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Differences between service and manufacturing companies:

The impact on emerging market subsidiary performance

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ABSTRACT

Emerging markets are contributing more to the global economy's growth. This has attracted multinational manufacturing and service firms to these markets. This research investigated whether the subsidiaries of service multinationals outperform those of manufacturing service multinationals in emerging markets.

The research identified 430 listed service multinational subsidiaries and 359 listed manufacturing subsidiaries currently operating in 27 emerging markets. The subsidiaries performance was analysed using the Shapiro Wilk's test for normality and the Mann-Whitney test. In addition to this, the research ran 10 multiple regression models to test the impact of country competitiveness factors on subsidiary performance.

The findings show that service multinationals' subsidiaries outperform manufacturing multinationals subsidiaries. Additionally the findings show that manufacturing multinationals subsidiaries have developed capabilities better suited to minimising the impact of the emerging market environment on their performance.

Keywords: Emerging markets, multinational enterprises, subsidiaries, services, dynamic capabilities, country competitiveness

DECLARATION

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

Name: Daniel Masiya

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Date: 11 November 2013

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1. INTRODUCTION

Increasingly, the significance of emerging markets is becoming more important to the global economy's growth. This is due to the fact that "emerging economies comprise the majority of the world's people and land, and they continue to grow faster than the developed world" (Kearney, 2008, p. 160). The growth of emerging markets has resulted in a greater demand for goods and services, and in turn has attracted multinational manufacturing and service firms to these markets. This attraction has led to multinational companies entering these markets at increasing rates, despite the slowdown of growth in developed countries. This can be seen in the United Nations Conference on Trade and Development (UNCTAD) 2013 World Investment Report which details that developing and transition economies attracted 52% of global FDI in 2012 and their combined inflows were \$703 billion, a decrease of 4% from the previous year (UNCTAD, 2013). Despite this overall decrease, FDI into Africa increased by 5%. This driven in part by extractive industries and the increased investment in consumer oriented manufacturing and service industries. Developing economies also contributed almost a third of global FDI outflows (UNCTAD, 2013).

As more service firms look to emerging markets for growth, they need to understand the critical success factors that allow them to succeed in these markets. Amongst these, their entry mode and adaptation to host country conditions has an impact on how successful they will be (Lee and Lieberman, 2010). There is a research stream focusing on market entry mode success, (e.g. Falck, 2007; Bayus and Agarwal, 2007; Jiatao, 1995; Gaur and Lu, 2007). Most of this work focuses on market survival as a measure of success. In addition to this, other factors such as how well the firm interprets and adapts to host country conditions also determine how successful the venture into the new market will be. Given that it is important for business to be profitable to shareholders (Drucker, 1973), it is important to measure success using measures that depict shareholder value (Kumar et al., 2013). However, there has been little research to show how market entry modes impact success using objective financial measures. Consequently, it is still unclear how

companies' offerings and their adaptation to host country factors influence their financial success.

It is the lack of literature on how firms take advantage of their ownership, location and internalisation (OLI) advantages to ensure success in emerging markets that has motivated this study. The purpose of this research is to identify whether the firm's offering influences how firms use their OLI advantages to influence their subsidiaries' financial success when MNEs enter emerging markets.

1.1 THE RISE OF EMERGING MARKETS

The African Development Bank (AfDB) defines the African middle class as those people spending between US\$2 and US\$20 a day. The African middle class has grown by 300% over the last 3 decades with a third of the population considered to be living above the poverty line. In addition to this, the current trajectory of growth indicates the middle class will grow to about 1.1 billion in 2060 (AfDB, 2011).

This rise in the African middle class is underpinned by progress in human development in sub-Saharan Africa. Between 2000 and 2008, secondary-school enrolment grew by almost 50%. This was because many countries expanded their education programmes and removed school fees. Over the past decade malaria deaths in some of the worst-affected countries have declined by 30% and HIV infections by up to 74%. The implementation of health programmes tackling malaria and HIV has resulted in an improvement in life expectancy of 10% across Africa. In addition to this, child mortality rates in most African countries have been falling steeply (The Economist, 2013).

“Over the past ten years real income per person has increased by more than 30%, whereas in the previous 20 years it shrank by nearly 10%. Africa has become the world's fastest-growing continent and over the next decade its GDP is expected to rise by an average of 6% a year, this as a result of foreign direct investment. FDI into Africa has gone from \$15 billion in 2002 to \$37 billion in 2006 and \$46 billion in 2012” (The Economist, 2013).

The increase in population has created the increase in demand for consumer goods and services. As a result of the above mentioned growth trajectory, the potential growth in demand for these goods and services has resulted in multinational firms attempting to enter markets in Africa in anticipation of this growth. Goods and services that used to be inaccessible to the majority of the population, including telephones, are now widely available. Africa has almost the same number of mobile phones per person as India, it is anticipated that by 2017 almost 30% of African households are expected to have a television, an almost five hundred per cent increase over ten years, (The Economist, 2013).

1.2 MNEs IN EMERGING MARKETS

The emergence of a new middle class in emerging markets has increased the demand for goods and services in those markets significantly. This has resulted in MNEs having an increased interest in pursuing opportunities to meet the needs. The increased interest has also been as a result of increasing competition in many developed markets and the effects of slowing economies.

In recent times, the number of MNEs entering Africa and other emerging markets has increased. Service industry firms such as Pfizer, IBM, Google, PwC, WPP, Bharti Airtel, Nokia/Siemens, Huawei, Procter & Gamble, Barclays, Regus and Standard Chartered have announced plans to better serve sub-Saharan Africa either through entering new markets or improving their current offerings. In addition to this, MNEs from South Africa such as Pick n Pay, Shoprite, Game, Spar, MTN and Vodacom have continued to look for growth opportunities in sub-Saharan Africa and other markets. MNEs from South Africa are increasingly active in Africa and this has resulted in South Africa accounting for the most outward FDI in Africa. This aligns with UNCTAD's findings that FDI into emerging markets was increasingly coming from other emerging markets.

UNCTAD's foreign direct investment (FDI) data shows that investors are increasingly focusing on the African Consumer market with specific focus being on consumer

related manufacturing and services. This includes selected industries in manufacturing (food; beverages and tobacco; textiles; clothing and leather; electrical and electronic equipment; motor vehicles and other transport equipment) and services (transport; storage and communication; finance; education; health and social services; community; social and personal services activities). This is supported by recent data that shows that resources contributed less than a third of the growth in Africa in the 2000s whilst consumer-facing or partially consumer facing sectors contributed almost 45% (Mckinsey, 2012).

1.3 USEFULNESS OF RESEARCH

1.3.1 CONTRIBUTION TO LITERATURE

Market entry modes have been well explored in literature (Diego et al, 2007; Gillespie et al, 2007; Johnson and Tellis, 2008; Lee and Leiberman, 2010). Additionally, there is a significant body of research on market entry mode relationships to destination country factors such as risk, economic performance and GDP (for example, Boateng, et al, 2012; Fontagne et al, 2005; Nachum et al, 2008; Couturier and Sola, 2010). However, research on market entry mode success is dominated by firm survival rate relationships to market entry mode (Falke, 2007; Bayus and Argwal, 2007; Jiatao, 1995, Gaur and Lu, 2007). Additionally the majority of this literature is focused on developed economies.

There is emerging literature exploring new constructs for market entry mode success, however, this research has been focused primarily on European economies (Georgopoulous and Preusse, 2009; Fang et al, 2010). Some contributors have called for additional research on market entry mode success using financial measures. This is because firms have been traditionally reluctant to divulge specific information on their performance and as a result there has been very little research done on measuring financial performance of MNEs (Johnson & Tellis, 2008).

This study explores relationship between the MNE subsidiary industry, its adaptation to in-country conditions and its success in the context of emerging markets. Additionally this study also focuses on financial measures of success. This study contributes to the emerging literature on the relationship that the MNE subsidiary

industry has on the success of multinational entities in new markets in the following ways:

- Financial measures of success are used, this takes into account historical performance of the MNE
- The measure of success is derived from publicly available market data, this removes the bias managers of the MNEs may have regarding their own firm's performance
- The research focuses on firms operating in 27 countries identified as emerging markets in across the world
- Comparisons between service and non-service industries are done to determine whether they respond differently to in country conditions as measured by the country's GCI ranking.

1.3.2 CONTRIBUTION TO POLICY MAKERS

This research uses country competitiveness rankings as the independent variables to determine their influence on the MNE subsidiary's financial success. National competitiveness is measured using the Global Competitiveness Index (GCI) as defined by the World Economic Forum. The index is made up of three main components and each of the three components is a sub-index addressing multiple country competitiveness factors. These factors are ranked across 144 countries in the world.

In determining how these indices impact MNEs, this research will make it easier for policy makers to identify the factors that need to be changed in order to design and implement policies that will have a positive impact on their relevant rankings as measured by the GCI. Depending on the country's priority, the changes made can influence the timing and type of MNE that chooses to enter the market to gain specific advantages.

1.3.3 CONTRIBUTION TO MULTINATIONAL ENTITIES

The research will identify which measures of country competitiveness have the biggest bearing on the financial performance of MNE subsidiaries. Depending on the MNE industry, the results from this research can be used to determine the specific capabilities that the MNE must develop in order to maximise performance in emerging markets. Additionally, this research will also allow them to prioritise the dynamic capabilities to focus on.

2. LITERATURE REVIEW

2.1 INTRODUCTION

The literature review introduces the theory on Multi-national Enterprises and market entry modes. It explores the literature on service firms and their differences to other firm types and identifies the key attributes differentiating them. A review of internationalisation literature is conducted and linked to the resource based view of the firm and its importance for successful market entry in emerging markets.

2.2 THE MULTINATIONAL ENTERPRISE

Dunning (1989) defined a multinational enterprise as a firm that owns and controls activities in two or more different countries. Over the years this definition has evolved to “*a coordinator of a system of domestic and foreign activities*” (Dunning & Lundan, 2008, p201). More recently, the MNE has been defined as “*a firm that has a capability to build, develop and coordinate value-creating multinational business network structures, involving both internal and external actors*” (Vahlne & Johanson, 2013, p 205). The eclectic paradigm can be used to explain how firms internationalise their activities (Dunning, 2000). This paradigm explains that firms need to possess ownership (O), location (L) and internalisation (I) advantages that are not possessed by local firms for them to consider entering new markets.

Ownership (O) specific advantages arise from the firm owning a particular type of asset, tangible or intangible, that the local firms do not possess. Additionally these advantages are also related to the firm being able to minimise certain transactional costs. The greater the ownership advantages of the investing firms, relative to those of the firms in the host country, the more the MNEs are likely to be able to engage in, or increase, their foreign production (Dunning, 2000).

Location (L) specific advantages arise from the firm being able to realise gains by optimising activities in its value chain across different countries or regions. Within the host market, the greater the immobile, natural or created advantages that the MNE needs to use jointly with their own competitive advantages, the more likely that the MNEs will choose to augment or exploit their ownership specific advantages by

engaging in FDI (Dunning, 2000). One of the key choices for MNEs to make is the determination of the products to offer into the countries they choose to enter (Li et al., 2005). Location factors can include both local adaptations to address the host market and profit making resources, especially knowledge resources that are tied to a particular location and that the MNE could incorporate into its resource base or access via alliance arrangements in the host country (Li et al., 2005). These location factors determine the MNE's activities but only impact competitive advantage when interacting with the MNE resources and capabilities. It is unclear whether this interaction explains the difference in performance between MNEs within the same host country.

Internalisation (I) specific advantages arise from the firm being able to maximise its potential by retaining information internally thereby preventing its competitors from replicating its asset and transactional cost advantages. There are local attractions of different regions or countries and thus a firm's ability to keep internal its competitive advantages will determine how the firm engages in the production of the goods or services (Dunning, 2000). Internalisation advantages also refer to the advantage of the MNE organisational structures in internalising transactions for intermediate products and knowledge. MNE decisions on ownership structures can create various organisational advantages, particularly in terms of acquisitions, that are not available through licensing knowledge or exporting (Li et al., 2005).

In order for MNEs to compete with host country firms in the host country, they must possess advantages specific to their OLI (Dunning, 2000). FDI strategies can only be considered only if MNEs have internal resource advantages over competitors in foreign countries. The different OLI factors impacting the MNE and how it responds to them will differ depending on the intent of the MNE the situation. The configuration of the OLI response will reflect the economic and political features of the home country and its region as well as the host country, the industry and the nature of activities the firm would like to engage in and the characteristics of the MNE and their objectives.

Previous studies have identified four types of MNE activity, these are:

1. Market Seeking – designed to satisfy a particular foreign market or set of foreign markets
2. Resource Seeking – designed to get access to natural resources, e.g. minerals, agricultural produce, labour
3. Specialisation of Assets – designed to promote more efficient divisions of labour and specialisation amongst assets, this is normally sequential to the first or second kinds of FDI
4. That designed to protect or augment the existing O specific advantages of the investing firm.

Combining the individual parameters of the OLI paradigm with the characteristics of home and host countries and investing MNE activity, it can be hypothesised that certain MNEs are more likely to generate more revenue and profits and use their assets more effectively than others. Given the differences in industries, it can also be hypothesised that certain industries have similar parameters within the OLI paradigm. These similarities may translate to similar performance within industry types but differing performance across industries.

2.3 SERVICES

There is consensus in the literature that services differ from manufactured goods and that these idiosyncrasies of services render them more difficult to manage (Parasuraman, et al., 1996). Gronroos (1990, p27) defines a service as “*an activity or series of activities of a more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees and / or physical resources or goods and / or systems of the service provider, which are provided as solutions to customer problems*”. Cloninger (2004, p. 128) summarises services as “*deeds, performances, and efforts that provide benefits to customers*”. This supports the view that services are intangible and that pure service outputs cannot be seen, touched or tasted, like tangible objects. Services can either be core or supplementary to the firms offering (Kotabe and Murray, 2004). Core services are the essential service activities of the firm and are necessary for the firm

to participate in the market, when not performed well, the firm will go out of business. Supplementary activities are either indispensable to the core activities or are available to improve the overall quality of the core service activities (Kotabe and Murray 2004).

Kotler and Keller (2007) identified four distinct characteristics of services as intangibility, inseparability, variability and perishability.

2.3.1 SERVICE INSEPARABILITY

Inseparability means that services are typically produced and consumed simultaneously (Kotler and Keller, 2007). Client and provider interaction is a unique feature of services provision that distinguishes a service from a manufactured good. This is because of the proximity and interaction of service workers and customers. Due to services having to be consumed during the interaction with the customer, the service provider has to be in close proximity to the targeted market. Additionally, this attribute means that other customers may be involved in the process, e.g. passengers on a plane, and this affects the individual consumer's perception of service quality. The challenges regarding segmentation and matching offerings to their targets become more difficult in a multicultural or multinational setting.

Moeller (2010) identified that some scholars have had criticisms of inseparability as a characteristic of services. These criticisms have been primarily based on the existence of services that are directed at customers' possessions when customers are not present. However, Moeller (2010) concludes that the attributes of inseparability do not mean that the customer has to always be present during the provision of the service. It could be the customer's possessions that have to be present. These possessions can take the form of the customer, their physical objects, their rights, their nominal goods and their data.

2.3.2 SERVICE VARIABILITY

Variability means that service quality is dependent on who provides them as well as when and to whom (Kotler and Keller, 2007). Services are often designed around the specific requirements of an individual customer. The perceived performance of the

services will depend on the service provider, the buyer and the situation. The high variability means that service providers have to ensure adequate service through quality control (Bebko, 2000). This becomes even more important when a firm is entering a new market because the expectations of the customers as well as their situations may differ from the customers normally serviced by the firm. As a result, when entering new markets, service firms can choose to standardise their approach or customise it for the local environment. The degree of the standardisation will impact on the quality approach the firm takes to ensure that the impact of variability is minimised in that new market.

Quality control can be improved by investing in good recruitment and training processes, standardising the service performance processes and monitoring customer satisfaction. Snell and White's (2009), literature review found that the services industry is characterised by close relationships between suppliers and customers that are mostly personal and face-to-face. They also found that professional services are considered a purchase with the highest risk, part of the reason is because the customer's expectations before the purchase are complicated and increase their perceived risk when judging the performance of the service. King and Grace (2009) support this view by adding that the limited physical evidence in a service often means that the service offering is an outcome of the organisational culture as well as training and employee attitudes.

2.3.3 SERVICE PERISHABILITY

Perishability means that services cannot be stored. This could be a problem when demand for the service fluctuates (Kotler and Keller, 2007). Perishability is associated with the inability to stockpile or store services.

There has been literature that has criticised perishability as a measure of services; this is primarily based on arguments that service memories can be remembered by customers for years (Edvardsson, et al., 2005). However, this criticism is dismissed by other authors who differentiate between the perishability of the equipment and assets to be used, the service activity and the benefits of the activity. Moeller (2000) agrees that although the necessary facilities, equipment, and labour can be held in

readiness to create a service, these do not represent the service itself. The service only becomes activated once there is customer demand integrated with the service capacity. The inability to store services has an impact on the internationalisation process for services. International expansion is more risky because the service firms have to deal with the customer directly and cannot gradually learn through indirect or casual exporting.

2.3.4 INTANGIBILITY

Intangibility means that unlike physical products, services cannot be seen, tasted, felt, heard or smelled before they are bought. It is also the degree to which a product can be visualised and provide a clear concrete image before it is purchased (Mcdougall & Snetsinger, 1990). It has been argued that intangibility is the key to determining whether an offering is a service or a product. Intangibility often leads to quality control problems for the producer and evaluation difficulties for the consumer (Blomstermo et al., 2006). Intangibility has both a physical and mental component (Mcdougall & Snetsinger, 1990). The physical evidence of the service production process can be used to communicate service quality attributes and create the service experience. The customer, customer's possessions and information are recognised as inputs into the service delivery process. As a result the intangibility of the process as well as the result will affect how customers evaluate services.

2.3.4.1 The intangibility continuum

Over the years a number of researchers have argued that separating products and services may be too simplistic. This is because many firms produce outputs that are a combination of the two with manufactured goods sometimes having a service attached to their delivery. In response, research on service intangibility has yielded the view that intangibility is not an either or concept but rather a continuum (Hellén, 2013; Laroche et al., 2001; Moeller, 2010). This means that both products and services have a degree of tangibility based on how well the consumer understands the outcome received if they make a purchase. Service intangibility is viewed as a continuum which is present to differing degrees in firms' outputs. There will be a degree of intangibility regardless of whether the firm produces goods or provides

services. This intangibility can be ranked from high to low, as a result a firm's output can be classified according to its measure of intangibility and this will vary from very low to very high service intangibility (Cloninger, 2004).

2.3.4.2 Dimensions of Intangibility

2.3.4.2.1 Physical Intangibility

This is the most used definition of intangibility as a whole. This refers to the attributes of the product mentally related to the product upon presentation of the product. Laroche et al., 2001, however found that this attribute was not adequate enough to describe intangibility because the customer or user could be able to clearly visualise the object but could have not understanding of what the object was or what it provided. This led to the addition of mental intangibility as a dimension.

2.3.4.2.2 Mental Intangibility

This dimension reflects that physical tangibility does not mean that the evaluator has a clear mental representation of the object. This is more probable if the evaluator lacks the experience of using or interacting with the object (Laroche, et al., 2001). This dimension explained more variability in the overall intangibility construct than Generality and Physical Intangibility (Laroche et al. 2001). Additionally, this dimension was also found to have a strong relationship to the level of perceived consumer risk (Laroche et al. 2003).

2.3.4.2.3 Generality

Generality refers to how general or specific a consumer perceives a particular product or service. Services are perceived as general if consumers cannot refer precisely to identifiable definitions, features or outcomes. (Laroche et al., 2001) This dimension of intangibility has been found to be positively related to the perceived evaluation difficulty because customers do not have a specific representation of the attribute in their mind. This contributes to the notion that the intangibility of an object is based on the perception of the consumer's understanding of the object and its function.

2.3.4.3 Internationalisation of Services

Traditionally, firms with more tangible products find it easier to internationalise because tangible outputs are easier for customers to evaluate (Cloninger, 2004). This will allow the firm to reduce uncertainty because buyers will look for evidence of quality by drawing inferences from the place, people, equipment, facilities, communications symbols and price. In reducing the uncertainty, the buyers will be able to better evaluate the offering in situ. It is therefore important that the service provider demonstrates their service quality through physical evidence and presentation (Kotler and Keller, 2007).

There is a view that suggests that offerings that have a higher degree of service intangibility are more difficult to offer to markets in other countries. As a result of this difficulty, the firm will more likely internationalise through market entry modes that increasingly require more control and resources as well as allow for it to demonstrate evidence of quality (Cloninger, 2004). However, there is an alternative view that states that barriers to internationalisation are higher in manufacturing than in service firms, and especially for knowledge-intensive service firms (Contractor et al., 2007). This is because more intangible goods allow firms to better generate revenue internationally or help them seek revenues internationally (Cloninger, 2004). Additionally, firms producing highly intangible products are typically highly knowledge based and can leverage these knowledge based assets to earn higher revenues (Sharma and Johanson, 1987). This is further supported by the view that highly knowledge intensive services for example professional services do not appear to be very price sensitive (Cloninger, 2004).

The observations regarding the internationalisation of services are in contrast to those in literature studying the internationalisation of manufacturing industries. These state that there are advantages to be gained through the internationalisation of manufacturing. However, as MNEs expand to more countries, they will experience complexity regarding inefficiencies which will depress their earnings (Gaichetti and Lampel, 2013). Additionally manufacturing MNEs are most likely to expand internationally with the intention of maximising the operational advantages of manufacturing internationally (Gaichetti and Lampel, 2013).

Risks associated with new market entry can be managed through the use of skilled professionals that can be relocated to new markets. This suggests that MNEs whose ownership advantages are based on outputs that are highly knowledge based and thus highly intangible, can be transferred to new markets both more easily and at less risk than firms whose advantages are based on more tangible advantages (Sharma and Johanson, 1987).

2.4 THE RESOURCE BASED VIEW OF THE FIRM

The resource based view (RBV) suggests that achieving and maintaining a sustained competitive advantage requires the availability of strategic resources that are internal to the organisation. These resources are not sustainable without great effort and should not be perfectly mobile or imitated easily (Clulow et al., 2003; Wernerfelt, 1984). These characteristics are expected to help a company pursue a value-added strategy through which it can achieve sustainable competitive advantage. However, the resources are not only assets; they also encompass capabilities and knowledge (Yunis et al., 2012; Barry et al, 2003). Resources that are strategic in nature can help organizations and nations achieve competitive and comparative advantage. When in excess, these resources are used by MNEs to diversify their product portfolio and generate additional revenues (Gaichetti and Lampel, 2013). Based on the competitive forces approach, certain industries with high market barriers and high rival costs become more attractive. This therefore suggests that certain industries or industry groups are where the competitive advantage lies.

Whilst the RBV is sufficient to explain how MNEs use their resources to take advantage of opportunities in local and other markets, it does not explain how firms adapt to changes in their home markets or the host markets. This is because the lack of adaptation to new conditions can result in the MNE losing its position of advantage. Sustained competitive advantage becomes more important and how managers respond to the changes in their operating environment becomes the origin of that sustained advantage (Teece et al., 1997).

The shortcomings of the RBV have resulted in the emergence of the dynamic capabilities model. This model refers to the ability to demonstrate timely

responsiveness as well as management's ability to change their resources structures to handle changes especially in volatile environments (Teece et al., 1997). This requires constant surveillance of markets and technologies and a willingness to adopt best practice (Teece et al., 1997). These dynamic capabilities allow firms to carry out strategies that change the available resources and their structure in order to achieve and sustain competitive advantage in rapidly changing and dynamic environments (Luo, 2000).

These dynamic capabilities are likely to vary in different industry environments (Prange & Verdier, 2011), for example where industry environments are more uncertain, the liability of newness and foreignness are less severe and legitimacy and positional advantages are less important.

2.6 EMERGING MARKETS

The world's emerging markets have become the focus of a large volume of research in the past 20 years. This has arisen because emerging markets have the majority of the world's population and land mass. Additionally emerging markets continue to grow faster than developed markets (Kearney, 2010). Emerging markets are increasingly recognised as environments that have a diverse set of business, cultural, economic, financial, institutional, legal, political and social attributes. This diversity has become the main reason why researchers want to test, reassess and renew theories and methodologies that have been proven to work in developed markets. The diversity also provides them with a platform to gain deeper knowledge about how business and markets work.

There is generally no agreement in literature as to what constitutes an emerging market. As a result, the classification of a countries as emerging markets is continues to be done and reviewed regularly by a variety of different institutions and agencies. This classification is completed using different methodologies, classifications and detail. Given that emerging markets form the context of this research, it is important to establish the definition of emerging markets as it will be used in this study. The Financial Times Stock Exchange (FTSE) has defined a country classification review process. Using this process, 9 'advanced' and 13 'secondary' emerging markets were identified across the world. Bloomberg's Morgan Stanley Capital International (MSCI) emerging market index comprises 26 countries in three regions.

After researching and consolidating the various definitions Kearney (2010), generated the following list grouped into geographic location.

- Africa: Egypt, Morocco and South Africa
- Asia: China, India, Indonesia, Israel, Jordan, Malaysia, Pakistan, Philippines, South Korea, Taiwan, Thailand, Turkey and the UAE
- Europe: the Czech Republic, Hungary, Poland and Russia
- North and Central America: Mexico

- Oceania: none
- South America: Argentina, Brazil, Chile, Colombia, Peru and Venezuela

The 27 countries identified, make up about three quarters of the world's land mass and 80% of the world's population (Kearney, 2010). The markets listed above can be described as having diverse cultures, languages and politics. As a result of differences in their speeds and sequencing of their economic and institutional reforms, they have different political systems and legal enforcement (Holtbrügge & Baron, 2013). Additionally, these markets have well-developed physical financial infrastructure including central banks, commercial banks and stock exchanges. They have less well developed processes and systems of accounting, governance, regulation and other financial infrastructure, less efficient markets and less liquidity than the developed markets (Holtbrügge & Baron, 2013). These differences result in greater uncertainty and risk for MNEs looking to operate in these markets.

2.7 MARKET CHOICE

There have been a number of studies conducted on factors that influence market choice as well as mode of entry (for example: Boateng, et al, 2012; Fontagne et al, 2005; Nachum et- al, 2008; Couturier and Sola 2010; O'Donnell & Blumentritt, 1999).

Boateng et al (2012), suggest that market development, power, technology development, location advantages and synergistic gains have a bearing on entry mode choices. In addition to these factors, sufficient demand, low production costs, lack of intense competition, advantageous policies and efficient economies (Fontagne et al, 2005); market size, production costs, agglomeration effects and geographical location (Mucchielli and Yu, 2011); proximity of a country to the rest of the world, proximity to the world's knowledge and markets and proximity to resources (Nachum et, al, 2008; Mataloni, 2008) all have an impact on the attractiveness of a country for MNEs. Additionally, per capita GDP (Jandhyala, 2008), productivity enhancing attributes (Mataloni, 2008), social, legal, economic and political framework (Claver, et. al. 2007) also play a part in the choices made by MNEs. These factors contribute to the competitiveness of a nation and ultimately how attractive that nation will be to FDI.

2.8 NATIONAL COMPETITIVENESS

There are many different definitions of national competitiveness, a number of them mention the same core principles, for example, the ability for a nation to increase wealth and welfare of its people and the ability for its companies to improve and profit from technology and products in world markets (O'Donnell & Blumentritt, 1999). Additionally some definitions also mention the management of internal assets, processes, proximity and attractiveness to other markets, excellence of health and education, levels of productivity (Önsel et al., 2008). The most comprehensive definition is from the OECD (2012) which describes national competitiveness as “*the degree to which a country can, under free and fair market conditions, produce goods and services which meet the rest of the international markets, whilst simultaneously maintaining and expanding the real incomes of its people in the long term. This includes the set of institutions, policies, and factors that determine the level of productivity of a country*”.

Due to increased globalisation, subsidiaries of foreign firms have an increased impact on the host nation's competitiveness. This impact is in two ways, either the competitiveness of the nation is dependent on the competitiveness of the firms operating within it, or, a nation's competitiveness may influence the location of MNE subsidiaries (O'Donnell & Blumentritt, 1999). The implication of the later relationship is that the host nation resources and capabilities will influence the kinds of MNEs that find it attractive to enter as well as the market entry mode the MNE will use.

2.8.1.1 Measuring National Competitiveness

There are two internationally recognised rankings that measure and rank the competitiveness of countries. These are the Global Competitiveness Index (GCI), established by the World Economic Forum (WEF) and World Competitiveness Index (WCI) established by the IMD Business School. The WCI is comprised of four components; economic performance, government efficiency, business efficiency and infrastructure (IMD, 2013). The GCI is comprised of three major components: business requirements, efficiency enhancers, and innovation and sophistication factors (Schwab & Sala-i-Matin, 2013). In this research, global competitiveness is

measured using the GCI as defined by the World Economic Forum to measure and compare the competitiveness level of nations.

Each of the three components is a sub-index integrating multiple factors. The business requirements sub-index is composed of institutions, infrastructure, macroeconomic stability, and health and primary education. The efficiency enhancers' sub-index is composed of higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, and market size. Finally, the innovation factors are business sophistication and innovation (Schwab & Sala-i-Matin, 2013). In the index, the three factors have been given different weightings. These weightings take into account the differences in importance for each stage of an economy's development. The different stages defined by the WEF are the factor-driven stage, the efficiency-driven stage, and the innovation-driven stage (Schwab & Sala-i-Matin, 2013).

2.9 MARKET ENTRY MODES

Choosing the most suitable modes of entry into the different countries is one of the most important strategic decisions that an enterprise must make during its internationalisation process (Diego et al., 2007). In addition to this, the mode of entry also affects how a firm adapts to the challenges of entering a new country and deploying new skills to market its product successfully and deal with country environmental factors (Gillespie et al., 2007). This decision is influenced not only by the market to enter but how to enter them and the offerings for that market (Lee and Lieberman, 2010).

Johnson and Tellis (2008) categorised the modes of market entry as follows:

Table 1: Market entry modes

Entry Mode	Description
Export	A firm's sales of goods/services produced in the home market and sold in the host country through an entity in the host country.

License and franchise	A formal permission or right offered to a firm or agent located in a host country to use a home firm's proprietary technology or other knowledge resources in return for payment.
Alliance	Agreement and collaboration between a firm in the home market and a firm located in a host country to share activities in the host country.
Joint venture	Shared ownership of an entity located in a host country by two partners, one located in the home country and the other located in the host country.
Wholly owned subsidiary	Complete ownership of an entity located in a host country by a firm located in the home country to manufacture or perform value addition or sell goods/services in the host country.

Each entry mode or combination of modes will have implications for levels of control, ownership and resource commitment. Helpman et al (2004) found that of the firms that served foreign markets, only those that were more productive engaged in FDI. This allowed them to invest more resources in host markets. This view was supported by Johnson and Tellis (2008). Murray et al (2012) found that the successful emerging market entry was related to the degree of control held by the investing firm. This is because control gives firms more freedom to deploy resources flexibly, thus enhancing the chances of success. Control also safeguards resources and allows for internal operational control (Luo, 2001). In addition to this, there are fewer internal conflicts and greater managerial efficiency (Murray, et al., 2012).

There are two ways that firms can enter new markets through a wholly owned subsidiary. One is through greenfields and the other through the acquisition of local firms. In adopting a greenfields approach, the firm can rely on existing capabilities in the home market and transfer their successes to the host market (Hahn and Save, 2005). A greenfield investment is the investment in offices, manufacturing and processing plants, distribution facility or other physical structure in a country where

no corporate facilities currently exist. It is an investment normally entailing 100% ownership and therefore full control. By implication, the investment essentially starts from zero, meaning an entire organisation must be recruited, commercial relationships for the production and distribution of goods or services must be established and licenses to trade obtained (Couturier and Sola, 2010).

Alternatively, acquisitions are favoured when there are very high or low market growth rates, when entry is at a larger scale than when compared to the acquiring firm, and where the firm has no access to the required capabilities locally (Henart and Park, 1993). An acquisition takes place when one company purchases a majority shareholding in another company or a part of it (e.g. acquisition of a business unit) by stock purchase or exchange. It is one of the most common strategies for market entry because it gives the MNE instant access to resources currently owned by the firm it is acquiring. In addition to this, the MNE also gets complete control in the case of a 100% acquisition (Couturier and Sola, 2010).

2.10 MARKET ENTRY SUCCESS

There is a body of literature focusing on the impact of entry modes on the survival chances of subsidiaries. As a result, a number of factors have been used to capture survival rates. Studies have been completed on firm level characteristics and regional dimensions (Falck, 2007), diversifying entrants and entrepreneurial start-ups (Bayus and Agarwal, 2007), level of product offering diversification (Jiatao, 1995), host country experience, institutional distance and ownership levels (Gaur and Lu, 2007).

Falck (2007) found that regional dimension had more of an influence on survival rates than firm-level characteristics. Jiatao (1995) found that the survival rates for foreign acquisitions and joint ventures was lower than for subsidiaries established through greenfield investments. In addition to this, the results of their study also indicated a higher exit rate for subsidiaries that diversify than for those that stay in the parent firm's main product areas.

Jiatao's (1995) research results also show that firms benefit from learning and experience in foreign operations, which improves the chances of success for

subsequent foreign investments. This view was not supported by Gaur and Lu (2007), who found that previous host country experience has a negative impact on subsidiary survival, but the effect is weaker if foreign parents have larger ownership positions and thus more control in the subsidiaries.

The survival of an affiliate firm in a new market does not necessarily mean that it holds a leading position in that market. Market survival on its own does not indicate whether the firm has shown excellent performance (Georgopoulos and Preusse, 2009). As such in order to measure performance, several firm-specific indicators of economic success can be used (Fang, et al, 2010). Financial performance is essential for the survival of firms in a competitive and uncertain environment and ultimately reflects how well a firm delivers on its quality. This can be measured through the extent to which a firm increases sales, profits, and return on equity, additionally, revenues directly obtained from customers are good measures for financial performance (Yoo & Park, 2007).

In light of the literature reviews and the gaps identified, this research will measure success using the following measures:

- Operational Revenue
- Total Assets
- Profit / Loss before Taxation
- Profit Margin (%)
- Return on Total Assets (%)

The above measures adequately cover the key aspects identified as key measures of financial performance.

2.11 CONCLUSION OF THE LITERATURE

The literature review focused on the MNE which is a firm that that owns and controls activities in two or more different countries. The eclectic principle was used to explain how the MNE internationalises its activities. This is primarily because of the

ownership, location and internalisation advantages accessible to the MNE (Dunning, 2000). Its subsidiaries play an important role in impacting the host country competitiveness and consequently its decision to enter markets is impacted by the conditions in the potential host market.

The literature also explored the services as an offering and the key differences between services and other industry types. Their key characteristics of services were identified as intangibility, inseparability variability and intangibility (Kotler and Keller, 2007). A key finding is that industries cannot be seen as purely service or manufacturing but lie on a continuum that relates to the degree of intangibility of their products and services (Laroche et al., 2001; Moeller, 2010; Hellen, 2013). Highly intangible goods and services had to be produced in close proximity to the final users and need greater investment to ensure the relevant quality expectations are managed and create a better sense of tangibility. More intangible goods allow firms to better generate revenue internationally or help them seek revenues internationally. This is because firms most firms producing highly intangible products are highly knowledge based and can leverage these knowledge based assets to earn higher revenues (Sharma and Johanson, 1987; Cloninger, 2004).

The literature implies that due to the highly intangible nature of the outputs, service MNEs should outperform non-service MNEs because they can leverage their knowledge bases more effectively to earn higher revenues (Cloninger, 2004). However, given their need to deliver in close proximity to their customers they may invest in more human assets and training in order to earn them higher revenues (Snell and White, 2009).

The successful entry into markets has traditionally been measured using firm survival rates and has focused on developed markets due to the availability of data. However, more recent studies have identified the need to use financial measures to determine success, this based on the recognition that subsidiary survival does not mean success (Georgopoulos and Preusse, 2009). Financial success was identified as the ultimate measure of how firms delivered on quality expectations of their customers.

The RBV was explored, the traditional model suggesting that getting to a position of sustained competitive advantage requires the availability of strategic assets, capabilities and knowledge that are internal to the organisation (Wernerfelt, 1984). The literature also concluded that based on the competitive forces approach certain industries or industry groups are where the competitive advantage lies. This approach works in stable markets; however this does not sufficiently explain why firms operating in markets experiencing rapid change maintain their advantage.

Over the years, the dynamic capabilities model emerged from a shortcoming in the RBV. These dynamic capabilities allow managers to carry out strategies to integrate and reconfigure available resources in order to achieve competitive advantage in their operating environments (Teece et al., 1997). These capabilities are also likely to vary in different industry environments.

In conclusion, the study aims to add to current literature by studying MNE's ability to apply their dynamic capabilities in emerging markets. Additionally this study aims to determine the differences between dynamic capabilities in SMNEs and MMNEs. In doing so, this research also answers calls for further research using financial measures of success and emerging market data to determine the success of MNE market entry.

3. RESEARCH QUESTIONS

Based on the literature review, two questions were identified, these discussed in the sections to follow.

3.1 RESEARCH QUESTION 1

Past literature implies that due to the highly intangible nature of the outputs, SMNEs should outperform MMNEs because they can better generate revenue internationally by leveraging their knowledge bases more effectively to earn higher revenues (Cloninger, 2004; Sharma and Johanson, 1987). However, given their need to deliver in close proximity to their customers they may invest in more assets to earn the higher revenues. Additionally manufacturing MNEs may be disadvantaged during their internationalisation due to the erosion of their profitability by inefficiencies that arise from the complexity of operating in multiple environments (Gaichetti and Lampel, 2013). Do these observations from literature hold with regard to SMNEs and MMNEs in emerging markets?

Are there differences between the financial performance of service multinational entities (SMNEs) and non-service multinational entities (MMNEs)?

In order to answer this question, five performance variables were selected (Operational Turnover, Total Assets, Profit / Loss before Taxation, Profit Margin (%), and Return on Total Assets (%)). These would be used to analyse performance of MNEs in highly intangible industries (SMNEs) against that of MNEs in industries with low intangibility (MMNEs).

Since the financial performance of the MNEs will be measured using the above mentioned variables, the following five hypotheses have been devised:

3.1.1 HYPOTHESIS 1A

The null hypothesis states that there is no difference between the operational revenue of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE operational revenue will be greater than MMNE operational revenue.

Null Hypothesis: H1A0: $\mu_{SMNE_{OPREV}} = \mu_{MMNE_{OPREV}}$

Alternative Hypothesis: H1A1: $\mu_{SMNE_{OPREV}} > \mu_{MMNE_{OPREV}}$

3.1.2 HYPOTHESIS 1B

The null hypothesis states that there is no difference between the total assets of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE assets will be greater than MMNE assets.

Null Hypothesis: H1B0: $\mu_{SMNE_{Assets}} = \mu_{MMNE_{Assets}}$

Alternative Hypothesis: H1B1: $\mu_{SMNE_{Assets}} > \mu_{MMNE_{Assets}}$

3.1.3 HYPOTHESIS 1C

The null hypothesis states that there is no difference between the profit before tax of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE profit before tax will be greater than MMNE profit before tax.

Null Hypothesis: H1C0: $\mu_{SMNE_{PBT}} = \mu_{MMNE_{PBT}}$

Alternative Hypothesis: H1C1: $\mu_{SMNE_{PBT}} > \mu_{MMNE_{PBT}}$

3.1.4 HYPOTHESIS 1D

The null hypothesis states that there is no difference between the profit margin of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE profit margin will be greater than MMNE profit margin.

Null Hypothesis: H1D0: $\mu_{SMNE_{ProfM}} = \mu_{MMNE_{ProfM}}$

Alternative Hypothesis: H1D1: $\mu_{SMNE_{ProfM}} > \mu_{MMNE_{ProfM}}$

3.1.5 HYPOTHESIS 1E

The null hypothesis states that there is no difference between return on total assets of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE return on total assets will be greater than MMNE return on total assets.

Null Hypothesis: H1E0: $\mu_{SMNE_{ROTA}} = \mu_{MMNE_{ROTA}}$

Alternative Hypothesis: $H1E1: SMNE_{ROTA} > \mu MMNE_{ROTA}$

3.2 RESEARCH QUESTION 2

The dynamic capabilities model emerged from a shortcoming in the resource based view. These dynamic capabilities allow executives to carry out strategies to integrate and reconfigure available resources in order to achieve competitive advantage in rapidly changing and dynamic environments (Luo, 2000). These capabilities are also likely to vary in different industry environments.

Can the differences in MNE financial performance be attributed to how they react to in-country competitiveness factors rather than internal factors such as their size, age and independence from the ultimate owner?

3.2.1 HYPOTHESIS 2A

The null hypothesis states that the country competitive factors and management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE operational revenue, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE operating revenue.

Null Hypothesis: H2A0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{Oprev}$ and $MMNE_{Oprev}$

Alternative Hypothesis: H2A1: $SMNE_{Oprev}$ and $MMNE_{Oprev}$ are predominantly influenced by the management of MNE subsidiary factors.

3.2.2 HYPOTHESIS 2B

The null hypothesis states that the management of country competitive factors and MNE subsidiary factors predominantly explain the performance of SMNE and MMNE assets, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE assets.

Null Hypothesis: H2B0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{Assets}$ and $MMNE_{Assets}$

Alternative Hypothesis H2B1: $SMNE_{Assets}$ and $MMNE_{Assets}$ are predominantly influenced by the management of MNE subsidiary factors.

3.2.3 HYPOTHESIS 2C

The null hypothesis states that the country competitive factors and management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit before tax, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit before tax.

Null Hypothesis: H2C0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{PBT}$ and $MMNE_{PBT}$

Alternative Hypothesis H2C1: $SMNE_{PBT}$ and $MMNE_{PBT}$ are predominantly influenced by the management of MNE subsidiary factors.

3.2.4 HYPOTHESIS 2D

The null hypothesis states that the management of country competitive factors and MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit margin, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit margin.

Null Hypothesis: H2D0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{ProfM}$ and $MMNE_{ProfM}$

Alternative Hypothesis H2D1: $SMNE_{ProfM}$ and $MMNE_{ProfM}$ are predominantly influenced by the management of MNE subsidiary factors.

3.2.5 HYPOTHESIS 2E

The null hypothesis states that the country competitive factors and management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE return on assets, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE return on assets.

Null Hypothesis: H2E0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{ROTA}$ and $MMNE_{ROTA}$

Alternative Hypothesis H2E1: $SMNE_{ROTA}$ and $MMNE_{ROTA}$ are predominantly influenced by the management of MNE subsidiary factors.

4. RESEARCH METHODOLOGY

This section of the research describes the data collection and statistical analysis used to test the questions proposed in the chapter 3.

4.1 POPULATION

The population selected consisted of all listed MNE subsidiaries located in 27 emerging markets defined in section 2.5. These subsidiaries are owned by MNEs from different countries in the world. This list of subsidiaries was selected from the Osiris database. In order to locate the relevant population of subsidiaries, inquiries defined the population by selecting the MNE subsidiaries via the Osiris database using the following filters:

1. The subsidiary was a publicly listed company
2. The subsidiary global ultimate owner had to have a minimum shareholding of 51%
3. The subsidiary's location had to be in emerging markets

4.1.1 FIRST OSIRIS SELECTION FILTER

The selected filter “Publicly Listed Companies” was selected and a population of 48,299 companies identified.

4.1.2 SECOND OSIRIS SELECTION FILTER

The selection filter “Ultimate Owner or Shareholder located in another country; May have other shareholders located in country of origin” was selected and a population of 3031 companies identified.

4.1.3 THIRD SELECTION FILTER

The third selection filter: “The subsidiary is located in one of the 27 emerging market” was applied using Microsoft excel. After running the third selection filter in Microsoft excel a population of 738 companies from the original population was identified.

4.1.4 FOURTH SELECTION FILTER

The population was further divided into 2 sub-populations. These were those that were primarily in services industries and those in other industries. Table 1 illustrates the breakdown of the companies across the emerging countries and offering.

Table 2: Listed MNEs in Emerging Markets

Emerging Market	Services Subsidiaries	Other Industry Subsidiaries
UAE	0	2
Argentina	14	11
Brazil	37	12
Chile	6	24
China	5	20
Colombia	9	3
Czech Republic	5	2
Egypt	14	6
Hungary	3	2
Indonesia	25	41
Israel	10	2
India	42	78
Jordan	18	4
South Korea	5	14
Morocco	7	6
Mexico	7	2
Malaysia	17	18
Peru	46	21
Philippines	9	4
Pakistan	20	16
Poland	33	12
Russia	38	34
Thailand	12	9
Turkey	20	17

Emerging Market	Services Subsidiaries	Other Industry Subsidiaries
Taiwan	5	2
Venezuela	0	0
South Africa	8	12
Sum	430	359

The two sub-populations stood as follows:

There were 430 listed subsidiaries that were classified in services industries and 359 listed subsidiaries were classified in other industries.

4.2 SAMPLE SIZE AND METHOD

All subsidiaries listed were current and as such there was no need to exclude any subsidiaries at this stage. Subsidiaries with an identified Global Ultimate Owner (GUO) country identified as “N/A” or were from the same host economy were excluded from the study.

The final two samples comprised of 430 service subsidiaries and 359 subsidiaries in other industries. All statistical analysis was performed on these samples.

4.3 DATA COLLECTION

The study related deviations in performance of the Services and Manufacturing Subsidiary companies to the competitive environment in the host country. As part of the study a database was constructed this comprised of the following:

MNE subsidiary financial performance. These were obtained from the OSRIS database.

Dimensions of competitiveness using secondary data obtained from the World Economic Forum. The 2013 global competitiveness report assesses the competitiveness landscape of 144 economies, providing insight into the drivers of their productivity and prosperity (WEF, 2013). The Global Competitiveness Index (GCI) uses a wide range of data such as enrolment rates, government debt, budget deficit, and life expectancy, which are obtained from internationally recognized

agencies, notably the United Nations Educational, Scientific and Cultural Organization (UNESCO), the IMF, and the World Health Organization (WHO). The GCI also utilises data from the World Economic Forum's annual Executive Opinion Survey to capture concepts that require a more qualitative assessment or for which internationally comparable statistical data (WEF, 2013).

Subsidiaries were identified whose host country was on the list of emerging markets as defined in section 2.5. Additionally their GUO had to be from a different home economy for the subsidiary to be selected. For example Absa is a wholly owned subsidiary of the Barclays Group. Absa is based in South Africa and for this study was recognised as an emerging market subsidiary. Additionally, the industry classification was used to determine whether a subsidiary would be considered to be a services company. So in Absa's case, their GICS code was "40101010" which is allocated to diversified banks. Banks are in the financial services industry hence Absa was classified as a services subsidiary.

In order to access a significant sample size, the study used the list of 27 emerging markets in section 2.5. This list supported the goals of the enquiry by generating a large number of subsidiaries across a wide range of emerging economies. The wide range of economies also have differing competitiveness ratings, this assists the study by allowing for a wider range of data to be interrogated for correlation with the industry classification.

This study selected subsidiary financial performance information from the OSRIS database. This database covers all publicly listed companies, delisted companies and major unlisted companies if they're significant within their sector. Osiris covers around 70,000 companies across the globe and provides company financials, ownership, performance, earnings estimates, corporate structures and news data from listed companies across the world (Bureau van Disk, 2013). The Osiris database also specified the industry, location, independence ratings and Global Ultimate Owner (GUO) location for each subsidiary.

4.4 FINANCIAL PERFORMANCE VARIABLES

The subsidiary financial performance data taken from the OSIRIS database included the following:

- Operating Revenue
- Total Assets
- Profit / Loss before Taxation
- Profit Margin (%)
- Return on Total Assets (%)

The study also used 12 pillars of competitiveness from the WEF Global Competitiveness Index. Each pillar is made up of a number of attributes scored per country included in the index. The 12 pillars are further grouped in to Basic Requirements, Efficiency Enhancers and Innovation & Sophistication. The WEF does not rank countries as either emerging or emerged but rather as Factor driven, Efficiency driven or Innovation driven. How an economy performs in each grouping is important for certain types of economies. For example, Basic requirements are important for factor driven economies, Efficiency Enhancers are important for efficiency driven economies; Innovation and Sophistication key for innovation driven economies. The 27 emerging markets are in different WEF classifications and as a result the WEF groupings were not used for the countries. The 12 GCI pillars are organised as follows:

- Basic requirements
 - ⇒ Institutions
 - ⇒ Infrastructure
 - ⇒ Macroeconomic Stability
 - ⇒ Health and Primary Education
- Efficiency enhancers
 - ⇒ Higher Education and Training
 - ⇒ Goods Market Efficiency
 - ⇒ Labour Market Efficiency

- ⇒ Financial Market Sophistication
- ⇒ Technological Readiness
- ⇒ Market Size
- Innovation and sophistication factors
 - ⇒ Business Sophistication
 - ⇒ Innovation

4.5 CONTROL VARIABLES

- **Subsidiary Age:** This was calculated by subtracting the year the MNE subsidiary was founded from the current year. This variable was selected because service firms are able to reap the benefits of market entry earlier than manufacturing (Contractor et al, 2007).
- **Subsidiary Independence:** This data was selected from the Osiris database and it indicates the degree of independence of a company from its shareholders (Osiris, 2013). This variable was selected because firms entering new markets through wholly owned subsidiaries benefit from managerial autonomy and full control over local operations (Holtbrugge, 2013). The indicators from the Osiris database are A, B, C, D, and U. For the purposes of this study, this was coded as follows: A was coded as 1, B as 2, C as 3, D as 4, and U as 5.
- **Number of Subsidiary subsidiaries:** This is a measure of firm size and the data was obtained from the Osiris database. This variable was selected because larger firms have a propensity to succeed in the export market (Love and Mansury, 2009).

4.6 DATA ANALYSIS

4.6.1 RESEARCH QUESTION 1

Are there differences between the financial performance of service multinational entities (SMNEs) and non-service multinational entities (MMNEs)?

The Shapiro Wilk's test was conducted to determine whether the data was normally distributed (Lewis and Saunders, 2012). The Shapiro Wilk's test revealed showed a significance level of less than 0.05 ($p > 0.05$) for all the data (operating revenue, assets, profit before tax, profit margin and return on total assets). These results revealed that all the data was not normally distributed. This would mean that further testing of the data would use non parametric statistical procedures (Weiers, 2008). These procedures do not hold any assumptions regarding the distribution of the data.

The research hypothesis compared the two sample means across operating revenue, total assets, profit before tax, profit margin and return on total assets. This was so they could determine whether the difference in sample means was statistically significant between these measures of performance. Given the data was not normally distributed, the Mann-Whitney test was run to determine whether the difference in means between the SMNE and the MMNE was statistically difference. This test was the appropriate procedure because it allows for the testing of means when the data is not normally distributed (Weiers, 2008).

The one-sided Mann-Whitney test was run for the entire hypotheses; this was because the data that needed to be determined was in one direction. After the test was run, the test statistic, the Z value and the level of significance were used to determine whether the findings were acceptable and to observe whether there was a difference in the means of the performance variables for the SMNEs and the MMNEs.

4.6.2 RESEARCH QUESTION 2

Can the differences in MNE financial performance be attributed to how they react to in-country competitiveness factors rather than factors such as their size, age and independence from the ultimate owner?

Ten multiple regression analyses were conducted in order to answer the question. 5 hypotheses were built (2A, 2B, 2C, 2D, 2E). Hennart and Park, 1993 explained that the regression coefficients estimate the impact of the independent variables on the independent variables. The multiple regression analyses were run first on the MMNE

subsidiaries then on the SMNE subsidiaries. Were correlation was found between the dependent variables and the competitiveness factors, it would be interpreted to mean that the subsidiaries had not developed the required dynamic capability to manage the factor. This is because if the dynamic capability was strong, there would be no correlation between the variables.

4.7 LIMITATIONS

- This research was limited to MNEs listed on stock exchanges in the 27 emerging markets as this allowed access to publically available data.
- The OSIRIS database only has access to listed companies, therefore, this study reflects a limited view of subsidiaries' data. The addition of non-listed and / or private subsidiary data could have resulted in different outcomes.
- This research will not take into account the impact that management structures and styles have on company performance.
- This research only shows the results across the most recent 12 months.

5. RESULTS

5.1 RESEARCH QUESTION 1

The question was defined as follows: Are there differences between the financial performance of service multinational entities (SMNEs) and non-service multinational entities (MMNEs)?

5.1.1 DESCRIPTIVE STATISTICS

MNE Type	Subsidiary	Operating Revenue/ Turnover (000) USD	Total Assets (000) USD	Profit / Loss before Taxation (000) USD	Profit Margin (%)	Return on Total Assets (%)
MMNE	Mean	762083.44	819188.82	86232.41	7.47	7.62
	Std. Deviation	1574190.985	2056366.088	415924.266	15.799	15.740
	Median	216689.32	206549.49	9297.10	6.74	6.96
SMNE	Mean	951950.54	3607479.19	142239.59	14.95	4.85
	Std. Deviation	2381149.922	10048333.142	372941.796	22.887	14.458
	Median	189626.67	391715.43	13279.26	12.27	3.56
Total	Mean	865251.02	2342980.63	116723.63	11.45	6.11
	Std. Deviation	2053369.341	7678859.034	393842.692	20.228	15.108
	Median	203816.92	270106.40	11299.79	8.49	4.73

The descriptive statistics show that the means of the SMNE subsidiary operating revenue, total assets, profit / loss before taxation and profit margin are higher than those for the MMNE subsidiary. However the mean return on assets for the MMNE subsidiary is higher than that of the SMNE subsidiary.

5.1.2 TEST FOR NORMALITY

The Shapiro Wilk's test was conducted to determine whether the data was normally distributed (Weiers, 2008). The Shapiro Wilk's test revealed showed a significance

level of less than 0.05 ($p > 0.05$) for all the data (operating revenue, assets, profit before tax, net income, profit margin and return on total assets). Additionally the z score for Skewness and Kurtosis showed the results in the following table.

Table 3: Shapiro Wilk's Test results summary

Variable			Statistic	Std. Error	z Score
Operating Rev./ Turnover	MMNE	Skewness	4.967	0.131	37.91603
		Kurtosis	34.703	0.262	132.4542
	SMNE	Skewness	6.996	0.123	56.87805
		Kurtosis	71.883	0.245	293.4
Total Assets	MMNE	Skewness	7.832	0.131	59.78626
		Kurtosis	81.993	0.262	312.9504
	SMNE	Skewness	5.502	0.123	44.73171
		Kurtosis	36.996	0.245	151.0041
P/L before Tax	MMNE	Skewness	10.657	0.131	81.35115
		Kurtosis	146.505	0.262	559.1794
	SMNE	Skewness	4.681	0.123	38.05691
		Kurtosis	28.333	0.245	115.6449
Profit Margin %	MMNE	Skewness	-0.338	0.131	-2.58015
		Kurtosis	5.519	0.262	21.06489
	SMNE	Skewness	-0.309	0.123	-2.5122
		Kurtosis	3.375	0.245	13.77551
Return on Total Assets %	MMNE	Skewness	0.38	0.131	2.900763
		Kurtosis	4.856	0.262	18.53435
	SMNE	Skewness	1.209	0.123	9.829268
		Kurtosis	12.367	0.245	50.47755

With the exception of profit margin, the Kurtosis and Skewness Z-scores for operating revenue, total assets, profit / loss before tax, and return on total assets were outside the ± 2.58 range. This confirmed that the data for these four variables were not normally distributed. However the data for profit margin were normally distributed.

5.1.3 HYPOTHESIS 1A

The null hypothesis states that there is no difference between the operational revenue of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE operational revenue will be greater than MMNE operational revenue.

Null Hypothesis: H1A0: $\mu_{SMNE_{OPREV}} = \mu_{MMNE_{OPREV}}$

Alternative Hypothesis: H1A1: $\mu_{SMNE_{OPREV}} > \mu_{MMNE_{OPREV}}$

A one tailed Mann-Whitney test was run to determine if there were differences between the SMNE and MMNE operating revenues. There was no statistically significant difference in the means of the operating revenues between SMNE subsidiary operating revenue ($\mu = \text{USD } 951\,950.54$) and MMNE subsidiary operating revenue ($\mu = \text{USD } 762083.442779$).

$$U = 71\,979, z = -1.353, p = (0.176 / 2) = 0.086$$

Therefore the null hypothesis could not be rejected at a 5% significance level hence it can be concluded that SMNE subsidiaries generate the same operating revenue as MMNEs subsidiaries.

5.1.4 HYPOTHESIS 1B

The null hypothesis states that there is no difference between the total assets of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE assets will be greater than MMNE assets.

Null Hypothesis: H1B0: $\mu_{SMNE_{Assets}} = \mu_{MMNE_{Assets}}$

Alternative Hypothesis: H1B1: $\mu_{SMNE_{Assets}} > \mu_{MMNE_{Assets}}$

A one tailed Mann-Whitney test was run to determine if there were differences between the SMNE and MMNE total assets. There is a statistically significant difference in the means of the SMNE subsidiary total assets ($\mu = \text{USD } 3607479.19$) and MMNE total assets ($\mu = \text{USD } 819188.82$).

$$U = 88\,619, z = 3.875, p = 0.000$$

Therefore the null hypothesis was rejected at a 5% significance level hence it can be concluded that SMNE subsidiary total assets are greater than MMNE subsidiary total assets.

5.1.5 HYPOTHESIS 1C

The null hypothesis states that there is no difference between the profit before tax of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE profit before tax will be greater than MMNE profit before tax.

Null Hypothesis: H1C0: $SMNE_{PBT} = \mu MMNE_{PBT}$

Alternative Hypothesis: H1C1: $SMNE_{PBT} > \mu MMNE_{PBT}$

A one tailed Mann-Whitney test was run to determine if there were differences between the SMNE and MMNE profit before tax. There is a statistically significant difference in the means of the SMNE subsidiary profit before tax ($\mu = \text{USD } 142239.59$) and MMNE subsidiary profit before tax ($\mu = \text{USD } 86232.41$).

$$U = 86\ 606, z = 3.017, p = (0.03 / 2) = 0.015$$

Therefore the null hypothesis was rejected at a 5% significance level hence it can be concluded that SMNE profit before tax is greater than MMNE profit before tax.

5.1.6 HYPOTHESIS 1D

The null hypothesis states that there is no difference between the profit margin of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE profit margin will be greater than MMNE profit margin.

Null Hypothesis: H1D0: $SMNE_{ProfM} = \mu MMNE_{ProfM}$

Alternative Hypothesis: H1D1: $SMNE_{ProfM} > \mu MMNE_{ProfM}$

A one tailed Mann-Whitney test was run to determine if there were differences between the SMNE and MMNE profit margin. There is a statistically significant difference in the means of the SMNE subsidiary profit margins ($\mu = 14.9\%$) and MMNE subsidiary profit margins ($\mu = 7.47\%$).

$$U = 85\,873\,436, z = 5.581, p = 0.000$$

Therefore the null hypothesis was rejected at a 5% significance level hence it can be concluded that SMNE profit margin is greater than MMNE profit margin.

5.1.7 HYPOTHESIS 1E

The null hypothesis states that there is no difference between return on total assets of SMNE and MMNE subsidiaries, the alternative hypothesis states that SMNE return on total assets will be greater than MMNE return on total assets.

Null Hypothesis: H1E0: $SMNE_{ROTA} = \mu MMNE_{ROTA}$

Alternative Hypothesis: H1E1: $SMNE_{ROTA} > \mu MMNE_{ROTA}$

A one tailed Mann-Whitney test was run to determine if there were differences between the SMNE and MMNE return on assets. There is a statistically significant difference in the means of the SMNE subsidiary return on assets ($\mu = 4.85$) and the MMNE subsidiary return on assets ($\mu = 7.62$).

$$U = 65\,436, z = -3.079, p = (0.002 / 2) = 0.001$$

Therefore the null hypothesis was rejected at a 5% significance level hence it can be concluded that MMNE return on assets is greater than SMNE return on assets.

5.1.8 SUMMARY OF RESULTS

Of the 5 hypothesis tests, one null hypothesis failed to be rejected at 5% significance level. Four of the null hypotheses were rejected at 5% significance level. The results show that SMNEs have better profit margin, assets and profit before tax when compared to MMNEs. However, MMNEs have better performing return on assets. There is no difference in the operating revenue between SMNEs and MMNEs.

5.2 RESEARCH QUESTION 2

The question was defined as follows: Can the differences in MNE financial performance be attributed to how they react to in-country competitiveness factors rather than internal factors such as their size, age and independence from the ultimate owner?

This chapter analyses the results of each regression model performed. Hennart and Park (1993) explained that the regression coefficients estimate the impact of the independent variables on the dependent variables. The models tested the 5 financial performance variables across the 12 pillars of competitiveness for both SMNEs and MMNEs.

The dependent variables were as follows:

- Operating Revenue / Turnover
- Total Assets
- Profit / Loss before Tax
- Profit Margin %
- Return on Total Assets %

The independent variables were as follows:

- Institutions
- Infrastructure
- Macroeconomic Stability
- Health and Primary Education
- Higher Education and Training
- Goods Market Efficiency
- Labour Market Efficiency
- Financial Market Sophistication
- Technological Readiness
- Market Size
- Business Sophistication
- Innovation

The control variables were as follows:

- Subsidiary Age
- Subsidiary Independence
- Number of Subsidiary subsidiaries

The Pearson’s correlations between the measures of financial performance, the 12 pillars of competitiveness as defined by the WEF and the control variables are displayed in the Table 5: Pearson Correlations Summary, the significant results are highlighted in green. Correlation is interpreted to mean that the identified pillars had an impact on the MNE subsidiary performance measure. Additionally the differences in correlation coefficients between SMNE subsidiaries and MMNE subsidiaries will highlight the differences in dynamic capabilities. This also highlights the different areas that the MNEs have to focus on understanding and managing to ensure that they perform better in the environment.

The correlation strengths can be interpreted as follows:

Table 4: Correlation Strengths

Correlation Range	Strength of Association
0.0 - ±0.1	None
±0.1 - ±0.3	Small
±0.4 - ±0.4	Medium
±0.4 - ±1.0	Large

Table 5: Pearson Correlations Summary

	Operating Revenue / Turnover		Total Assets		Profit / Loss before Taxation		Profit Margin (%)		Return on Total Assets (%)	
	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE
Institutions	-0.076	-0.007	-0.066	0.015	-0.045	0.022	-0.037	0.073	-0.006	-0.01
Infrastructure	0.048	0.019	0.027	0.007	-0.011	0.032	-0.068	0.01	-0.029	0.039
Macroeconomic environment	0.099	0.062	0.092	0.074	0.042	0.123	0.021	0.107	0.001	0.135
Health and primary education	-0.033	-0.045	-0.05	-0.061	-0.071	-0.035	-0.066	0.032	-0.038	-0.022
Higher education and training	0.064	-0.005	0.03	0.045	-0.011	0.07	-0.096	-0.021	-0.059	0.014
Goods market efficiency	0.001	-0.018	-0.04	0.078	-0.057	0.007	-0.045	0.046	-0.023	0.019
Labor market efficiency	-0.045	-0.044	-0.038	-0.022	-0.015	0.027	0.118	0.117	0.095	0.165
Financial market development	-0.082	-0.014	-0.078	0.133	-0.041	0.042	0.007	0.003	0.023	0.03
Technological readiness	0.082	0.015	0.039	0.113	0.01	0.088	-0.091	0.02	-0.083	-0.006
Market size	0.043	0.083	0.077	-0.023	0.044	0.008	-0.041	-0.125	-0.024	-0.071
Business sophistication	-0.037	0.019	-0.027	-0.042	0.023	0.036	-0.014	0.053	-0.002	0.025
Innovation	-0.086	-0.059	-0.082	-0.018	-0.062	-0.033	0.002	-0.003	0.056	0.079
BvD Indep. Indic.	0.047	-0.018	0.027	-0.05	0.04	-0.069	-0.022	0.109	-0.043	0.041
Age of Subsidiary	0.02	0.012	-0.009	0.144	-0.013	0.06	0.118	0.06	0.196	0.031
No of subsidiaries	0.5	0.256	0.385	0.393	0.265	0.279	0.033	0.043	0.041	-0.029

5.2.1 HYPOTHESIS 2A

The null hypothesis states that the management of country competitive factors and MNE subsidiary factors predominantly explain the performance of SMNE and MMNE operating revenue. The alternative hypothesis states that the management of country competitive factors predominantly explain the performance of SMNE and MMNE operating revenue.

Null Hypothesis: H2A0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{Oprev}$ and $MMNE_{Oprev}$

Alternative Hypothesis: H2A1: $SMNE_{Oprev}$ and $MMNE_{Oprev}$ are predominantly influenced by the management of MNE subsidiary factors.

5.2.1.1 MMNE Regression Model

A Multiple regression was run to predict the MMNE operating revenue from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 2.087. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. One statistically significant variable was identified and this predicted MMNE operating revenue: $F(1, 324) = 9.963, p < .0000, \text{adj. } R^2 = 0.284$. The regression coefficients and standard errors can be found the Table below:

Table 6: Regression coefficients (MMNE operational revenue)

Variable	B	SE _β	β
Intercept	2215225.253	2176921.158	
Number of Subsidiaries	65093.050	6062.538	0.565

5.2.1.2 SMNE Regression Model

A Multiple regression was run to predict the SMNE operating revenue from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 1.648. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. One statistically significant variable was identified and this predicted MMNE operating revenue: $F(1, 354) = 2.693$, $p < .0000$, $\text{adj. } R^2 = 0.64$. The regression coefficients and standard errors can be found the Table below:

Table 7: Regression coefficients (SMNE operational revenue)

Variable	B	SE _β	β
Intercept	-180858.435	3325452.459	
Number of Subsidiaries	45166.166	8727.860	0.275

5.2.1.3 Summary

As shown in table 5, the MMNE subsidiary operating revenue was positively related to the number of subsidiaries owned by the host-country subsidiary. As shown in table 6, the SMNE subsidiary operating revenue was also positively related to the number of subsidiaries owned by the host-country subsidiary. Based on this result, it would appear that the MNE subsidiary operational revenue is not impacted by factors in the host country but rather by the management of internal factors.

5.2.2 HYPOTHESIS 2B

The null hypothesis states that the management of country competitive factors and MNE subsidiary factors predominantly explain the performance of SMNE and MMNE assets, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE assets.

Null Hypothesis: H2B0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of SMNE_{Assets} and MMNE_{Assets}

Alternative Hypothesis: H2B1: $SMNE_{Assets}$ and $MMNE_{Assets}$ are predominantly influenced by the management of MNE subsidiary factors.

5.2.2.1 MMNE Regression Model

A Multiple regression was run to predict the MMNE total assets from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 2.089. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. One statistically significant variable was identified and this predicted MMNE total assets: $F(1, 322) = 6.098$, $p < .0000$, $adj. R^2 = 0.185$. The regression coefficients and standard errors can be found the Table below:

Table 8: Regression coefficients (MMNE total assets)

Variable	B	SE _β	β
Intercept	4542419.450	3025490.080	
Number of Subsidiaries	64486.546	8431.561	0.431

5.2.2.2 SMNE Regression Model

A Multiple regression was run to predict the SMNE operating revenue from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 1.995. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. Four statistically significant variables were identified and this predicted SMNE total assets: $F(4, 357) = 8.575$, $p < .0000$, $adj. R^2 = 0.234$. The regression coefficients and standard errors can be found the Table below:

Table 9: Regression coefficients (SMNE total assets)

Variable	B	SE _β	β
Intercept	681971.860	10673502.798	
Financial Market Development	4858221.501	1287138.663	0.360

Variable	B	SE _β	β
Technological Readiness	108369.137	1786383.273	0.007
Age of Subsidiary	22787.908	15535.406	0.069
Number of Subsidiaries	247274.536	29096.906	0.406

5.2.2.3 Summary

As shown in Table 8, the MMNE subsidiary total assets were related to the number of subsidiaries owned by the main host-country subsidiary. In contrast, Table 9 shows that SMNE subsidiary total assets were strongly related to financial market development as well as the number of subsidiaries owned by the main host-country subsidiary. There was a positive but weak relationship with technological readiness and the age of the host country subsidiary.

Based on this result, MMNE subsidiary total assets are predominantly explained by the management of internal subsidiary factors. SMNE subsidiary total assets are predominantly explained by management of internal subsidiary factors and the level of financial market efficiencies.

5.2.3 HYPOTHESIS 2C

The null hypothesis states that the country competitive factors and management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit before tax, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit before tax.

Null Hypothesis: H2C0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{PBT}$ and $MMNE_{PBT}$

Alternative Hypothesis: H2C1: $SMNE_{PBT}$ and $MMNE_{PBT}$ are predominantly influenced by the management of MNE subsidiary factors.

5.2.3.1 MMNE Regression Model

A Multiple regression was run to predict the MMNE profit before tax from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 1.979. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. One statistically significant variable was identified and this predicted MMNE profit before tax: $F(1, 325) = 3.399$, $p < .0000$, $\text{adj. } R^2 = 0.096$. The regression coefficients and standard errors can be found the Table below:

Table 10: Regression coefficients (MMNE profit before tax)

Variable	B	SE _β	β
Intercept	661031.555	645882.862	
Number of Subsidiaries	10058.787	1799.082	0.330

5.2.3.2 SMNE Regression Model

A Multiple regression was run to predict the SMNE profit before tax from the 12 GCI pillars and 3 control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 1.799. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. One statistically significant variable was identified and this predicted SMNE profit before tax: $F(4, 357) = 3.874$, $p < .0000$, $\text{adj. } R^2 = 0.104$. Regression coefficients and standard errors can be found the Table below:

Table 11: Regression coefficients (SMNE profit before tax)

Variable	B	SE _β	β
Intercept	-180858.435	3325452.459	
Macroeconomic environment	122706.545	40095.042	0.326
Number of Subsidiaries	7112.071	1220.680	0.301

5.2.3.3 Summary

As shown in Table 10, the MMNE subsidiary profit before tax was related to the number of subsidiaries owned by the host-country subsidiary. In contrast, Table 11 shows that SMNE profit before tax was not only related to the number of subsidiaries owned by the main host-country subsidiary but also to the macroeconomic environment in the host country.

Based on this result, the MMNE subsidiary profit before tax is impacted only by the management of internal subsidiary factors. SMNE subsidiary profit before tax is impacted by the management of internal subsidiary factors and the country competitive factors.

5.2.4 HYPOTHESIS 2D

The null hypothesis states that the management of country competitive factors and MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit margin, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE profit margin.

Null Hypothesis: H2D0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{PMarg}$ and $MMNE_{PMarg}$

Alternative Hypothesis: H2D1: $SMNE_{PMarg}$ and $MMNE_{PMarg}$ are predominantly influenced by the management of MNE subsidiary factors.

5.2.4.1 MMNE Regression Model

A Multiple regression was run to predict the MMNE profit margin from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 2.049. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. Two variables were identified and this predicted MMNE profit margin: $F(2,$

315) = 1.543, $p < .089$, $\text{adj. } R^2 = 0.024$. However these variables were only statistically significant at 10% level.

Regression coefficients and standard errors can be found the Table below:

Table 12: Regression coefficients (MMNE profit margin)

Variable	B	SE _β	β
Intercept	25.369	25.745	
Labour Market Efficiency	5.903	3.775	0.177
Age of Subsidiary	0.103	0.039	0.160

5.2.4.2 SMNE Regression Model

A Multiple regression was run to predict the SMNE profit margin from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 1.788. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. Four statistically significant variables were identified and these predicted SMNE profit margin: $F(4, 329) = 1.769$, $p < .05$, $\text{adj. } R^2 = 0.32$. Regression coefficients and standard errors can be found the Table below:

Table 13: Regression coefficients (SMNE profit margin)

Variable	B	SE _β	β
Intercept	-18.037	33.455	
Market Size	-2.715	2.165	-0.100
Macroeconomic environment	4.890	2.789	0.200
Labour Market Efficiency	1.909	4.942	0.045
Subsidiary Independence	7.630	3.403	0.123

5.2.4.3 Summary

As shown in Table 12, the MMNE subsidiary profit margin was related to labour market efficiencies and the age of the host country MMNE subsidiary. Given that $p > 0.05$ this model was not statistically significant and was rejected. The correlation displayed may have been accidental in nature.

In contrast, Table 13 shows SMNE subsidiary profit margin was not only positively related to the labour market efficiency but also to the macroeconomic environment and the independence of the subsidiary from the parent MNE.

SMNE subsidiary profit margin is impacted by both the management of internal subsidiary factors and the country competitive factors.

5.2.5 HYPOTHESIS 2E

The null hypothesis states that the country competitive factors and management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE return on assets, the alternative hypothesis states that the management of MNE subsidiary factors predominantly explain the performance of SMNE and MMNE return on assets.

Null Hypothesis: H2E0: There is no significant difference in the management of country competitiveness factors and MNE subsidiary factors in determining the performance of $SMNE_{ROTA}$ and $MMNE_{ROTA}$

Alternative Hypothesis H2E1: $SMNE_{ROTA}$ and $MMNE_{ROTA}$ are predominantly influenced by the management of MNE subsidiary factors.

5.2.5.1 MMNE Regression Model

A Multiple regression was run to predict the MMNE return on assets from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 2.180. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. One statistically significant variable was identified and this predicted MMNE return on assets: $F(1, 320) = 2.24, p < .005, \text{adj. } R^2 = 0.53$.

Regression coefficients and standard errors can be found the table below:

Table 14: Regression coefficients (MMNE return on assets)

Variable	B	SE_β	β
Intercept	16.863	24.932	
Age of Subsidiary	0.164	0.038	0.255

5.2.5.2 SMNE Regression Model

A Multiple regression was run to predict the SMNE return on assets from the 12 GCI pillars and three control variables. There was independence of residuals, as assessed by the Durbin-Watson statistic of 1.896. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met. Two statistically significant variables were identified and this predicted MMNE return on assets: $F(2, 353) = 1.438$, $p < 0.05$, $adj. R^2 = 0.18$. Regression coefficients and standard errors can be found the Table below:

Table 15: Regression coefficient (SMNE return on assets)

Variable	B	SE_β	β
Intercept	-4.161	19.626	
Macroeconomic Environment	4.070	1.732	0.263
Labour Market Efficiency	-1.056	3.109	-0.039

5.2.5.3 Summary

As shown in Table 14, the MMNE return on total assets was related the age of the MMNE subsidiary. In contrast, Table 15 shows SMNE subsidiary return on total assets was positively related to the macroeconomic environment and negatively related to the labour market efficiency.

Based on this result, the MMNE subsidiary return on assets is impacted only by the management of internal subsidiary factors. SMNE subsidiary return on total assets is impacted only by the country competitiveness factors.

5.2.6 SUMMARY OF REGRESSION MODEL RESULTS

	Operating Revenue / Turnover		Total Assets		Profit / Loss before Taxation		Profit Margin (%)		Return on Total Assets (%)	
	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE
Durbin Watson Score	2.087	1.648	2.089	1.995	1.979	1.799	2.049	1.788	2.180	1.896
F Value	F(1, 324) = 9.963	F(1,354) = 2.693	F(1,322) = 6.098	F(4,357) = 8.575	F(1,325)=3.399	F(4,357) = 3.874	F(2,315)=1.543	F(4,329)=1.769	F(1,320) = 2.24	F(2,353)=1.438
P Value	p < .0000	P<.0000	P<.0000	P<.0000	P<.000	P<.0000	P<.089**	P<.05**	P<.005	P<.05**
Adjusted R2 Value	0.284	0.64	0.185	0.234	0.096	0.104	0.024	0.32	0.53	0.18
Standardised Coefficients										
Institutions										
Infrastructure										
Macroeconomic environment						0.326		0.2		0.263
Health and primary education										
Higher education and training										
Goods market efficiency										
Labor market efficiency							0.177	0.045		-0.039
Financial market development				0.360						
Technological readiness				0.007						
Market size								-0.1		
Business sophistication										
Innovation										
BvD Indep. Indic.								0.123		

	Operating Revenue /		Total Assets		Profit / Loss before		Profit Margin (%)		Return on Total Assets (%)	
	Turnover				Taxation					
	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE	MMNE	SMNE
Age of Subsidiary				0.069			0.039		0.255	
No of subsidiaries	0.565	0.275	0.431	0.406	0.330	0.301				

5.2.7 MMNE RESULTS

For MMNEs the null hypothesis is rejected in terms of Operating Revenue, Total Assets, Profit / Loss before taxation and Return on Total Assets. The null hypothesis cannot be rejected for Profit Margin.

The results indicate that MMNE success is more as a result of their management of internal factors. These efficiencies are achieved through the increase of in-country subsidiaries and their ability to learn within the host country environment.

5.2.8 SMNE RESULTS

For SMNEs, the null hypothesis is rejected in terms of Operating Revenue. The null hypothesis cannot be rejected for Total Assets, Profit / Loss before Tax, Profit Margin and Return on Total Assets.

The results indicate that their superior performance regarding total assets, profit / loss before tax and profit margin was achieved mostly through their management of internal factors. SMNEs don't have the capabilities to mitigate factors in the host country environment and as such are susceptible to fluctuations of certain factors in these environments.

Chapter 6 will discuss the results in greater detail.

6. DISCUSSION OF RESULTS

6.1 QUESTION 1

Are there differences between the performance of SMNEs and MMNEs and do these differences translate into their financial performance?

6.1.1 HYPOTHESIS 1A

SMNE subsidiary operational revenue is the same as MMNE subsidiary operational revenue.

The finding that SMNE and MMNE subsidiary operational revenue are not significantly different contradicts with the findings in literature regarding the likelihood of services performing better than other industry types. This is because offering intangible goods allows firms the ability to leverage off their knowledge based assets to earn higher revenues (Cloninger, 2004).

The impact of service subsidiaries' ability to leverage off knowledge based assets is more apparent in the other dependent variables (Assets, profit before tax and profit margin). The result implies that SMNEs subsidiaries are no better than MMNE subsidiaries at leveraging off their knowledge based assets to generate revenue. Complexities associated with emerging markets coupled with the need to deliver in situ result in the SMNE having a more physical and knowledge based assets in the host country. The location of these assets may minimise transactional costs and improves overall profitability.

MMNE subsidiaries could be leveraging other different types of OLI advantages to enable them to generate comparable revenues in emerging markets. Additionally, their integration into the global MMNE could generate revenue from outside the host country.

The strong correlation of both MMNE (0.565) and SMNE (0,275) operational revenue to firm size can be explained by firms using their size used to control economies of scale and larger firms have a propensity to succeed in export market (Love &

Mansury, 2009). This can be interpreted to mean that the more the MNEs acquire or create subsidiaries, the more they increase revenue.

In conclusion, based on the results of the analysis, both MMNE and SMNE use their subsidiary size to increase operating revenues.

6.1.2 HYPOTHESIS 1B

SMNE subsidiary total assets are greater than MMNE subsidiary total assets.

The finding that SMNE total assets are greater than MMNE total assets confirms the view in literature that both capital intensive and knowledge intensive services require investment in assets initially (Love & Mansury, 2009). For knowledge intensive services the sunk costs are mostly in securing the human capital assets and in capital intensive services the sunk costs are mostly for the physical assets. Additionally, firm size in services improves the probability and intensity of exporting (Love & Mansury, 2009). Due to the inseparable and intangible nature of services, SMNE subsidiaries need to ensure the internal resources create tangibility for the customers. This is because tangibility is a predictor of value for the consumers (Santos, 2002). This results in greater investment in assets to ensure that the internal resources are being effectively to ensure value is maximised for the customers.

SMNEs are less likely to follow a globally integrated strategy to extent that MMNEs would. This is because SMNEs offerings have to be delivered to the customer in person and are affected by service variability, this necessitates the need to get closer to the host country consumers and have an offering that takes their needs into account. This reduces the risk of poor service quality that results when the consumer of services is at a considerable distance away from the producer (Battacharya, 2012). The need to be closer to the consumers results in the SMNEs spending more resources understanding and coordinating with local stakeholders to improve performance.

Given the MMNEs are more likely to follow a globally integrated strategy, their investment in assets within the host country is limited to those that align with delivering global efficiencies. This results in a lesser need to spend as many

resources understanding the local stakeholders because in some instances the goods being manufactured are for markets outside the host country.

MMNE subsidiaries' inferior total assets are positively correlated to the size of the subsidiary group of companies. This would suggest that MMNEs primarily pursue growth through creating economy of scale efficiencies by controlling a greater number of firms in the value chain.

SMNE subsidiaries' superior total assets are correlated to number of subsidiaries (0.406), financial market development (0.360), ages of the subsidiary (0.069) and technological readiness (0.007). This implies that the SMNEs have not yet developed dynamic capabilities to take advantage of the host country financial market. This could be through being able to finance assets through local equity markets. Further implications could be that SMNEs use the local financial markets to grow their subsidiaries which in turn grow their asset base.

6.1.3 HYPOTHESIS 1C

SMNE subsidiary profit before tax is greater than MMNE subsidiary profit before tax.

This finding supports the finding in the literature explaining that service firms are able to reap the benefits of market entry earlier than manufacturing (Contractor et al, 2007). Additionally knowledge intensive services achieve the benefits of internationalisation earlier than capital intensive service firms (Contractor et al, 2003). The literature has defined profitability as the adaptation of MNEs' resources, strategy and structure to local and international business environments (Li et al., 2005). This means that SMNE subsidiaries are better equipped to take advantage of their ownership, location and internalisation advantages to generate profit quicker than MMNEs. From the results of the analysis, the MMNEs do not seem to be able to make up the initial advantage in profitability that the SMNEs get from their first years of operating in the host market.

The higher profit in SMNEs can also be attributed to them owning a larger asset base. This is because larger investment size typically indicates a larger firm size and

higher asset power. Large firms have control of more resources and are better able to overcome risks to achieve superior performance (Murray et al., 2012) additionally profits tend to flow from the firm's asset structure as well as the degree of imitability and the firm's ability to reconfigure itself (Teece, et al 2007). The dynamic capabilities view states that profits are come from within the firm (Teece, et al). This can be interpreted to mean that better profitability figures as representative of better dynamic capabilities within SMNE subsidiaries.

SMNE subsidiaries' superior profits before tax correlated to Macroeconomic environment and number of subsidiaries. This reveals that because SMNEs enter the host market to seek for new markets, their profitability will be impacted by the consumer purchasing power and the demand for their offering in the host market. This would impact profitability because there are a large number of sunk costs incurred by the SMNE to create tangibility of offerings.

MMNE subsidiaries' inferior profit before tax correlated to number of subsidiaries. Due to MMNEs seeking out advantages aligning with their global strategy, profitability maximisation for the host country subsidiary may not be as important as profitability of the global MMNE.

6.1.4 HYPOTHESIS 1D

SMNE profit margin is greater than MMNE profit margin. This finding supports the literature explaining that service firms are able to reap the benefits of market entry earlier than manufacturing (Contractor et al, 2007). Additionally knowledge intensive services achieve the benefits of internationalisation earlier than capital intensive service firms (Contractor et al, 2003).

In Table 12, MMNE subsidiaries inferior profit margin was correlated to labour market efficiency (0.177) and the age of the subsidiary (0.039). This reveals that MMNE profit margins are impacted by the labour market efficiency. Given this outcome, it can be inferred that the MMNE subsidiary does not have the capability to manage the impact of the two factors its margin is correlated to. Since better profitability figures

are representative of better dynamic capabilities, other dynamic capabilities within the MMNE subsidiary allow it to offset its vulnerability to the labour market efficiency.

Service firms are able to reap the benefits of market entry earlier than manufacturing and achieve the benefits of internationalisation earlier than capital intensive service firms. In Table 13, SMNE's superior profit margin was related to macroeconomic environment (0.2), labour market efficiency (0.045), subsidiary independence (0.123) and market size (-0.1). This reveals that SMNEs are able to overcome their lack of dynamic capabilities to manage the impact of the macroeconomic environment, the labour market and market size through giving its subsidiary independence. It seems that they possess very strong dynamic capabilities that offset the impact of the above mentioned factors on their profit margin. Additionally, they give their subsidiaries enough independence to enable them to make decisions in quickly. This aligns with literature findings that firms entering new markets through wholly owned subsidiaries benefit from managerial autonomy and full control over local operations (Holtbrugge, 2013).

6.1.5 HYPOTHESIS 1E

MMNE return on assets is greater than SMNE return on assets. This would suggest that whilst SMNEs have better profitability, and a greater asset base, they have inefficiencies in utilising their assets. This could be as a result of the SMNEs investing in more assets in order to better control their response and understanding of the host market. Given the complexity in emerging markets, some of the assets are spent on activities that do not contribute to revenue generation.

The greater return on assets of the MMNE is related to the age of the subsidiary (0.255); this implies that MMNEs improve their asset utilisations with time. This could be because as they understand the market more they are better positioned to create economies of scale and learning. This could also be interpreted to mean that MMNEs' success relies more on their capability to manage internal factors and less on adapting to environmental factors. Given MMNEs are more likely to be part of a Global strategy designed to exploit advantages in the host economies, they may not be affected as much by environmental factors but by their own internal activities. This

aligns with literature findings that technical efficiency increases with age (Battacharya, 2012)

The lessor return on assets of the SMNE is related to the Macroeconomic environment (0.263) and the Labour market efficiency (0.039). This implies that they become more efficient at generating profit as the conditions in the host country improve. This could mean that the SMNE spends less of its assets on non-revenue generating activities for example; the SMNE spends less time on using assets to improve offering tangibility to the market. SMNE subsidiaries also suffer from the lack of objective technical standards that define grades of service. This results in significant uncertainty about the true characteristics of the services that are being purchased (Battacharya, 2012).

6.1.6 SUMMARY OF RESULTS

The results have shown that SMNE subsidiaries have experienced significantly greater total assets, better profitability and profit margins than the MMNE subsidiaries. Additionally, the MMNE subsidiaries experienced better use of their assets. There was no difference between the revenue of SMNE and MMNE subsidiaries. Of the 5 hypothesis tests conducted, one null hypothesis failed to be rejected at 5% significance level. Four of the null hypotheses were rejected at 5% significance level.

This study expected operating revenue, total assets, profit before tax, profit margin and return on total assets for SMNE subsidiaries than that of MMNE subsidiaries. This is because the literature identified advantages specific to service firms that allowed them to reap benefits of market entry quicker than manufacturing firms (Contractor et al, 2003). Additionally most firms producing highly intangible products are typically highly knowledge based and can leverage these knowledge based assets to earn higher revenues (Sharma and Johanson, 1987). As a result, the finding that there was no significant difference in the operating revenue between SMNE and MMNE subsidiary revenue was surprising. This result can be attributed to the study using listed MNE subsidiaries, hence the advantages that SMNE

subsidiaries would have had at the time of entering the markets could have been eroded by the MMNEs subsidiary over time.

The finding that total assets, profit before tax and profit margin were all significantly greater for SMNE subsidiaries than for MMNE subsidiaries was expected and in line with literature. However, the finding that return on total assets was higher for MMNE subsidiaries than for SMNE subsidiaries was not expected. When taking a view based on asset usage this result can be explained by the SMNE subsidiary having to invest in assets that create a greater sense of tangibility for the customer. Some of these assets would not be revenue generating hence this would impact on the returns seen by the SMNE subsidiary.

6.2 QUESTION 2

Can the differences in industry performance be attributed to how they react to in-country competitiveness factors rather than factors such as their age, country of origin and independence from the ultimate owner?

6.2.1 HYPOTHESIS 2A

The management of internal factors predominantly explains both SMNE and MMNE operational revenue.

As shown in table 5, the MMNE subsidiary operating revenue was positively related to the number of subsidiaries owned by the main host-country subsidiary. As shown in table 6, the SMNE subsidiary operating revenue was also positively related to the number of subsidiaries owned by the main host-country subsidiary.

Based on these results, it would appear that both MMNE and SMNE operational revenue is not impacted by factors in the host country but rather by the management of internal resources and the creation of efficiencies within the subsidiary group of companies.

None of the host country competitiveness factors influence operational revenue for both SMNEs and MMNEs. Given the operational revenue for both MMNEs and SMNEs does not differ significantly from each other it can be interpreted to mean that operating revenue is a factor of the efficiencies that the MNE subsidiaries can generate in the host country.

The strong correlation of both MMNE (0.565) and SMNE (0,275) operational revenue to firm size can be explained by firms using their size used to control economies of scale given that larger firms have a propensity to succeed in export market (Love & Mansury, 2009). This can be interpreted to mean that the more the MNEs acquire or create subsidiaries, the more they increase revenue. This approach does not seem to differ for both SMNEs and MMNEs.

There was no correlation to any of the 12 competitiveness factors, this is interpreted to mean that both SMNE and MMNE have developed dynamic capabilities that allow

them to minimise the impact that factors in the host country impact their operational revenue.

6.2.2 HYPOTHESIS 2B

The management of internal factors predominantly explains the MMNE subsidiary total assets. However, the management of both internal and external factors influence the SMNE total assets.

As shown in Table 8, the MMNE subsidiary total assets were strongly related to the number of subsidiaries owned by the main host-country subsidiary. In contrast, Table 9 shows that SMNE subsidiary total assets were strongly related to financial market development as well as the number of subsidiaries owned by the main host-country subsidiary.

Based on these results, it would appear that the MMNE total assets are impacted by how well they create efficiencies within their subsidiary group of companies. In addition to this, it would appear that the SMNE subsidiary total assets are impacted by the financial market as well as the creation of efficiencies within their subsidiary group of companies. In addition to this, the weak relationship with the age of the subsidiary implies that SMNEs accumulate more assets the longer they stay in a particular market.

MMNE's inferior total assets are correlated to the number of subsidiaries (0.431) only. Given the MMNEs are more likely to follow a globally integrated strategy, their investment in assets within the host country is limited to those that align with delivering global efficiencies as a result there is lesser of a need to spend as many resources understanding the local stakeholders because in some instances the goods being manufactured are for markets other than the host country. By acquiring and / or creating subsidiary companies in the host market, the MMNE ensures that it focuses only on the global strategy. Due to none of the host country competitiveness factors influencing total assets for MMNE subsidiaries, there is an implication that the MMNEs have built the relevant capabilities allowing them to nullify the impact that country conditions have on their ability to manage and grow their assets.

SMNEs superior total assets are correlated to number of subsidiaries (0.406), financial market development (0.360), ages of the subsidiary (0.069) and technological readiness (0.007). This implies that the SMNE subsidiaries' assets are impacted by the financial markets and the technology readiness of the host country. Dynamic capabilities are meant to enable firms to better adapt to their markets, this finding can be interpreted to mean that the SMNE is not able to adapt to factors in the financial market of the host country. Additionally it could also be as a result of SMNEs being positioned to internationalise sooner than MMNEs (Clonigner, 2004). This results in SMNE subsidiaries not having the financial resources to be able to take advantage of the opportunity in the new market. Without the ability to finance their own assets, this leaves them vulnerable to the changes in the host country financial market.

SMNE subsidiaries and their owners have not developed capabilities to better manage the impact that financial markets within the host country have on their ability to acquire assets. As the financial market in the host country improves, the SMNE is better able to utilise the improved conditions to acquire the assets it requires to delivery on its strategy.

The number of subsidiaries is important for SMNEs for a number of reasons. Subsidiaries can assist the SMNE to better understand the host market. Additionally the subsidiaries may be used to delivery across different parts of the value chain or to different market segments.

The smaller correlation to technological readiness (0.007) implies that technological adoption and the advancement of (ICT) ICT force the SMNE to invest in additional assets to better meet expectations or to reach consumers on different platforms, e.g. the internet and broadband.

The smaller correlation to the age of the subsidiary (0.069) in the host country implies that with time the SMNE is better able to build on its asset base. As the understanding of the markets gets better, the SMNE is better able to utilise its assets

to mitigate risks to the perceived quality of their offering. Additionally as the SMNE learns, it is better able to deploy assets to the relevant areas. Given the SMNE will have entered the host market with its own OLI advantages, its subsidiary is better positioned to exploit these and increase them with time.

6.2.3 HYPOTHESIS 2C

The management of internal factors and external factors predominantly explains the profit / loss before tax for MMNE and SMNEs.

As shown in Table 10, the MMNE subsidiary profit before tax was related to the number of subsidiaries owned by the main host-country subsidiary. In contrast, Table 11 shows that SMNE profit before tax was not only related to the number of subsidiaries owned by the main host-country subsidiary but also to the macroeconomic environment in the host country.

MMNE's inferior profit / loss before tax was correlated to the number of subsidiaries (0.33). Based on this result, it would appear that the MMNE subsidiary profit before tax is impacted by how well they create efficiencies within their subsidiary group of companies. This supports the previous regression models which show that MMNE's tend to rely on increasing the number of subsidiaries they own in order to become more profitable. The lack any correlation with country competitiveness factors implies that the MMNEs will supplement the host country conditions with their own capabilities and once they have identified an advantage to be gained from the host country, they enter it regardless of the conditions.

SMNE subsidiaries' superior profit before tax was correlated to the number of subsidiaries (0.301) as well as the macroeconomic environment within the host country (0.326). Based on this result, it would appear that the better economic conditions result in better SMNE subsidiary profit before tax. The macroeconomic environment has an impact on how well the country spends on goods and services and ultimately these impacts the spending power of the consumers in the host country. This implies the SMNEs are still vulnerable to the host country conditions

and have not developed the dynamic capabilities required to take minimise the impact of poor conditions. This potentially limits the number of markets SMNEs enter.

For MMNEs, the lack of correlation may mean that they may enter markets that do not have the best macroeconomic conditions but are better able to take advantage of their home country OLIs to ensure they remain profitable in that host environment, this could be by them providing their outputs to other markets or consuming them in their subsidiaries.

6.2.4 HYPOTHESIS 2D

The management of internal factors predominantly explains the MMNE and SMNE profit margin.

As shown in Table 12, MMNE's subsidiary's inferior profit margin was correlated to labour market efficiency (0.177) and the age of the subsidiary (0.039). Due to the model not being statistically significant at 5%, the correlation displayed may have been accidental in nature or more data needed to be collected. In contrast, Table 13 shows SMNE subsidiary profit margin was not only positively related to the labour market efficiency but also to the macroeconomic environment and the independence of the subsidiary from the parent MNE.

Although the MMNE regression model was only statistically significant at 10%, which is above the 5% threshold set, the outcomes aligned with what the research would have expected to find for those two variables. This expectation was that MMNE subsidiaries are labour intensive and tend to employ a large number of host country labour. Higher labour efficiency in the host market would mean the MMNE subsidiary would be in a position to better benefit from labour flexibility as well as make better use of its talent pool. This allows the MMNE to better manage the costs related to managing its labour and thereby decreases their internal labour management costs and improves the overall profit margin of the subsidiary. Lower labour market efficiency would have the opposite impact, thereby meaning that MMNEs have not developed the capability to better manage the host country labour market conditions. The small correlation to the age of the subsidiary implies that the longer that an

MMNE subsidiary stays in the market, the more it is able to become more efficient at managing its costs and improving the subsidiary profit margin. However when compared to the impact the labour market efficiency has, the gains made from staying in a market longer can be quickly eroded by a negative change in the labour market.

SMNE's subsidiary's superior profit margin was positively correlated to the macroeconomic environment (0.2), labour market efficiency (0.045), subsidiary independence (0.123). Additionally there was negative correlation with the market size (-0.1).

The correlation to the macroeconomic environment aligns with the correlation in profits. The macroeconomic environment has an impact on how well the country spends on goods and services and ultimately this impact the spending power of the consumers in the host country.

Surprisingly the market size had a negative correlation to the profit margin. This was an unexpected result as it would be expected that larger markets would result in greater profit margin for the SMNE subsidiary. This implies that SMNE subsidiaries have better profit margins in smaller markets than in larger ones. Emerging markets have a diverse set of business, cultural, economic, financial, institutional, legal, political and social environments (Cloninger, 2004). This implies that in larger markets the diversity found can be complex and difficult to manage. For example, South Africa has got 9 official languages (South African Government, 2011) As the SMNE looks to serve this market, it has to consider the complexity that is brought about by these differences. This potentially results in the customisation of offerings and the incurring of additional expense in order to fully understand the market. Perhaps if viewed from a competition perspective, the larger markets may attract more MNEs and increase host country competition, as a result the SMNE would incur more costs to ensure that greater service tangibility was demonstrated.

Another surprise was the relatively small correlation to the labour market efficiencies that profit margin had for SMNEs. Services inseparability results in services being typically produced and consumed simultaneously (Kotler and Keller, 2007) and

greater client and provider interaction. Additionally services are often designed around the specific requirements of an individual customer. The importance of training and employee attitudes in service provision is key to its success. Hence the study expected to find that labour market efficiency would have a greater impact on SMNE subsidiaries because of the need to ensure that the staff attitudes and ability to meet customer expectations were of a certain minimum standard quality. This cannot be explained in the literature and as a result the study recommends that this is investigated further.

The correlation between profit margin and subsidiary independence implies that SMNE subsidiaries become more successful if they are more independent from the global SMNE. Given that SMNEs have to be able to produce their outputs close to the consumers, the subsidiary in country is best positioned to make decisions on what to offer, when to offer and how best to adapt its services to suit the host country market. The correlation to the subsidiary independence aligns with this view as it shows that the more independence the subsidiary is the more profit margin they make. This could be a factor of the reduction in decision making times that result from having more independence to make decisions in the host country.

The small correlation to the age of the subsidiary is because older firms have had time to establish and expand their distribution networks, and also to establish a market position in export markets. To successfully introduce products or services in a new market, firms need to develop local market knowledge so that they can meet the requirements and preferences of local customers (Murray et al., 2012). However, older firms may exhibit inertia and an inability to adapt to changing international conditions (Contractor et al., 2007). These two phenomena cancel each other out and as a result the magnitude of the impact is limited.

6.2.5 HYPOTHESIS 2E

The management of internal factors predominantly explains the MMNE and SMNE return on total assets.

As shown in Table 14, the MMNE return on total assets was related to the age of the MMNE subsidiary. In contrast, Table 15 shows SMNE subsidiary return on total assets was positively related to the macroeconomic environment and the labour market efficiency.

MMNE's superior return on total assets was correlated to the age of the subsidiary (0.255). This implies that MMNE subsidiaries get more efficient at utilising their assets the longer they stay in a particular host market. This is aligned with the findings in the literature that older firms may have time to establish and expand their distribution networks, and a market position (Contractor et al., 2007). The impact of older firms exhibiting inertia and an inability to adapt to changing international conditions seems to be minimised by the MMNEs in emerging markets. This suggests that they are becoming more efficient at utilising their assets as they operate for longer in these emerging markets. This aligns with findings in previous hypotheses that highlight MMNEs ability to utilise internal factors to their advantage whilst minimising the impact of the host country factors.

SMNE's inferior return on total assets was correlated to the macroeconomic environment (0.263) and the labour market efficiency (-0.039). This was expected as it is intuitive that as macroeconomic environment improves, the increase in government surplus and savings results in a greater demand for goods and services. The relationship with the labour market efficiency was not expected to be negative.

As discussed in other hypotheses, the macroeconomic environment has an impact on how well the country spends on goods and services and ultimately this will impact the spending power of the consumers in the host country. This increases the profitability and profit margin of the SMNE without a comparative increase in assets by the SMNE. As a result of this, the assets currently available to the SMNE get used more effectively. The inverse is also true. This implies that SMNE subsidiaries do not possess the capabilities to manage the impact that the macroeconomic environment has on the usage of its assets.

For MMNEs, the lack of correlation may mean that they may enter markets that do not have the best macroeconomic conditions but are better able to take advantage of

their home country OLI to ensure they remain profitable in that host environment, this could be by them providing their outputs to other markets or consuming them in their subsidiaries.

Another surprise was the relatively negative correlation between SMNE return on assets and labour market efficiency. Services inseparability results in services being typically produced and consumed simultaneously (Kotler and Keller, 2007) and greater client and provider interaction. Additionally services are often designed around the specific requirements of an individual customer. The importance of training and employee attitudes in service provision is important for success. Hence the study expected to find that labour market efficiency would have a positive impact on SMNE subsidiaries because of the need to ensure that the staff attitudes and ability to meet customer expectations were of a certain minimum standard quality.

The negative finding could be attributed to SMNEs spending more to retain employees in an efficient labour market and this resulting in increased costs that erode the returns on the MNE assets. However, given the positive correlation of the efficient labour market with the profit margin, it is unlikely that this would be the case. The research recommends this is investigated further in future research.

This finding further confirms the SMNE subsidiaries vulnerability to host country conditions implying the lack of capability to deal with the labour market as effectively as MMNE subsidiaries.

6.2.6 SUMMARY OF RESULTS

The table below summarises the results of the analysis.

MNE Type	Financial Performance Indicator	Required Capability	Dynamic	Key Internal Factor
MMNE	Operating Revenue	None		Number of Subsidiaries
	Total Assets	None		Number of Subsidiaries
	Profit / Loss after Tax	None		Number of Subsidiaries
	Profit Margin	Regression model not statistically significant at 5%		
	Return on Total Assets	None		Age of Subsidiary
SMNE	Operating Revenue	None		Number of Subsidiaries
	Total Assets	Financial development	Market	Number of Subsidiaries
		Technological Readiness		Age of Subsidiary
	Profit / Loss after Tax	Macroeconomic Environment		Number of Subsidiaries
	Profit Margin	Macroeconomic Environment		Subsidiary Independence
		Labour Market Efficiency		
		Market Size		
Return on Total Assets	Macroeconomic Environment		None	
	Financial Development	Market		

In 4 of the 5 dependent variables, Operational Revenue, Total Assets and Profit / Loss before taxation, MMNE subsidiaries displayed positive correlation to the number of subsidiaries. The performance of these indicators was not related to the

environmental factors in the host country, this confirms that the MMNE subsidiaries and their owners have developed dynamic capabilities to manage the impact of the environment. These capabilities are inherent in the MMNE subsidiaries' management of its size.

SMNE subsidiaries and their owners lack capabilities required to manage the impact of environmental factors. They continue to be dependent on a number of environmental factors, especially the macroeconomic environment, the labour market efficiency and the financial market efficiency. The macroeconomic environment had a direct impact to the consumers of SMNE subsidiary offerings and as a result of the dependency of SMNE subsidiaries offerings on the local consumers, SMNEs will be impacted positively if conditions in the host country improve and vice versa.

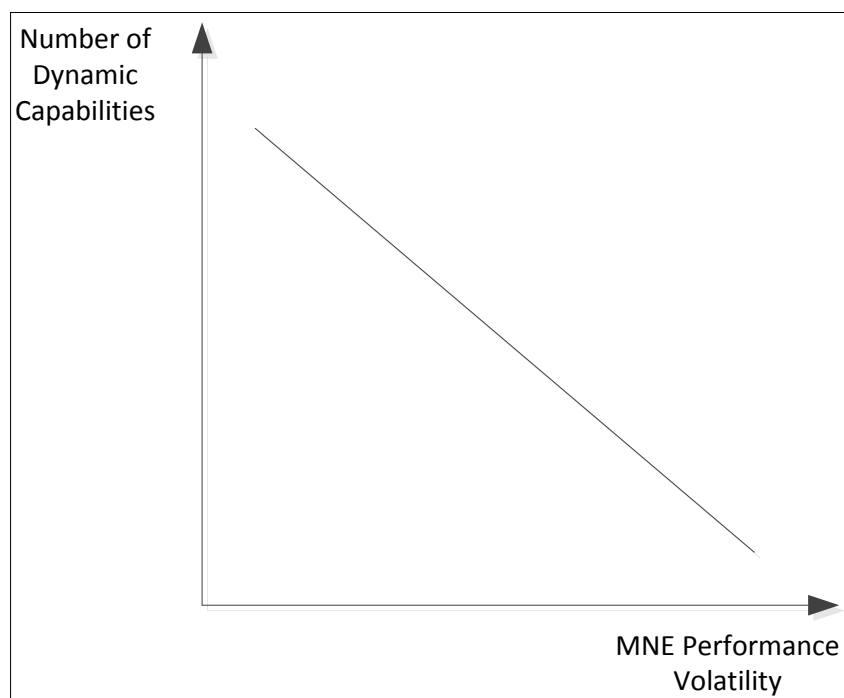
7. CONCLUSION

7.1 SUMMARY OF FINDINGS

This research sought to understand whether MNEs offerings in emerging markets influences how they utilise their OLI advantages to create dynamic capabilities. The research found that SMNE subsidiaries have achieved superior financial success through their superior total assets, profit before tax and profit margin. The research also found that MMNEs subsidiaries achieved superior returns on their assets.

The research found that SMNE subsidiaries and MMNE subsidiaries have developed different dynamic capabilities in response to the different environmental factors experienced in emerging markets. MMNE subsidiaries seem to have a greater set of dynamic capabilities allowing them to minimise the impact of certain environmental factors on their performance. This relationship has been displayed in the figure 1.

Figure 1: Relationship between dynamic capabilities and MNE performance volatility



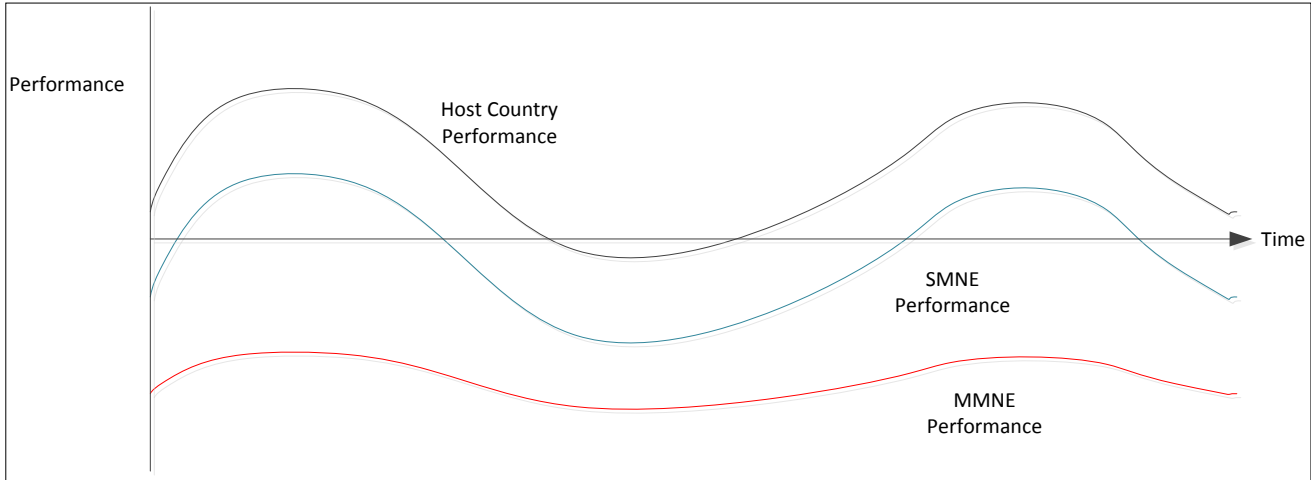
SMNE subsidiary performance was found to be linked to a wider array of environmental factors than MMNE subsidiary performance. SMNE subsidiaries were also found to lack the capability to manage their performance given fluctuations in the

macroeconomic environment and the labour market. Given that emerging markets are where most of the world's economic growth lies, the macroeconomic environments of these markets will continue to improve and as a result SMNE subsidiary performance will continue to improve with it. The risk to SMNEs lies in a negative change in these environmental factors. Without the ability to manage them, the performance of their subsidiaries will be impacted adversely.

MMNE subsidiaries displayed a greater ability to minimise the impact of the host country environment. This was done mainly through creating size within their organisational structures. MMNE subsidiaries are part of a greater MMNE global strategy and as a result are better able to manage performance using synergies within the global MMNE.

The impact of the possession of more dynamic capabilities on MNE performance can be seen in figure 1.

Figure 2: The impact of dynamic capabilities on MNE performance



The research found that due to the MMNE subsidiary being part of a global strategy, it could continue performing without being impacted by the external environment. This confirmed that the global MMNE possessed greater ability to utilise its OLI advantage to minimise the impact of environmental volatility.

Increased subsidiary independence did not impact the performance of the MMNE subsidiaries. This confirms that for the MMNE, the global strategy is the driver for success more than the environmental factors within the host country.

This research found there to be no statistically different revenue generated between SMNE subsidiaries and MMNE subsidiaries. This finding did not support Cloninger's (2004) assertion that SMNE subsidiaries would generate better revenues because of the ability to leverage of its knowledge resources. This finding did support the assertion that certain industries would be more attractive than others, this is evidenced by MMNEs having certain OLI advantages that allow them to better manage host country conditions. Similarly, SMNE subsidiary performance's relationship to the host country conditions make emerging market entry attractive for SMNEs that can identify the trends in the macroeconomic, labour and financial institution conditions within the host market.

7.2 MNES

In 3 of the 5 dependent variables, Profit / Loss before taxation; Profit margin (%) and Return on total assets, SMNEs displayed positive correlation to the macroeconomic environment in the host country. Dynamic capabilities are meant to enable firms to better adapt to their environmental contexts. The correlations observed imply the SMNE subsidiary performance is still impacted by the host country conditions. They do benefit from the good conditions and have not developed the dynamic capabilities required to minimise the impact of poor conditions on their performance. MMNEs have better developed dynamic capabilities to manage host country conditions.

SMNEs intending on entering emerging markets should consider creating a presences in those markets regardless of the macroeconomic conditions. This will allow them to start learning from the host country consumers and improve their offering to them. As macroeconomic conditions in emerging markets improve, and the demand for consumer goods and services increases, there will be more competition in the host market from local firms as well as from other SMNEs entering the market.

SMNEs should give their subsidiaries more independence and allow them to make decisions in the host country based on their findings there. Ultimately the SMNE should look to leverage off the learning's to improve its own OLI advantages and be better positioned for entry into other emerging markets.

MMNEs have better developed dynamic capabilities to manage host country conditions.

7.3 EMERGING MARKET GOVERNMENTS

Given the findings of this report, the following recommendations could be useful for emerging market governments to factor into their policies:

1. Ease of starting a business is important: MNEs revenue is closely linked to the number of subsidiaries the MNE has in the host country. Policy makers in emerging markets should look to make it easy for MNEs to enter their markets through methods that require them to own the subsidiary, e.g. greenfields entry or through an acquisition. Ease of market entry will allow the MNE to start learning from the market sooner. The research has found that the age of the MNE subsidiary will result in greater assets, profit margin and return on total assets for the subsidiary.
2. Design policies that influence the macroeconomic environment positively. SMNE subsidiaries are intricately linked to the market they serve and as a result have not been able to develop capabilities that allow them to succeed despite the macroeconomic conditions. As a result of this link, SMNE subsidiaries will look to factors describing the macroeconomic environment as indicators of potential success. This will limit the amount of inward FDI into poorly ranked emerging markets and subsequently limit their growth and the nature of SMNE entering their markets.
3. Create labour market efficiency: The research found that there is a link between the performance of the MNEs and the efficiency of the labour market. This is because efficient labour markets minimise the internal MNE costs to managing their labour force and this results in reduction in internal costs and

better overall profit margin and return on assets. It is therefore important that the emerging market policy makers design policies that allow for greater flexibility in wage determination as well as link remuneration to productivity.

4. Foster financial market development to create efficiencies, trustworthiness and confidence. SMNE subsidiary total assets are linked to how well the financial market is rated. Regulators in emerging markets need to create environments that allow for SMNE subsidiaries to access capital and loans locally.

7.4 FUTURE RESEARCH

This research studied the effects that conditions within the host country impact on MNE performance as well as MNE capability development. Future research should focus on more in-depth study into the factors identified as impacting the performance of the MNEs, for example, a study could look at the impact the macroeconomic conditions have on performance.

Future research should focus on studying specific capital intensive service industries and compare them with non-capital intensive industries to determine whether there are differences in performance. Additionally capital intensive service industries could be compared with manufacturing industries to determine if there are similarities.

Future research could look at other markets not considered emerging markets to determine if the impact of the environmental factors is different to emerging markets and whether the findings in this report can be applied to other markets.

Future research could also look at the trends of competitiveness rankings over time and determine whether the phenomenon identified in this report applies. Will SMNE performance follow the same trend as the environmental factors.

Future research could also focus on additional internal attributes of the MNE and how these impact performance. Interviews can be conducted with managers in MNE subsidiaries to ascertain the culture, management styles, and other such factors on the subsidiary's performance.

Future research could also focus on non-listed subsidiaries in emerging markets to determine if the findings in this report still apply to non-listed companies.

7.5 CONCLUSION

This research aimed to understand whether there were any differences in financial performance between SMNEs and MMNEs and whether these differences were a result of how the MNEs managed their own internal factors and / or host country environmental factors. This research was also a response to a request for future research focusing on the study of MNE success in emerging markets using financial measures (Georgopoulos and Preusse, 2009).

The objective of this research was met and it contributes to literature through the use of financial measures of success derived from publicly available data. Additionally it focused on a wide range of MNEs operating in 27 emerging markets. This research also contributed to emerging market policy making in identifying the key levers that policy makers in emerging markets can use to influence the number and industry type of MNEs entering their markets. The research also contributed to MNEs through identifying the key capabilities gaps they can close in order to decrease their susceptibility to volatile host country conditions.

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9. APPENDIX 1: COMPETIVENESS MEASURES AS DEFINED BY THE WEF

Pillar	Grouping	Factor
1. Institutions	Public institutions	1. Property Rights 1.01 Property rights 1.02 Intellectual property protection
		2. Ethics and corruption 1.02 Diversion of public funds 1.03 Public trust of politicians 1.04 Irregular payments and bribes
		3. Undue influence 1.06 Judicial independence 1.07 Favoritism in decisions of government officials
		4. Government efficiency 1.08 Wastefulness of government spending 1.09 Burden of government regulation 1.10 Efficiency of legal framework in settling disputes 1.11 Efficiency of legal framework in challenging regulations 1.12 Transparency of government policymaking 1.13 Provision of government services for improved business performance
	5. Security 1.14 Business costs of terrorism 1.15 Business costs of crime and violence 1.16 Organized crime 1.17 Reliability of police services	
	Private Institutions	1. Corporate ethics 1.18 Ethical behavior of firms
		2. Accountability

Pillar	Grouping	Factor
		1.19 Strength of auditing and reporting standards 1.20 Efficacy of corporate boards 1.21 Protection of minority shareholders' interests 1.22 Strength of investor protection*
2. Infrastructure	Transport infrastructure	2.01 Quality of overall infrastructure 2.02 Quality of roads 2.03 Quality of railroad infrastructure e 2.04 Quality of port infrastructure 2.05 Quality of air transport infrastructure 2.06 Available airline seat kilometers*
	Electricity and telephony infrastructure	2.07 Quality of electricity supply 2.08 Mobile telephone subscriptions 2.09 Fixed telephone lines
3. Macroeconomic Environment		3.01 Government surplus/deficit (hard data) 3.02 National savings rate (hard data) 3.03 Inflation (hard data) 3.04 Interest rate spread (hard data) 3.05 Government debt (hard data) 3.06 Real effective exchange rate (hard data)
4. Health and primary education	Health	4.01 Business impact of malaria g 4.02 Malaria incidence* g 4.03 Business impact of tuberculosis g 4.04 Tuberculosis incidence* g 4.05 Business impact of HIV/AIDS g 4.06 HIV prevalence* g 4.07 Infant mortality* 4.08 Life expectancy*
	B. Primary education	4.09 Quality of primary education 4.10 Primary education enrollment rate*
5. Higher education and training	A. Quantity of education	5.01 Secondary enrolment rate 5.02 Tertiary enrolment rate
	B. Quality of	5.03 Quality of the educational system

Pillar	Grouping	Factor
	education	5.04 Quality of math and science education 5.05 Quality of management schools 5.06 Internet access in schools
	C. On-the-job training	5.07 Local availability of specialized research and training services 5.08 Extent of staff training
6. Goods Market efficiency	A. Competition	Domestic competition 6.01 Intensity of local competition 6.02 Extent of market dominance 6.03 Effectiveness of anti-monopoly policy 6.04 Extent and effect of taxation ^{1/2} 6.05 Total tax rate* 6.06 Number of procedures required to start a business 6.07 Time required to start a business 6.08 Agricultural policy costs
		Foreign competition 6.09 Prevalence of trade barriers 6.10 Trade tariffs 6.11 Prevalence of foreign ownership 6.12 Business impact of rules on FDI 6.13 Burden of customs procedures 6.14 Imports as a percentage of GDP
	B. Quality of demand conditions	6.15 Degree of customer orientation 6.16 Buyer sophistication
7th pillar: Labor market efficiency	A. Flexibility	7.01 Cooperation in labor-employer relations 7.02 Flexibility of wage determination 7.03 Hiring and firing practices 7.04 Redundancy costs* 6.04 Extent and effect of taxation
	B. Efficient use of talent	7.05 Pay and productivity 7.06 Reliance on professional management 1/2 7.07 Brain drain

Pillar	Grouping	Factor
		7.08 Female participation in labor force*
8 th pillar: Financial market development	A. Efficiency	8.01 Availability of financial services 8.02 Affordability of financial services 8.03 Financing through local equity market 8.04 Ease of access to loans 8.05 Venture capital availability
	B. Trustworthiness and confidence	8.06 Soundness of banks 8.07 Regulation of securities exchanges 8.08 Legal rights index*
9 th pillar: Technological readiness	A. Technological adoption	9.01 Availability of latest technologies 9.02 Firm-level technology absorption 9.03 FDI and technology transfer
	B. ICT	9.04 Internet users* 9.05 Broadband Internet subscriptions* 9.06 Internet bandwidth* 9.07 Mobile broadband subscriptions* 2.08 Mobile telephone subscriptions* 1/2 2.09 Fixed telephone lines1/2
10 th pillar: Market size	A. Domestic market size	10.01 Domestic market size index* k
	B. Foreign market size	10.02 Foreign market size index*
11 th pillar: Business sophistication		11.01 Local supplier quantity 11.02 Local supplier quality 11.03 State of cluster development 11.04 Nature of competitive advantage 11.05 Value chain breadth 11.06 Control of international distribution 11.07 Production process sophistication 11.08 Extent of marketing 11.09 Willingness to delegate authority 7.06 Reliance on professional management
12 th pillar: R&D		12.01 Capacity for innovation

Pillar	Grouping	Factor
Innovation		12.02 Quality of scientific research institutions 12.03 Company spending on R&D 12.04 University-industry collaboration in R&D 12.05 Government procurement of advanced technology products 12.06 Availability of scientists and engineers 12.07 PCT patent applications 1.02 Intellectual property protection