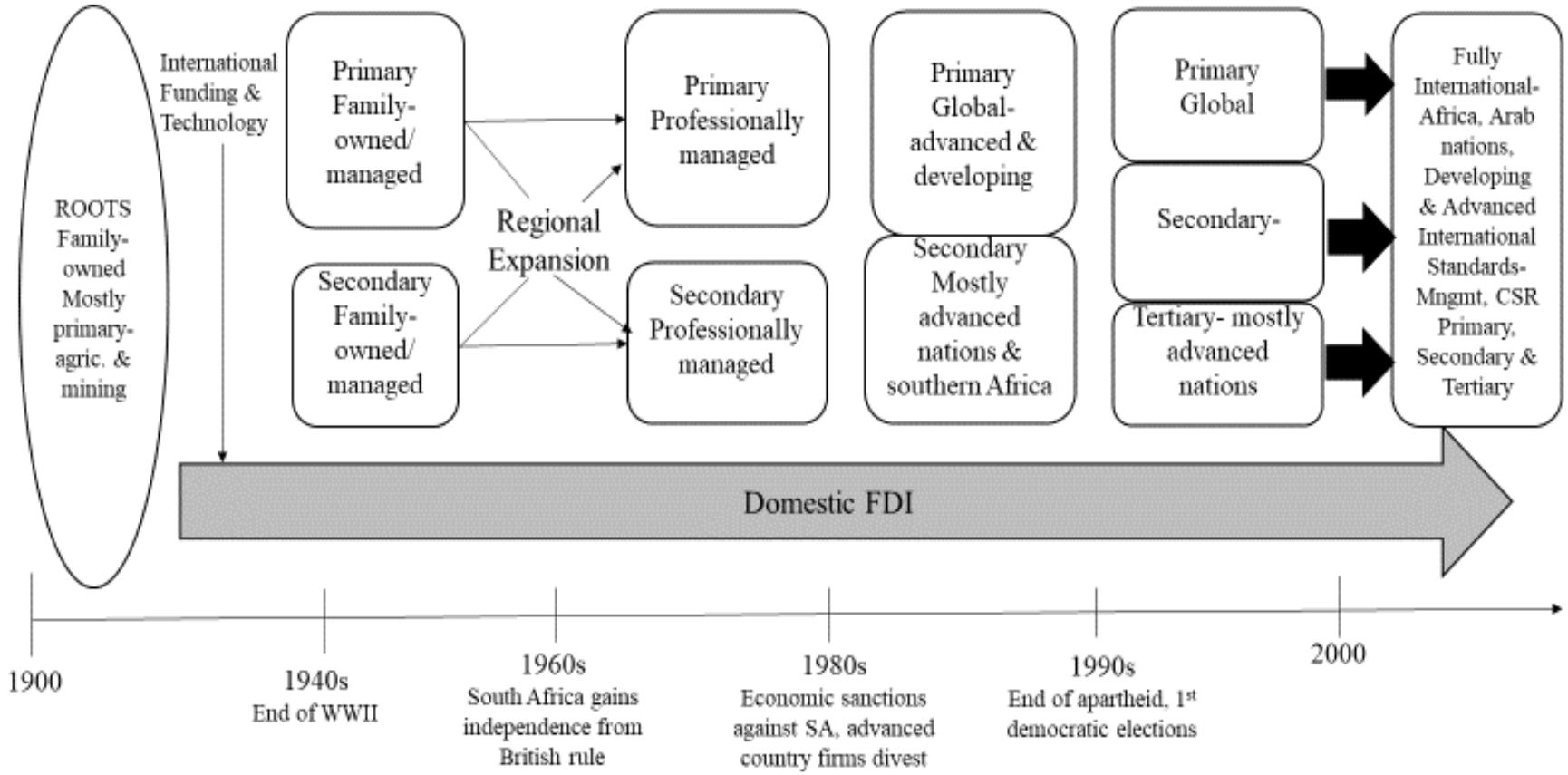

Figure 4.4: A Model of South African Multinationals' Internationalization Process

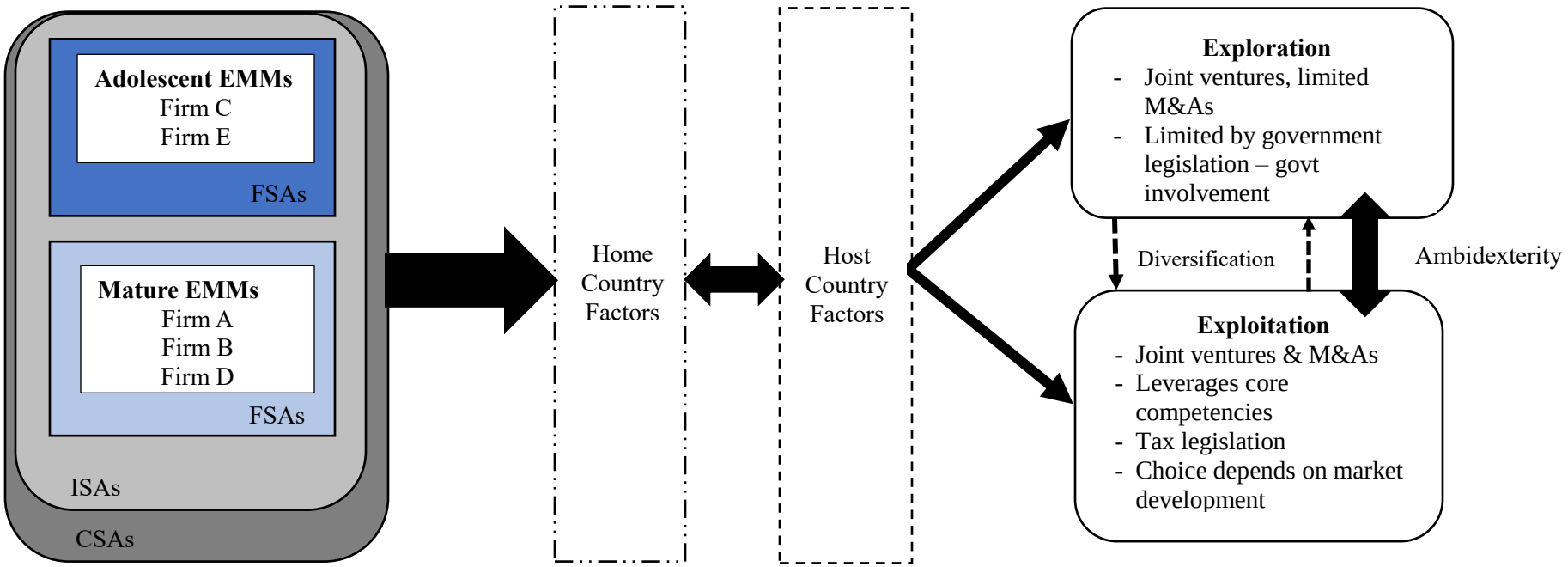

Figure 4.5: A Model of EMM Internationalization Paths

CHAPTER 5

RESULTS

This chapter discusses the quantitative results of the hypothesis testing for the effects of uncertainty and the three institutional change events. The two hypotheses presented in Chapter 2 can be summarized as testing for the differential effect of uncertainty and institutional changes on foreign and domestic firms. In these analyses, domestic firms include both local firms with only domestic operations and local firms with international operations. Foreign firms are all non-South African firms operating within South Africa and listed on the Johannesburg Stock Exchange (JSE).

5.1 Uncertainty

Equation 3.3, as defined in Chapter 3, shows the random effects model that was run to test the effect of uncertainty on the performance of foreign firms compared to domestic firms listed on the Johannesburg Stock Exchange (JSE):

$$R_{it} = \alpha + \beta GDPChange + \varphi InflationChange + \delta PVEst + \gamma Foreign + \tau Sector + \vartheta GDPForeign + \omega InfForeign \quad \text{Equation 3.3}$$

The correlations of these variables are given in Table 5.1 below. All of the variables, with the exception of the interaction terms, are shown to fall within acceptable Pearson's r Correlation ranges.

Table 5.2 highlights the results of the uncertainty models. The different models use different conceptualizations of uncertainty where the *GDPChange* and *InflationChange* variables use the IMF's *World Economic Outlook Database*, as well as an estimate of the Political Stability and Absence of Violence/Terrorism from the Worldwide Governance Indicators of the World Bank. Although the *PVEst* variable is statistically insignificant, GDP change is consistently positively related to firm return and statistically significant in all the models. A one percentage change in GDP is shown to result in a 1.65 – 1.72 percentage point increase in firm returns. The statistically significant negative coefficient on inflation change indicates that a one percent change in inflation will decrease firm returns by 1.5 - 1.6 percentage points. The negative coefficients on the *Sector* variables, though statistically insignificant, imply that firms with lower sector codes, such as Oil & Gas, Chemicals, and Basic Resources, are more prone to uncertainty than firms with mid-range sector codes such as Food & Beverage, Personal & Household Goods, and Health Care, or higher sector codes, such as Exchange Traded Products and Debt and Asset Backed Securities. This is particularly interesting given that all the firms from the case studies fall within the lower sector codes.

There are mixed findings in terms of hypothesis. There is no support for the effect of uncertainty using the PVEst conceptualization of uncertainty. The findings also fail to support the first hypothesis when using the interaction between GDP change and the Foreign variable. However, the statistically significant negative coefficient on the interaction between inflation change and the Foreign variable in Models 3 & 4 supports Hypothesis 1. We therefore fail to reject Hypothesis 1.

The results support our first hypothesis that an increase in the levels of uncertainty will have a more negative effect on the performance of foreign firms than domestic firms.

5.2 Institutional Changes

We undertook two different analyses to investigate the effects of the three events on firm performance. The event study method tests for abnormal returns in the period surrounding an event, whereas the random effects and fixed effects used a dummy variable for each event. The ensuing sections present discussions of each method.

5.2.1 Event Study Method

The first step in testing for the impact of certain events involved performing several tests to check for normality, after which outliers are dropped, as are firms with significant numbers of missing observations. However, due to the large size of the sample, these tests were unnecessary. The correlations for each event are given in Appendix D. Table 5.3 gives the final numbers for the six event periods. There were no observations from foreign firms during the first three periods, and only two observations from the fourth event period. For this reason, the foreign variable is omitted from the analysis for those event periods.

As part of the method, we needed to model Equation 3.1 and estimate α and β. Table 5.4 shows the estimated α and β coefficients and the average market returns. It is interesting to note the negative average market returns during periods R_1 and R_2, which specify the period during which negotiations for the end of apartheid were underway, as

well as the period immediately following the end of apartheid and the first democratic election in South Africa.

In terms of testing for abnormal returns (AR), we used the coefficients from these regressions to estimate Equation 3.2. We also ran separate regressions of the returns (R_{it}) on the *Domestic* dummy variable and the *Sector* variable. We summed up the AR and tested whether the CAR were different from zero.

The sector and domestic coefficients, and the Cumulative Abnormal Returns (CAR) and the Z test statistics for R_1 through to R_6 are given in Table 5.5. Although none of the CAR were statistically significant, the *Sector* coefficients in Event 1 were significant in R_1, R_2, and R_4, and insignificant in the other events. It is interesting to note that the lack of foreign firms in the first two events ensured that the *Domestic* variable was omitted in Events 1 and 2 because of collinearity. The variable was insignificant in Event 3. Therefore, the results fail to confirm our second hypothesis that institutional changes that reduce institutional voids will have a more positive effect on foreign firms than on local firms. Upon further scrutiny, this method was deemed to be ineffective to test the hypothesis.

5.2.2 Random and Fixed Effects Models

We ran three sets of models to test the effect of three events, hypothesized to reduce the institutional restraints on the performance of foreign firms compared to domestic firms listed on the JSE, which yielded comparable results. Table 5.6 lists the correlations from these variables. The correlation ranges for the variables fall within the acceptable Pearson's r Correlation ranges.

The results of the two random effects models and the fixed effects model given in Equations 3.4, 3.5, and 3.6 are given in Table 5.7:

$$SharePrice_{it} = \alpha + \beta Quarter + \gamma Foreign + \tau Sector + \vartheta Eventi + \omega EiForeign$$

Equation 3.4

$$PIP_{it} = \alpha + \beta Quarter + \gamma Foreign + \tau Sector + \vartheta Eventi + \omega EiForeign$$

Equation 3.5

$$SharePrice_{it} = \alpha + \beta Quarter + \gamma Foreign + \tau Sector + \vartheta Eventi + \omega EiForeign + \rho IPQ$$

Equation 3.6

The base random effects (RE) model (Equation 3.4) assumes that regardless of firm initial price, change over time is on the same scale. The second RE model, using PIP as the dependent variable (Equation 3.5), assumes change is directly proportional to firm initial size. The fixed effects (FE) model with IPQ (Equation 3.6) assumes that change over time is a function of firm initial size but does not assume it is directly proportional. It is therefore more flexible.

Table 5.7 highlights the results of the six estimations run for the three models. Only the results of six of the models are shown because the interaction term $E_iForeign$ is omitted due to collinearity in models using Event 1 and Event 2. The *Sector* variable is omitted in the fixed effect models (Model 3 & 4) because the models control for firm-specific changes over time. Therefore, *Sector* is omitted because it is time invariant.

The time variable (*Quarter*) was significant and positive for all six models, highlighting that, on average, firm share prices are increasing over time. The interaction term, *IPQ*, is positive and significant in both Model 3 & 4. Event 1 and 2 were dropped due to the lack of observations from foreign firms during the first period, and only two

observations from the second event period. Event 3 was positive and statistically significant in all the models. This indicates that the gazetting of the Codes of Good Practice on average increased stock prices by over ZAR3,200. This adoption of the codes highlights South Africa's formalization of the international community's embrace of the institutional logics pertaining to corporate social responsibility.

The interaction between Foreign and Event 3 is negative and significant in Model 6 - the modified RE model that uses PIP as the dependent variable. This means that the impact of Event 3 was worse for foreign firms. The results show that the impact of Event 3 is positive for domestic firms and negative for foreign firms. Therefore, the findings from Model 6 do not support Hypothesis 2, but instead contradict it. The institutional event that reduces the institutional restraints, will have a negative effect on foreign firms but a positive effect on local firms.

5.3 Limitations

The major limitation in this research, as in many studies that investigate emerging markets, is the limited access to, and availability of data. There is limited research that empirically investigates the relationship between international expansion and performance (Ghemawat, 2001; Vermeulen & Barkema, 2002; Wagner, 2004), and even less research that specifically focuses on the role of distance in MNEs' international expansion (Hutzschenreuter & Voll, 2008). This study adds to the gap in the literature by failing to quantitatively test the effect of the different distance dimensions on EMM performance due to data limitations. Instead this dissertation proposed dimensions and tested for their validity, as well as their dynamism, but failed to quantitatively examine

the role of distance in MNEs' international expansion. Therefore, the dissertation reiterates the call for more studies to investigate the performance consequences of the challenges and opportunities MNEs, particularly EMMs, face during international expansion, as a result of different distance dimensions.

This dissertation examined the internationalization of South African resource seeking multinationals using five case study firms. As such, the generalizability of our findings may be limited due to the nature of our sample being made up of large publicly-owned South African MNEs, and all resource seeking firms that predominantly pursue business-to-business transactions. Although a sixth firm was considered for the case analyses, this opportunity was not pursued as the firm was in the banking sector with substantial operations involving final consumer interactions. The availability and quality of data was an overriding consideration in determining the final sample. The same considerations are noted in Hutzschenreuter, et al. (2014).

The use of snowball sampling in the recruitment of the case study participants raises bias concerns. Snowball sampling allows for quick recruitment of populations that are not easily accessible, such as top management teams, as well as the possibility of collecting primary data in a cost-effective manner with very little planning before starting the primary data collection process (Salganik & Heckathorn, 2004; Morgan, 2008). However, snowball sampling has been criticized for its potential bias due to the non-random, oversampling of a network of peers with no guarantee of representativeness and an unknown sampling population size (Heckathorn, 1997; Taylor & Bogdan, 1998; Schram, 2003). Despite these limitations, snowball sampling was employed because of the elite nature of the sample which would have made random sampling difficult.

The use of the event study methodology also raises some concerns about potential bias because often the AR (Abnormal Return) estimators are correlated across time, have different variances across firms, are not independent across time for a given firm, and have greater variance during the event period than in the surrounding periods (Blume, 1971; Gonedes, 1973; Ball & Brown, 1968; Scholes, 1972; Binder, 1998). Most studies modify the standard Fama, Fisher, Jensen, and Roll (1969) method through the use of monthly observations from five to seven years of data, and use coefficient estimates from outside the event period to reduce bias (Binder, 1998; MacKinlay, 1997; McWilliams & Siegel, 1997; Peterson, 1989; Brishammar & Odemann, 2013). However, this study uses quarterly data instead of monthly data, and estimates for the coefficients for the entire 27-year period from 1990 to 2016. Although this study goes beyond the 5-to-7-year period, the inclusion of the event period in the estimation of the market model parameters biases the coefficient estimates because the disturbances, which contain the effects of the event and related occurrences, are not mean zero. This bias is small because the data period is long (Brishammar & Odemann, 2013; Binder, 1998).

The use of the Kogut & Singh (1988) formula, not just to measure the cultural distance construct, but for other measures of distance is widely challenged in International Management literature because of its hidden assumptions of corporate homogeneity within a nation, lack of intra-cultural variation, and reliance on single company data, which result in measurement biases (Shenkar, 2001; Dow & Karunaratna, 2006; Tung & Verbeke; 2010; Brewer & Venaik, 2011; Kandogan, 2012). These authors call for a new methodology that acknowledges the heterogeneity of the firms and acknowledges factors affecting managers' sensitivity to the stimuli measured in the

psychic distance measures, such as their previous international experience, age, and education level, that would lead to variations in the measures across a nation's population (Dichtl et al., 1990; Shenkar, 2001; Dow & Karunaratna, 2006). This is especially important in diverse economies, such as that of South Africa, in which the high Gini coefficient ensures a breadth of variation in terms of access to education and resources, and the language plethora makes it inappropriate to assume that factors such as language skills, ethnic background, religion, and education levels are homogeneous across the nation (Dow & Karunaratna, 2006).

In measuring the psychic distance dimensions, data limitations were again a concern. Dow and Karunaratna (2006) assert that the weighting of the various factors that contribute to psychic distance needs to be determined empirically as it is inappropriate and unjustified to assume that all factors contribute equally to the overall psychic distance construct.

This analysis ideally would have included annual measures of many of the indicators. Additionally, the measures would have been weighted for each of the different operations each firm was pursuing and tested against a sample larger than the five firms used here. However, because the complexity involved in such a model as the operations change, even within a single firm over time, and as the additional firm-specific characteristics evolve, would have made an analysis between firms a magnificent feat involving many years of exploration. This is because the specific firm characteristic data involved in understanding MNEs' internationalization paths, such as the composition of the top management team (Eisenhardt & Schoonhoven, 1990) or the firm's organizational structure (Van Den Bosch et al., 1999), is not consistently available in sufficient detail

from annual reports. The wealth of knowledge we gained from our case analyses allow us to glean the complexity of the internationalization paths of five resource seeking MNEs from South Africa. Despite its limited generalizability, and its inconsistent formulas for the 5-year measures of psychic distance, this dissertation does make strides in forwarding the frontier of understanding EMMs' internationalization paths.

This chapter has provided the results of the hypothesis testing of the impact of uncertainty and reductions in institutional barriers on foreign and domestic firms listed on the JSE. The results find limited support for Hypotheses 1 and 2. The following chapter will discuss these results in the context of the findings from the case analyses and the dissertation in its entirety.

Table 5.1: Uncertainty Correlation Tables

	Rit	GDP change	Inflation Change	PVEST	Foreign	Sector	GDPForeign	InfForeign
Rit	1.000							
GDP change	0.056	1.000						
Inflation Change	-0.074	0.018	1.000					
PVEST	-0.003	0.368	0.139	1.000				
Foreign	-0.016	-0.054	0.017	0.095	1.000			
Sector	-0.011	-0.004	-0.016	0.006	-0.023	1.000		
GDPForeign	0.001	0.149	0.037	0.179	0.743	-0.013	1.000	
InfForeign	-0.027	-0.039	0.076	0.125	**0.961**	-0.022	0.745	1.000

Table 5.2: Uncertainty Model Results

	Model 1	**Model 2**	**Model 3**	**Model 4**
Intercept	10.029***	10.154***	9.230***	9.415***
GDP change	1.722***	1.675***	1.731***	1.646***
Std. Err.	(0.449)	(0.463)	(0.449)	(0.463)
Inflation Change	-1.633***	-1.636***	-1.489***	-1.486***
Std. Err.	(0.338)	(0.338)	(0.344)	(0.344)
PVEST	-5.178	-5.327	-4.092	-4.306
Std. Err.	(5.995)	(6.007)	(6.015)	(6.022)
Foreign	1.847	3.199	-19.213*	-17.907*
Std. Err.	(2.839)	(4.341)	(10.396)	(10.541)
Sector	-0.025	-0.025	-0.025	-0.025
Std. Err.	(0.032)	(0.032)	(0.032)	(0.032)
GDPForeign		0.632		1.166
		(1.535)		(1.554)
InfForeign			-3.405**	-3.598**
			(1.617)	(1.637)
Number of obs	4414	4414	4414	4414
Number of groups	551	551	551	551
Obs per group:				
Minimum	1	1	1	1
Average	8	8	8	8
Maximum	18	18	18	18
Corr (u_i, X)	0 (assumed)	0 (assumed)	0 (assumed)	0 (assumed)
R-sq:				
Within	0.01	0.01	0.01	0.01
Between	0.00	0.00	0.00	0.00
Overall	0.01	0.01	0.01	0.01
Wald	$\chi^2(5) = 41.11$	$\chi^2(6) = 41.27$	$\chi2(6) = 45.58$	$\chi2(7) = 46.13$
Prob > χ^2	0.00	0.00	0.00	0.00
sigma_u	0.00	0.00	0.00	0.00
sigma_e	51.52	51.53	51.50	51.50
rho¥	0.00	0.00	0.00	0.00

*** p≤0.01; ** p≤0.05; * p≤0.1 ¥ fraction of variance due to u_i

Table 5.3: Final Sample Sizes

Event Period	Number of Quarters	Number of Raw Observations	Number of Domestic Observations	Number of Foreign Observations	Number of Final Observations
1	9	7,764	7,764	0	7,645
2	17	14,800	14,800	0	14,199
3	9	9,157	9,157	0	7,709
4	17	15,715	15,713	2	13,482
5	9	9,361	8,959	402	6,902
6	17	17,173	16,401	772	12,904

Table 5.4: Estimated Equation 3.1 Coefficients

Event Period	α	β	Mean R_{mt}
R_1	16.8921	-0.5622	-3.4262
R_2	10.1103	-0.7641	-1.8445
R_3	80.0349	-2.0838	5.9722
R_4	44.0889	-0.9479	3.4918
R_5	8.6047	2.8968	1.0370
R_6	7.5893	-0.3823	4.4694

Table 5.5: Institutional Voids' Model Results

Event	Sector Coefficient	Domestic Coefficient	CAR	Z
R_1	-0.267***	.	0.354	0.000
R_2	-0.158**	.	-2.336	-0.001
R_3	-0.014	.	157.201	0.011
R_4	-0.175**	-52.888	85.098	0.006
R_5	0.047	3.429	10.139	0.004
R_6	0.094	9.615	5.617	0.002

*** $p \leq 0.01$; ** $p \leq 0.05$; * $p \leq 0.1$

Table 5.6: Institutional Change Correlation Tables

	Adjusted Closing Price	Quarter	Foreign	Sector	Event3	E3Foreign	IPQ	PIP
Adjusted Closing Price	1.000							
Quarter	0.108	1.000						
Foreign	-0.042	0.146	1.000					
Sector	0.064	0.003	-0.027	1.000				
Event 3	0.085	**0.850**	0.173	0.010	1.000			
E3Foreign	-0.041	0.153	**0.976**	-0.026	0.194	1.000		
IPQ	**0.883**	0.112	-0.031	0.053	0.083	-0.030	1.000	
PIP	0.001	0.089	-0.058	-0.006	0.079	-0.057	-0.025	1.000

Table 5.7: Policy Change Model Results

	1. Base RE			2. FE with IPQ			3. RE with PIP [dependent]	
	Model 1	**Model 2**		**Model 3**	**Model 4**		**Model 5**	**Model 6**
Intercept	11686.42	11802.57		-35419.87***	-35343.29***		-20.247	-20.175***
Quarter	342.685***	339.305***		150.229***	146.734***		0.287***	0.283***
Std. Err.	(-32.649)	(-32.777)		(-31.343)	(-31.465)		(-0.015)	(-0.015)
Foreign	1685.71	11088.85		-1568.13	8118.807		-2.694	7.429*
Std. Err.	(-4952.65)	(-9496.88)		(-756.069)	(-9052.22)		(-1.832)	(-4.247)
Sector	255.1396	254.6013		0 (omitted)	0 (omitted)		-0.035	-0.035
Std. Err.	(-415.528)	(-415.807)					(-0.033)	(-0.033)
Event 3	3242.45*	3551.418**		6779.863***	7098.822***		4.563***	4.884***
Std. Err.	(-1815.43)	(-1834.79)		(-1729.11)	(-1747.58)		(-0.843)	(-0.852)
E3Foreign		-10235.2			-10558.4			-10.782***
Std. Err.		(-8821.61)			(-8395.02)			(-4.084)
IPQ				0.02887***	0.02888***			
Std. Err.				(-0.0006)	(-0.0006)			
Number of obs =	21356	21356	Number of obs =	21356	21356	Number of obs =	20534	20534
Number of groups =	670	670	Number of groups =	670	670	Number of groups =	564	564
Obs per group:			Obs per group:			Obs per group:		
min =	1	1	min =	1	1	min =	1	1
avg =	31.9	31.9	avg =	31.9	31.9	avg =	36.4	36.4
max =	108	108	max =	108	108	max =	108	108
Corr (u_i, X)	0 (assumed)	0 (assumed)	Corr (u_i, Xb)	-0.9752	-0.9752	Corr (u_i, X)	0 (assumed)	0 (assumed)
Wald $\chi^2(4)$ =	384.27	385.63	F statistics	F (4,20682) = 641.22	F (5,20681) = 513.31	Wald $\chi^2(4)$ =	1519.32	Wald $\chi^2(5)$ = 1527.12

Prob > χ^2 =	0	0	Prob > F	0	0	Prob > χ^2 =	0	0
R-sq:			R-sq:			R-sq:		
within =	0.018	0.0181	within =	0.1103	0.1104	within =	0.0776	0.0779
between =	0.0167	0.017	between =	0.9601	0.9601	between =	0.0467	0.0463
overall =	0.0131	0.0131	overall =	0.7251	0.7251	overall =	0.0088	0.0089
sigma_u	250588.1	250763.6	sigma_u	495185.4	495221.3	sigma_u	17.26489	17.28171
sigma_e	63519.69	63519.22	sigma_e	60461.53	60460.68	sigma_e	29.35593	29.35197
rho¥	0.939626	0.939706	rho¥	0.985311	0.985313	rho¥	0.256996	0.25742
			F test that all u_i=0:	F (669, 20682) = 23.36	F (669, 20681) = 23.36			
			Prob > F =	0	0			

*** p≤0.01; ** p≤0.05; * p≤0.1 ¥ fraction of variance due to u_i

CHAPTER 6

DISCUSSION AND CONCLUSION

The title of the dissertation makes a metaphoric reference to Cecil John Rhodes' *Cape to Cairo* dream, and Christopher Columbus' *New Worlds* Voyages, and the performance implications these have for emerging market multinational (EMM) company executives' international expansion decisions. Using a sample of EMMs based in South Africa, the main argument made was that the internationalization of EMMs follows a different trajectory from that of developed market multinationals (DMMs). This is due to the differences that exist in institutional factors and access to information between developed market and emerging market countries. The study focuses on the countries targeted by EMMs for international expansion in terms of their geographic location, as well as their level of economic development. It also examines the manner by which EMMs internationalization strategies are formulated, and the key factors taken into consideration in decision-making processes.

In order to understand the phenomenon of EMM internationalization, in Chapter 1, the term “emerging markets” was defined and its characteristics were discussed. The different configurations of EMMs were also explored, as well as the challenges the EMMs potentially face in knowledge exchange across borders. The discussion examined the key features of emerging markets that make them distinct from developed markets and that subsequently justify an alternative understanding of internationalization from the perspective of emerging markets and EMMs.

The discussion continued in Chapter 2 with an examination of the distinct internationalization strategies that have already been identified in EMMs and that contradict traditional internationalization models theorized from the developed market perspective. The discussion addressed traditional models and noted their inadequacies when they are applied to EMMs, which have a starting point and trajectory different from that of MNEs from advanced markets. The discussion of the measures of internationalization distance, which aid in understanding the differences between home country and host country markets for MNEs, reveals how the literature has evolved: from relying on static cultural distance to expanding to institutional and psychic distance. The propositions generated highlighted the need to expand the understanding of distance to include both cultural and institutional distance, as well as geographic, administrative, and other distance measures. This study also proposed that because emerging markets are inherently dynamic, there is need for a dynamic measure of distance that incorporates developments in the environments. Furthermore, home country uncertainty and reductions in the institutional voids, both of which are inherent in emerging markets, are hypothesized to have different impacts on domestic and foreign firms.

Methodological triangulation relied on qualitative data from interviews of executives from five case studies, document analyses of the company documents and some media, quantitative data obtained from companies listed on the Johannesburg Stock Exchange (JSE), and from information obtained from international data bases such as the World Bank and IMF. Chapter 3 contained a discussion of the methods used, as well as the qualitative and quantitative samples. It also specified the models and discussed the variables. Chapter 4 discussed the results of the case study analyses and developed an

internationalization process model for the case study firms. This model could conceivably be applied to other multinationals from South Africa because its determining factors extend beyond the resource seeking firms examined in the case studies. Additionally, Chapter 4 contains discussion of the calculations used for the dynamic psychic distance measures and how they contrast with the traditional cultural and institutional distance measures, and across different regions at different points in time. Chapter 5 examined the results from the quantitative analyses and displayed the results of the hypotheses tests. An integration of the results of the qualitative and quantitative analyses presented in Chapter 4 and 5, as well as an understanding of how these results align with the objectives of the study, is explored in the following section.

6.1 Discussion

The results of the quantitative analysis, presented in Chapter 5, support the hypotheses that an increase in uncertainty in emerging markets will have a more negative effect on the performance of foreign firms that that of domestic firms. However, the findings contradict the second hypothesis that institutional changes that reduce institutional restraints in the emerging markets, will have a more positive effect on foreign firms than on local firms. Instead the results find that the institutional changes have a positive impact on domestic firms and a negative impact on foreign firms. Despite the limited support for the hypotheses in the quantitative analyses, the results of the case studies and document analyses, the other two aspects of the triangulation process, provide evidence that supports the hypotheses. These methods showed that despite the limited

support for Hypothesis 1, and the contradictory findings for Hypothesis 2, the home country context was an integral factor to the case study firms.

Discussions with the various firm executives revealed that the firms experienced significant periods of success and growth during times of seemingly heightened uncertainty, and during the events investigated in this discussion. Firm A made a number of acquisitions of coal, copper, and nickel mines in Chile, Colombia, and Venezuela when South Africa ended apartheid; Firm B took over multiple dealerships and managed many international brands when international firms, particularly American and British firms were forced to boycott South Africa because of apartheid. Firm C took advantage of the end of apartheid to expand into the UK; Firm D expanded into North America during the same period, and Firm E's first Advanced Synthol reactor went online in 1995. These events highlight how, at South Africa's most uncertain times, when advanced nations were divesting from South Africa, the domestic firms took advantage of the foreign firms' exodus, to diversify their operations and take over the market share left by the exiting firms.

The quantitative models tested for the effects of the *foreign* and *sector* variables. Although the *foreign* variable is not statistically significant in some of the models that tested for the effect of home country uncertainty, the variable is significant when combined with an interaction between f*oreign* and *inflation change*. The negative coefficients on the *foreign* variable suggest that foreign firms are more negatively affected by emerging market home-country uncertainty. The negative coefficients on the interaction term support the first hypothesis that an increase in the levels of uncertainty will have a more negative effect on the performance of foreign firms than on that of

domestic firms. The insignificance of the results in some of the models could be due to the diversity of firms included in the analyses. The case study firms were all large-scale resource sector firms with international operations, which could dampen the effect of the home country firms. In contrast, the diverse firms represented on the JSE included firms from other sectors of the economy, as well as smaller firms, that may be more susceptible to the effects of the uncertainty.

Although the event study method was deemed an inadequate technique, it did yield some interesting findings. The positive and significant *Sector* coefficients in R_1, R_2, and R_4 support the importance of the sector in understanding the effects of changes in the external environment. The negative coefficients on the *Sector* variable implies that firms with lower sector codes, such as Oil and Gas, Chemicals, and Basic Resources, are more prone to uncertainty than firms with mid-range sector codes such as Food and Beverage, Personal and Household Goods, and Health Care, or higher sector codes, such as Exchange Traded Products, Debt, and Asset Backed Securities. This is particularly interesting given that all the firms from the case studies fall within the lower sector codes.

The *domestic* variable was omitted in Events 1 and 2 because of the absence of foreign firms in South Africa during the two events, and insignificant in Event 3 in the event study. In testing the second set of models, for the effect of the reduction in the institutional voids, the *foreign* variable was mostly statistically insignificant. Only the interaction term between *foreign* and *Event 3* was significant. The lack of foreign firms during the first two events can be explained by the divestments during the 1980s, followed by the periods of uncertainty surrounding the end of apartheid during the 1990s (Mangaliso, 2001). Various executives reported that their firms had to list on more

advanced market stock exchanges to signal that they were indeed internationally competitive and not hindered by the negative perceptions of developing nations, particularly African nations. South Africa showed significant GDP growth following the end of apartheid, but the number of foreign firms listed on the JSE started to show marked increases starting around 2002. The stigma and risks associated with operating in developing nations, hinders investment despite the high returns that could be realized. As discussed in Chapter 1, and validated by the discussions with firm executives, as economies develop from developing economies into emerging economies, many investors struggle to shake the prior image of a struggling nation and its negative connotations. The same is true for EMMs expanding to advanced markets in which they are negatively perceived until they establish themselves, either through springboard acquisitions, or listing on the advanced markets.

6.2 Conclusion

An abundance of literature confirms that multinational enterprises (MNEs) deliver competitive advantage to their foreign subsidiaries by conveying trans-national knowledge into a local context, and vice versa (Bartlett & Ghoshal, 1989; Chang, Gong, & Peng, 2012; Kogut & Zander, 1993; Ambos, Ambos, & Schlegelmilch, 2006; Rabbiosi, 2011; Yang, Mudambi, & Meyer, 2008). The predominant thought is that strategically important knowledge is often embedded in the firm and supported by the corporate culture, but its meaning may be distorted, and usefulness diminished, when it is transferred to a different corporate culture. Culture has been identified as a major factor

that complicates cross-border knowledge transfer (Javidan, Stahl, Brodbeck, & Wilderom, 2005; Schlegelmilch & Chini, 2003). An awareness of the culture and the cultural differences between different organizations and their locations is important because cultural variables particularly impact tacit knowledge factors in the business context (Dayasindhu, 2002; Duan, et al., 2010; Hofstede, 1991; Javidan et al., 2005). As previously noted, cultural distance hinders knowledge transfer (Hofstede, 1980; Kostova, 1999; Javidan et al., 2005; Morosini, Shane & Singh, 1998; Park, 2011; Stahl, Bjorkman, & Vaara, 2004; Van Wijk et al., 2008). However, international knowledge strategists continue to downplay the role of culture in strategy (Westwood & Jack, 2007). This, despite the underlying idea in strategic management that everything is contextual.

Most emerging economies are a plethora of localized specificities of culture, ideology, and politics and to attempt to simply transplant Western ideas of work ideals, culture, power distances, etc. would be erroneous (Westwood & Jack, 2007). The environment, as a function of the cultural, political, and legal system in emerging economies differs from that of developed markets (Cuervo-Cazurra & Genc, 2008; Govindarajan & Ramamurti, 2011; Guillén & Garcia-Canal, 2009; Ramamurti, 2009). And yet most management scholarship on firm strategies in emerging economies is still preoccupied with trying to overcome the lack of a Western-style business environment (Peng, 2001; Westwood & Jack, 2007). This perspective implicitly assumes that emerging market environments will evolve to emulate Western economic settings over time (Westwood & Jack, 2007; London & Hart, 2004). Prahalad and Lieberthal (1998: 71) call for MNC managers and academics to move beyond the ‘imperialist mindset’ that everyone must want to be “just like *us*” [Westerners] as it is not necessary for emerging

markets to follow a homogeneous pattern of economic development in which all markets evolve toward a Western-style business environment.

Makino et al. (2004) note that external effects, such as country-level arbitrates, are more important in shaping firms' behavior and strategic choices in less advanced countries such as BRICS than in advanced countries. Hoskisson et al. (2000) highlight that operating in emerging economies is challenging as the rule of law is often poorly enforced. Although the wealthy minority population may participate in global capitalism, the majority is not privy to this and instead depends on the large, often thriving informal sectors in these economies (Luo et al., 2011; London & Hart, 2004). Whereas MNEs usually possess adaptive skills of national responsiveness or the centralized control inherent in global efficiency, these may not be sufficient for emerging markets and they may need to focus on the wealthy, rising middle class, and not the poor customers across country markets (Hart & Milstein, 1999). In these economies, local firms are at an advantage and Westwood and Jack (2007) warn against the neo-colonialist Western market entry strategy that relies on imported business models based on extracting knowledge and protecting and controlling resource flows. They instead encourage a full partnership model with greater degrees of reciprocity.

In a similar stream of thought, several researchers proposed that MNEs need to establish internal knowledge markets, akin to the internal capital market, in order to access the knowledge from internal networks of practice. This is because top-down hierarchy is unlikely to be optimal in emerging markets because there is need to create incentives to leverage the creativity of the assortment of MNE units (Mudambi & Navarra, 2004; Mudambi & Swift, 2009; 2011; Schotter & Beamish, 2011). However,

they warn that there needs to be a balance between knowledge inflows and outflows because the internal networks of practice will assimilate knowledge for the MNE. This benefits the firm because the MNE needs to protect its knowledge, and may not wish to share it with the community. However, the reluctance to share knowledge and innovation (through knowledge spillovers) with the local community, and direct efforts towards fitting with the corporate strategy, may limit the cooperative knowledge exchange and create frustration among the MNE's own R&D scientists (Mudambi & Swift, 2009; 2011). This results in the innovation–integration dilemma, the situation whereby the MNE is under pressure to retain enough autonomy for local R&D workers to fuel their innovative energies, while also directing their efforts toward integration with the MNE's corporate goals (Mudambi & Swift, 2011). The MNE's interfaces with its environments in the home and host markets are of particular importance in discussions of EMMs.

The ongoing debate in International Business literature concerns whether existing theories, developed from a DMM perspective, are adequate to understand EMMs (Ramamurti, 2008; 2012). Matthews (2002) argues that EMMs require their own novel theories, whereas Narula (2006) calls for an extension of existing theories. However, the answer to that question depends on the phenomenon of interest.

EMMs and DMMs have different ownership advantages that reflect their distinct home market conditions, and often adversity advantages (Ramamurti, 2008; Luiz, et al., 2017). EMMs also do not follow the gradual stages model and are seen to internationalize at a much faster pace (Mathews, 2002; Guillén & Garcia-Canal, 2009; Madhok & Keyhani, 2012). Additionally, EMMs' internationalization strategies are based on exploiting differences rather than similarities between countries (Ghemawat, 2007).

Therefore, EMMs may have unique strategic options that have not been accounted for in theories developed for DMMs. For this reason, new internationalization theories for EMMs are essential.

The central argument of this study is that the internationalization of EMMs follows a different trajectory from that of DMMs in which institutional factors and access to knowledge and information play a more crucial role. The developments in advanced and newly industrialized economies ensure more stable markets, while the EMMs' genesis in economies in such flux, and subject to institutional voids, ensure their flexibility and ability to adapt to differing situations. This study contributes towards the agenda that calls for new or extended theories, by highlighting how EMMs have advantages at different levels that they leverage in the home and host country contexts to make internationalization decisions.

In this dissertation we note that the internationalization path of EMMs, in this case South African multinationals, has indeed differed from the internationalization path of DMMs. Despite their unique starting points and trajectories, EMMs have engaged in many springboarding behaviors in a bid to catch up to DMMs and NIMMs, as well as numerous signals such as the adoption of international practices, listing on advanced market stock exchanges, and hiring international CEOs in a bid to legitimize their firms. The firms have maintained their core roots and competencies, as well as their strong domestic and regional bases as they have expanded overseas, even to regions to which they are culturally, institutionally, and psychically distant. Although government ties, political stability, information availability, and home country uncertainty have played a role in their internationalization decisions, the EMMs have engaged diverse boards of

directors of domestic and foreign heritage with broad industrial and international knowledge to steer their decision-making. The dynamic aggregate psychic distance measure developed and presented here incorporates the factors that are important in understanding differences between home and host country markets, especially when the home country is an emerging market economy, as well as how these factors change with time. Understanding that both the EMMs and their home markets, as well as the global markets in which they operate, are all dynamic and as such the distances between them are evolving warrants further research on the changes as the home country markets grow.

This study has furthered the field of knowledge on the internationalization of EMMs by discussing factors that play a role in their internationalization paths. Results presented here show that history and the institutional environment are important contextual factors in determining EMMs' internationalization paths. This study acknowledges the co-evolution of firms and their institutional environment, but highlights that although the institutional settings of the emerging market home countries are important, they are not the only important factor. This study used case study analysis, document analysis, and quantitative analysis to explore the phenomenon and produced a timeline of the phases of the internationalization of EMMs, as seen in the five EMMs from South Africa. Future research may investigate whether similar trajectories occur in the experiences and historical evolutions of EMMs from countries in other parts of the developed world. This is especially important because South Africa has a much more developed infrastructure than other emerging market contexts.

This study shows that EMMs are indeed different from DMMs in terms of their starting points, due to the late globalization; their trajectories, as a result of their liabilities

of emergingness; and the openness of the global market that they join; as well as their internationalization strategies which do not follow traditional models. However, this will be difficult to empirically test until the accuracy and availability of information from emerging markets can match that of the advanced markets. Case studies are therefore an effective method to understand the intricacies and complexities involved in the internationalization of EMMs because there is still need to further investigate EMMs to deeply understand the factors governing their success or failure. The development of new models of internationalization is essential to understand EMM evolution. This study develops an internationalization model that assimilates causation and effectuation processes, instead of assuming a choice. Additionally, this study contributes to the discussion of how country effects, such as changes in policy, affect local firms operating in the domestic market, local firms that operate internationally, and foreign firms operating in the domestic [emerging] market. Furthermore, this study contributes to strategy research by highlighting the deliberate emergent internationalization strategy that the management of the five case study firms took towards their decision-making process.

This study makes a timely contribution to the emerging markets and EMM literature by discussing the factors that distinguish EMMs from DMMs, as well as how these differences inform the internationalization strategies that EMMs pursue. These differences also ensure that different factors are important for MNEs from emerging market contexts and therefore different distance measures need to be conceptualized. Additionally, due to the constant changes and fast-growing pace of economic development, a dynamic measure of psychic distance is important. Therefore, through this study's exploration of not only the factors that affect the internationalization process,

but also the people and processes involved in strategy making, and the subsequent results of these decisions, this dissertation furthers the understanding of the internationalization of EMMs.

In conclusion, the question of whether EMMs are reimagining Rhodes' *Cape to Cairo* dream or Columbus' *New Worlds Voyages* has yielded some interesting findings that highlight EMMs distinction from DMMs and NIMMs, and that their internationalization paths are based on different restrictions and opportunities in the global markets. During colonialism and apartheid, South African firms were limited to a *Rhodes-esque* internationalization in which the EMMs were restricted to expansion within the British colonies across Africa, with a mostly extraction expansion strategy among the colonies and the colonizer. However, when the sanctions were removed, the EMMs took the opportunity to employ *Columbus-like* strategies to explore the Americas, and others chose to continue to conquer Africa, beyond the Anglophone countries. A major determinant in these expansion decisions included the continuing evolution of the top management teams (TMT), as more international members, as well as repatriates that returned from political asylum and studies abroad, joined these boards. The changing international environment, and increased attention on environmental and societal sustainability, also created new opportunities and threats that DMMs had not had to integrate into traditional internationalization theories. Additionally, the face of internationalization changed significantly as the face of politics adjusted to the inclusion of TMT members of large multinationals to major political positions, such as presidencies. This is seen in the US with Donald Trump of The Trump Organization, as well as in South Africa, whose president, Cyril Ramaphosa, is the chairman of at least three EMMs. This is a new era in

both politics and internationalization research, and the competitiveness of EMMs against DMMs hints at the beginning of *globality* as a plausible final stage of globalization. This is indeed an interesting time to research internationalization, particularly from the perspective of EMMs.

APPENDIX A

CONSENT LETTER

March 14, 2016

To Whom It May Concern:

RE: Request for Access to Your Firm

I am a doctoral student at the University of Massachusetts, Amherst, U.S.A. I work under the supervision of Professor Mzamo P. Mangaliso, former President of the National Research Foundation of South Africa.

I am hereby requesting permission to gain access to your firm and some of its key decision makers for my dissertation research. We are interested in studying the process by which senior managers make strategic decisions. Specifically, we are interested in finding out how firms in emerging market economies, such as South Africa, enter and become competitive in the international markets.

In order to achieve these objectives, we plan to visit selected South African firms that have been engaged in international expansion and learn from executives involved about the processes involved in making these decisions. We believe that your firm is one of the important South African companies that can enrich our understanding of this subject area.

We assure you that all the proprietary information will be treated with the utmost confidential confidentiality and nothing will be reported without your prior consent. Any reporting done will be in general form so that the company's name and the individuals' names cannot be identified.

I am available to visit the firm between mid-May and the end of August, 2016. If necessary, I can visit again in January 2017. Please let me know if these dates are convenient for you, and if not, which dates would work better for you.

Attached please find a copy of my Curriculum Vitae, including my contact details, and a link to my University of Massachusetts Amherst student profile, as well as my LinkedIn profile. Please feel free to contact me if you have any questions or if you need clarification on any aspect of the research.

Thank you for taking time to consider this request.

Sincerely,

Leah Z.B. Ndanga

APPENDIX B

INFORMED CONSENT FORM

Consent Form for Participation in a Research Study
University of Massachusetts Amherst

Researcher(s):	Prof. Mzamo M. Mangaliso (*Faculty Sponsor)* Leah Z.B. Ndanga **(***Student Researcher)*
Study Title:	Reimagining Cecil John Rhodes' *Cape to Cairo* dream or Christopher Columbus' *New Worlds* voyages? The role of managers in emerging market multinationals' international expansion decisions

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1. WHAT IS THIS FORM?

This form is called a Consent Form. It will give you information about the study so you can make an informed decision about participation in this research.

This consent form will give you the information you will need to understand why this study is being done and why you are being invited to participate. It will also describe what you will need to do to participate and any known risks, inconveniences or discomforts that you may have while participating. We encourage you to take some time to think this over and ask questions now and at any other time. If you decide to participate, you will be asked to sign this form and you will be given a copy for your records.

2. WHO IS ELIGIBLE TO PARTICIPATE?

Subjects must be at least 18 years old to participate. The participants must hold a management position in a department that directly participates in international business operations or directly influences the firm's international business strategies.

3. WHAT IS THE PURPOSE OF THIS STUDY?

This research investigates the internationalization of emerging economy firms into other emerging economies and/or into developed economies. I seek to investigate the role of managers in the decisions to expand regionally or globally, how, i.e. which entry modes they pursue, what factors impact this choice, and what, if any, factors impact the success (or failure) of ventures, as well as the subsequent impact of these decisions on firm performance.

4. WHERE WILL THE STUDY TAKE PLACE AND HOW LONG WILL IT LAST?

This research will be conducted in Johannesburg, South Africa. Each interview will take between 45 minutes and one hour. The researcher may contact the subject with follow-up questions via email in the ensuing months.

5. WHAT WILL I BE ASKED TO DO?

If you agree to take part in this study, you will be asked to sit for an interview that will run between 45 minutes and one hour. The researcher will request that the interview be audio recorded. You may skip any question you feel uncomfortable answering, or refuse that an audio recording of the interview be taken. The researcher may contact the subject with follow-up questions via email in the ensuing months.

6. WHAT ARE MY BENEFITS OF BEING IN THIS STUDY?

You may not directly benefit from this research; however, we hope that your participation in the study may aid in the understanding of the decision-making process in international firms.

7. WHAT ARE MY RISKS OF BEING IN THIS STUDY?

We believe there are no known risks associated with this research study; however, a possible inconvenience may be the time it takes to complete the study. A breach of confidentiality is a remote but possible risk, but measures have been taken to minimize this risk.

8. HOW WILL MY PERSONAL INFORMATION BE PROTECTED?

The following procedures will be used to protect the confidentiality of your study records. The researchers will keep all study records, including any codes to your data, in a secure location. The audio recordings of the interviews will be uploaded from the researcher's iPhone 5s to an iTunes iCloud backup and the files will be deleted from the phone once they are stored on the iCloud backup. A summary will be typed up at the end of each firm visit. The names of the firms and the participants will be changed to ensure confidentiality. Research records will be labeled with a code. A master key that links names and codes will be maintained in a separate and secure location. The master key and audiotapes will be destroyed 3 years after the close of the study. All electronic files of the data collected, notes taken and audio recordings containing identifiable information will be password protected. Upon completion of transcription, the audio files will be kept on a more secure platform, the University of Massachusetts Amherst's information technology's vetted online storage system Box (http://www.umass.edu/it/box). Any computer hosting such files will also have password protection to prevent access by unauthorized users. Only the members of the research staff will have access to the passwords. At the conclusion of this study, the researchers may publish their findings. Information will be presented in summary format and you will not be identified in any publications or presentations.

9. WHAT IF I HAVE QUESTIONS?

Take as long as you like before you make a decision. We will be happy to answer any question you have about this study. If you have further questions about this project or if you have a research-related problem, you may contact the researcher, Leah Ndanga at +27 76-408-5821 or lndanga@som.umass.edu. If you have any questions concerning your rights as a research subject, you may contact the University of Massachusetts Amherst Human Research Protection Office (HRPO) at humansubjects@ora.umass.edu .

10. CAN I STOP BEING IN THE STUDY?

You do not have to be in this study if you do not want to. If you agree to be in the study, but later change your mind, you may drop out at any time. There are no penalties or consequences of any kind if you decide that you do not want to participate.

You will be notified of all significant new findings during the course of the study that may affect your willingness to continue.

11. WHAT IF I AM INJURED?

The University of Massachusetts does not have a program for compensating subjects for injury or complications related to human subjects research, but the study personnel will assist you in getting treatment."

12. SUBJECT STATEMENT OF VOLUNTARY CONSENT

When signing this form I am agreeing to voluntarily enter this study. I have had a chance to read this consent form, and it was explained to me in a language which I use and understand. I have had the opportunity to ask questions and have received satisfactory answers. I understand that I can withdraw at any time. A copy of this signed Informed Consent Form has been given to me.

_____I agree to have this interview audio recorded by the researcher.

_____I do not agree to have this interview audio recorded, instead the researcher may take handwritten notes from the interview.

_____I agree that segments of the recordings made of my participation in this research may be used for conference presentations, as well as education and training of future researchers/practitioners.

_____I agree to have my recordings archived for future research in the field of International Management.

_____I do not agree to allow segments of recordings of my participation in this research to be used for conference presentations or education and training purposes.

_____	_____	_____
Participant Signature:	Print Name:	Date:

By signing below I indicate that the participant has read and, to the best of my knowledge, understands the details contained in this document and has been given a copy.

_____	_____	_____
Signature of Person Obtaining Consent	Print Name:	Date:

APPENDIX C

PSYCHIC DISTANCE CALCULATION CORRELATION TABLES

1990: CultDist + FDIdis90 + TA + CR + CL + GPsa + (NMdis90 + IUdis90) + (HDIdis90 + TSdis90 + PCdis90)

	CultDist	FDIdis90	TA	CR	CL	GPsa	NMdis90	IUdis90	HDIdis90	TSdis90	PCdis90
CultDist	1.0000										
FDIdis90	-0.1482	1.0000									
TA	0.1774	-0.1856	1.0000								
CR	0.0593	-0.2441	-0.0902	1.0000							
CL	0.2099	-0.0718	-0.0502	0.4805	1.0000						
GPsa	0.0238	0.0894	0.1557	0.2691	0.0880	1.0000					
NMdis90	0.4412	-0.2301	-0.0007	0.1742	0.1087	-0.0110	1.0000				
IUdis90	-0.1075	0.1443	-0.1092	0.0060	-0.1128	0.2026	-0.0665	1.0000			
HDIdis90	-0.2581	0.2644	-0.2796	-0.2145	-0.3494	0.1491	-0.4637	0.6116	1.0000		
TSdis90	-0.1535	-0.0073	-0.0163	-0.2371	-0.4039	0.1486	-0.3415	0.5523	0.7384	1.0000	
PCdis90	-0.1278	0.2339	-0.1338	-0.0655	-0.2915	0.3134	-0.1579	0.7507	0.7134	0.5846	1.0000

1995: CultDist + (TBdis95 + FDIdis95) + TA + CR + CL + GPsa + (NMdis95 + IUdis95) + (HDIdis95 + TSdis95 + PCdis95)

	CultDist	TBdis95	FDIdis95	TA	CR	CL	GPsa	NMdis95	IUdis95	HDIdis95	TSdis95	PCdis95
CultDist	1.0000											
TBdis95	0.1795	1.0000										
FDIdis95	-0.0268	-0.1758	1.0000									
TA	0.1809	0.1531	0.0869	1.0000								
CR	0.2015	-0.2191	0.1138	-0.1064	1.0000							
CL	0.2847	-0.1713	0.0730	-0.0782	0.5323	1.0000						
GPsa	0.1762	-0.1189	0.1815	0.2956	0.2665	0.0236	1.0000					
NMdis95	0.1541	-0.2672	0.0646	-0.2324	0.1734	0.2968	-0.2282	1.0000				
IUdis95	0.0238	0.0160	-0.0364	-0.1879	0.0525	0.0224	0.0734	-0.0298	1.0000			

HDIdis95	-0.1353	-0.1292	0.0447	-0.3466	-0.2346	-0.3528	-0.0499	-0.2728	0.2292	1.0000		
TSdis95	0.0719	0.1351	-0.0829	0.1147	-0.2076	-0.1489	-0.0004	-0.0895	-0.0985	0.4060	1.0000	
PCdis95	-0.0663	-0.0449	0.0214	-0.2415	0.0002	-0.1984	0.1634	-0.4123	0.4160	0.6827	-0.0216	1.0000

2000: CultDist + (CCdis00 + GEdis00 + PVdis00 + RLdis00 + RQdis00 + VAdis00) + (TBdis00 + FDIdis00) + TA + CR + CL + GPsa + (NMdis00 + IUdis00) + (HDIdis00 + TSdis00 + PCdis00)

	CultDist	CCdis00	GEdis00	PVdis00	RLdis00	RQdis00	VAdis00	TBdis00	FDIdis00	TA
CultDist	1.0000									
CCdis00	0.1068	1.0000								
GEdis00	0.0135	0.8285	1.0000							
PVdis00	-0.0478	0.5535	0.3496	1.0000						
RLdis00	-0.0617	0.7289	0.5946	0.7715	1.0000					
RQdis00	-0.1499	0.6703	0.6279	0.6733	0.7500	1.0000				
VAdis00	-0.0345	0.1204	0.1992	-0.1506	-0.0879	-0.0257	1.0000			
TBdis00	0.2058	0.0481	0.0143	-0.1064	-0.1109	-0.0187	-0.4567	1.0000		
FDIdis00	-0.2245	0.0833	0.1303	0.2035	0.1879	0.1472	-0.0507	-0.5256	1.0000	
TA	0.2768	-0.0588	-0.0855	-0.2779	-0.2862	-0.1573	0.2804	-0.0205	-0.1583	1.0000
CR	0.2649	-0.1060	-0.1780	-0.1119	0.0082	-0.3006	-0.1918	-0.1662	0.0740	-0.0016
CL	0.3233	-0.2535	-0.2742	-0.1153	-0.1039	-0.3801	0.0587	-0.3203	0.0626	-0.0152
GPsa	0.2888	0.0821	-0.0497	0.0878	0.1742	0.0129	-0.1791	-0.1047	-0.0006	0.3964
NMdis00	0.1328	-0.1508	-0.0231	-0.1923	-0.3089	-0.2147	0.0906	-0.0612	0.2273	-0.2407
IUdis00	-0.1104	0.6436	0.4427	0.6901	0.8239	0.6564	-0.0852	-0.0377	0.0932	-0.2151
HDIdis00	-0.2816	0.4338	0.3569	0.6576	0.7725	0.6205	-0.1817	-0.0700	0.1896	-0.4972
TSdis00	-0.1296	0.2377	0.0437	0.3125	0.3614	0.2564	-0.1925	0.0466	0.0358	-0.2056
PCdis00	-0.1030	0.6166	0.5126	0.6918	0.8173	0.7296	-0.1186	-0.1157	0.0873	-0.2676

	CR	CL	GPsa	NMdis00	IUdis00	HDIdis00	TSdis00	PCdis00
CR	1.0000							
CL	0.5823	1.0000						
GPsa	0.3442	0.1759	1.0000					
NMdis00	0.1552	0.2287	-0.3190	1.0000				
IUdis00	-0.1446	-0.2369	0.1709	-0.4890	1.0000			

HDIdis00	-0.1577	-0.2672	-0.1627	-0.2946	0.8008	1.0000		
TSdis00	-0.0259	-0.2195	0.1039	-0.2964	0.4503	0.5331	1.0000	
PCdis00	-0.0022	-0.1381	0.0837	-0.3433	0.8553	0.7617	0.3379	1.0000

2005: CultDist + (CCdis05 + GEdis05 + PVdis05 + RLdis05 + RQdis05 + VAdis05) + (TBdis05 + FDIdis05) + (TA + RDdis05) + CR + CL + GPsa + (NMdis05 + IUdis05) + (HDIdis05 + CPIdis05 + TSdis05 + PCdis05)

	CultDist	CCdis05	GEdis05	PVdis05	RLdis05	RQdis05	VAdis05	TBdis05	FDIdis05	TA	RDdis05
CultDist	1										
CCdis05	0.117	1									
GEdis05	0.124	0.7833	1								
PVdis05	0.1818	0.4979	0.251	1							
RLdis05	0.118	0.7555	0.5138	0.6479	1						
RQdis05	-0.0162	0.51	0.7156	-0.0329	0.1033	1					
VAdis05	-0.0454	0.1884	0.3501	-0.1314	-0.0352	0.5217	1				
TBdis05	0.1895	0.0222	0.1394	0.1449	-0.014	0.1185	-0.3908	1			
FDIdis05	-0.1305	0.0221	-0.0791	-0.1238	0.1141	-0.0799	0.2763	-0.6106	1		
TA	0.2022	-0.0424	-0.0824	0.0422	-0.2468	-0.0508	0.2046	-0.0926	0.0031	1	
RDdis05	-0.0811	0.4764	0.4778	0.1209	0.3034	0.6807	0.4287	0.1421	-0.0989	0.0523	1
CR	0.2434	0.0564	0.0048	0.15	0.1932	0.0497	0.035	-0.1651	0.2406	-0.0841	-0.0527
CL	0.256	-0.2731	-0.2126	-0.0667	-0.0352	-0.1265	0.1602	-0.2527	0.1474	0.0214	-0.2628
GPsa	0.1058	0.1188	-0.075	0.2793	0.2576	-0.1458	-0.101	-0.1437	0.174	0.367	0.0234
NMdis05	0.0616	-0.1978	-0.0932	-0.213	-0.3277	0.055	0.0119	-0.2811	0.1861	-0.1809	-0.2447
IUdis05	0.1556	0.6071	0.3513	0.5429	0.8837	-0.0903	-0.1039	-0.0521	-0.0071	-0.314	0.0905
HDIdis05	-0.0898	0.3212	0.1394	0.411	0.7866	-0.2065	-0.1366	-0.0477	0.049	-0.4225	0.0972
CPIdis05	0.1222	0.8065	0.5077	0.6099	0.9489	0.0837	-0.0643	0.0246	0.0266	-0.1491	0.3276
TSdis05	-0.2373	0.1324	0.0438	0.2608	0.2886	-0.0894	-0.1591	-0.0158	-0.1226	-0.3299	-0.0532
PCdis05	-0.0419	0.5253	0.3507	0.4292	0.7976	-0.0479	-0.0975	-0.0281	0.0898	-0.2894	0.2136

	CR	CL	GPsa	NMdis05	IUdis05	HDIdis05	CPIdis05	TSdis05	PCdis05
CR	1								
CL	0.5583	1							
GPsa	0.4148	0.1731	1						
NMdis05	0.1277	0.0888	-0.4858	1					
IUdis05	0.1894	0.0477	0.2446	-0.3017	1				
HDIdis05	0.086	0.0528	0.126	-0.3086	0.8375	1			
CPIdis05	0.0937	-0.1464	0.2216	-0.342	0.891	0.7203	1		
TSdis05	-0.1151	-0.239	0.0484	-0.1469	0.3985	0.4189	0.2412	1	
PCdis05	0.0877	-0.1116	0.2506	-0.4071	0.8497	0.7523	0.7881	0.3552	1

2010: CultDist + (CCdis10 + GEdis10 + PVdis10 + RLdis10 + RQdis10 + VAdis10) + (TBdis10 + FDIdis10) + (TA + RDdis10) + CR + CL + GPsa + (NMdis10 + IUdis10) + (HDIdis10 + CPIdis10 + AEdis10 + TSdis10)

	CultDist	CCdis10	GEdis10	PVdis10	RLdis10	RQdis10	VAdis10	TBdis10	FDIdis10	TA	RDdis10
CultDist	1										
CCdis10	-0.0205	1									
GEdis10	-0.042	0.9685	1								
PVdis10	-0.0998	0.8195	0.78	1							
RLdis10	-0.0889	0.9633	0.9753	0.8168	1						
RQdis10	-0.1036	0.9101	0.9338	0.7485	0.9437	1					
VAdis10	-0.1033	0.9205	0.9196	0.8985	0.9531	0.8843	1				
TBdis10	0.2097	-0.1865	-0.1528	-0.2308	-0.1902	-0.1679	-0.193	1			
FDIdis10	-0.5009	0.2286	0.1516	0.1402	0.2262	0.2173	0.2115	-0.5945	1		
TA	0.2144	-0.4484	-0.4522	-0.6025	-0.5431	-0.3992	-0.6092	0.2272	-0.1411	1	
RDdis10	-0.3364	0.5056	0.4081	0.4197	0.4023	0.3403	0.404	0.1357	0.1562	0.0203	1
CR	0.286	0.0085	0.0275	0.084	-0.0684	0.011	-0.0654	-0.1063	-0.303	0.0442	-0.3547

CL	0.3891	-0.0342	-0.073	0.2221	-0.0715	-0.037	0.0136	-0.14	-0.1766	-0.1997	-0.4268
GPsa	0.0404	-0.0647	-0.1384	-0.0961	-0.2114	-0.1067	-0.2061	0.0217	0.0585	0.4641	0.2684
NMdis10	0.1744	-0.2787	-0.2566	-0.1506	-0.2193	-0.26	-0.1731	-0.1988	-0.0064	-0.3452	-0.589
IUdis10	-0.0916	0.9102	0.9089	0.8146	0.8952	0.8758	0.8772	-0.2496	0.174	-0.523	0.3356
HDIdis10	-0.2163	0.8807	0.8824	0.7969	0.8946	0.8471	0.9115	-0.214	0.2744	-0.5117	0.4642
CPIdis10	0.0397	0.8424	0.8083	0.6612	0.739	0.6658	0.7118	-0.0876	0.0515	-0.2589	0.6467
AEdis10	0.3081	0.4206	0.3411	0.4718	0.3339	0.3836	0.3551	-0.0812	-0.0168	-0.0272	0.1347
TSdis10	-0.3045	0.713	0.7428	0.6578	0.731	0.7934	0.7321	-0.2062	0.2818	-0.3108	0.4041

	CR	CL	GPsa	NMdis10	IUdis10	HDIdis10	CPIdis10	AEdis10	TSdis10
CR	1								
CL	0.5025	1							
GPsa	0.0111	-0.1353	1						
NMdis10	0.3392	0.3912	-0.3233	1					
IUdis10	0.1738	0.0782	-0.1107	-0.2331	1				
HDIdis10	-0.0652	-0.0778	-0.1979	-0.3021	0.9251	1			
CPIdis10	-0.0351	-0.1285	0.2032	-0.3583	0.7345	0.7056	1		
AEdis10	0.1479	0.4504	0.0612	-0.3025	0.5159	0.4428	0.2837	1	
TSdis10	0.0382	-0.0869	-0.0484	-0.2896	0.8453	0.8489	0.5733	0.4294	1

2015: CultDist + (CCdis15 + GEdis15 + PVdis15 + RLdis15 + RQdis15 + VAdis15) + (TBdis15 + FDIdis15) + (TA + RDdis15) + CR + CL + GPsa + (NMdis15 + IUdis15) + (HDIdis15 + CPIdis15 + AEdis15)

	CultDist	CCdis15	GEdis15	PVdis15	RLdis15	RQdis15	VAdis15	TBdis15	FDIdis15	TA	RDdis15
CultDist	1										
CCdis15	0.0442	1									
GEdis15	-0.048	0.9662	1								

PVdis15	-0.0701	0.8301	0.8356	1							
RLdis15	-0.0358	0.9763	0.9784	0.8552	1						
RQdis15	-0.0785	0.9083	0.9213	0.7581	0.9427	1					
VAdis15	-0.0676	0.9119	0.9074	0.9129	0.9437	0.8822	1				
TBdis15	0.3817	-0.1599	-0.1629	-0.07	-0.1737	-0.1973	-0.2056	1			
FDIdis15	-0.5274	0.1855	0.1918	0.1317	0.2007	0.2498	0.1839	-0.1402	1		
TA	0.2602	-0.6087	-0.6586	-0.6077	-0.6774	-0.583	-0.6827	0.1854	-0.1853	1	
RDdis15	-0.0722	0.5288	0.4538	0.4958	0.4651	0.4175	0.3987	0.0636	0.3668	-0.035	1
CR	0.1364	0.2405	0.249	0.182	0.1855	0.2406	0.1026	-0.0439	-0.4517	0.0891	0.1
CL	0.2121	0.0508	0.0314	0.0964	0.0378	0.0023	0.0577	-0.081	-0.5239	-0.1445	-0.0391
GPsa	0.2093	-0.1831	-0.1387	-0.1772	-0.2512	-0.1737	-0.3325	0.197	-0.0865	0.5634	0.0441
NMdis15	-0.0772	0.0184	0.0763	0.1798	0.0593	0.0594	0.1589	-0.436	-0.0483	-0.3276	-0.3625
IUdis15	-0.0345	0.8833	0.9243	0.7658	0.9	0.8221	0.8392	-0.1487	0.1366	-0.7141	0.4029
HDIdis15	-0.1514	0.8972	0.9214	0.8445	0.9167	0.8628	0.923	-0.213	0.2562	-0.7364	0.4621
CPIdis15	0.1549	0.9195	0.846	0.7002	0.8459	0.794	0.7845	-0.125	0.1149	-0.434	0.5433
AEdis15	0.3113	0.3329	0.2377	0.3573	0.3071	0.274	0.3853	0.0263	0.0964	-0.2359	0.1828

	CR	CL	GPsa	NMdis15	IUdis15	HDIdis15	CPIdis15	AEdis15
CR	1							
CL	0.2212	1						
GPsa	0.3404	-0.1225	1					
NMdis15	0.1052	0.0397	-0.2406	1				
IUdis15	0.2443	0.0531	-0.0823	0.0251	1			
HDIdis15	0.1137	0.058	-0.2621	0.0927	0.8995	1		
CPIdis15	0.2916	0.0674	-0.0129	-0.1131	0.7909	0.7753	1	
AEdis15	-0.2338	0.4901	-0.3393	0.0537	0.1752	0.3132	0.2951	1

APPENDIX D

EVENT CORRELATION TABLES

Table D3.1: R_1 Correlation Table

	R_{it}	Domestic*	IndustryCode
R_{it}	1		
Domestic*	.	.	
IndustryCode	-0.1154	.	1

**Domestic omitted because of collinearity*

Table D3.2: R_2 Correlation Table

	R_{it}	Domestic*	IndustryCode
R_{it}	1		
Domestic*	.	.	
IndustryCode	-0.0746	.	1

Table D3.3: R_3 Correlation Table

	R_{it}	Domestic*	IndustryCode
R_{it}	1		
Domestic*	.	.	
IndustryCode	-0.0099	.	1

Table D3.4: R_4 Correlation Table

	R_{it}	Domestic*	IndustryCode
R_{it}	1		
Domestic*	.	.	
IndustryCode	-0.0249	.	1

Table D3.5: R_5 Correlation Table

	R_{it}	Domestic	IndustryCode
R_{it}	1		
Domestic	0.0122	1	
IndustryCode	0.0135	0.0261	1

Table D3.6: R_6 Correlation Table

	R_{it}	Domestic	IndustryCode
R_{it}	1		
Domestic	0.0265	1	
IndustryCode	0.0203	0.0205	1

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