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**On the Competition between Multinational Enterprises within
Developing Countries: Developing Country MNEs versus
Developed Country MNEs**

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philosophy

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Abstract

Over the last two decades, developing countries have experienced a high volume of foreign direct investment (FDI). It is commonly accepted that many multinational enterprises (MNEs) are entering into multiple markets, in order to increase their profitability and to reduce the risk of relying upon one market.

This study aims to provide insight into the internationalisation of MNEs from both developed and developing countries into developing markets. It seeks to test what, if anything, MNEs from developing countries do more effectively than MNEs from developed countries within these emerging markets.

The central thesis of the study is that MNEs from developing countries will have certain advantages over MNEs from developed countries, and will therefore be more prevalent amongst the largest foreign firms within emerging markets. This thesis is based on the assumption that MNEs from developing countries have prior experience of operating within similar emerging markets, and so are better qualified to compete within these types of markets. MNEs from developing countries obtain certain capabilities from operations within their home countries, such as the ability to function in the context of authoritarian regimes, ineffective governments, poorly developed infrastructures, and poorly protected property rights, as well as the ability to provide services within markets which include consumers living in poverty. All of these may allow them more easily to overcome difficulties and setbacks within developing country markets.

The theoretical foundation for this study has been constructed by reviewing the existing business literature. A particular aim of the literature review was to understand and explore the development of knowledge about the investment habits of multinational enterprises. In particular, their behaviour when operating within developing country markets was explored, along with the question of how they may be able to use their resources or capabilities to gain competitive advantage. This produced a set of hypotheses, which were then investigated using two types of data (both quantitative and qualitative).

The results of the analysis show that developing-country MNEs outperform developed-country MNEs when investing in developing countries with poorly protected property rights and pervasive corruption. This is also the case when investing in countries with poorly developed infrastructure. In addition, partial support was found for the hypothesis

that developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with authoritarian regimes.

The study hopes to assist policy makers in recognising that an MNE's previous experience impacts on its ability to succeed in developing countries. It also hopes to provide useful guidance for those MNE managers who are seeking to improve their effectiveness when investing in developing countries.

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Chapter 1: Introduction

1.1. Introduction

For a number of years, developing countries have experienced rising levels of foreign direct investment (FDI) (UNCTAD, 2009). FDI inflows started at \$31,776 million in 1990 (UNCTAD, 1992), but rose to approximately \$620,733 million by 2008 (UNCTAD, 2009) (see Figure 1.1), and to \$328 billion in 2010 (UNCTAD, 2011). Developing countries have started to open and liberalise their markets, in order to attract more foreign direct investment through multinational enterprises, or MNEs (Ramamurti, 2009).

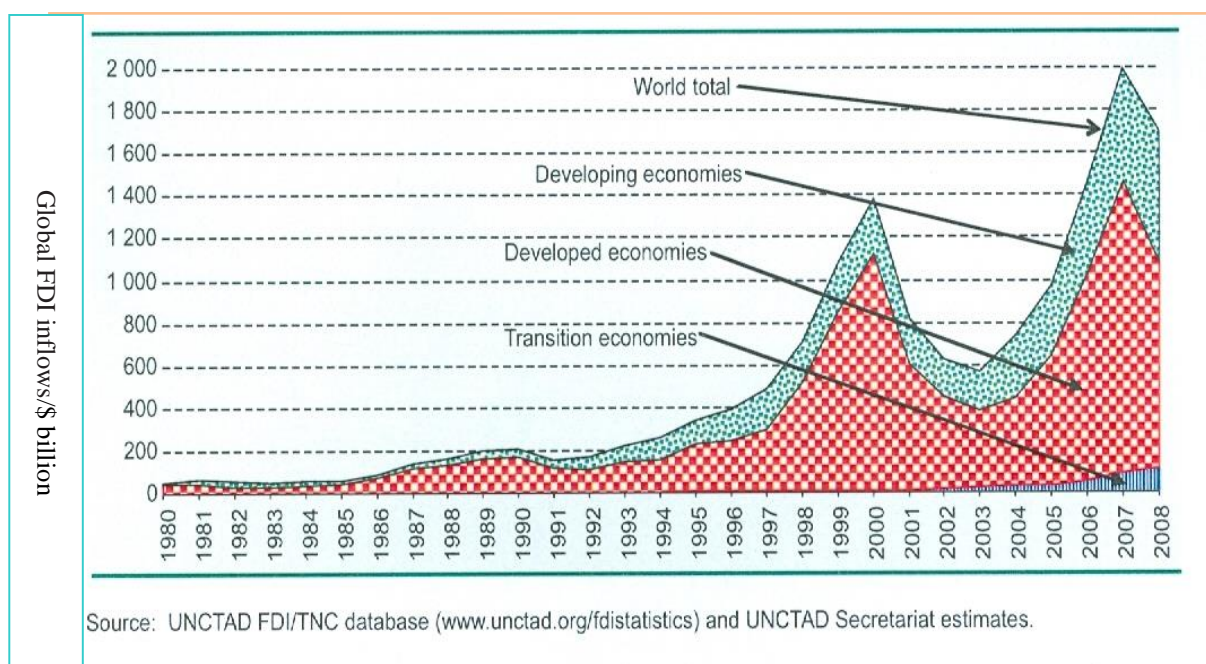


Figure 1.1: FDI inflows, globally and by groups of economies, 1980-2008

Within developing countries, economic competition has tended to exist between developed-country MNEs and local firms. However, MNEs from developing countries are now beginning to compete with existing developed-country MNEs (Cuervo-Cazurra and Genc, 2008a). Developing-country MNEs, rather than MNEs from developed countries, have

become major commercial forces in some developing countries (Cuervo-Cazurra and Genc, 2008a). MNEs from Botswana (UNCTAD, 2009), as well as Jollibee Food, an MNE from the Philippines (Dawar and Frost, 1999), are good examples of this phenomenon.

However, both developed-country MNEs and developing-country MNEs face many challenges when expanding their operations in developing countries (Gammeltoft et al., 2012; Cuervo-Cazurra and Genc, 2008a). Although developing-country MNEs rarely appear amongst lists of the largest firms in the world, they are more prevalent amongst lists of the largest foreign firms in Least Developed Countries (LDCs) (Cuervo-Cazurra and Genc, 2008a). This may be because when developing-country MNEs operate in developing countries which feature difficult institutional conditions, they face fewer setbacks than developed-country MNEs due to their ability to thrive under difficult economic conditions (Cuervo-Cazurra and Genc, 2008a). As a result, developing-country MNEs have become significant economic forces within developing countries.

The central thesis of this study is that developing-country MNEs are more able to create non-market based capabilities in their home countries. Specifically, the study addresses:

(1) The ability to operate under authoritarian regimes, measured through clusters labelled “voice and accountability” and “political instability and violence”, which indicate the process through which governments are selected and replaced in a country (Kaufmann et al., 1999).

(2) The ability to operate within ineffective governmental environments, measured by clusters labelled “government effectiveness” and “regulatory quality”. These refer to the capacity of the government to implement sound economic policies (Kaufmann et al., 1999).

(3) The ability to operate within poorly developed infrastructures and within the context of poorly protected property rights, measured by clusters labelled “rule of law” and “corruption”

(Kaufmann et al., 1999) . This refers to the respect of both the government and its people for the laws which govern their interactions, as well as the company's ability to provide services in situations where there is poverty amongst its customer base.

The ability to operate effectively when confronted with these factors can give developing-country MNEs a competitive advantage over developed-country MNEs. Developing-country MNEs may be able to develop non-market capabilities domestically, and then use these capabilities when they operate in an international environment (Cuervo-Cazurra and Genc, 2008a; Cuervo-Cazurra and Genc, 2008b) which resembles their home country in terms of governmental regulation or geographic proximity (Dawar and Frost, 1999).

This study aims to provide insight into the internationalisation of MNEs from within developing countries, and to provide a better understanding of what, if anything, developing-country MNEs do more effectively than developed-country MNEs within such markets.

The rest of this chapter is organised as follows. The next section (1.2) describes the research objectives of the study. Section 1.3 draws from existing literature about MNEs in developing countries in order to outline the study's conceptual framework. The expected contribution of the study is described in section 1.4, whilst section 1.5 presents the definitions to be used in the study. Section 1.6 presents the structure of the thesis, and in section 1.7 a summary of the chapter is provided.

1.2. Research Objectives

This study aims to analyse the effect of non-market based capabilities upon the operations of MNEs from developing and developed countries within developing country markets. The objectives of this study are as follows:

1. To explore the influence of governance indicators on the prevalence of MNEs in developing markets.
2. To explore the influence of poorly developed infrastructure in developing countries on the prevalence of MNEs in developing markets.
3. To explore the influence of poverty in developing countries on the prevalence of MNEs in developing markets.
4. To develop a research framework to identify the effect of non-market capabilities upon the success of MNEs in developing markets.
5. To compare the effect of non-market capabilities on developed-country MNEs when they operate in developing markets, and to identify the challenges they face.
6. To consider appropriate managerial and public policy implications resulting from the analysis outlined above.

1.3. Conceptual framework

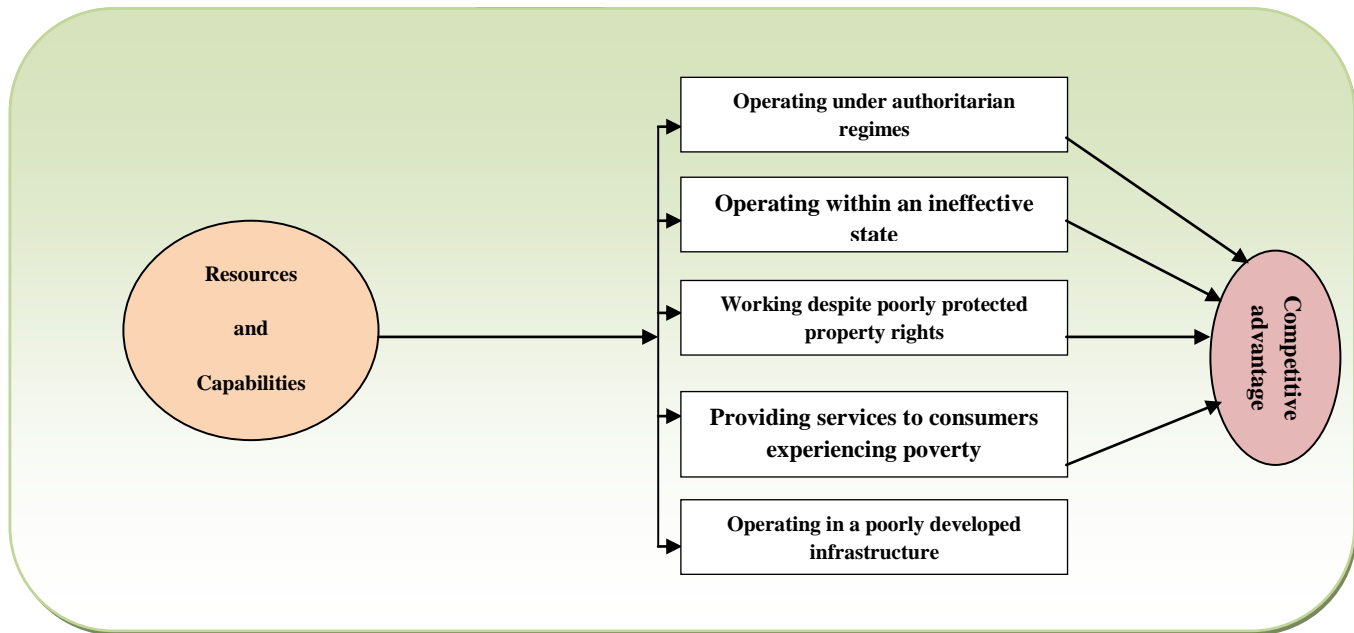


Figure 1.2: The conceptual framework

Both developing-country MNEs and developed-country MNEs have specific advantages in their own domestic markets, known as ownership advantage. However, developing-country MNEs can develop non-market capabilities, such as dealing with corruption in their home market, which allow them to compete successfully in similar environments abroad. This study will concentrate on five non-market capabilities, in an attempt to provide a full description for the behaviour of MNEs in developing countries. This will be achieved by analysing how developing-country MNEs use tangible advantages, such as raw materials, and intangible advantages, such as knowledge (Halawi and McCarthy, 2005), to compete with developed-country MNEs and achieve competitive advantage.

The five types of non-market capabilities upon which this study focuses are as follows. Firstly, successful MNEs in developing countries have the ability to operate under authoritarian regimes, which suppress the public voice and often lead to political instability and violence (Cuervo-Cazurra and Genc, 2008b). Developing-country MNEs are also

capable of operating within ineffective states, which have poorly designed and poorly implemented regulatory structures (ibid). In addition, MNEs in developing countries are able to operate despite poorly protected property rights, which can include the lack of the rule of law, as well as uncontrolled corruption (ibid). These MNEs have also learned to provide services to consumers experiencing poverty (ibid). Finally, successful developing-country MNEs are capable of operating within poorly developed infrastructures (ibid).

In order to examine these issues, this study will employ the Resource Based View (RBV) and Ownership, Location and Internalization (OLI) paradigms, which examine how unique resources (the 'O' advantage) can influence commercial success (Silviano and Juan, 2008). It will use these models in order to explain the success of developing-country MNEs over developed-country MNEs within developing countries (see figure 1.2), and to explain how developing-country MNEs acquire the capacity to accommodate local institutional contexts. Of course, resources are also a key factor for MNEs when expanding their business in foreign countries (Cuervo-Cazurra and Genc, 2008b). To achieve competitive advantage, these resources should be inimitable, unique, sustainable, and scarce (Mahoney and Pandian, 1992; Peteraf, 1993; Oliver, 1997; Joppesen and Hansen, 2004). When compared to developed-country MNEs, it can be seen that developing-country MNEs have more knowledge and experience of developing countries, due to acquiring relevant capabilities within their home market.

1.4. Expected Contribution

Over recent years, there has been a rapid improvement in the state of the international business literature concerning foreign direct investment in developing countries. However, it is still the case that little attention is paid to theories which interpret the various

interdependencies between MNEs and the political and economic environment within developing countries (UL-Haq and Farashahi, 2010).

The current study seeks to analyse the impact of five identified capabilities (the capability to operate under authoritarian regimes, the capability to operate within ineffective states, the capability to operate despite poorly protected property rights, the capability to provide services to consumers experiencing poverty, and the capability to operate in a poorly developed infrastructure) (Cuervo-Cazurra and Genc, 2008b) upon the success of both developing-country MNEs and developed country MNEs when operating within developing markets. It is anticipated that this study will provide valuable information for developing-country MNEs when considering the capabilities which provide them with a competitive advantage over developed-country MNEs when operating in developing markets. Those developing-country MNEs which examine such capabilities will be able to improve them in order to compete successfully within such markets.

In addition, the prevalence of MNEs within developing countries is a complex but little explored area of research. The vast majority of research on MNEs has been conducted within the context of either the United States or European countries, with only slight attention being paid to MNEs within developing countries (Ramamurti, 2009).

Therefore, the results of this study will contribute to the academic literature by filling the existing gap with regards to the prevalence of MNEs from both developed and developing countries within developing countries . The findings of this study will also provide valuable information about how the largest MNEs flourish in developing countries, and will highlight the competition between developing-country MNEs and developed-country MNEs.

As will be laid out below, developed-country MNEs represent the majority of MNEs around the world (Nigam and Su, 2010). They possess many vital market-based resources,

such as financial resources; brand reputation; and advanced technology (Dawar and Forst, 1999). In addition, many scholars argue that because developed countries have more advanced technology and “know-how”, MNEs from such countries should be able to operate effectively around the world (Stopford and Strange, 1992).

Little attention has yet been paid to non-market capabilities, and how they can affect the success of both developing and developed-country MNEs when investing in developing-country markets (Cuervo-Cazurra and Genc, 2008b).

This study therefore aims to show how non-market capabilities can influence the success of MNEs within developing markets. The applicability of the resource based view within this area of the discipline will be further extended by studying such intangible resources. The key concepts used in this study are defined in section 1.5, below.

Moreover, most previous studies about MNEs within developing countries have relied heavily on quantitative research designs (Torrise, 1985; Lucas, 1993; Bevan and Estrin, 2000; Botric and Skuflic, 2006; Daude and Stein, 2007; Susjan et al., 2007; Cuervo-Cazurra and Genc, 2008a; Khrawish and Siam, 2010; Han, 2011). However, the present study has deliberately utilised a mixed method design (involving both quantitative and qualitative methodologies), resulting in a more comprehensive understanding of the competitive environment within developing country markets. A semi-structured interview method was used in this study, and has provided new and unique insights into the area upon which the research is focused.

1.5. Definitions used in this Study

1. Developed countries (industrial countries, industrially advanced countries).

For the purposes of this study, developed countries are defined as high-income countries¹, in which most people have a high standard of living. They are also sometimes also defined as countries with a large stock of physical capital, in which most people undertake highly specialised activities. According to the World Bank classification, such countries include all high-income economies except Hong Kong (China), Israel, Kuwait, Singapore, and the United Arab Emirates. Depending on who defines them, developed countries may also include middle-income countries with transition economies, because these countries are highly industrialized. Developed countries contain about 15 percent of the world's population. They are also sometimes referred to as "the North." The World Bank glossary²

2. Developing countries. According to the World Bank classification, developing countries can be defined as “countries with low or middle levels of GNP per capita as well as five high-income developing economies -Hong Kong (China), Israel, Kuwait, Singapore, and the United Arab Emirates. These five economies are classified as developing despite their high per capita income because of their economic structure or the official opinion of their governments. Several countries with transition economies are sometimes grouped with developing countries based on their low or middle levels of per capita income, and sometimes with developed countries based on their high industrialization. More than 80 percent of the world's population lives in the more than 100 developing countries.” The World Bank glossary.

3. Foreign direct investment. This can be defined as “the process where a firm from a country provides capital to an existing or newly- created firm in another country” (Jones and Wren, 2006, p.7).

4. Least developed countries (LDCs). These are defined by the World Bank as “low-income countries³ where, according to the United Nations, economic growth faces long-term

¹ **High-income countries.** Classified by the World Bank in 1997 as countries whose GNP per capita was \$9,266 or more in 1999. The group includes both developed countries and high-income developing economies.

² <http://www.worldbank.org/depweb/english/beyond/global/glossary.html>

³ **Low-income countries.** Classified by the World Bank in 1997 as countries whose GNP per capita was \$755 or less in 1999.

impediments - such as structural weaknesses and low human resources development. A category used to guide donors and countries in allocating foreign assistance.” The World Bank glossary

5. Multinational enterprise. An MNE can be defined as an enterprise which engages in foreign direct investment (FDI), and owns or in some way controls value added activities in more than one country (Dunning and Ludan, 2008). In this study, the researcher will use the largest MNEs within developing countries when undertaking quantitative analysis.

6. Skill. “It is the ability to do something well.” (Oxford English Dictionary, 2006).

7. UNCTAD. This body is “the United Nations Conference on Trade and Development, which is an organization set up by the United Nations in 1964 to encourage international trade, especially by helping developing countries to increase their exports (Longman Business English Dictionary).”

8. Resource-based View. This theory describes a firm as a unique bundle of tangible and intangible resources, which can be seen as the basis for a sustainable competitive advantage (Barney, 2002).

1.6. The Structure of the Thesis

The first chapter (introduction) has aimed to establish the importance of the research, which concentrates on the prevalence of MNEs in developing countries. The aim of the study and the study objectives have been introduced, after background information on the topic was provided. This introduction has also outlined the conceptual framework of the study, and has included a brief description of the definitions to be used. A final section of this chapter will discuss the expected contributions of this study, and then conclude with a brief summary.

The second chapter (literature review) will build a theoretical foundation for the study by conducting a review of the existing literature. The chapter is therefore divided into a number of sub-sections. These include sections which explore both FDI and MNEs within

developing and developed countries; the motivation for FDI; the benefits of FDI; the negative impact of FDI; the determinants of FDI; developing country MNEs and non-market capabilities; global firms; the OLI paradigm; and the resource based view (RBV). The last section concentrates mainly on non-market capabilities and the hypotheses of this study.

The third chapter (methodology) describes the research methodology used in the study. This chapter includes discussion of research methods; research design; research technique; research population; sample selection; data collection; research variables; initial data analysis for quantitative results; and research procedures. It also includes discussion of the procedures which were followed to collect the data required for this study.

The fourth chapter (quantitative research findings) outlines the major findings from the study and explains the results in relation to the research hypotheses. This chapter starts by examining the research hypotheses, focusing on the numbers and percentages of developing – country MNEs and developed–country MNEs in developing markets. This analysis includes a multiple regression analysis, which will be used to understand the effect of independent variables (authoritarian regimes, ineffective governments, poorly developed infrastructures, poorly protected property rights, and the capability to provide services to consumers experiencing poverty) on the dependent variable (the prevalence of developing/developed–country MNEs within developing markets).

The fifth chapter (qualitative research findings) outlines the findings from the qualitative analysis conducted for this study. It will start with the qualitative findings relating to developing-country MNEs and their operations within developing countries. It then moves on to present the qualitative findings relating to developed-country MNEs and their operations within developing countries. The similarities and differences of perspective

between managers operating within the two contexts will be discussed for each research proposition.

The final chapter (discussion and research recommendations) aims to analyse the main findings in the previous chapters, and to provide a discussion of the results and how they relate to the research hypotheses. This section also discusses the limitations to be considered when evaluating the results provided. Recommendations are also made for future research into non-marketing capabilities, and how they affect the prevalence of MNEs from developed and developing countries within developing markets.

1.7. Summary

This chapter has laid the foundation for the thesis. It provided a brief background to the study, which was followed by the identification of the research problem, as well as the research questions which the study intends to answer. The objectives of the study were identified, and brief descriptions of the research definitions were introduced. This was followed by a brief discussion of the intended contributions of the study and a description of the structure of the study. Figure 1.3, below, also outlines the main structure of this thesis.

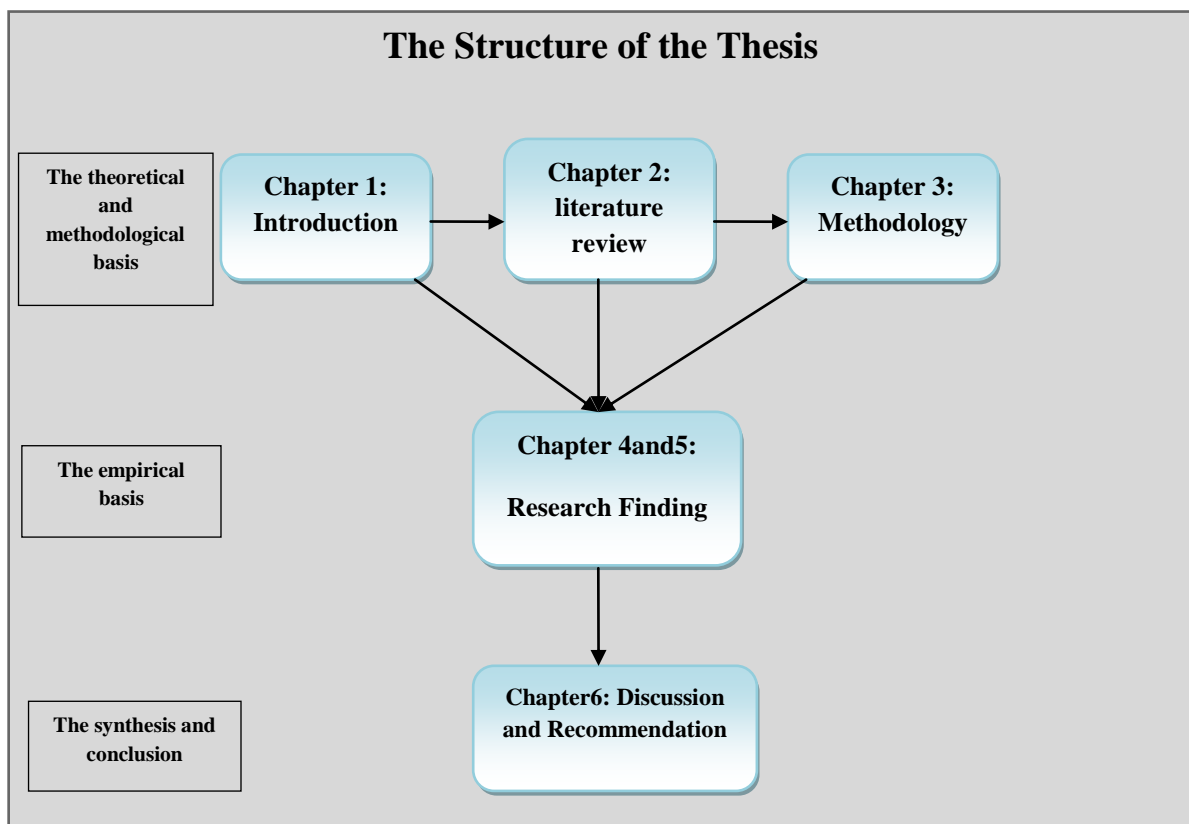


Figure 1.3: Structure of the thesis

Chapter 2: Literature review

2.0 Introduction

This chapter will build the theoretical foundation for the study by reviewing the existing literature. The aim of this literature review is to understand how knowledge of the ways in which MNEs make decisions prior to investing in the global market has developed, and to review current understandings of how they use their resources and capabilities to gain competitive advantage.

This chapter is divided into six main sections. The first section reviews the literature with regard to foreign direct investment (FDI). This is divided into six subsections which cover the definition of FDI; FDI and MNEs in developing and developed countries; the world's largest companies; the motivation for FDI; the benefits of FDI; and the negative effect of FDI. The second section reviews developing country MNEs and their non-market capabilities. This section is subdivided into a discussion of MNEs in developing countries; 'born global' firms; factors affecting competition in developing countries; and a discussion of the institutional environment in developing countries. The third section will outline and explore the OLI paradigm. The fourth section will similarly discuss the Uppsala model. The fifth section will highlight the influence of the resource based view used in this study. Finally, the sixth section will focus on non-market capabilities and the research hypotheses of this study. As mentioned in the introduction, the capabilities examined within the present study are the ability to operate under the most authoritarian regimes; operation within ineffective states; dealing with poorly protected property rights and pervasive corruption; the ability to provide services to consumers experiencing poverty; and the ability to operate in the context of poorly developed infrastructures. After this, the final section will provide a summary of the literature review that has been conducted.

2.1 Review of FDI

2.1.1 Definition of FDI

Generally, FDI refers to global operations, or to the acquisition of a firm in a different country (Devita and Lawler, 2004). However, according to Jones and Wren (2006, p.7), the definition of FDI can more suitably be given as: “the process where a firm from a country provides capital to an existing or newly- created firm in another country”.

FDI has been rapidly increasing in recent years (Botric and Skuflic, 2006; Buthe and Milner, 2008), and during the past 20 years FDI in the developing world has also been steadily rising (Moran, 1999; Asiedu, 2002; Whalley and Xin, 2010). For example, at the beginning of the 1980s, countries from Asia became an attractive destination for FDI. These countries have been successful in creating an attractive business environment for foreign investors (Masron and Abdullah, 2010), although success has varied widely between countries, with some countries faring much better than others (Moran, 1999; Botric and Skuflic, 2006; Terada, 2011).

In 1997, 70% of the overall FDI flow was received by only ten developing countries. China alone received 38% (equivalent to \$42 billion) of the total FDI inflow in 1996 (Moran, 1999). It is worth noting that both economic and political determinants play an important role in the distribution of FDI within developing countries (Schneider and Frey, 1985).

According to world investment reports for 2000 and 2011, conducted by the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows have risen rapidly. They have risen from approximately \$256 billion in 1993 to approximately \$1,244 billion in 2010. Table 2.1 identifies those developing countries which attract a high volume of FDI. Overall, the total FDI inflows which entered developing countries increased remarkably, from approximately \$47 billion in 1993 to approximately \$328 billion in 2010, which reflects

an increase of more than 698%. South–East Europe and the CIS region achieved the highest positive differences in the period between 1993 and 2010, at 887%. In contrast, Africa gained the least in the same period, at 191%. Over the same period, the gains in FDI inflows for Latin America and the Caribbean, and Asia and Oceania, were 281% and 813% respectively.

Table 2.1: Amount of FDI flowing into developing countries

Region/ economy	FDI Inflows (Millions of Dollars)		
	1993	2010	% Δ
Developing-countries	46,919	327,564	698%
Africa	3,472	6,634	191%
Latin America and the Caribbean	13,136	76,273	281%
Asia and Oceania	30,090	244,656	813%
South- East Europe and CIS	6,828	60,584	887%

Data source: World Bank (2000, 2011)

2.1.2 FDI and MNEs within developing and developed countries

Over recent years, there has been an increase in FDI in general (Botric and Skuflic, 2006). Governments have worked hard in order to attract FDI, including through the introduction of financial incentives and the establishment of investment promotion agencies (Cass, 2007). Table 2.2, below, presents the FDI flows for each type of global economy.

Table 2.2: FDI flows, by region and economy, 2011

Economy	Ranking	FDI inflows (millions of dollars)	
		2006	2011
Developed economies	2	981,869	747,860
Developing economies	3	427,163	684,399
World	1	1,463,351	1,524,422

Source: World Investment Report 2012 (UNCTAD).

As can be seen from the table, developed economies continue to receive more FDI inflow than developing economies. According to the world investment reports, the total FDI inflows for the world increased from \$1,463,351 million in 2006 to \$1,524,422 million in 2011. However, in developed economies the FDI inflow decreased from \$981,869 million in 2006 to \$747,860 million in 2011. In contrast, FDI inflows in developing economies increased from \$427,163 million in 2006 to \$684,399 million in 2011. This change can be explained by many factors, such as high population growth within developing economies (Kearney, 2012), and the increasing liberalisation of such economies in order to attract increased investment. Overall, the differences between FDI inflows for developed economies and developing economies decreased dramatically, from 40% in 2006 to 4% in 2011.

Table 2.3 describes the number of foreign affiliates within economies by region. It is clear from this data that developing countries host a higher number of foreign affiliate companies than developed economies. Indeed, by 2009 the number of foreign affiliates located in developing economies was 425,258 compared to 366,881 within developed economies. Moreover, the vast majority of foreign affiliates located within developed economies were located in the European Union. As can be seen below, the EU has 335,577 foreign affiliates, compared to just 9,389 within North America.

Table 2.3: Number of foreign affiliates located within different regions

Economy	Region	Rank	Foreign affiliates located in economy
Developed economies			366,881
	European Union	1	335,577
	Other developed European countries	2	12,194
	Other developed countries	3	9,721
	North America	4	9,389
Developing economy			425,258
	Asia and Oceania	1	379,437
	Latin America and the Caribbean	2	39,737
	Africa	3	6,084

Source: World Investment Report 2009 (UNCTAD)

Within developing economies, the vast majority of the distribution of foreign affiliates was in Asia and Oceania, with 379,437 affiliates being located there. In contrast, Africa attracted the lowest number of foreign affiliates, with just 6,084.

2.1.3 The world's largest companies

This section will seek to identify the largest companies in the world, as of 2012. To do this, the researcher has used the FT Global 500, and will focus on the top 100 of the world's largest companies. The Global 500 is an annual report undertaken by The Financial Times (www.ft.com). In the following analysis, the researcher will start by analysing the business

sectors in which the top 100 companies operate. Then, the researcher will further analyse the data to reveal the ‘nationality’ of the world’s largest companies.

It was found, perhaps unsurprisingly, that the percentage of developed-country companies within the top 100 was 83%. In contrast, only 17% of the top 100 companies originated within developing-countries, and most of these are located in China and Brazil.

The full results of this analysis are presented in Tables 2.4, 2.5 and 2.6, below.

Table 2.4: Distribution of the top 100 companies by business sector

Sector	Number of largest companies
Bank/ insurance/financial services	25
Oil/gas/mining	19
Technology hardware and equipment/software and computer services	10
Pharmaceuticals and Biotechnology	10
Retailors and food producers	7
Beverages	6
Telecommunications	4
Automobile and parts	3
Chemical	3
General industry	3
Leisure and personal goods	3
Media	2
Tobacco	2
Household goods and home construction	1
Travel and leisure	1
Aerospace and Defence	1

Source: <http://www.ft.com/intl/cms/2a53e388-569a-11e2-aa70-00144feab49a.pdf>

As can be seen from this table, 25% of the largest companies primarily operate within the banking/insurance/financial services sector. For example, the Industrial and Commercial Bank of China ranked fifth within the Global 500. Following these companies, the oil/gas/mining sector had the next largest proportion of top businesses, with 19% of the top 100 represented within the sector. The technology hardware, equipment/software and computer service sector was represented by 10% of the top businesses, as was the pharmaceuticals and biotechnology sector. In contrast, three business sectors were represented by only one company each. These were the household goods and home construction sector; the travel and leisure sector; and the aerospace and defence sector.

Table 2.5: Distribution of the top 100 companies by home country

	Country or Countries	Number of the top 100 companies
1	US	40
2	UK, China	8 each
3	France, Germany, Brazil	5 each
4	Russia, Canada, Switzerland , Australia, Japan	3 each
5	Spain, UK and Australia, Hong Kong	2 each
6	South Korea, K.S.A, Belgium, Denmark, Italy, Taiwan, Norway, Netherlands.	1 each

Source: <http://www.ft.com/intl/cms/2a53e388-569a-11e2-aa70-00144feab49a.pdf>

By analysing the top 100 largest companies, it is clear that the US is dominant in terms of home location, with 40% of these companies originating there. Just a few examples of such companies include Exxon Mobil, Apple, Wal-Mart, and Microsoft. Companies from the UK and from China appeared 8 times each, and made up the next largest sample. For example, a Chinese company (Petro China) ranked third in the top 100, and HSBC (a UK company) ranked 17th. On the other hand, countries such as South Korea, K.S.A, Belgium,

Denmark, Italy, Taiwan, Norway and the Netherlands appeared only once in the top 100 when analysed in this way.

Table 2.6: Distribution of the top 100 companies, analysed by developed and developing economy origin

Economy	Number of companies
Developed economy	83
Developing economy	17

From the above table, it is clear that the vast majority of the largest companies in the world come from developed economies. After analysing the top 100, 83% of the largest were from developed economies, compared to only 17% from developing economies.

2.1.4 The motivation for FDI

It is critical to understand why firms become multinational, as such a move requires different strategies and different capabilities. In particular, it should be noted that MNEs are considered part of an international network, which have the ability to mobilize their tangible and intangible resources around the world (Nachum and Keeble, 2002).

There are many reasons why MNEs go abroad to invest. FDI can, for example, entail access to new markets, natural resources, technology, brand names, distribution channels, and both skilled and unskilled labour (Thomsen, 2010). In addition, entering the market early in a host country increases a foreign firm's opportunity to achieve superior asset efficiency (Luo, 1998), distance from the host country (Ghemawat, 2001), and a good relationship with the host government (Bjorkman and Osland, 1998). Broadly, the motivation for FDI can be classified into three main groups (Dunning, 1994; Brouthers et al., 1996, ; Dunning, 1998;

Narula and Dunning, 2000; Dunning, 2000; Asiedu, 2002; Botric and Skuflic, 2006; Brouthers et al., 2008; Khrawish and Siam, 2010), namely:

- i. **The market-seeking FDI**. This type of FDI is based on a central L (location) advantage (Narula and Dunning, 2000). It is often used by firms which aim to serve the local market in a host country through local production and distribution. In this model, MNEs produce goods in the host country and sell them in the domestic markets of that country. This type of motivator can therefore be driven by many factors, such as the size of the host country's market, the income of the local people, market growth, access to regional and global markets, consumer preferences, import barriers on foreign production, the decline of transaction costs and the structure of the domestic market. Consequently, FDI in poorer or smaller countries will be less likely to take this form (Asiedu, 2002).

- ii. **The resource-seeking FDI**. This second type of motivator is also frequently referred to as 'non-market seeking' behaviour. This grouping is based on a central O (ownership) advantage (Dunning, 1998). MNEs which adopt this type of motivator are those which produce their products within the host country but sell them outside that market. The MNEs who utilise this type of FDI are seeking natural resources which are not available elsewhere, or which can only be bought at a higher cost in their home market (Dunning, 2000; Asiedu, 2002; Nachum and Keeble, 2002). The resource-seeking FDI depends upon the price of raw materials, as well as lower unskilled labour costs and a pool of skilled workers. It is also dependent upon physical infrastructure (ports, roads, power, and telecommunications) and a certain level of technology (Brouthers et al., 2008). Resource-seeking FDI tends to occur in countries which are politically stable, with low labour costs and easy access to raw

materials, as this makes such countries more attractive to foreign investors (Brouthers et al., 2008).

However, it should be noted that some scholars do not agree that MNEs will only invest globally due to cheap labour and access to raw materials. According to Aharoni (2010), it is not true that firms become MNEs simply because they seek resources. In reality, they also seek new markets, in order to gain new knowledge and to increase their efficiency. Miller (1993), cited in Ali and Guo (2005), has argued that the cost incurred by an MNE through transportation difficulties and low productivity was often more than the profit gained from cheap labour in developing countries.

- iii. **The efficiency-seeking FDI**. This third type of motivator seeks to help host countries to restructure their activities, in order to bring themselves in line with their dynamic advantages (Dunning, 1994). It is used to spread value-added activities, in order to create a new competitive advantage for the firm involved by increasing efficiency and decreasing the cost of production or of a service. Foreign firms will consider inexpensive labour, natural resources, specific capabilities, and infrastructure in the host country, as well as customers in the host market when using this model. This model is based on the two previous types of FDI (Nachum and Keeble, 2002; Botric and Skuflic, 2006).

2.1.5 The benefits of FDI

As has been outlined in the previous section, the FDI investments of MNEs are driven by different motivators, which are chosen after an analysis of the different benefits gained from each (Nachum and Keeble, 2002). The existing literature on FDI has identified many benefits which the host country can gain from attracting foreign investors. During the period

from 1980 to 1990, FDI played an important role in shaping the world economy (Kehal, 2004) and the positive impact of FDI on economic growth was examined by many scholars (Kostevc et al., 2007). In 2011, Terada mentioned the positive aspects of FDI, such as advancing technology within the host country, human resource development, increased knowledge of corporate governance, an increase in employment productivity, managerial expertise, and the creation of a global marketing network. A prime example can be found in MNEs in Soho, which tend to make contracts involving domestic collaboration in the UK, and learn from local knowledge as a result (Nachum and Keeble, 2002). In addition, FDI can add to capital growth, increase competition, and expand knowledge about technology (Gastanaga et al., 1998).

As a result, FDI is considered to be one of the most important factors in the economy of developing countries (Kehal, 2004). It brings success within international capital markets, creates job opportunities and improves managerial capabilities (Asiedu, 2002). It also has the potential to raise the efficiency and expand the output of the host country, leading to good economic development (Moran, 1999).

Developing countries have recently started relying on FDI as a source of capital inflow (Benassy-Quere et al., 2005; Khrawish and Siam, 2010). For instance, ASEAN countries have started to recognise critical challenges to their economic development, in terms of providing funds for their projects and advances in technology. Recently, they have realised that FDI can solve part of this issue (Masron and Abdullah, 2010). Consequently, it is believed that FDI can play an important role in the economic development of developing markets (Kehal, 2004; Masron and Abdullah, 2010; Hufbauer and Adler, 2010), and that will create more opportunities for MNEs to invest in economies (Ali and Guo, 2005). It is thought that developing countries can benefit from FDI by financing investment locally, and that FDI can motivate developing countries to seize opportunities for investment in other developing

countries (Kehal, 2004). Some of the benefits of FDI in developing markets are an increase in knowledge through technological transfer, and an increase in skilled employment, which brings additional resources into the economy (Kehal, 2004). There is, however, often a lack of capital to fund these local projects, in addition to a lack of expertise to run and manage them (Abdullah and Masron, 2010).

2.1.6 Negative impacts of FDI

Although there are many potential benefits to FDI for the host country, negative effects can also come about as a result of FDI. These effects can be summarised as follows (Kehal, 2004):

1. Interference in the political and economic affairs of the host country by foreign MNEs, which can use their power to make decisions which will serve their own goals.
2. FDI may cause a culture change in the host country, leading to conflict between citizens.
3. Transformational technology introduced by MNEs may not be appropriate for developing countries, especially where there is high unemployment.
4. By crowding out domestic investment and local production in developing countries, FDI can negatively affect domestic firms' operations. This negatively affects the long-term sustainability and growth of the host country's economy.
5. Developing countries often have lax environmental regulations. Some MNEs exploit this, especially those companies which encounter very rigid regulations in their home country. This can have a negative effect on the environment of the host country.

2.2. Developing-Country Multinational Enterprises (MNEs) and Non-Market Capabilities

An initial search of the existing literature reviews surrounding MNEs would indicate that most of the existing academic studies focus upon the operations of such companies within the developed world. However, as a result of the recent upsurge in FDI throughout the developing world, MNEs have been able to pay more attention to their operations around the globe (Nigam and Su, 2010). Western firms are now concentrating more on markets in developing countries such as India and China (Ghemawat and Hout, 2008). There are many reasons for this, especially the fact that such developing country markets have high populations, access to large areas of land, and a significantly faster growth rate than that of developed countries (Kearney, 2012).

As a result, there has been a rapid improvement in the state of the international business literature in relation to FDI and developing countries. However, it is still the case that little attention is paid to theories which interpret the interdependencies between MNEs and the political environment in developing countries (Ul-Haq and Farashahi, 2010). Developing country MNEs are responsible for 47% of activity in Africa, more than 10% in Latin America, and more than 20% in Asia and Oceania (Goldstein, 2005).

MNEs from developing countries are not a new phenomenon, as these countries first started to internationalize their firms in the last century (Aulakh, 2007). Such MNEs are usually created initially as domestic firms, seeking to serve their home market, but then ‘open up’ to become international players (Taleb, 2010).

As a result of the rapidly increasing number of successful MNEs in the developing world, such companies are no longer seen as unsophisticated by developed world MNEs. As

a result, it is now appropriate to shift the attention of researchers to such developing-world MNEs, as they are clearly part of the global business environment (Nigam and Su, 2010).

Since MNEs from developing countries are being discussed, it is important to identify and define ‘developing countries’ (Nigam and Su, 2010). The term “developing country” is used to refer to “countries with low or middle levels of GNP per capita as well as five high-income developing economies -Hong Kong (China), Israel, Kuwait, Singapore, and the United Arab Emirates. These five economies are classified as developing despite their high per capita income because of their economic structure or the official opinion of their governments. Several countries with transition economies are sometimes grouped with developing countries based on their low or middle levels of per capita income, and sometimes with developed countries based on their high industrialization. More than 80 percent of the world's population lives in the more than 100 developing countries.” (The World Bank glossary).

Both developing and less developed economies suffer from unique challenges when compared to developed countries. These include poorly developed infrastructures and inappropriate regulatory tools (Taleb, 2010), in addition to incomplete institutional support such as opaque government policies and poor services provided by the central and commercial bank (Ul-Haq and Farashahi, 2010).

This analysis has been supported by many studies such as those by Guthrie (1997); Peng (2002); and Allen (2005). In contrast, markets within developed countries often have the advantage of official and mature market institutions (Taleb, 2010; Totskaya, 2010), which makes conducting business significantly easier.

Moreover, governments in developing country markets often work in a completely different fashion to governments within ‘advanced’ markets. Such unpredictability can create

obstacles when a developed country MNE is looking to invest, due to the difficulty in foreseeing market regulations and conditions (Khanna and Palepu, 1997). For this reason, interpersonal networking is often essential in such countries in order to develop business activities (Ul-Haq and Farashahi, 2010).

2.2.1 Multinational enterprises in developing countries

MNEs from developed countries represent the majority of the world MNEs (Nigam and Su, 2010). They have the advantages of superior technology; financial resources; brand reputation; and marketing and management capabilities (Dawar and Frost, 1999). However, despite these advantages they sometimes operate ineffectively within developing countries. For example, the performance of a French MNE in the Brazilian electricity market was very poor when compared with their market performance within the UK. This is because the French firm applied the same strategy it used in the UK, ignoring the fact that the institutional contexts of the United Kingdom and Brazil are very different (Bosquetti et al., 2010). In addition, the French MNE failed because their technical approach did not work in the Brazilian environment, which is characterised by loose regulation and strong political forces (Bosquetti et al., 2010).

Such poor performance has led to a debate between the differing approaches of standardisation and adaptation. On one hand, some global firms believe that advanced technology has made the world a 'smaller place', and that the needs of customers across the globe are much more similar than in the past. As a result, such firms believe that their strategy can be standardised across all markets. Evidently, this approach can lead to a reduced cost of production, due to economies of scale, and can also enhance the power of a company's brand. On the other hand, some global firms believe that customers from different markets have different needs, desires, and cultural backgrounds. These firms tend to adapt

their operational strategies to match the specific needs and desires of consumers within these markets. However, most global firms should seek a balance between these two strategies, rather than adopting one extreme or another. Accordingly, some core marketing is often standardised across markets, whilst other approaches remain local (Kotler and Armstrong, 2006).

In general, developing-country firms are often poor in competitive assets, advanced technology, knowledge, brands, and resources (Taleb, 2010). Developing-country MNEs can suffer from being too late in their internationalisation – which can be seen as the ‘liability of foreignness’ - when compared to developed-country MNEs (Nigam and Su, 2010). The liability of foreignness is a concept which was introduced by Hymer in 1960 (Petersen and Pedersen, 2002), and has since been studied by many researchers, such as Zaheer (1995); Zaheer and Mosakowski (1997); Petersen and Pedersen (2002); Calhuon (2002); Nachum (2003); Miller; Eden and Miller (2004); Johanson and Erik Vahlne (2009); and Richards and Barnard(2010). Zaheer (1995) stated that “the cost of doing business abroad that results in a competitive disadvantage for an MNE subunit has been broadly defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur” (ibid, p342-343). In parallel with this view, Hymer (1976) proposed that every operation for a firm which takes place outside of its home country may add extra costs. There are many sources for these costs, such as unfamiliarity with local culture, absence of an adequate information network, economic differences, and political influence in the host market. This may cause a competitive disadvantage for foreign firms when compared to local firms (Zaheer and Mosakowski, 1997). Thus, the liability of foreignness occurs when a firm tries to enter a new market and does not have enough knowledge about its new environment. Such liability increases when the ‘psychic distance’ is significant (Johanson and Erik Vahlne, 2009).

Given the increasing importance of FDI, it is vital to for developing country MNEs to consider ways in which they might take advantage of their differences from developed country MNEs (Dawar and Frost, 1999). Developing country MNEs are different from developed market MNEs in two main aspects. Firstly, developing country MNEs learn special capabilities, which enable them to operate effectively under the same institutional conditions as they experience in their home country. Secondly, they apply different strategies from the developed market MNEs when they operate in foreign markets (Taleb, 2010).

As is so often the case in business, what appears to be a liability or disadvantage in some situations may actually become an asset or advantage in a different set of circumstances (Taleb, 2010). Firms from developing countries can out-perform developed-country MNEs not only because developing country MNEs can develop specific competitive advantages, but also because developed country MNEs often make incorrect assumptions about institutions in developing country markets (Taleb, 2010).

Moreover, developing-country MNEs possess an exclusive advantage, namely their ability to deal with institutional voids. This comes from having operated in similar environments in the past, and having ‘acclimatised’ to similar institutional contexts within their home markets (Aulakh, 2007). For example, the success of Portuguese MNEs in Brazilian electricity markets was due to the fact that Brazil was discovered and colonized by Portugal. In addition, the official language of Brazil is Portuguese. Thus, Portuguese MNEs were able to exploit both cultural and networking factors to operate successfully in Brazilian electricity markets where other companies could not (Bosquetti et al., 2010).

In other situations, companies from Russia and China were also able to adopt successful strategies and tactics against powerful MNEs such as Unilever and Compaq in similar markets and using similar strategies (Dawar and Frost, 1999). Still other examples of

successful developing-country MNEs are Jollibee foods in the Philippines, and the Mexican MNE Cemex (Dawar and Frost, 1999).

Due to the experience gained in their home markets, managers from developing countries are required to know the competitive advantages of their company. This is clear in the Bajaj example. It was able to create an effective distribution network. In contrast, their competitors found it extremely time and resource intensive to replicate such a distribution strategy. Managers from developing-country MNEs may have strong relationships with developing-country governments, which is something that their competitors in advanced countries lack. In addition, because they will often know the local tastes of their customers, managers from developing countries have the ability to produce distinctive products which can be appropriately adapted to different cultural contexts (Dawar and Frost, 1999).

Another advantage, which seems to be more localized, is the ability to serve idiosyncratic or hard to reach market segments. Developing country MNEs can use this to their advantage when they invest in a country with similar conditions to their home market. Such assets can give developing-country MNEs a great chance for success, even outside their home country (Dawar and Frost, 1999).

Of course, along with the benefits which MNEs can gain from international operations, such companies also face obstacles and challenges. These can include increased administrative costs (Kuo et al., 2012), increased financial risk, management expenses, the need to protect patents, a high level of business uncertainty, and political factors caused by the instability of the host country (Kearney, 2012).

There are three main reasons why a firm may fail in attempting to establish itself within a developing-country (Khanna and Palepu, 1997). Firstly, there can be information problems, and for this reason it is essential to have reliable information prior to investing in a

new market. This will help to assess the service, product and investment as a process. Secondly, the issue of differing regulations can arise. For example, many developing countries limit the ability of a firm to lay-off workers. Finally, an inefficient judicial system can be another significant obstacle. Foreign investors are always unwilling to invest without a strong judicial system in their host country, due to the need to enforce contracts in a consistent manner (Khanna and Palepu, 1997).

Overall, the differences between Western and developing countries in terms of economic, cultural, political, and social conditions constitute significant constraints for Western firms when it comes to invest in developing countries (Marcotte et al., 2010). Over time, successful Western firms tend to learn to accommodate their management models by imitating their predecessors. This means that organizations will tend to act in a parallel way in foreign markets (Marcotte et al., 2010) with regards to minimizing risks and transaction costs (Marcotte et al., 2010).

2.2.2 Born Global Firms

During the past 30 years, concepts such as export behaviour and internationalization have been widely studied by researchers. The interest in this research area corresponds with a broader interest in the practice of international business. Firms have usually preferred to build a strong position in their domestic market before they start operating outside their home country (Rasmussen and Madsen, 2002; Fan and Phan, 2007). However, in the last few years, new empirical studies of export behaviour have found that many firms started their global operations immediately, aiming to enter a number of markets around the world without seeking to establish themselves first. Such companies have been dubbed ‘Born Global’ firms. Many other names have also been used for such companies, including international new ventures, global start-ups, and infant multinationals (Rasmussen and Madsen, 2002). The

existing literature has posited many reasons for the rise of born global firms. Hashai and Almor (2004), for example, have referred to the ongoing reduction in global transportation and communication costs, along with the shortening of the life cycles of products.

In addition, many recent studies have argued that the rise of born global firms contradicts the 'Uppsala model', which will be explored later in this chapter, and which concentrates on a sequential process of internationalization. According to this model, firms start their international operation in a market which is close to their home base of operations, usually via export. After increasing their foreign market commitment and market knowledge, firms can expand their operations into an entirely unknown market. In contrast, born global firms internationalize intensively and rapidly from their birth (Hashai and Almor, 2004; Zhou et al., 2007).

Scholars have concentrated their research into born global firms on the question of how to launch and develop a small firm in order to satisfy customer needs in a global niche (Madsen and Servais, 1997). Many scholars have focused their study of the phenomenon of born global firms around export activities (Fan and Phan, 2007), but this is not sufficient. A true born global firm is a new venture that works to fill a global niche from the very first day of its operation (Tanev, 2012). According to Knight and Cavusgil (2004, p.124), born global firms are "business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries."

Hashani and Almor (2004, p.474) have attempted to formulate an even more precise definition of the born global phenomenon, and have designed two criteria in order to classify born global firms:

1. The first international sale took place within three years of incorporation, and the firm's foreign sale accounted for at least 25% of its turnover,

Or:

2. The first international sale took place no longer than nine years after incorporation, and the firm's foreign sales account for at least 75% of its turnover.

2.2.2.1 Phases of a born global firm

Gabrielsson et al. (2008) have proposed three phases of born global development, which are useful when attempting to understand this new phenomenon.

Phase 1: the introductory phase

In this phase, born global firms have a less developed organisational structure and limited resources. Therefore, they usually rely on tacit knowledge. They combine their unique capabilities with entrepreneurship, which can lead to the development of distinctive products with potential within international markets. The growth of the firm depends on channel strategy or upon networking. If rapid growth is sought from the beginning, then such a firm will need to work with a MNE. Choosing to work through the exploitation of networks and the internet will require more time in order to create demand.

Phase 2: growth and resource accumulation

As the born global firm continues to work through its network of members, it begins to learn how to do business within the specific context in which it finds itself. During this time, two main factors will interact. The first factor is the ability of the firm to develop into a global player due to existing market conditions. The second is the ability of the firm to learn, along with its resources and the type of products it has to offer. In this phase, the born global

firm needs to locate itself within the network of an existing global industry, so that it is able to gain the necessary learning.

Phase 3: break-out and required strategy

In this phase, the firm should have formulated a 'break out' strategy, which will be used to further its own development. This will help the firm to plan its own global market position. In essence, success in this phase depends entirely upon strategy developed during phase 2. For example, Mary Short Tricot (an Italian firm) started its international operations by selling cashmere clothes for famous brands. It gradually gained experience and developed a significant reputation. From this position, the firm launched its own brand, as well as continuing to supply famous brand names to customers.

2.2.2.2 Distinctive features of born-Global firms

Born global firms have many distinctive features. The main ones can be identified as follows (Tanew, 2012):

1. Significant activity within international markets from or near founding.

Born global firms begin international operations by exporting their product within a few years of their foundation. Their export percentage reaches 25% rapidly when compared to total sales. Following this, global investment is usually advanced via collaboration with foreign partners, or through wholly owned FDI into external markets.

2. Limited financial and tangible resources.

A born global firm is usually relatively small, and tends to have fewer resources when compared to a MNE. This applies to its staff numbers, financial resources and tangible assets (Knight et al., 2004).

3. Present across most industries.

Although many born global firms are situated within the technology sector, there is some evidence that born global firms work in other industries as well. These include metal fabrication, furniture production and consumer product sales.

4. Managers have a strong international outlook and an entrepreneurial orientation.

Managers in born global firms tend to have a strongly entrepreneurial mind set. They are often more innovative than their MNE counterparts, and are not afraid to take risks. They are set apart by their willingness to compete proactively and aggressively within global markets.

5. Emphasis on a differentiation strategy

Born global firms tend to use a differentiation strategy, preferring to develop distinctive designs and products which target small, niche markets. This is because global firms look to meet the particular needs and desires of their customers, in order to retain their loyalty. Usually, these niches do not attract large firms.

6. Emphasis on superior product quality

Born global firms are usually founded in order to exploit specific business opportunities, usually by producing or developing particular products or services. These products or services tend to be better designed and of a higher quality than those of their competitors.

7. Leveraging advanced information and communications technology.

Born global firms often exploit their experience in advanced information and communications technology to narrow their global niche and to meet their customers' needs.

They are also able to leverage advanced information and communications technology, enabling them to communicate with partners and customers at minimal cost.

8. Using external independent intermediaries for distribution in foreign markets.

Many born global firms expand globally through exports by leveraging independent intermediaries (Madsen et al., 2001). Many such firms rely on intermediaries to organize international transportation and other such logistical tasks. This makes entry and withdrawal from foreign markets quick and simple. After gaining experience, born global firms may adopt other strategies, such as joint ventures or traditional FDI.

2.2.3 Factors affecting competition within developing countries

This section will discuss three of the main factors which effect competition within developing countries. Specifically, it will address the role of state –owned enterprises (SOEs), the differences made by a country’s development, and the impacts of working in partnership within a host country using joint venture techniques (JV).

State owned enterprises are considered to be public institutions, which produce public products and services (Sul et al., 2012). Accordingly, state owned enterprises often enjoy many privileges. Governments offer them market privileges, as well as priority access to investment support. In addition, SOEs are often granted priority for both foreign exchange and the right to operate within the host market. SOEs are also better positioned than their competitors to influence decision makers in regard to both taxation and trade regulations (Kokko and Zejan, 1996). Moreover, SOEs tend to operate within a monopolized market. This gives them a chance to increase their profit via the exercise of monopoly pricing. SOEs are more common in some economic sectors than others. They are most prevalent within sectors such as transportation, manufacturing, construction, and service (Gillis, 1980).

Numerous examples exist which illustrate the power of SOEs within developing economies. In China, for example, the inland provinces have been dominated by SOEs, which are protected from competition on the part of foreign investors (Graham and Wada, 2001). As a result of these advantages, SOEs tend to lead the 'charge' of local companies in seeking to compete with comparable businesses within the global market (Sul et al., 2012). Lin et al. (1998) were cited by Grima and Gong (2008), who argued that without support from the state to SOEs, most would be on the verge of collapse. Despite this, foreign direct investors enter such markets via joint ventures with state owned enterprises. For example, foreign direct investors initially entered China's market through joint ventures with such organisations. Indeed, at the time this represented a sensible approach, which enabled such investors to solve many political, economic, social, and technological problems (Cook, 2006).

The precise stage of development of the country can also have a significant impact upon successful foreign investment. Many studies have found that FDI is more likely to be attracted to countries with a relatively 'advanced' state of development. For example, Wang et al. (2013) and Benassy-Quere (2005) found that a country with developed institutions will tend to receive large amounts of FDI. More advanced developing countries also tend to exhibit more signs of open markets, and studies have found that countries with more open economic policies (Anwar et al., 2008); well-developed infrastructure (Asiedu, 2001; Agiomirgianakis et al. 2003; Harris, 2003); advanced technological development (Stoian, 2013); and improvement in human development (Reiter and Strnsma, 2010) will receive more FDI than less developed nations. In addition, many scholars agree that political and economic development are key when seeking to attract FDI (Kottaridi et al., 2004).

On the other hand, some scholars have found that FDI can be more attracted to less developed countries, given particular circumstances. Such studies include those by Drabek and Payne, (2001); Lesser, (2001); Tuman and Emmert, (2003); Schulz, (2007); and Daude

and Stein, (2007). This is because they have the ability to invest and compete in such less developed countries.

The third factor to consider is that of joint venture. The last few decades have been witness to the establishment of the concept of joint ventures throughout international business (Hyder, 1999). Such ventures are usually created between local and foreign firms (Meschi and Riccio, 2008). The advantages for foreign investors of such a scheme should be evident. Cultural differences and lack of knowledge about the local market are two factors of uncertainty for foreigners operating outside of their home market (Hyder, 1999). This makes the need for a partner in the host country very important for such investors. Indeed, in their 2004 study, Gale and Luo found that selection of suitable partners was the most important factor for foreign investors who wanted to invest in China. Domestic firms are clearly more knowledgeable about the local labour force and local market conditions. They are also more familiar with government bureaucracies, and know more about local regulations (downstream resources). In contrast, foreign investors can offer advanced technology, know-how, and facilitation within export markets (upstream resources) (Miller et al., 1997).

For these reasons, many MNEs from developed economies such as the USA and Japan tend to prefer the JV mode of entry to foreign markets, particularly when cultural differences are extreme. This is because they wish to protect their interests and to reduce the 'liability of foreignness' experienced by foreign firms (Meschi and Riccio, 2008). By using JV, they are able to overcome their strategic limitations when investing in developing countries. Developed-country MNEs tend to have more resources, but it is still wise for them to seek partners with attributes which complement their own (Hitt et al., 2000).

In order to reduce the risk of adopting a JV strategy, many developed -country MNEs prefer to select their partners before their entry into developing countries (Li and Ferreira,

2008). Particularly in areas of high risk and uncertainty, developed -country MNEs often rely on their local partners to reduce transaction costs and manage risks within developing countries (Li and Ferreira, 2008). For example, Ericsson became aware of a significant gulf in both culture and physical distance between their company and developing countries. Therefore, it chose to enter the Indian market using JV, in collaboration with a local partner who made it easy to access local government authorities, as well as local market know-how. In return, Ericsson brought advanced technology and quality product controls to the deal (Hyder, 1999).

Usually, after a period of JV operations, MNEs can replace this type of entry mode by adopting wholly owned and acquisition-focused entry modes. This enables the MNE to assume full control over the venture (Meschi and Riccio, 2008).

On the other hand, some MNEs which suffer from a lack of knowledge about a particular market are able to communicate with sister subsidiaries which operate in that target market. Through the exchange of knowledge, they are able to overcome their initial disadvantage (Poulis et al., 2012).

In addition, it should be noted that some developed-country MNEs prefer to benefit from the experience of other firms through being a member of a business group. For example, Japanese MNEs have utilized their membership of the Sogo Shosho business group in order to reduce the hazards of working within developing countries. Sogo Shosho provides extensive knowledge about foreign conditions, because of its well developed business network and its ability to find appropriate local partners within developing country markets (Delios and Henisz, 2000).

Taking into account the information above, it can be seen that JV is a method that is followed by some, but not all, developed-country MNEs when operating within developing

countries. This study will not investigate this relationship in depth, although an understanding of it is important for a proper contextual survey of the area. Instead, it will investigate the effect of non-market capabilities within developing economies.

2.2.4 Institutional environments within developing countries

The topic of institutional formality focuses on how institutions decide the rules which govern economic transactions, and the need for all market players to understand them. Formal institutions can include subjects such as regulations, laws, contracts, and protected property rights (Taleb, 2010). Informal institutions can include topics such as social norms, customs, traditions, and corruption (Taleb, 2010). Examples of the most effective institutional factors will include topics such as property rights, the enforcement of law, capital markets and the governments' contribution to economic growth (Totskaya, 2010).

The institutional environment within developing countries is different from that in developed countries (Taleb, 2010). Developing countries tend to suffer from poor institutions in all areas (Khanna and Palepu, 1997; Saussi, 2010), and also from poor communications infrastructure (Khanna and Palepu, 1997). For example, in India and China there are large areas which do not have access to telephones. In addition, power shortages are common, and postal services are inefficient (Khanna and Palepu, 1997).

The legal, political and financial institutions in developing countries are not mature, and this results in an uncertain climate for foreign investors (Marcotte et al., 2010). Moreover, developing countries are characterised as those countries with poor contractual enforcement mechanisms, and imperfect regulations and institutions (Aulakh and Kotabe, 2008).

The institutional environment of developing countries can be a source of concern when it comes to considering competitive advantage or disadvantage for developing-country

firms (Taleb, 2010). According to Dawar and Frost (1999), developing-country firms outperform their competitors at home, because they are more familiar with the local institutional structure. This helps them to create a competitive advantage when compared to the foreign investor. In other words, the capabilities which a developing-country firm develops in their weak institutional local markets, may give them an advantage against their competitors if they operate in a similarly weak institutional environment (Taleb, 2010).

In addition, MNEs from developing countries which are geographically close share a certain familiarity in relation to culture. Therefore their investment will tend to concentrate mainly on culturally 'closer' markets. For example, firms in India and China invest more in other Asian countries. In addition, Russian firms also invest more in countries which were part of the Soviet Union, and it has been observed that South Africa has focused most of its broad investments in the southern part of Africa (Nigam and Su, 2010). MNEs which have used political strategies successfully in other developing countries, and which have established a formal business in a similar environment, are more likely to succeed when attempting to do so again (Ul-Haq and Farashahi, 2010).

A good example of how a developing-country firm can adopt the institutional environments of developing countries can be seen through an examination of the Internet sector within China. In the past, developed country MNEs such as eBay, Amazon, and Google were the leaders in auctions and similar services within the country. However, they were soon overtaken by Chinese firms such as Taobao, Dangdang and Baidu. These companies were in a better position to respond to the change in the behaviour of Chinese Internet users. Baidu noticed that Chinese customers are more comfortable with a busier screen, and therefore decided to distribute their logo on ATMs around China to raise brand awareness. In a similar move to accommodate local cultural norms, Dangdang was successful in comparison to Amazon in China because it developed a cash settlement system, in order to

address the issue of poor credit card payment infrastructure within the country (Ghemawat and Hout, 2008). In contrast, developed-country firms can face difficulties in understanding the institutional environments of developing countries, as they are unfamiliar with them (Taleb, 2010). This may increase the cost which results from any conflict related to a company's governance in poor institutional environments (Totskaya, 2010)

In conclusion, it can be seen that firms must adapt their strategy to fit the institutional context of the country in which they operate, including the regulatory systems found there, and the local mechanism for enforcing contracts (Khanna and Palepu, 1997). This is the main reason why developing country MNEs may understand the unwritten rules of informal institutions in the least developed-countries better than developed-country MNEs can (Taleb, 2010).

The next section will focus on describing the theories used to guide the research done within this study. It will start with highlighting the 'Eclectic Theory', which is otherwise known as the OLI paradigm, and will then move on to discuss the Uppsala model. Finally, the chapter will consider the theory of 'resource based view', which will be used as a conceptual framework in this research, in order to understand the effect of institutional environments within developing countries.

2.3 The Eclectic Theory/The OLI Paradigm

It has been approximately 30 years since the OLI paradigm was introduced in order to investigate the decisions made by firms prior to investing in foreign markets (Dunning, 2000; Modhok and Phene, 2003). The model has since been widely used to explain the growth of multinational enterprises during the past twenty years (Cantwell and Rajneesh, 2003).

The eclectic theory first came to light in 1976, during a presentation to a Nobel symposium in Stockholm, by Dunning. The Symposium was dedicated to discussing the international location of economic activity. In that Symposium, Dunning extended the existing understanding of the O (ownership) advantage and L (location) advantage by adding his concept of the I (internalization) advantage (Dunning, 2001). The OLI framework includes contributions from international business theories. It also includes an understanding of the resource based approach (O factor), the product life cycle model (L factor), and the internalisation and transaction cost approaches (I factor) (Benito and Tomassen, 2003).

Dunning distinguished between two types of competitive advantage. The first advantage lies in the possession of unique assets such as firm specific technology. The second advantage takes the form of complementary assets, the ability to co-ordinate cross-border activities, and the ability to create new forms of technology. MNEs are required to manage their networks of assets because of internalisation advantages (Cantwell and Rajneesh, 2003).

Today, MNEs compete with each other in international markets, which requires surviving MNEs to possess specific and distinctive competitive advantages (Cantwell and Rajneesh, 2003). Such competition also requires the design of contracts in order to protect the property rights of firms, so as to avoid loss of firm specific advantages (Maitland and Nicholas, 2003). Brouthers et al. (1996) found that firms which considered the Dunning framework when choosing their entry mode performed radically better than those who did not consider this framework.

In other words, the eclectic paradigm suggests that three conditions should be satisfied in order for effective FDI to occur. Firstly, an MNE should possess ownership specific advantages, which help the MNE to overcome the liability of foreignness. Dunning

(2001), cited by Maitland and Nicholas (2003, p.50) defined ownership advantages as: “The net competitive advantages which a firm of one nationality possesses over those of another nationality[arising]..... either from the firm’s privileged ownership of, or access to, a set of income- generated assets or from their ability to coordinate these assets.”

Ownership specific advantage takes the form of the possession of tangible and intangible assets for a significant period of time. It tends to be more beneficial for MNEs if they use this ownership specific advantage, rather than selling it to foreign investors. It is therefore important to extend their operations outside their home market at some stage. This is what is known as internalization advantage (Dunning, 1988).

Secondly, the MNE in question should combine ownership specific advantages with location specific advantages. Location advantages are very important when a firm wants to internalise operations between nations, because different locations have different characteristics based on their local demands and business contexts (Benito and Tomassen, 2003).

The O and L factors have different characteristics. Ownership specific advantage is restricted to one firm, and can transfer normally across borders. Location advantages, on the other hand, are public to any investor, but possess no global mobility (Ozawa and Castello, 2003).

Thirdly, the MNE in question should control all of the available O and I advantages by using FDI rather than export or licensing. This is known as Internalisation advantage (I) (Modhok and Phene, 2003). Internalisation (I) advantage offers an explanation as to why MNEs should conduct FDI rather than use techniques such as export and licensing (Pisciteloo, 2003).

Eden, (2003, p.277) is of the opinion that the OLI framework should be used as a way of examining an MNE and its activities. He believes that the OLI framework addresses three vital questions (why, where, and how), and that each of them can be addressed at three levels. These are the macro-level (country), the meso-level (industry), and the micro-level (firm), which are discussed in more detail within Figure 2.1, below.

- | |
|---|
| <ul style="list-style-type: none"> • Macro (big picture, country level) questions <ul style="list-style-type: none"> - O: why do MNEs exist? Why are MNEs a successful organisational form? - L: Why are some countries a home, and other principally a host, to MNEs? How has the pattern of international investment across countries changed over time? How does regional integration affect the pattern of FDI and international production? - I: How do market imperfections affect the pattern of international production? How are transactions costs related to the firm's optimal mode of entry into foreign countries? • Meso (industry level) questions: <ul style="list-style-type: none"> - O: Why are some industries dominated by MNEs and other are not? - L: What are the changing patterns of international production in the semiconductor (or other) industry? Why do certain industries cluster geographically together? - I: Why are certain modes of entry more predominant in one industry than another? • Micro (firm, top management team) questions: <ul style="list-style-type: none"> - O: Why do firms differ? How do these differences affect their performance? Why do some firms choose to become MNEs (engage in international production) and other do not? How do O advantages related to differences in firm performance? How does the management of Knowledge flows within the MNEs network affect its performance? Why is one firm better able to manage its O assets than another? - L: How does an MNE's locational choice affect its performance? - I: Why are certain modes of entry choices related to firm performance? |
|---|

Figure 2.1: Macro, meso and micro research questions within international business, Sources: Lorraine Eden (2003, p. 278)

The OLI paradigm can help researchers to understand why new firms face a challenge when they want to do business in an existing market. Such organisations may lack specific ownership advantages, and can therefore struggle in the early years of their operation (Dunning and Lundan, 2008).

2.4 The Uppsala Model

It is perhaps a truism that the international business market is now constantly changing. It is viewed by academics and businesspeople alike as a complex network, formed by a web of relationships (Johanson and Vahlne, 2009). In this environment, gaining the proper knowledge of how firms operate economically helps to overcome some of the biggest obstacles which a company may encounter during its global expansion (Figueria-de-Lemos et al., 2010).

The Uppsala model was first posited three decades ago as a result of the gap that had emerged between theoretical explanations of firm internationalization, and the actual behaviour of companies (Vahlne et al., 2011). This model seeks to explain the internationalization process of the typical global firm. In this model, it is suggested that firms should carefully select the type of entry mode used to break into a new market by determining the risks which a firm may encounter, as well as the costs of operating in a new market, and their own existing resources (Johanson and Vahlne, 2009).

Usually, in the Uppsala model, firms start their new international operations through intermediaries, and await the growth of sales. Once sales are established, firms will begin establishing new manufacturing capacity within the foreign market. In addition, it is posited that firms will start their foreign operations in the closest market to their home base, which maximises their understanding of the new market. Once established in nearby countries, firms will gradually enter other new markets. This enables a company to overcome the issue of the 'liability of foreignness'. As has already been discussed, the greater the psychic distance, the greater is the liability of foreignness to which the company is exposed (Johanson and Vahlne, 2009).

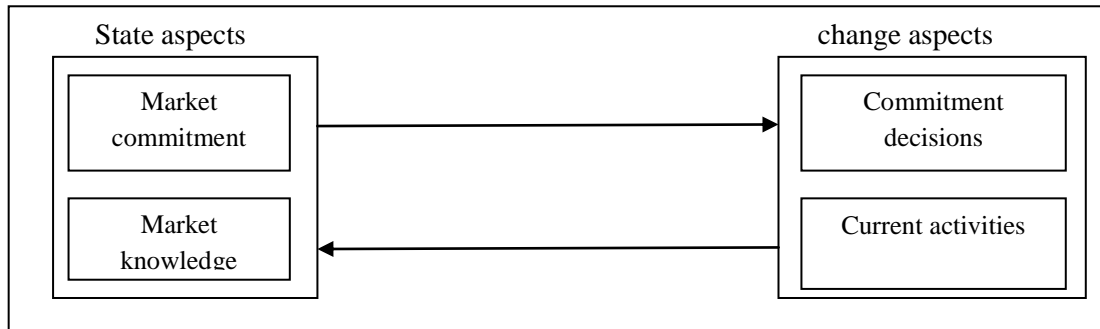


Figure 2.2: Uppsala Model

From the above figure, it can be seen that the model suggests two change mechanisms. Firstly, companies change by learning from their experience of international operations, and from their current activities in new international markets. Secondly, the commitment decisions made by companies can strengthen their presence within foreign markets (Oviatt and McDougall, 2005; Johanson and Vahlne, 2009). Experience increases a firm's knowledge of a market, and that affects decisions about the level of commitment and activities to be undertaken. This, in turn, will lead to the appropriate level of market commitment (Johanson and Vahlne, 2009).

Despite being widely adopted, there are three main concerns about the Uppsala model. Firstly, it makes a prediction of gradual internationalization. Such a prediction is at odds with recent literature, which suggests that some firms can 'born global' because they are international from the first day of their existence. Secondly, the Uppsala model is only applicable to small and inexperienced firms, as the original model was developed after examining the experience of SME firms. Thirdly, the lack of a developed literature on the conceptualization of knowledge and learning for organizations presents a challenge to a comprehensive understanding of the Uppsala model (Steen and Liesch, 2007).

2.5 The resource–based view (RBV)

The theory of Resource-Based View (RBV) has become an important perspective within the literature of international business (Peng, 2001), and one of the most used theoretical frameworks in the field of strategic management (Wernerfelt, 1995; Lieberman and Montgomery, 1998; Powell, 2001; Priem and Butler, 2001). It has been developed by many researchers, starting from the work of Penrose (1951), who is considered to be one of the most influential researchers in this area (Wernerfelt, 1984; Mahoney and Pandian, 1992; Peteraf, 1993; Kor and Mahoney, 2000), as well as the intellectual founder of RBV (Rugman and Verbeke, 2002). Contributions by researchers such as Teece (1982); Wernerfelt (1984); Barney (1986) and others (Tallman, 1991) have built on this initial work.

RBV can now be used in order to examine a firm's resources, and its ability to gain a high return on its investment through a sustainable competitive advantage (Oliver, 1997). RBV is considered to be one of the leading theories relating to business success, and it concentrates on isolating mechanisms which can lead to competitive advantage (Teece et al., 1997; Dunning and Lunda, 2008). It is also often used as a model to explain how firms compete uniquely within strategic management (Peteraf, 1993), and is also a useful tool with which to analyse the viability of bankrupt firms (Cook et al., 2011).

Wernerfelt (1984) was the first researcher to use RBV within the field of management. He attempted to develop the theory by examining how the existing resources of a firm could be used to achieve a competitive advantage over its competitors (Barney and Clark, 2007). According to him, RBV sets resources at the heart of performance and competitive advantage (Combs and Ketchen, 1999). He found that the competition between firms, based on their resources, can play an important role in their ability to gain advantages for their market strategy (Barney and Clark, 2007). In fact, environmental competencies in RBV can be

improved when the firm has the ability to develop its resources (Joppesen and Hansen, 2004; Esteve-Perez and Manez- Castillejo, 2008).

In 1986, Barney published an article which suggested developing a theory of superior firm performance based on the power of resources and firm controls. Barney extended his use of RBV theory over and above Wernerfelt's, by arguing that RBV can be used to examine a firm more comprehensively, and that it is not just a theory of competitive advantage (Barney and Clark, 2007). Barney is acknowledged as the first academic to formalise RBV literature into a framework (Newbert, 2008).

Companies can develop their market performance if they exploit market opportunities whilst minimising the threats in these markets (Barney and Clark, 2007). This can be done by using a firm's resources effectively. In fact, an examination of the differences in resources between firms is one of the cornerstones of the RBV approach (Peteraf, 1993; Priem and Butler, 2001; Helefat and Peteraf, 2003). RBV predicts that a firm's resources should create a competitive advantage against its market competitors (Amit and Schoemaker, 1993). Therefore, resources should be evaluated when examining a company, in order to help distinguish the success factors for each type of business (Collis and Montgomery, 2005).

2.5.1 What are resources?

According to Barney and Hesterly (2010), resources can be classified as tangible and intangible assets attached to a company. In contrast, Collis and Montgomery (2005) state that scholars have classified resources into three main types. These are tangible assets; intangible assets; and organisational capabilities.

- i. Tangible assets. These take the form of assets such as real estate, raw materials and production facilities. They are easy to value, and always appear on the balance sheet.

ii. Intangible assets. These can include assets such as reputation, culture, brand names, know-how, patents, and experience (Collis and Montgomery, 2005). They can also include company knowledge, management ability, and organisational capabilities (Aharoni, 2000). All of these assets play a crucial role in generating competitive advantage (Collis and Montgomery, 2005).

iii. Organisational capabilities. These can be complex, and include the valuation of people as assets, as well as the processes which a firm uses in order to transform input into output. These capabilities can be transferred in the service or the product provided, with maximum efficiency in the process and greater quality in the output (Collis and Montgomery, 2005). In other words, organisational capabilities refer to the ability of the firm to use its organisational resources to perform a harmonized set of tasks (Helfat and Peteraf, 2003). In order to fully understand this point, it is necessary here to clarify exactly what is meant by capabilities. Capability refers to “the ability of an organization to perform a coordinated set of tasks utilizing organisational resources, for the purpose of achieving a particular end result” (Helfat and Peteraf, 2003, p.999).

Of course, capabilities alone cannot lead to a company conceiving and implementing an effective strategy. However, they can enable a firm to use its existing resources to conceive and implement a strategy. The firm’s marketing skills, as well as co-operation amongst managers, are good examples of firm capabilities (Barney and Hesterly, 2010).

A full understanding of resources must also address the issue of core competences. Core competences refer to “a firm’s fundamental business core, [and] core competences must accordingly be derived by looking across the range of a firm’s (and its competitors) products and services. The value of core competences can be enhanced by combination with the appropriate complementary assets. The degree to which a core competence is distinctive

depends on how well endowed the firm is relative to its competitors, and on how difficult it is for competitors to replicate its competences.” (Teece et al.,1997, p.516). Bassellier et al. (2001, p.7) see competence as “the potential that leads to an effective behaviour”, and Woodruffe (1993, p.29) defines it as “an umbrella term to cover almost anything that directly or indirectly affects job performance”.

In this study, the term “resources” will be used to refer to a company’s tangible and intangible resources, and “capabilities” will refer to its ability to perform and coordinate a collection of tasks using its resources to achieve a specific result (Helfat and Peteraf, 2003).

Addressing the issue of resources still further, Barney and Clark (2007) classified them into four types. These are physical resources; financial capital resources; human capital resources; and organisational capital resources.

i. Physical resources. These include physical technology, the firm’s plant and equipment, geographical location, and raw materials.

ii. Financial resources. These are embedded in the firm’s revenue and include debt, equity and anything retained within a company.

iii. Human capital resources. These include training, experience, judgement, intelligence, relationships and the insight of individual managers and workers in a firm.

iv. Organisational capital resources. These include the attributes of a collection of individuals associated with a firm, such as a company’s culture, its formal reporting structures, its formal and informal planning, controlling, and coordinating system, its reputation in the market place, as well as informal relations amongst groups within a firm. It can also include a company’s relationship with other organisations within its own business sector.

RBV suggests that competitors in any industry will not have exactly the same resources and capabilities (Teece et al., 1997; Combs and Ketchen, 1999; Helfat and Peteraf, 2003; Schreyogg and Kliesch, 2007; Newbert, 2008; Aharoni, 2010). This is because not all firms possess sustainable competitive advantages. However, companies can have these competitive advantages if two essential factors are present. Firstly, they must have adequate resources, as these are valuable in exploiting market opportunities and avoiding threats from the wider business environment. Secondly, if the required resources are rare, then firms must be able to use them in their processes (Barney, 1991; Hart, 1995; Barney and Clark, 2007).

Obtaining competitive advantage from one resource is not usually enough to ensure sustainable progress, and managers should therefore try to compete whilst using different resources and expanding their business (Collis and Montgomery, 2005).

Some of the many ways in which a company can develop the quality of its resources (Collis and Montgomery, 2005) are as follows:

- strengthening existing resources
- adding complementary resources
- developing new resources

In addition, RBV theory identifies the knowledge gained from international experience as a unique and hard to imitate resource. This helps to differentiate between the winners and losers in international business (Erramilli, 1991; Peng, 2001). A company's employees are amongst its most important assets, and play a significant role in success or failure (Barney and Clark, 2007).

In fact, managers or managerial teams can be a highly effective resource, as they have the potential to impact upon the generation of sustainable competitive advantage. A firm that

has a sustainable competitive advantage will also have a strong set of managerial values, which clarify and simplify the way in which it does business (Barney and Clark, 2007). For example, the managerial advantages possessed by Slovenia’s MNEs from their operations in the West Balkans (which represent an unstable and unpredictable business environment) helped them to overcome a cultural gap. Consequently, Slovenia’s MNEs used this advantage to facilitate outward FDI (Jaklic and Svetlicic, 2011).

2.5.2 A framework for resource based analysis: Value; Rareness; Imperfect imitability; and Organization (VRIO)

Barney and Clark (2007) have built on the work described above by developing a framework for resource based analysis, expressed through four key parameters. These parameters are Value; Rareness; Imperfect imitability; and Organization (VRIO). The VRIO framework attempts to summarise the relationship between resource immobility and heterogeneity; value, rarity, and imitability; and organisation and sustained competitive advantage, as shown in Figure 2.3 below. Moreover, the VRIO approach asks important questions about a company’s business activities, in order to understand the return to be gained from exploiting any firm’s resources.

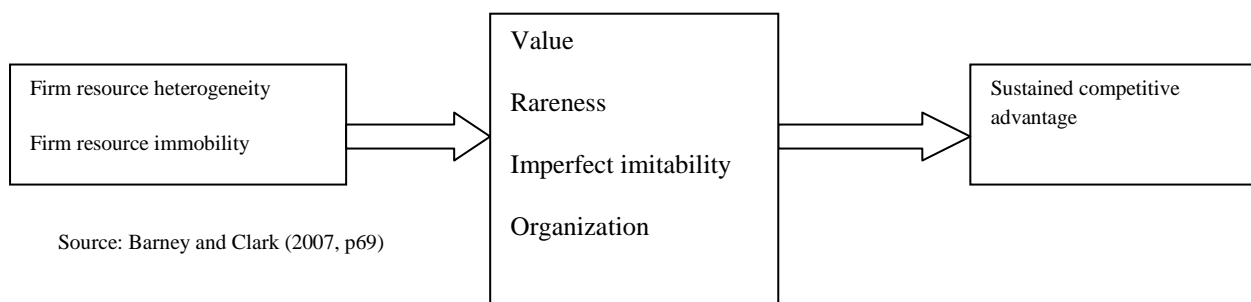


Figure 2.3 The relationship between resource heterogeneity and immobility, value; rarity; limitability; organisation and sustained competitive advantage.

These questions, according to Barney and Clark (2007) are:

1. Do a firm's resources and capabilities enable them to respond to environmental threats or opportunities? (value)
2. Is a resource currently controlled by only a small number of competing firms? (rarity)
3. Do firms without a resource face a cost disadvantage in obtaining or developing it? (imitability)
4. Are a firm's other policies and procedures organised to support the exploitation of its value, rarity, and how costly it is to imitate resources? (organisation)

To properly understand this framework, it is important to consider the effect of the availability of a firm's resource, or the capability controlled by it. This is summarised in Table 2.7.

Table 2.7: The VRIO framework

Valuable?	Rare?	Costly to imitate	Exploited by organization	Competitive implications	Economic performance
No	-	-	No	Competitive disadvantages	Below normal
Yes	No	-	↓	Competitive parity	Normal
Yes	Yes	No	↓	Temporary competitive advantage	Above normal
Yes	Yes	Yes	Yes	Sustained competitive advantage	Above normal

Source: Barney and Clark, 2007, p70

From the table above, it can be seen that if the firm has a resource or a capability which is not valuable, this will enable it to be outperformed by its competitors. In fact, by using this non-valuable resource it will add an extra cost to its original overheads. In parallel,

this will decrease the firm's revenue and steer it towards a competitive disadvantage (Hart, 1995; Barney and Clark, 2007).

However, if the resource possessed is valuable but not rare, exploiting this resource is likely to generate competitive parity. As a result, valuable but not rare resources can be a part of organisational theory (Barney and Clark, 2007). Resources that are possessed by many firms cannot usually become a source of competitive advantage (Barney and Clark, 2007).

In the case of the resource being both valuable and rare, but not costly to imitate, exploitation of this resource or capability by a firm will lead to a temporary competitive advantage. Usually, this type of firm gains a 'first mover' advantage, because of their ability to exploit the resource first. However, in time, competitive firms will be able to claw back this temporary competitive advantage by developing or duplicating the resource at no cost disadvantage. Of course, from the time the company gains the first mover advantage until the time its competitors are able to duplicate or find the substitute for this resource, the performance for the first mover will be above average. This kind of resource provides organisational strengths and distinctive competencies (Barney and Clark, 2007).

Finally, if the firm's resource is valuable, costly to imitate, and rare, then exploiting this resource will create a sustainable competitive advantage for the firm. In this case, competitors will either face huge challenges in duplicating the resource, or any substitute will either be inferior, or only available at cost disadvantage. This disadvantage reflects the fact that the resource is unique. This type of resource can be thought of as providing organisational strengths and sustainable distinctive competencies (Hart, 1995; Barney and Clark, 2007; Newbert, 2008).

A company which is able to modify its economic value will obtain significant cultural management capabilities. If these capabilities are understood by a small number of firms

(they are rare), and competitors do not possess these capabilities (they are imperfectly imitable), this will allow some firms to impose cultural changes upon other firms (Barney and Clark, 2007).

An organisation which wishes to make use of the VRIO framework should seek to be able to organize its ability to generate and exploit the full advantage of its resources. Failure to take advantage of its resources may lead to competitive parity or competitive disadvantages (Barney and Clark, 2007). Therefore, the fact that different resources are possessed by some companies, and that resource immobility can be experienced on the part of their competitors, can be used to explain why some firms out-perform others (Barney and Hesterly, 2010).

2.5.3 Elements of the business environment

In order to achieve success, companies must understand the business environment in which they operate. In general, such an environment has six important elements to consider. These are technological change; demographic trends; cultural trends; the economic climate; legal and political conditions; and specific international events (Barney and Hesterly, 2010). These are shown in figure 2.4, below.



Source: (Barney and Hesterly, 2010, p30)

Figure 2.4: Elements of the business environment

i. Technological change. This can provide great opportunities for a firm which seeks to exploit new technology in order to produce innovative products or services. In addition, it could create threats for other firms. Any change in technology may affect a company's strategy and create new competitors (Barney and Hesterly, 2010).

ii. Demographics. This reflects the way in which people in any society are distributed according to their age, gender, income, etc. Understanding these demographic trends can enable an accurate prediction of how a company's product or service can best be introduced. An understanding of demographic trends in a specific segment of the marketplace can help to create a competitive advantage (Barney and Hesterly, 2010).

iii. Cultural trends. This is an important element to businesses, because knowing the values and norms within a society will allow firms to properly situate their strategy, and to avoid marketing products or services which are considered unacceptable. Exploiting

the knowledge gained from within a society will help a firm to create a competitive advantage (Barney and Hesterly, 2010).

iv. The economic climate. This element refers to knowledge relating to the health of the economy, which clearly helps to determine decisions around entering and exiting specific markets (Barney and Hesterly, 2010).

v. Legal and political conditions. This element can become very important to business, as it determines the nature of the relationship between the laws and legal systems of a nation, and businesses which operate within that country. (Barney and Hesterly, 2010).

vi. Specific international events. This can include economic changes, civil wars, wars between countries, political coups, and many other crises. All of these events can affect the ability of a firm to generate a competitive advantage (Barney and Hesterly, 2010).

To sum up, MNEs can locate their operations around the world. Their aims are to reduce costs, to find the proper business environment, and to gain the appropriate skills and capabilities to deliver value to their customers (Aharoni, 2010). MNEs should use their specific advantages in order to compete, and to overcome the danger of adding costs when operating globally (Aharoni, 2010). They should seek to create more economic value than rival companies, thus giving the firm a competitive advantage (Barney and Hesterly, 2010). For example, the ability to create or build a strong network with a partner can be counted as an important source of competitive advantage (Aharoni, 2010) which reduces the administrative costs for a company of operating overseas (Kuo et al., 2012). In addition, understanding the legal, political and economic context of a country is considered essential with RBV theory (Guillen, 2000). Combining all of the above resources will create a strong business group, allowing it to compete well within different industries (Guillen, 2000). The

next section will seek to shed more light on the effect of non-market capabilities on competition within developing country markets.

2.6 Non-Market Capabilities and the Research Hypotheses

Before focusing on the importance of non-market capabilities, it is essential briefly to discuss some of the important market-based resources available to firms, such as human capital, patents, brands and technology.

In some ways, MNEs possess competitive advantages in terms of human capital when entering foreign markets. Whilst their employees may not have experience of the host country, they may have significant business acumen, knowledge of global marketing, and understanding of issues such as the use of global distribution channels (Blomstrom and Kokko, 1998). Indeed, human capital is one of the most important resources available to a company, which is recognised in the famous dictum that “people are our most important asset.”

Wright et al. (1993, p.6) have defined human resources as “the pool of human capital under the firm’s control in a direct employment relationship”. In addition to this formal relationship, the intangible resources which connect people can also be considered to be a competitive advantage for a firm (Wright et al., 1993; Huselid and Barnes, 2003). A company which can boast a high quality of human capital should consider it to be a significant source of success (Wright et al., 1993). In fact, many scholars have found a positive relationship between human resources and a firm’s performance (Huselid, 1995). Firms which are able to manage people effectively tend to gain a competitive advantage through reductions in costs and increases in the differentiation between products and services (Huselid and Barnes, 2003).

MNEs also tend to possess significant competitive advantage in terms of technology and patents. When firms start to operate on a global scale, they often differentiate themselves

from existing firms in the host country through their possession of advanced technology (Almeida, 1996; Blomstrom and Kokko, 1998). Such technology can reduce some of the challenges posed by distance, and reduce the cost of others (Nachum and Zaheer, 2005). Therefore, technology can be considered to be one of the key differentiating aspects in determining the performance of firms. It can create competitive advantage, reduce the cost of transactions, and allow new possibilities for interaction (Nachum and Zaheer, 2005). Due to the importance of technology, many MNEs will seek to protect themselves through patents. These can serve to preserve a competitive advantage which has been secured through innovation, particularly those related to intangible resources (Hughes and Mina, 2010).

The third factor which can provide an advantage to foreign MNEs is the power of branding. Much of the previous research into developing countries has shown that consumers in such markets tend to prefer foreign brands. Such brands are more popular than locally produced goods, and MNEs have often been successful in creating brand awareness for their products (Chan et al., 2009). This can provide them with a competitive advantage over their rivals, both in terms of product quality and brand perception (Chan et al., 2009).

As has already been discussed, developed-country MNEs represent the majority of the world's MNEs (Nigam and Su, 2010). They possess many of the market-based resources already mentioned, such as advanced technology; financial resources; brand reputation; and marketing skills (Dawar and Frost, 1999). This can allow them to compete successfully in foreign markets, despite the disadvantages brought by the 'liability of foreignness'.

In this study, however, the researcher intends to focus upon non-market capabilities, and their relation to the success of both developing-country MNEs and developed-country MNEs when operating in a developing country-market. Whilst developing-country MNEs and developed-country MNEs can develop similar market resources, it is not possible for them to develop similar non-market capabilities, because of their very different home country

environments (Cuervo-Cazurra and Genc, 2010). In addition, market-based advantages such as the ability to create a brand name are specific to each company, and cannot be analysed as different characteristics of one group of firms when compared to another. For these reasons, the researcher focuses on analysing the capabilities which can be seen to differ between two groups of firms, namely non-market capabilities (Cuervo-Cazurra and Genc, 2008b).

The current researcher believes that these capabilities will cover a wide range of international business dimensions, which represent significant barriers to foreign investment within developing countries. It is suggested that by mastering all five essential non-market capabilities, developing-country MNEs are able to compete successfully with developed-country MNEs within developing country markets.

Of course, a considerable amount of international business literature has already been published, discussing the advantages and disadvantages of specific locations to effective FDI by MNEs (Cook et al., 2010). However, most of these studies investigated the operations of MNEs within developed countries (Ramamurti, 2009). Many scholars continue to argue that developed countries have more advanced technology and “know-how”, and that these factors enable developed country MNEs effectively to invest around the world (Stopford and Strange, 1992).

The current researcher disagrees with this conclusion. In fact, developing-country MNEs can be more capable of developing non-market based capabilities in similar conditions to those in their home countries (Cuervo-Cazurra and Genc, 2008b). These include the ability to operate under authoritarian regimes, to function despite ineffective governments, to cope with poorly developed infrastructures and poorly protected property rights, and to provide services to consumers experiencing poverty.

As a result, managers of developing-country MNEs are able to understand and adapt more easily to these poor conditions than their developed country counterparts (Cuervo-

Cazurra and Genc, 2008b). The following subsection will focus on examining how developing-country MNEs can use the non-market capabilities mentioned above to compete successfully in other developing countries.

2.6.1 Operating under authoritarian regimes

A lack of certain factors which are vital to open government, and the existence of an authoritarian regime (which is generally characterised by a lack of ‘voice’ and accountability, political instability, and violence/terrorism) can create a poor socio-economic environment (Cuervo-Cazurra and Genc, 2008b). Authoritarian regimes suppress freedom of expression (Kaufmann et al., 2008), which influences the fair implementation of laws and negatively affects accountability. The relationship between the state and its people, who are subject to those laws, is therefore also negatively affected (Menocal and Sharma, 2008). In essence, authoritarian regimes are those which are characterised by a low level of democracy (Hadenius and Teorell, 2006). Many developing countries suffer from political and economic instability as a result of such regimes (Zhang and Bulcke, 1996). Without accountable government, and in the presence of political instability and violence, many developing countries lack the ability to provide a safe and secure environment for their people and have high rates of poverty. For example, almost all African countries are weak in this respect (Ball, et al., 2002).

A significant portion of the literature in the political and economic fields has investigated the relationship between these sorts of regimes and FDI. Some scholars support the idea that MNEs tend to invest in countries with authoritarian regimes. In contrast, others have argued that democratic regimes offer an excellent business environment for FDI, as a result of increased protection of property rights (Schulz, 2007).

Examples of studies which have found a positive relationship between authoritarian regimes and FDI are Jensen (2003); Tuman and Emmert (2003); and Schulz (2007). Tuman and Emmert's study was conducted in Latin America, and the results showed that poor human rights records and military regimes' coup d'états positively influenced FDI inflows. Resnick (2001) also attempted in his study to uncover a connection between the transition to democracy and FDI in Asia, Latin America and the Caribbean. His findings showed that a transition to democracy tends to have a negative correlation with FDI and deters foreign direct investors. In contrast, a study by Harms and Ursprung (2001) found that MNEs prefer to operate in countries where civil and political freedom is respected. Jensen (2003) also found in his study that democratic countries attract a large amount of FDI inflows.

In contrast, Cuervo-Cazurra and Genc (2008a) found that voice and accountability, along with political stability and the absence of violence, have a negative effect on the prevalence of developing-country MNEs, but that the effect is not significant.. Other scholars have found no relationship whatsoever between the type of regime and FDI inflows. For example, Li and Resnick (2003) have argued that democratic policies have a varying effect on FDI. Their findings, taken from a sample of fifty-three developing countries from the period between 1982 and 1995, found democracy and property rights had a positive effect on FDI. However, when they controlled for the effect of property rights, they found a negative relationship between democracy and FDI, indicating that protection of property rights may be the primary positive effect of democracy in this context.

Oneal (1994) also found conflicting results from a time series regression analysis of forty-eight countries for the period between 1950 and 1985. He found that US MNEs fared better in democratic countries, yet their highest returns were gained from operating in countries with authoritarian regimes. Schulz (2007) also examined the relationship between FDI flows and democracy in developing countries. The results showed a positive effect on

foreign direct investors who were seeking new markets or low cost markets. However, they showed a negative effect upon those investors seeking access to natural resources.

Since MNE managers from developing countries are used to operating in home countries with poor voice and accountability, they tend to have acquired the necessary skills to cope with these issues in similar international environments (Cuervo-Cazurra and Genc, 2008a). On the other hand, developed-country MNEs are used to operating in countries with high levels of voice and accountability (Cuervo-Cazurra and Genc, 2008a). Therefore, when they expand into countries with poor levels of voice and accountability they encounter problems which can hinder or damage their performance. It seems fair to posit that, in a country with low levels of voice and accountability, MNEs from developing countries would face fewer difficulties than MNEs from developed countries.

Political stability and the absence of violence or terrorism are important governance factors for MNEs when making investment decisions. An unpredictable or volatile political climate can negatively influence investors, especially if the local government is hostile toward FDI (Iloiu and Iloiu, 2008). Unstable governments are more likely to have low economic growth (Alesina, 1992) which, in turn, increases the likelihood of political instability (Londregan and Polle, 1996). In fact, many studies have found that political instability has a negative relationship with FDI inflows (Nigh, 1985; Schneider and Fery, 1985; Woodward and Rolfe, 1993; Chakrabarti, 2001). Again, MNEs from developing countries experience similar circumstances in their homelands and are more qualified than developed-country MNEs to deal with these same issues abroad.

For the reasons above, the present study puts forward a series of propositions and hypotheses to be tested.

Proposition 1: Developing-country MNEs are likely to have an advantage over developed country MNEs when investing in developing countries with the most authoritarian regimes. Thus, we can generate two testable hypotheses.

Hypothesis 1a: There will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

Hypothesis 1b: There will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

2.6.2 Operating within ineffective states

Ineffective states are characterised by government inefficiency and poor regulatory quality, both of which are key concerns for foreign investors. Kaufmann et al. (2008, p.6) define government effectiveness as:

“(…) the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.”

Guisan (2009) found that government effectiveness has a significant positive influence on economic development. For instance, a study of eighty-five countries looking to determine the time period to start a business abroad found that the number of business days required to obtain permission to operate varied widely. In countries such as Australia or Canada, only two business days are required, whereas in the Dominican Republic, a developing country, 152 days are required. (Sun, 2002)

According to Kaufmann et al. (2008) the term ‘regulatory quality’ can be defined as: “the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development”.

According to the OECD (1995), good regulations should:

- (i) serve clearly identified policy goals, and be effective in achieving those goals;
- (ii) have a sound legal and empirical basis;
- (iii) produce benefits that justify costs, considering the distribution of effects across society and taking economic, environmental and social effects into account;
- (iv) minimise costs and market distortions;
- (v) promote innovation through market incentives and goal-based approaches;
- (vi) be clear, simple, and practical for users;
- (vii) be consistent with other regulations and policies;

These factors help to determine whether MNEs can operate profitably in the host country (Cazurra, 2008). For example, a study by Rammal and Zurbruegg (2006) revealed that poor regulatory quality caused outward FDI from one ASEAN market to another to stagnate after the ASEAN financial crisis. This situation has discouraged investors from investing in these countries (Huang, et al., 2004), and points to the failure of reforms which were designed to increase FDI levels (Alensina, 1992).

Clearly, developing countries tend to have different regulatory environments to developed countries (Kulkarni, 2010). According to Reinhardt et al. (2008), developing countries have poor contractual and legal systems. This can be seen as one reason why investment regulations in these countries fail to accomplish their objectives (Sun, 2002). A report by the World Bank (2010) about the indicators of FDI regulation in 87 countries helps to confirm this, as it found that any country with poor regulation and inefficient processes received a low level of FDI.

A study by Cuervo- Cazorra and Genc (2008a), examining the ways in which MNEs from developing countries benefit from their home market experience when they operate in other developing markets, showed a significant negative relationship between regulatory quality and the prevalence of MNEs. In addition, they found a positive but not significant relationship between government effectiveness and the prevalence of MNEs.

This study argues that, although an ineffective state is never ideal for economic or commercial growth, MNEs from developing countries often have an edge in dealing with poorly-run governments (Cuervo-Cazorra and Genc, 2008b). This is due to their first-hand experience of operating in countries with low levels of government effectiveness. In contrast, developed-country MNEs originate from countries with effective governments, and find it difficult to operate in countries with ineffective states. Likewise, MNEs from developing countries often come from countries with unclear regulations or poor regulatory quality, which allows for successful operations in similar, poorly regulated countries (Cazorra, 2008). Developed-country MNEs are used to high regulatory quality in their home markets, and as a result, they often find the poor regulatory systems of developing countries to be a significant challenge (Cazorra, 2008). Thus, this study is able to put forward further propositions and hypotheses to be tested:

Proposition 2: Developing-country MNEs are likely to have an advantage over developed - country MNEs when investing in developing countries with the most ineffective states.

Hypothesis 2a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most ineffective states).

Hypothesis 2b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most ineffective states).

2.6.3. Working despite poorly protected property rights and pervasive corruption

Corruption can be found everywhere, but its characteristics and levels of intensity are not the same everywhere. It differs from country to country (Rodriguez et al., 2002), and is frequently encountered by foreign investors (Zhou, 2007). Broadly, corruption is found when people break the law for their private benefit (Khan, 2006). Corruption increases the cost of business for MNEs as it requires the payment of bribes, which must be undertaken ‘on top’ of paying taxes to the host government (Egger and Winner, 2005). The level of transparency at the company and country levels reflects the quality of corporate governance in the country (Totskaya, 2010).

A growing body of literature which has examined the phenomenon of corruption shows that it significantly decreases FDI (Mauro, 1995; Wei, 2000a; Wei, 2000b; Drabek and Payne, 2001; Lesser, 2001; Smarzynska and Wei, 2002; Habib and Zurawicki, 2002; Daude and Stein, 2007). However, part of this literature has found that there is a positive relationship between poorly protected intellectual property rights, pervasive corruption, and the prevalence of developing-country MNEs in developing countries (Egger and Winner, 2005; Cuervo-Cazurra and Genc, 2008a; Han, 2011).

Zhou (2007) has attempted to justify why scholars have found these mixed results regarding the effect of corruption on FDI. According to him, corruption comes in two forms, which are based on its purposes. These can be described as non-discriminatory corruption and discriminatory corruption. Non-discriminatory corruption means that the government receives some fees from the international investor, in order to provide licences to operate a business. In contrast, discriminatory corruption refers to all bribes paid to government officials in order to provide a service which is not expected.

In the context of developing countries, understanding the effect and the consequences of corruption is very important (Khan, 2006; Ul-Haq and Farashahi, 2010). In particular, it should be understood that corruption can cause property rights to become unstable, because stable property rights require a solid infrastructure of laws, as well as good enforcement mechanisms which are applied for the public good (Haley, 2000; Khan, 2006).

Countries with poorly defined and protected property rights suffer from a lack of rule of law and pervasive corruption (Cuervo-Cazurra and Genc, 2008b), both of which can discourage foreign investors. Kaufmann et al. (2008, p.6) defined the rule of law as: “the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence”.

When the rule of law facilitates socially desirable behaviour, the market will operate well. Conversely, without the rule of law, markets will fail to operate effectively (Schor, 2007). The legal systems in developed countries tend to deal with the rule of law and politics as separate issues. However, the legal systems in developing countries treat these as linked issues (Mattei 1997; Schor 2007). As a result, MNEs from developing countries will be more aware of this approach and will tailor their international expansion accordingly. In contrast, MNEs from developed countries will find this approach problematic and may suffer commercially as a result (Cuervo-Cazurra and Genc, 2008b).

Again, corruption, or “the extent to which public power is used for private gain” (Kaufmann, et al., 2008, p.6), is detrimental economically. The effects of corruption include reduced industrial efficacy, declining productivity, unequal distribution of income (Ackerman, 2008), and reduced FDI (Wei, 1997). Countries with a high level of income, education (Glaeser and Saks 2006), and political competition (Alt and Lassen 2003) are more able to

take action against corrupt activities (Glaeser and Saks 2006), and, as a result, have lower rates of corruption. In contrast, Berkowitz and Clay (2004) have found an increased likelihood of corruption in countries with high poverty rates and low levels of income.

The ability to accommodate corruption is a fundamental activity in international business which may offer advantages to some firms (Rodriguez et al., 2002). Sometimes, a corrupted host government can attract more MNEs than more honest host governments. This is the case because, by bribing the host government via its officials, MNEs can benefit from circumventing regulations. This may enable MNEs to achieve more benefits from the government via profitable contracts, and allow increased access to the economy (Zhou, 2007).

Overall, however, MNEs from developing countries are more experienced in dealing with corruption than MNEs from developed countries. Thus, the author makes the following propositions and hypotheses:

Proposition 3: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most poorly protected property rights and pervasive corruption. Thus, we can generate a testable hypothesis:

Hypothesis 3a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

Hypothesis 3b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

2.6.4. The capability to provide services to consumers experiencing poverty

In developing countries, four billion people earn less than \$2000 (US) per year (Prahalad and Hammond, 2002), which is drastically less than the income of people in developed countries. In addition, many people live with a daily income equal to or less than \$1.25 in countries such as Pakistan, China, Northeast Brazil, India, and Nigeria (World Bank, 2004; Prahalad, 2010). In 2008, the World Bank estimated that the number of poor people in developing countries had reached 1,288 million (World Bank, 2008). However, developing countries are growing vigorously and attracting millions of new customers, and the aggregate buying power of poorer customers is significant. For instance, the total purchasing power for poor customers in Rio de Janeiro was \$1.2 billion (Prahalad and Hammond, 2002). However, misunderstandings still exist about poor customers and their ability to participate in the market.

Some think that poor customers are financially unable to buy products, but in many developing countries such as India and China, low-income households have the most buying power (Hammond and Prahalad, 2004). In addition, poor customers are often perceived as resistant to new products. The reality is that most products offered to them are not designed for their lifestyles, and that successfully designing and marketing products to this demographic requires a deep understanding of local circumstances (Hammond and Prahalad, 2004). Moreover, a belief exists that the high rate of illiteracy in developing countries can make communication difficult (Khanna and Palepu, 1997). A few years ago, however, China, India, and Brazil had a combined total of 500 million mobile phone users, compared to 150 million in the US (Hammond and Prahalad, 2004).

Although many MNEs still struggle to gain information about this customer demographic (Khanna et al., 2005) and to design suitable products and services, some firms from developing countries have successfully managed to meet the specific needs of these

customers. For example, when a retailer in Mexico started selling chicken parts (a traditional food for poorer people) instead of whole chickens in its outlets, sales quadrupled (Hammond and Prahalad, 2004). Similar examples of this are provided by Hindustan Lever Ltd and Procter and Gamble in India, who have produced single-use shampoo units, as well as Cemex (the biggest MNE in Mexico), which combined a pay-as-you-go system with delivery of materials and instructions for poor customers seeking to build houses (Hammond and Prahalad, 2004). More details about how companies have succeeded in serving low income customers within developing countries are given in the following examples.

Hindustan Lever Limited (HLL), which is a subsidiary of Unilever India, initially targeted the middle and upper classes in the Indian market. In contrast, Nirma targeted the lower income segments of the market, and after a short period started also to target the middle-class segment. After a decade or so, Nirma started acquiring more market share from HLL. In response, HLL decided to serve poor customers in rural villages which had not been reached by Nirma, and sought to develop products adapted to the specific desires and capabilities of that market. It required its managers to live in rural villages for six weeks, in order better to understand the culture with which they were dealing. It also used local partners to distribute its products. This strategy allowed HLL to get back into the market, and helped it to understand the needs of lower income consumers. In fact, by the end of the 1990s, these low income customers provided more than 50% of HLL's business (Hart and Sharma, 2004).

Another excellent example of the potential purchasing power of poorer consumers can be found in Mexico's cement company, Cemex. Cemex achieved great success in developing country markets such as Bangladesh, Thailand, Egypt, and some other Latin America countries. Poor customers in these countries represented an attractive opportunity for Cemex, as they are usually inadequately served. The company started by providing services to poorer customers in Mexico, in order to learn how to serve other poor customers in developing

countries. They introduced the “Patrimonio Hoy” programme, which provided architectural support and material storage for aspiring homebuilders, enabling them to make weekly savings. This empowered people to build their houses at a reduced cost, three times faster, and with excellent quality. The programme has increased 250% every year, and successfully reached one million Mexican families within five years (Hart and Sharma, 2004).

By improving their ability to provide services where there is poverty amongst customer bases in their home country, and by frequently employing workers from low-income backgrounds, developing-country MNEs can become familiar the needs of poorer customers. In contrast, developed-country MNEs tend to offer products designed for high-income customers, which do not meet low-income customers’ needs (Cuervo-Cazurra and Genc, 2008b). It is therefore possible to posit the following proposition and accompanying hypotheses:

Proposition 4: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries with high levels of consumers experiencing poverty. Thus:

Hypothesis 4a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the capability to provide services to consumers experiencing poverty).

Hypothesis 4b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the capability to provide services to consumers experiencing poverty).

2.6.5 Operating in the context of poorly developed infrastructures

The American Heritage Dictionary, cited in Moteff, and Parfomak, (2004, p CR-1), defines the term ‘infrastructure’ as follows: “the basic facilities, services, and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines, and public institutions including schools, post offices, and prisons”.

There are many important types of infrastructure, such as energy, roads, ports, railways, and telecommunications (Briceno-Garmendia et al., 2004). Governments should consider infrastructural development as vital when seeking to attract FDI to their home market (Kumar, 2001). This is because the infrastructure in any country impacts on the productivity of firms. Therefore, good infrastructure can reduce the cost of a given output, or increase the quantity of outputs at the same cost (Jimenez, 1995). Moving production across global borders creates an extra cost which is considered to be a trade barrier in shaping the final production cost. Indeed, the cost of transit in developing countries is two to four times more than in advanced countries (World Bank, 2004).

Good physical infrastructure in a country serves to increase the rate of return for foreign investors. In addition, when MNEs choose the global location for their foreign operations, they consider production efficiency to be vital. As a result, they rely mainly on the quality of physical infrastructure when making their choice (Kumar, 2001). For this reason, business literature has acknowledged the significant role of quality infrastructure in attracting FDI (Coughlin et al., 1991; Wheeler and Mody, 1992; Cheng and Kwan, 2000)

Therefore, infrastructural investment is a key component of successful growth and development within developing countries (Palmer, 2006). Governments have long recognized the importance of modern infrastructure in enhancing economic growth and attracting FDI (Bartik, 1985; Wheeler and Mody, 1992; Gong, 1995 (Bartik, 1985; Mariotti and Piscitello,

1995; Broadman and Sun, 1997; Wei, 1997; Asiedu, 2001; Harris, 2003). Developing countries, however, often have poor infrastructure (Khanna and Palepu, 1997; Hammond and Prahalad, 2004; Briceno-Garmendia et al., 2004), including poor telecommunications, inadequate resources, and high illiteracy rates (UNCTAD, 2009). For instance, in Argentina, the average waiting time to install a telephone connection is eight years (Estache, 2004). Likewise, over the past four decades, Africa has failed to build a strong infrastructure, primarily because public capital has been poorly allocated and spent (Palmer, 2006). The majority of investment in the infrastructure of developing countries was financed either by borrowing or through the receipt of aid from international organizations or more developed countries (Khan, 2006).

Although a poorly developed infrastructure poses a challenge to both types of MNE, developing-country MNEs are more likely than developed-country MNEs to operate successfully in countries with poor infrastructures (Cuervo-Cazurra and Genc, 2008b). Firms from developing countries are used to operating with unreliable telecommunications, poor electricity or problematic transportation networks (Un and Cuervo-Cazurra, 2004), and have adapted their products, managerial capabilities, and technology to meet these limitations (Lall, 1983; Un and Cuervo-Cazurra, 2004;)

Moreover, when MNEs wish to expand their operations in developing countries, they may need to seek partners to provide them with the necessary knowledge regarding customers, services and new delivery models. Developing-country MNEs have the ability to find the right partners more easily, due to familiarity with similar economic environments. Developed-country MNEs, however, are accustomed to operating through effective infrastructures within their home countries, and can therefore encounter difficulties when seeking partners.

Although there has been increasing interest in the academic literature about the role of infrastructure in attracting FDI, this research has so far been limited to case studies of developing countries (Khadaroo and Seetanah, 2007; Fung et al., 2008). This study will attempt to fill this gap in the existing literature, by focusing more specifically upon the effect of poorly developed infrastructure on the prevalence of MNEs in developing-country markets.

The above information has allowed the author to formulate a proposition and resulting hypotheses around the issue of infrastructure:

Proposition 5: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in a country with the most poorly developed infrastructure. Thus, we can generate testable hypotheses:

Hypothesis 5a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

Hypothesis 5b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

2.7. Chapter Summary

This chapter has sought to establish the primary theoretical grounds on which the current research issue is based. It has reviewed the literature that is relevant to both the issues of FDI and the operation of MNEs within developing-country markets, and has specified how the current study fits into on-going debates about the competition between developed-country MNEs and developing-country MNEs. The review of the relevant literature has incorporated four main sections. In the first section, the author addressed FDI and its motivations, benefits, and disadvantages. The second section surveyed the existing literature on developing-country

MNEs and their operations. The third section outlined and explored the OLI paradigm. The fourth section discussed the Uppsala model. The fifth section analysed the concept of 'resource based view', as the author will use this model as the main theory within the study. Finally, in the sixth section, the researcher attempted to show the effect of non-market capabilities on the competition between MNEs, and to identify the shortcomings and gaps in the existing literature. This has resulted in the development of research hypotheses, which this study aims to investigate in detail.

Building upon this literature review, the next chapter explains and justifies the research design and methodology of the current study.

Chapter 3: The Research Methodology

3. Introduction

Chapter one of this study presented the justification for the research topic, and Chapter Two reviewed the relevant literature in order to provide a theoretical context for the study. This chapter will seek to explain the research methodology to be used in the empirical exploration of the research hypotheses.

This chapter therefore provides a detailed explanation of the methodological procedures which were followed in order to ensure the reliability and validity of this research. Specifically, research methodology focuses on the ways in which research data is collected (Saunders et al., 2007). Although there are many different research designs that can be followed when conducting a study, it is important to connect the research problem and the research aims to a specific form of research design.

Taking both the research problem (section 1.3) and the research aim (section 1.1) into account, careful methodological steps were taken to ensure the validity of the study, which will be explained within this chapter. Firstly, the research design itself is explained in section 3.1. Then, the mixed-methodology approaches are explored in section 3.2, and both the quantitative method (see section 3.3) and the qualitative method (see section 3.4) are explained. In order to ensure that the process is easy to follow and understand, these quantitative and qualitative methods are presented in separate sections. This also allowed the researcher to justify and explain the data collection process used for each method in detail.

In the conclusion of this chapter, the data analysis steps which were taken are explained, whilst ethical issues concerning the research are explored in section 3.9. The conclusion to this chapter is presented in section 3.12. In order to aid understanding, Figure 3.1 presents the structure of this chapter in diagrammatical form.

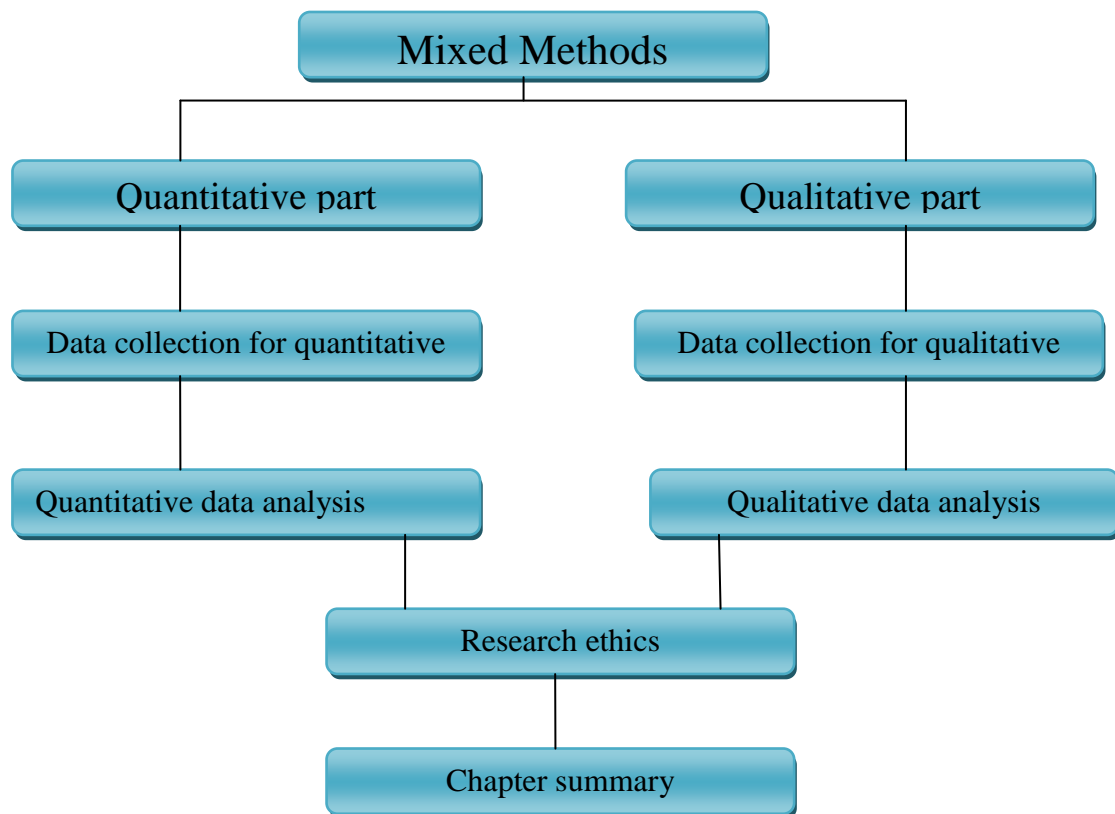


Figure 3.1 Structure of Chapter Three.

3.1 Research Design

Before explaining the research design which was chosen for this study, it is important to provide some brief information about the research philosophy and ‘world view’ which lie behind it. The phrase ‘world view’ refers to how we see the world around us (Creswell and Clark, 2007). Clearly an awareness of this is important to any research design project, and for this reason the researcher will focus on features of the world such as ontology, epistemology and methodology (Lee and Lings, 2008, p.11-12):

- i. Ontology “is the study of the nature of reality. For our purposes, we can think of ontology as being a set of beliefs about what the world we are studying actually is. For example, is reality objective and independent of our perception of it, or is it constructed by

those who experience it? Does it exist apart from our experience of it?” (Lee and Lings, 2008, p.11-12).

ii. Epistemology “should follow from ontology. Epistemology is the study of what we can know about reality, and is dependent in many ways on what we believe reality to be. For example, can we generate unbiased, generalizable knowledge about the world, or is this knowledge specific to a particular time and place?” (Lee and Lings, 2008, p.11-12).

iii. Methodology “is the least important, but most discussed, of these concepts for most researchers. Methodology is basically how we are going to go about our research. It is fundamentally dependent on the first two. For example, are we going to use qualitative or quantitative methods?” (Lee and Lings, 2008, p.11-12).

Methodology focuses mainly on the methods which are used in order to collect the primary and secondary data needed to fulfil the objectives of the research (Creswell and Maitt, 2002; Christou, 2006; Gill and Johanson, 2010). In contrast, “method is a systematic approach to gain valuable information from collecting and analysing data” (Jankowics, 2005, p.220). For qualitative and also quantitative studies, researchers need to describe, define and justify the units and levels of analysis chosen, the settings, and the sample characteristics (Zalan and Lewis, cited in Marschan-Piekkari and Welch, 2004).

Taking all of the above into consideration, these features can help to shape a paradigm for any research (Healy and Perry, 2000). As might be expected, many types of paradigm are discussed within the existing research literature. This study will focus on the views of Creswell and Plano-Clark (2007), and their suggestion of four main paradigms. Firstly, they describe the approach of ‘post-positivism’, which is mainly used for quantitative research.

Secondly, they identify ‘advocacy’. This type of paradigm focuses on political concerns, and is more popular in qualitative research. The third paradigm is ‘constructivism’. This type of paradigm is also common in qualitative research. Finally, they discuss ‘pragmatism’. This type of paradigm is suitable when the researcher is using mixed methods (both quantitative and qualitative research).

For the purposes of this study, the research paradigm of pragmatism has been selected. In this paradigm, the research ontology has multiple realities. The researcher will test some hypotheses (quantitative), and also interview some managers in order to provide multiple perspectives (qualitative). Moreover, the research epistemology, which focuses on the nature of the relationship between researcher and reality, will be collected and tested through a group of hypotheses. Therefore, it can be seen that the social reality in the current study is independent. However, it should be noted that in some parts of his research, the researcher will involve himself in collecting the data by asking the interviewees questions. Thus, in these portions of the research, the social reality of the study will not be independent.

As Robson (1993, cited in Saunders et al., 2000) notes, after establishing the research question the researcher develops a research design for the study, which focuses on the purpose of the research and the applicable strategy. Therefore, a research strategy can be described as the “general approach taken in an enquiry” (Robson, 1993). According to the same author, there are three main research strategies. These are ‘case study’, ‘experiment’, and ‘survey’. If justified by a research problem, researchers should use one or more methods to collect their data (Steckler et al., 1992; Jankowicz, 2005). Supporting that view, other commentators (see for example Tashakkori and Teddlie, 2003; Cresswell, 2003) have also advocated the greater use of a mixture of methods within social science research.

Many studies have employed a mixture of quantitative and qualitative methods (Eisenhardt and Bougeois, 1988; Greene et al., 1989; Snyder, 1995; Kidd, 1998; Bryman, 2001; Matveev, 2002). Indeed, this has become something of a general phenomenon (Brannen, 1992 cited in Gorard, 2004), particularly in economics (Lawson, 2003), psychology (Debats et al., 1995), and sociology (Rogers and Nicolaas, 1998). Following a methodological guide (see for example Tashakkori and Teddlie, 2003; Cresswell, 2003; Jankowicz, 2005), this study is mixed-methodology based. In other words, this study combines both qualitative and quantitative methods. The mixed methodology approach is explained and justified in section 3.2 of this chapter, below.

3.2 The Mixed-Methodology Approach

The first part of this section seeks to present the existing literature on mixed-methodology research, and also explains the situations in which this approach may be suitable. The types of mixed-methodology design are presented in outline within section 3.2.1.

The mixed-methodology approach was established within research communities following the development of quantitative and qualitative approaches (Tashakkori and Teddlie, 2003). Since the beginning of the 21st century, there has been a significant increase in the use of this research methodology around the world (Plano-Clark and Creswell, 2008).

Literature on the mixed method (Tashakkori and Teddlie, 2003, p.11) identifies three main categories of such research. These are multiple method research, mixed method research, and mixed model research. In multiple method research, the research questions can be answered by using two research methods, with both of them following the same qualitative or quantitative tradition. In mixed method research, both quantitative and qualitative data collection and analysis are used. (Tashakkori and Teddlie, 2003; Moghaddam et al., 2003). The mixed model method, however, is mixed at all stages of the research,

including in its research methods, questions, data collection, and analysis (Tashakkori and Teddlie, 1998; Tashakkori and Teddlie, 2003).

The concept of mixed method research is not new (Creswell et al., 2004; Driscoll et al., 2007). Morse (2003, p.190) defines mixed method as “the incorporation of various qualitative or quantitative strategies within a single project that may have either a qualitative or a quantitative theoretical drive”. Creswell et al. (2003, p.212) also note that it “ involves the collection and analysis of both quantitative and qualitative data in a single study in which the data collected concurrently or sequentially are given a priority, and involve the integration of the data at one or more stages in the process of research”.

Thus mixed methods, which are also known as the ‘integrated approach’ (Steckler et al., 1992), integrate both quantitative and qualitative research techniques (Creswell et al., 2004). Of course, this can be complex, because quantitative and qualitative research methods are different in their assumptions. Whilst qualitative research methods capture realities from the perspective of participants (i.e. phenomenology), quantitative research methods focus upon capturing a single quantifiable reality from a large sample of research study phenomena (Arora and Stoner, 2009).

A number of reasons have been given to justify the use of more than one method within a single study:

1. Although the mixed method is seen as expensive (Johnson and Onwuegbuzie, 2004), it tends to yield a more complete result. This is because of the advantage of combining quantitative methods and qualitative methods (Morse, 2003; Creswell et al., 2004). It also provides a crucial depth of understanding of the research phenomenon (Arora and Stoner, 2009).

2. Qualitative and quantitative methods are complementary (Töttö, 1999). The use of mixed methodology enables consistency checks, which can be built through the use of triangulation. This allows for two or more independent estimates to be compared through key variables.
3. According to Tashakkori and Teddlie (2003), the mixed method is a superior research method because it:
 - a. Can answer research questions that other methods cannot answer
 - b. Provides stronger inferences.
 - c. Provides a greater opportunity to showcase a wide range of diversity of views.
4. Green et al. (1989, cited in Bryman, 2006) suggested no less than five justifications for combining quantitative and qualitative research methods, namely:
 - a. Triangulation: the ability to see how results correspond to each other when using quantitative and qualitative methods.
 - b. Complementarity: the ability to clarify the results from one method (e.g. quantitative) by using results obtained from a different method (e.g. qualitative).
 - c. Development: the ability to use the results of one method to develop another method. For example, interview results can be used to develop or create a questionnaire.
 - d. Initiation: the ability to discover contradictions, and to recast questions or results in one method as a result of question or results in another method.
 - e. Expansion: the ability to use different methods for different questions, in order to expand the overall breadth of enquiry.

3.2.1 Justification of the mixed method

For a number of years, quantitative and qualitative researchers have criticised each other's research methods. Quantitative researchers criticise qualitative researchers for concentrating too much on context, and for not relying upon representative samples. On the other hand, qualitative researchers criticise the work of quantitative researchers as being too simplistic, and not concentrating enough on contextual factors (Brannen, 2005).

The mixed method, when used well, can complement the strengths and minimise the weaknesses which are associated with a single research method. It can also assist the researcher in reducing his influence over the data whilst conducting the study (Brannen, 2005). However, it must be understood that the use of mixed methods are expensive when compared to the use of single research methods (Johnson and Onwuegbuzie, 2004). Mixed methods tend to consume significant amounts of time, and require a professional researcher.

The current researcher will attempt to address these disadvantages by collecting data using many different methods. These will include face to face interviews, interviews conducted by phone, as well as internet communication. This will help to reduce the time and cost of using mixed methods.

After selecting a mixed method approach for the current study, it becomes important to highlight those studies which have taken a similar approach in the field of international business, and in the area of FDI specifically. In the international business literature, many studies have used the mixed methods approach, including Money (2000); Lenartowicz and Johnson (2000); Dyer and Chu (2000); Birkinshaw et al. (2001); and Testa et al. (2003). A number of researchers in the area of FDI have also used mixed methods. Some examples include Rolfe et al. (1993); Fahy et al. (2000); Petersen and Welch (2000); Clark and Pugh (2001); Manrai et al. (2001); Shi (2001); Linda and Tuan (2002); Fenwick et al. (2003); and Nicholas et al. (2009).

In general, a combination of both quantitative and qualitative approaches serves to enhance understanding of a research problem when compared with a reliance on one or other of the methods (Creswell and Plano-Clark, 2007). It will therefore help to produce better outcomes than using one single research method in isolation. In addition, the quantitative approach in this study would prove to be inadequate in providing a satisfactory explanation of the results obtained. Using a qualitative approach will enrich the quantitative results, and provide logical reasons for some results which might otherwise be difficult to explain.

Similarly, a qualitative approach would not provide the researcher with the ‘full picture’ of the research problem if it was used in isolation. Moreover, based on the research aim (see section 1.1), the use of mixed methods will help the researcher to understand the implications of non-market capabilities. Using a mixed method approach will also assist in extensively testing the research hypotheses to discover the relationship between the study’s variables, and will help to explain them more fully.

In essence, the qualitative section of this study was conducted in order to help triangulate the quantitative findings. Moreover, the topic of MNEs in the developing-country context needs to be intensively explored. Using this method, the present study will help to provide a detailed insight into the prevalence of developing-country MNEs within developing country markets. The researcher strongly believes that using this mixed method design will ensure a better quality of research data, and will provide a better explanation of the explored phenomena in developing countries.

The literature on the different types of mixed method designs is explored in the next section of this chapter, and is followed by a detailed description of the mixed method design which has been chosen for use in this study.

3.2.2 Type of Mixed Method Designs

The literature on mixed methods has traditionally identified several types of design. Creswell et al. (2003) reviewed eight studies (in the fields of public health, education, and nursing) which were published between 1989 and 1999. Although these studies had identified approximately thirty-seven different types of mixed method designs, Plano-Clark and Creswell (2008) summarized them into four main types. These were:

I –Triangulation

II- Embedded

III -Sequential Explanatory

IV -Sequential Exploratory

I - The Triangulation Design

According to Creswell et al. (2003), the Triangulation Design (see Figure 3.2) is the most widely used mixed method approach. It is commonly applied when a researcher wishes to compare quantitative findings with qualitative findings. Sometimes it is used to validate, corroborate, or expand quantitative findings through the use of qualitative findings (Creswell and Plano-Clark, 2007). Therefore, it can be seen as a combination of collection and analysis of the qualitative and quantitative data, in order to reach the best understanding of the research problem (Jones, 1997; Plano-Clark and Creswell, 2008). Both quantitative and qualitative methods will be integrated within the discussion chapter of the present study.

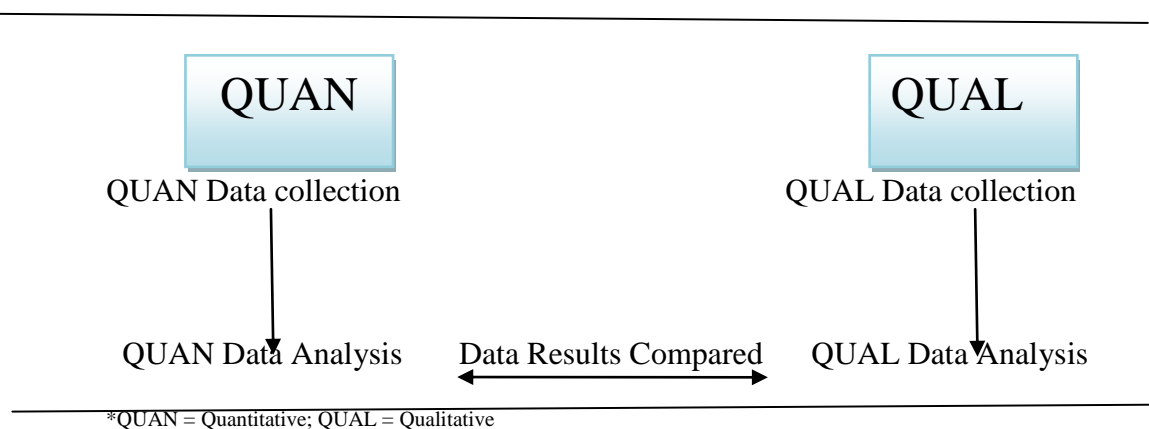
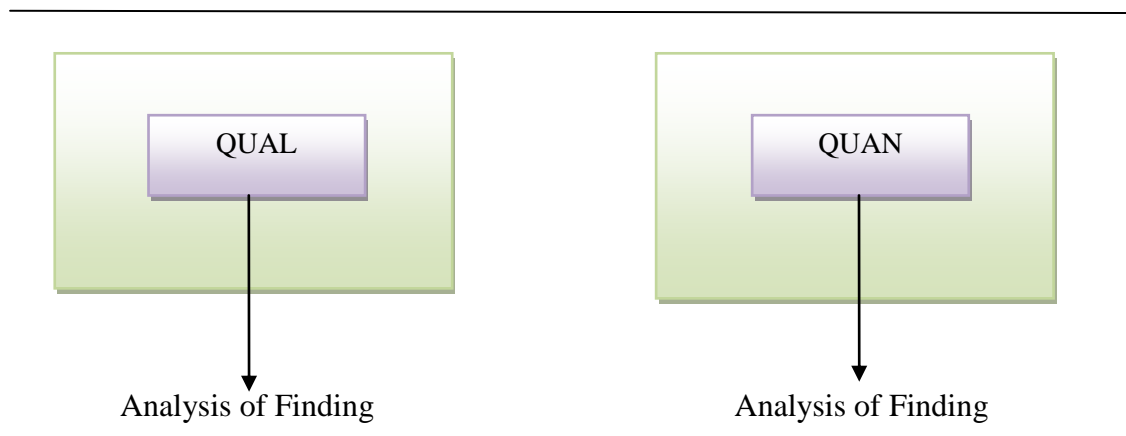


Figure 3.2: The Triangulation Design. Source: Creswell et al. (2003, p226)

II -The Embedded Design

This design entails embedding one method, quantitative or qualitative, within a larger piece of research that applies another primary research method. In other words, it occurs when both quantitative and qualitative data are used within a traditional quantitative or qualitative design. In such a study, there are different sets of research questions which require the use of different types of data (quantitative or qualitative) to be answered (Plano-Clark and Creswell, 2008). The purpose of using this secondary method is to improve and support the implementation of the primary method (ibid).

Plano-Clark and Creswell (2008) pinpoint the advantages and disadvantages of the embedded design within their summary. According to them, the primary advantage of embedded design is that it is less time-consuming and more manageable than other designs, because one of the methods will require less data than the other. On the other hand, they note that the primary challenge associated with this design is that it can be difficult to integrate the findings into a comprehensive whole.



*QUAN = Quantitative; QUAL = Qualitative

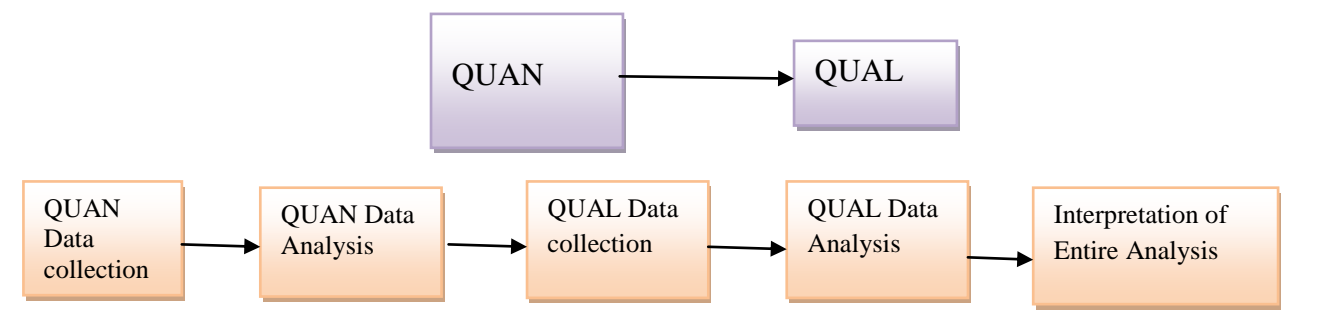
Figure 3.3: The Embedded Design

Source: Creswell et al. (2003, p226)

III -The Sequential Explanatory Design

This type of mixed method design has two distinct phases (see Figure 3.4). The first begins with collection and analysis of quantitative data. Then, based on the quantitative results, the second phase involves the collection of qualitative data to explain and interpret the quantitative results (Plano-Clark and Creswell, 2008). Both the quantitative and qualitative methods are integrated in the interpretation phase.

The main strength of sequential explanatory design is that it is the most straightforward design compared to the other mixed method designs (Creswell et al., 2003). However, the major weakness of this design is that the data collection process is time-consuming (Creswell et al., 2003).



*QUAN = Quantitative; QUAL = Qualitative

Figure 3.4: The Sequential Explanatory Design

Source: Creswell et al., (2003, p225)

IV -The Sequential Exploratory Design

Two phases are also involved in this type of mixed method design (see Figure 3.5). In the first phase, the qualitative method is used to collect and analyse data. The second phase builds on the findings of the qualitative method by collecting and analysing quantitative data. This type of design is used when the researcher needs to know more about the phenomenon before it can be measured quantitatively (Plano-Clark and Creswell, 2008).

In the sequential exploratory design, the main purpose of using the quantitative method is to support and assist an interpretation of the qualitative findings (Creswell et al.,

2003). This type of mixed method design has similar advantages and disadvantages to the sequential explanatory design. It is easy to use and straightforward to report, and it enables researchers to explore and expand upon a phenomenon. However, sequential exploratory design can also require a significant investment of time, due to the need for collection of both quantitative and qualitative data (Creswell et al., 2003).

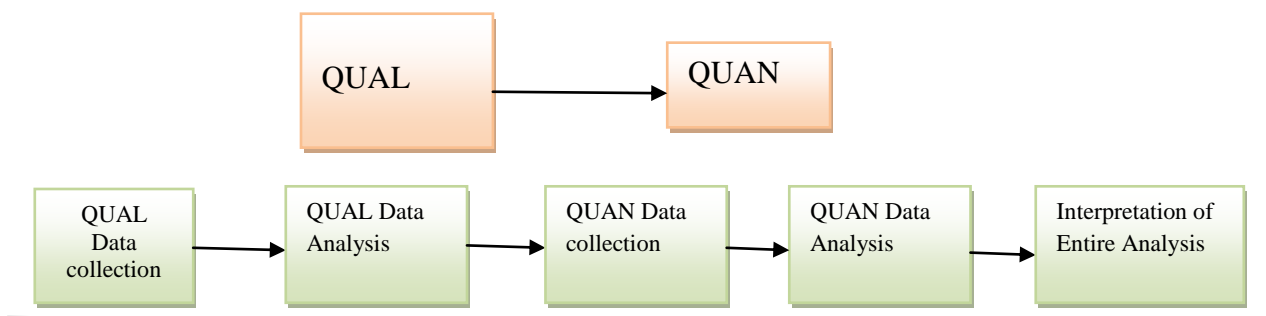


Figure 3.5: The Sequential Exploratory Design

Source: (Creswell et al., 2003,p225)

Before embarking upon a full explanation of the quantitative (section 3.3) and qualitative (section 3.4) methods, the next subsection of the chapter will seek to explain and justify the selection of the particular mixed method design chosen for the present study.

3.2.3 Selection and Justification of the Chosen Mixed Method Design

After discussing the main types of mixed method designs, a researcher should choose the design that best suits the problems and aims of his or her research (Creswell and Plano-Clark, 2007). The forthcoming section seeks first to explain the choice made in the present study, and to justify it. It then goes on to introduce the quantitative and qualitative methods.

Taking into consideration Creswell and Plano-Clark’s (2007) four factors for deciding which mixed method design to use, the present researcher has chosen to use a Triangulation Mixed Method Design. The predominant part of this study is the quantitative section, and the

qualitative section (i.e. semi-structured interviews) is intended to assist in triangulation of the quantitative data.

In addition to that general justification, it can be seen that triangulation is the most appropriate choice for this study for a number of reasons. The researcher wishes to be as confident as possible about the research results (Jick, 1979, cited in Creswell and Plano-Clark, 2007). This can be ensured by the triangulation ‘within–method’, which is essential for internal consistency or reliability. In addition, the triangulation ‘between–method’ helps to test the degree of external validity of any results (Jick, 1979, cited in Creswell and Plano-Clark, 2007). Therefore, a triangulation design will assist the researcher in ensuring the robust nature of the study’s results. Moreover, using mixed methods in order to investigate organisational issues will yield greater information than using a single method (Currall and Towler, 2003). This will lead to a reduction in the methodological limitations of using a single method.

3.2.4 The Quantitative and Qualitative Methods of the Mixed Method Design

Throughout the quantitative section of this study, secondary data are used. In contrast, primary data (collected through semi–structured interviews) are used for the qualitative method. This is explained in detail within section 3.3 (Quantitative Method) and section 3.4 (Qualitative Method). This section seeks to further explain the methodological foundations which were followed when deciding how to use the selected mixed method design (Creswell and Plano-Clark, 2007).

In order to ensure that the appropriate combination of quantitative and qualitative methods are used in the chosen mixed method design, the researcher must take three factors into consideration (Creswell and Plano-Clark, 2007). These are:

1. *The timing of the use of collected data:* This refers to the order in which the researcher will use the data, either by using concurrent timing or sequential timing. In other words, the researcher must ask himself “what will the timing of the quantitative and qualitative method be?” (Creswell and Plano-Clark, 2007).
2. *The weighting decision:* This refers to the weight of both the quantitative and qualitative approaches in the study. It also relates to the importance or priority of these two approaches within the study (Creswell and Plano-Clark, 2007). According to Creswell and Plano-Clark, (2007), there are two options for weighting. Firstly, the researcher may give equal weight to both methods (qualitative and quantitative). Secondly, the researcher may give one method more weight than the other.
3. *The mixing decision:* there are three strategies a researcher can use to mix the two data types. These can be (Creswell and Clark, 2007):
 - a. *Merging data sets:* the researcher can take the two data types and integrate them. This can be done by analysing them separately first, and then merging them in the discussion phase (Creswell and Plano-Clark, 2007).
 - b. *Embedding data at the design level:* the researcher may embed one type of data within the other type (Creswell and Plano-Clark, 2007). Data can be embedded in a concurrent data collection with another data set, or in a sequential data collection before or after another data set.
 - c. *Connecting data analysis to data collection:* a researcher can choose to connect both types of data. This can happen when the analysis of one type of data leads to the need for another type of data (Creswell and Plano-Clark, 2007).

Given the discussion presented above, the mixed method approach was chosen for this research. The quantitative aspect of this study was to consist of the use of archival

documents from international organisations, such as The World Bank and UNCTAD. The qualitative aspect was to consist of the use of semi-structured interviews with CEOs, global marketing managers, and operational managers of MNEs.

Taking into consideration the above decision guide (Creswell and Plano-Clark, 2007), and in line with the goals of the current research, the triangulation design for this study involves collecting quantitative and qualitative data and analysing them separately. Both quantitative and qualitative evidence will then be merged within the interpretation section. Concerning the three major decisions mentioned above (timing, weighting, and mixing), the following applies to this study:

1. This study will use sequential timing by collecting and analysing quantitative data first. Then, the qualitative data will be collected and analysed, using semi-structured interviews.
2. The quantitative and qualitative methods will be unequally weighted. In this study, the quantitative method is given more priority than the qualitative method, for two reasons (Creswell and Plano-Clark, 2007). Firstly, the research aim and hypotheses will better be answered by quantitative data. Secondly, the researcher is more familiar with quantitative analysis than qualitative analysis.
3. This study will merge data sets. The researcher will collect and analyse both sets separately, and then merge them within the discussion chapter. This will mean merging the quantitative data, collected from international reports, with the qualitative data, collected from semi-structured interviews.

The quantitative and qualitative methods of the mixed method design are explained in the following sections (3.3 and 3.4, respectively).

3.3. Data Collection Method – Quantitative Method

Data collection methods relate to the ways in which research data can be collected (Saunders et al., 2007). In this section, the quantitative method used to address the research questions and explore the hypotheses within this study is presented. Firstly, the quantitative background (see section 3.3.1) is explained, and then the process followed in obtaining quantitative data (see section 3.3.2) is described.

3.3.1 Quantitative Method - Background

Quantitative research is widely relied upon within international business research literature (Cuervo-Cazurra and Genc, 2008a), and is often used to describe and identify the relationships between variables. Quantitative research is suitable when the researcher needs to answer factual questions such as ‘what?’ (Kolb, 2008). For the purpose of the generalisation of findings, quantitative research usually requires a large sample (Roberts, 2002).

Hair et al. (2006, p.172) note that the main goals of quantitative research are to:

- 1) Predict the relationship between variables correctly.
- 2) Provide in-depth understanding about those relationships.
- 3) Validate the existing relationship between these variables.
- 4) Examine different forms of hypotheses.

According to Nykiel (2007) there are four types of quantitative research, namely,

- 1) Descriptive,
- 2) Experimental,
- 3) Quasi-experimental, and
- 4) Correlation.

Descriptive quantitative study focuses on collecting more information about specific aspects of a particular field of study. This type of study may be used to develop theory, identify or justify current practice, or make judgements. In general, this includes the study of preferences, attitudes, concerns, and practices.

Experimental research concentrates on a cause-effect relationship between two or more research variables. Typically, this is done by focusing on a control group and comparing it with an experimental group. In the control group, the researcher will try to control the effect of one or more variables, in order better to understand the data.

Quasi-experimental research is used to provide an alternative means of examining the research problem, when such an examination is not conducive to experimental control. Thus, quasi-experimental research does not involve non-randomized assignment of subjects to experimental conditions.

Correlation is a technique which attempts to determine the degree of relationship between variables by examining the data obtained. In order to achieve this, it uses both dependent and independent variables.

According to Saunders et al. (2000), the quantitative method is suitable for operational business research because it saves time and money, and can cover a wide range of samples. Quantitative research is commonly linked with both experimental and non-experimental research (Hair et al., 2006). Experimental quantitative research includes real experiments and quasi-experiments (Kerlinger and Lee, 2000). On the other hand, non-experimental quantitative research includes many varieties of study, such as surveys based on closed questions, or simple observation. Most social science studies consist of non-experimental research (Singleton et al., 2005), and the present study fits into that group.

This study will use the correlation type of quantitative research, in order to test the relationship between the study's variables. As has been explained in previous chapters, these are the prevalence of MNEs in developing countries (dependent variables); and the ability of MNEs to operate under authoritarian regimes, in an ineffective state or government, under conditions of poorly protected property rights, within a poorly developed infrastructure, and in a situation where their consumer base is experiencing poverty (independent variables).

It is worth mentioning here that, because of a lack of data about the financial performance of MNEs in developing countries, the researcher used the percentage of the number of largest MNEs in developing countries to measure the prevalence of MNEs within these countries. This technique has been used in previous studies within this context (Cuervo-Cazurra and Genc, 2008a).

Understanding the correlations between these variables will assist the researcher in determining the degree of the relationship between them. In order to achieve this, the researcher will calculate the correlation using the Pearson correlation test (r) first, and will then calculate the regression. In addition, this study will use multiple sources of information for data collection (see section 3.3.2).

3.3.2 Quantitative Data Collection Procedures

Secondary data is one of the most important sources of information for international marketing research (Craig and Douglas, 2000). Indeed, most international business research relies upon secondary data (Boddewyn and Lyster, 1999). This kind of data is collected by researchers for many different reasons, but is usually transferrable between different types of research project (Burns and Bush, 2003). Typical secondary data sources include CD-ROM, print, and internet-based sources (Craig and Douglas, 2000). Reports, academic journals and books are also good sources of secondary data. According to Cooper and Schindler (2011),

other very important sources of secondary data are associations of national governments, such as the European Union (EU) and the United Nations (UN).

Saunders et al. (2000) identify some advantages of secondary data. Firstly, they point out that secondary data is easy to collect, and therefore using it can save both time and resources. Secondly, it is easy to compare different types of secondary data. According to Craig and Douglas (2000), secondary data provides a valuable opportunity to assess a specific market in the early stages of research, in order to ensure that the right decisions are made. It also provides a specific background of information about a certain country or sector. However, secondary data may be collected for a purpose that does not match the needs of the present research, and access to it can sometimes be difficult or costly.

In addition, secondary data provides guidance when assessing different markets for potential initial entry (Craig and Douglas, 2000). Secondary data can help managers to assess market potential, as well as the risks of operating outside a home market. It also helps to evaluate market interconnectedness, and to guide resource use across markets or between regions. In fact, secondary data from the UN, World Bank and other macroeconomic sources can be used as a good indicator of market attractiveness, market potential, economic growth and infrastructure development (Craig and Douglas, 2000).

International reports about MNEs have served as the main source for the quantitative section of this study. Specifically, the researcher has used those reports published by UNCTAD and the World Bank. These reports matched the goal of this study, in that they provided the necessary data about FDI in developing countries, which the researcher has used to measure the dependent variable. For the independent variables, the researcher has used the Worldwide Governance Indicators Database (WGI) from Kaufmann et al. (2008) to test the first six hypotheses. Data from the World Development Indicators database (WDI), published by the World Bank, was used to measure the last four hypotheses.

I - The Worldwide Governance Indicators Database

According to Kaufmann et al. (2008), the Worldwide Governance Indicators (WGI) database covers more than 200 countries and territories. It measures six important aspects of governance:

1. Voice and Accountability
2. Political Stability and Absence of Violence/ Terrorism
3. Government Effectiveness
4. Regulatory Quality
5. Rule of Law
6. Control of Corruption

These indicators are collected from thirty-five data sources, including the World Economic Forum's Global Competitiveness Report, and the Institute for Management Development's World Competitiveness Yearbook. Thirty-three different organizations also provide information to the database, such as the European Bank for Reconstruction and Development, and the World Bank.

II -The World Development Indicators Database

The World Development Indicators (WDI) database is published by the World Bank. It provides over 1100 indicators for more than 200 economies (World Bank, 2008). In addition, it provides data from twenty-nine international and government agencies and ten private and non-government organizations working as partners with WDI (World Bank, 2008). This database is organized around six themes (World Bank, 2008):

1. World development
2. People

3. Environment
4. Economy
5. States and markets
6. Global Links

The following section seeks to outline and justify the research population for the quantitative element of this study.

3.3.3 Quantitative Research Population and Sample Selection

Before determining the research sample for the quantitative section, it is important briefly to outline the study population from which the researcher has chosen his sample. According to Cooper and Schindler (2011, p.167), a population is defined simply as “the total collection of elements about which we wish to make some inferences.”

Whilst it is impossible to obtain a sample that reflects the population entirely accurately, a good sample is able to represent the characteristics of the real population (Cooper and Schindler, 2011). There are many factors which go into choosing an accurate research sample (Cooper and Schindler, 2011, p.168), which include:

1. Cost issues.
2. Greater accuracy of results.
3. Greater speed of data collection.
4. Availability of population elements.

According to Cooper and Schindler (2011), there are two types of sampling methods. The first is probability sampling, which uses a random selection of the research sample. Each participant therefore has the same chance of participating in the research. The second is non-probability sampling, which uses non-random selection methods.

The existing literature on the sample design process spells out the core steps which should be taken when addressing sampling issues. In deciding the population and sampling for this study, these guidelines (shown in Figure 3.6 below) were followed. The population for this study includes all MNEs operating in all developing countries. However, since MNEs in developing countries are not officially categorised (Cuervo-Cazurra and Genc, 2008a), the researcher focused on the largest affiliate foreign firms in the world, which operate in 150 developing countries.

After defining the target population, which are all MNEs in all developing countries, the researcher determined the sample frame (Cooper and Schindler, 2011). In this study, a non-probability sample was used for the quantitative section because it is less expensive, less time-consuming and makes best use of limited resources (Saunders et al., 2007). In addition, it is sufficient to meet the research objectives outlined in the previous chapters. Therefore, the sample consists only of all the largest affiliates of MNEs in developing world markets.

Using the non-probability sampling technique, 88 out of 150 developing countries were chosen. This represents approximately 59% of the total population. The researcher chose the number of countries based on the available data within the existing literature.

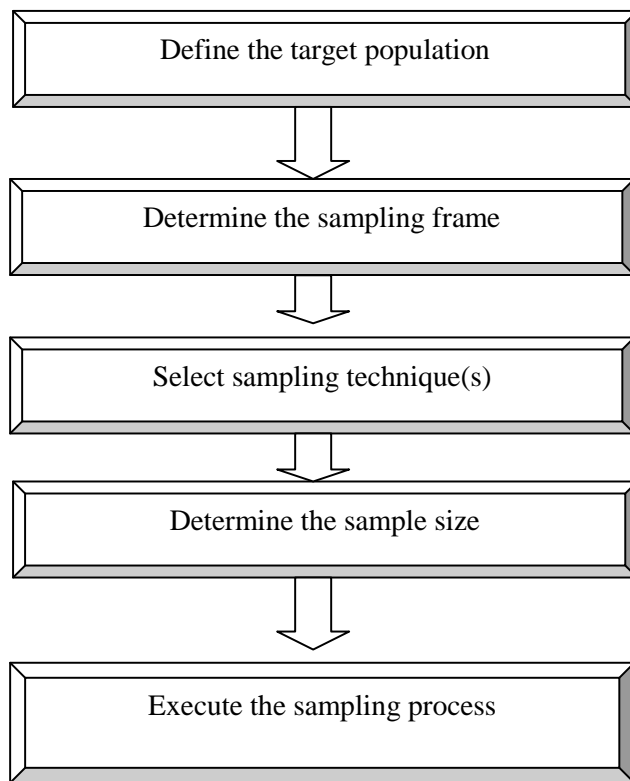


Figure 3.6: The Sample Design Process.

3.3.4. The Research Variables

The dependent and independent variables for this study are fully explained within the following subsections.

3.3.4.1. The dependent variables

In order meaningfully to discuss the dependent variables in the present study, it is first important to understand how businesses measure their organisational performance, and what the views of various academics have been when examining the different tools available for this purpose.

Bourne et al. (2003, p.4) define a business performance measurement system as “the use of a multi-dimensional set of performance measures for the planning and management of business”. In traditional research, which is based largely around Western companies,

performance has been classified by Ali (2011) and Ferreira and Otley (2009) into two types. These are economic performance measures (otherwise known as financial measures) and non-economic performance measures (otherwise known as non-financial measures).

Economic performance measures include return on investment (ROI), profit, market share, sales volume, revenues, and overall financial position. They tend to involve the use of objective and specific data, in order to measure organisational performance. In contrast, non-economic measures may include issues such as customer satisfaction and customer loyalty. Ali (2011) argues that there are many types of measures which can be used to determine organisational performance, and that no particular measure can describe all characteristics of firm's performance. For this reason, scholars use a variety of different indicators to analyse organisational performance.

A common issue when examining MNEs within developing countries is the lack of detail available in performance metrics. Because of this lack of data, particularly with regards to financial performance, the majority of databases are unable to offer specific information about sales. As no direct measure of performance was therefore available to gauge performance in this area, an indirect measure was required. Previous research by Cuervo-Cazurra and Genc (2008a) had already identified this problem, and had also identified the most robust indirect measure to be the use of a percentage of the number of the largest MNEs within a developing country. This technique has since been shown to be robust as an indirect measure of the prevalence of MNEs within such countries, and has been utilised in a large number of studies.

The first dependent variable in this study is the prevalence of developing-country MNEs within developing countries. The researcher used the data for 88 developing countries which is published in UNCTAD reports, particularly examining the largest affiliate of foreign

firms in each developing country. The researcher measured this dependent variable (for Model 1) by dividing the number of largest affiliates of developing-country MNEs by the total number of the largest affiliates of developing and developed- country MNEs, and then multiplied this number by 100 in order to reach a percentage. In addition, the researcher then measured this dependent variable (for Model 2) by dividing the number of largest affiliates of developing-country MNEs - after excluding all largest affiliates of the developing country MNEs which were working in natural resource industries – by the total number of the largest affiliates of developing and developed-country MNEs. He then multiplied this number by 100, in order to reach a percentage.

The second dependent variable within the current study is the prevalence of developed-country MNEs within developing countries. The researcher measured this dependent variable (for Model 1) by dividing the number of largest affiliates of developed-country MNEs by the total number of the largest affiliates of developing and developed-country MNEs, and then multiplied this number by 100 to reach a percentage. In addition, the researcher measured this dependent variable (for Model 2) by dividing the number of largest affiliates of developed-country MNEs - after excluding all largest affiliates of developed country MNEs working in natural resource industries - by the total number of the largest affiliates of developing and developed- country MNEs. This number was then multiplied by 100, in order to reach a percentage.

3.3.4.2. The Independent variables

This study focuses on five independent variables. The methods used for measuring these are discussed, in turn, below.

(1) The ability to operate under authoritarian regimes, which is represented by:

- (a) 'Voice' and accountability
- (b) Political stability and absence of violence

According to Kaufmann et al. (2008, p.7), voice and accountability can be defined as “measuring perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media”. In contrast, political stability and absence of violence can be seen as “measuring perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism”.

The dataset used in the current study provides values for these attributes for each country, ranging from -2.5 to +2.5. The higher the value, the 'richer' the country is in that variable. However it should be noted that the current researcher has added +3.5 to each value in the Kaufmann et al (2008) database. Therefore, the new values for the Kaufmann et al. (2008) database will be measured from 1 to 6.

The researcher measured the values for the first independent variable (the ability to operate under authoritarian regimes) by adding the value for 'voice and accountability' to the value for 'political stability and absence of violence', and then divided the total by 2 in order to reach an average score for each country.

(2) The ability to operate within an ineffective state or government, which is represented by:

(a) Government effectiveness

(b) Regulatory quality

According to Kaufmann et al. (2008, p.7), government effectiveness can be defined as “measuring perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies”. From the same source, regulatory quality can be seen as “measuring perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development”.

The current researcher measured the values for the first independent variable (the ability to operate in an ineffective state or government) for each country in sample by adding the value of government effectiveness to the value of regulatory quality, and then divided the total by 2 to obtain an average.

(3) The ability to deal with poorly protected property rights, which is represented by:

(a) Rule of law

(b) Control of corruption

According to Kaufmann et al. (2008, p.7), the rule of law can be defined as “measuring perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence”. In contrast, the control of corruption can be seen as “measuring perceptions of the extent to which public

power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests”.

The researcher measured the values for first independent variable (the ability to deal with poorly protected property rights) for each country in the sample by adding the value for the rule of law to that for the control of corruption, and then divided the total by 2 to obtain an average.

(4) The capability to provide services to consumers experiencing poverty, which is represented by:

(a) Wealth

By improving their ability to provide services where there is poverty amongst customer bases in their home country, as well as by frequently employing workers from low-income backgrounds, developing-country MNEs can become familiar with poorer customers’ needs to a degree that developed-country MNEs struggle to achieve. Due to the fact that they operate in high-income environments, developed-country MNEs tend to offer products designed for high-income customers, which do not meet the needs of poorer consumers (Cuervo-Cazurra and Genc, 2008b). The researcher chose to measure this independent variable by using the measure of Gross National Income divided by the total number of inhabitants (GNI per capita) for each country in the research sample. This data was gathered from the World Development Indicators, produced by the World Bank (2008).

(5) The ability to operate in a poorly developed infrastructure, which is represented by:

(a) Level of infrastructure

The definition of “infrastructure” given by the American Heritage Dictionary, and cited in Moteff and Parfomak, (2004, p CR-1), is as follows: “the basic facilities, services, and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines, and public institutions including schools, post offices, and prisons”.

The researcher chose to measure this independent variable by examining data on levels of infrastructure within developing countries. This data was available through the World Development Indicators, produced by the World Bank (2008).

3.3.4.3. The Control Variables

Because of the lack of relevant data regarding developing countries, the researcher had few choices when considering potential control variables. Market size is one of the most well-known variables used within the international business literature, and is widely recognised to be a determinant of FDI (Torrise, 1985; Chakrabarti, 2001; Muttaleb, 2007). It is represented by GDP per capita. In addition, inflation is a serious issue in most developing countries (Briere and Signori, 2010). It indicates the differences in general price levels within the economy (Khravish and Siam, 2010). Therefore, inflation can be seen as another important factor which may affect foreign investment. It is measured by using the World Bank Development Indicators. Employment, which represents the size of the labour force, is an important factor for both foreign investors and host countries. It is true that little is formally known about the impact of employment levels on FDI (Konings, 2004). As a matter of common sense, however, it is essential for foreign investors to make sure that they will find the target employees they require in the host country. This applies particularly to the availability of low cost workers. This allows investors to make a determination as to which foreign country is most appropriate in terms of labour costs (Blomstrom et al., 1997). A host

country can also gain benefits from FDI, by improving pay and other work conditions (Arnal and Hijzen, 2008), as well as experiencing the general positive effects of economic development (Bhaumik et al., 2004).

In this study, the control variables which have been chosen are therefore the levels of inflation within each country, the rate of employment and size of labour force, and the overall market size.

3.3.5 Internal consistency

Table 3.1 presents the internal consistency of reliabilities (otherwise known as Cronbach’s alpha) of the three non-market capabilities which are being examined within this study. A value of Cronpach’s alpha which is above 0.7 indicates that the capabilities are internally consistent (Harris and Johnson, 2002).

Table 3.1: Internal consistency of reliabilities

Non-market capability	components	Cronbach’s alpha
The ability to operate under authoritarian regimes	Voice and accountability	0.77
	Political stability and absence of violence	
The ability to operate within an ineffective state or government	Government effectiveness	0.922
	Regulatory quality	
The ability to deal with poorly protected property rights	Rule of law	0.948
	Control of corruption	

As can be seen from the table, all values of Cronbach's alpha were found to be higher than 0.7, which reflects a good degree of internal consistency. The value of 'authoritarian regimes' was 0.77; the value of 'ineffective states' was 0.922; and the value of 'protected property rights and control of corruption' was 0.948. (see appendix 9)

3.3.6 Data analysis for the quantitative section

Within the quantitative section of this study, the Statistical Package for Social Sciences (SPSS) was used to examine the correlation and regression between variables. According to Dewberry (2004), the Pearson correlation (r) is a bivariate measure of association of the relationship between two variables. The Pearson correlation (r) coefficient determines the strength of the positive or negative correlation between the variables, and the statistical significance of the correlation. It is a figure between 1 and -1. If the figure is 0, this means that there is no relationship at all between the two variables. If the figure is 1, there is a very strong positive association between the two variables. If the figure is -1, there is a perfect negative correlation between the variables (Field, 2009).

Dewberry (2004) further interprets the relationship between strength and correlation coefficients. He states that if the correlation coefficient is around 0.1, the strength of association could be described as 'small' or 'weak'. If it is around 0.3, the strength will be considered as moderate, and if it is around 0.5 the strength will be 'strong' or 'large'. This research will examine ten hypotheses, in order to answer the main questions posed by the study.

Multiple regression will be carried out by using *the prevalence of the largest MNEs in developing countries* as the dependent variable, and *the ability to operate under authoritarian regimes, the ability to operate in an ineffective state, the ability to deal with poorly protected property rights, the capability to provide services to consumers*

experiencing poverty, and the ability to operate in a poorly developed infrastructure as the independent (predictor) variables. It has already been mentioned that multiple regression is suitable in situations which require the researcher to examine the relationship between one continuous variable and two, or more, independent variables (Field, 2009).

In this study, multiple regression has been used to analyse the relationships between the prevalence of the largest MNEs in developing countries and the independent variables. The nature of the enquiry requires the use of multiple regression analysis, instead of the use of simple regression. The aim of this analysis is to explore the fit of the research models. In this study, the researcher used the prevalence of the largest MNEs in developing countries as an indicator for the successful achievement of competitive advantage. This technique has already been used successfully by Cuervo-Cazurra and Genc (2008a). The data were gathered using UNCTAD and World Bank sources, and the main procedures used to conduct multiple regression analysis in this study are presented in the following section.

3.3.7 Multiple regression analysis

To test the relationships between various non-market based capabilities and the prevalence of the largest MNEs in developing markets, multiple regression analysis has been used. Multiple regression is a logical extension of simple linear regression, in which there is more than one predictor variable (dependent variables). It uses the same equation, but incorporates several predictors (Field, 2009, p210). The equations are as follows:

a) Simple linear regression equation

$$\hat{Y}_i = A + B_1X_i + \epsilon_i$$

\hat{Y}_i = the predicted value of Y (the dependent variable).

A = a constant.

B1 = regression coefficient

X_i = the independent variable.

ε_i = is the difference between the predicted and the observed value of \hat{Y} for the *i* participant.

b) Multiple regression equation

$$\hat{Y}_i = A + B_1X_{i1} + B_2X_{i2} + B_3X_{i3} + \dots + B_nX_{in} + \epsilon_i$$

\hat{Y}_i = the predicted value of Y (the dependent variable).

A = a constant.

B1 to B_n = regression coefficients.

X_{i1} to X_{in} = each of the independent variables.

ε_i = is the difference between the predicted and the observed value of \hat{Y} for the *i* participant

This section outlines the ways in which the study has used the following regression equation to reveal the effect of the independent variables upon the dependent variable. The equation can be described as:

$$\hat{Y}_i = A + B_1Auth + B_2Inefctd + B_3Pdinfrast + B_4PPPR + B_5Wealth + B_6Inflation + B_7LogEmp + B_8LogGDP + \epsilon_i$$

\hat{Y}_i = the prevalence of the largest developing or developed – country MNEs in developing markets (the dependent variable).

A = a constant.

B1 to B6 = regression coefficients.

Auth = authoritarian regimes.

Inefctd = ineffective governments.

Pdinfrast = poorly developed infrastructures.

PPPR = poorly protected property rights.

Wealth = the capability to provide services to consumers experiencing poverty

Inflation = inflation.

Log Emp= Log labour forces

Log GDP= Log GDP per capita

ϵ_i = is the difference between the predicted and the observed value of \hat{Y} for the i the participant.

Multiple regression analysis has been used in the current study as the result of certain assumptions (Field, 2009). These are the normality of residuals, homoscedasticity of residuals, linearity, independence of residuals, and multicollinearity. Scholars must ensure that their research data do not have any problems regarding these issues (Field, 2009), and the current researcher has remained aware of them throughout this study. The findings after testing the assumptions for multiple regression will be presented at the end of this chapter.

c) Summary for the Operations of the research hypotheses and data to be collected to test them

The following table summarises the operations of the research hypotheses, as well as outlining what data will be collected to test them.

Table 3.2 Operations of the research hypotheses, and data to be collected to test them

Hypothesis	Related variables	Measurements	Source of data
1) The ability to operate under authoritarian regimes.	1. Voice and accountability 2. Political stability and absence of violence	Indicator of both variables, from 1-6 (QUAN) after adding the value of (3.5) to each value from (-2.5 to +2.5)	Kaufmann et al. (2008)
2 The ability to operate in an ineffective state or government.	1. Government effectiveness 2. Regulatory quality.	Indicator of both variables, from 1-6	Kaufmann et al. (2008)
3) The ability to deal with poorly protected property rights.	1. Rule of law 2. Control of corruption	Indicator of both variables, from 1-6	Kaufmann et al. (2008)
4) The capability to provide services to consumers experiencing poverty	Wealth	Wealth will be measured using GNI per capita.	World development indicators database, World Bank, 2008
5) The ability to operate in a poorly developed infrastructure.	Infrastructure	The poor infrastructure will be measured using infrastructure data for developing countries.	World development indicators database, World Bank, 2008

3.3.8 Cut-off point

There is no doubt that the institutional environments of developing countries are not entirely similar, and that there are some differences between them. In addition, the database provided by Kaufmann et al. (2008) does not specify the value of the poorest countries in their government indicators. The database simply provides values for each country (from -2.5 to +2.5), with higher values indicating richer countries. The researcher has added a value of 3.5 to each indicator, meaning the new values for the Kaufmann et al. (2008) database will

range from 1 to 6. The other independent variables also face the issue mentioned above. Therefore, the researcher has defined certain ‘cut-off points’, so as better to determine the poorest countries within the government indicators.

In this study, the researcher has used the differences between the mean and the standard deviation for each independent variable as a cut-off point to determine the poorest countries in terms of governance indicators. Thus, any developing country with a value equal to, or less than, the cut-off point in each governance indicator will be considered as the poorest country within that indicator. The next example describes the method used to determine the cut-off point for each independent variable (see table 3.3)

Table 3.3: The method used to determine the cut-off point for each independent variable

The independent variable	Mean	Std. Deviation	The cut-off point
The most authoritarian regimes	3.0785	.80759	2.27091

From the above table, it can be seen that any country which has a value equal to or less than 2.27091 will be considered to be a country that has an authoritarian regime. The same method has been used for the rest of the independent variables.

3.4 The Data Collection Method – The Qualitative Method

In this section, the qualitative section of this study is explained. Firstly, the qualitative research background is explained (section 3.4.1), and then an outline is given of the qualitative data collection classifications (section 3.4.2). Following this, the qualitative method selection for this study is explained (section 3.4.4), followed by a discussion of

qualitative data analysis (section 3.5). This is then followed by an exploration of the sample selection use within the qualitative research (section 3.6).

3.4.1 The Qualitative Research Background

Qualitative research is a strategy which usually emphasizes words rather than quantification within the collection and analysis of data (Eisenhardt, 1989). Qualitative data are useful for understanding the rationale or theory which underlies the relationships revealed in quantitative data. It may also directly suggest a theory which can then be strengthened by quantitative support (Jick, 1979, cited in Creswell and Plano-Clark, 2007).

Hesses-Biber and Leavy (2004) note that qualitative research can provide scholars with a broad range of choices. Such a method allows a researcher to ask many questions, obtain detailed answers, and develop relevant theories. Cavana et al. (2001) state that qualitative research is recommended where the researcher is seeking to understand a complex social phenomenon (see also Seaman, 1999; Ghaouri, 2004; McGaughey, 2004; Tihanyi et al., 2005). As noted by many researchers, qualitative methods are suitable for exploratory research (Jarratt, 1996; Darlington and Scott 2002; Yin, 2003), and also for research which seeks to answer 'how' and 'why' questions (Ghaouri, 2004). It is submitted that the present research fits into these contexts.

Qualitative research places a significant emphasis on the capture of in-depth understandings of interactive processes (Wainwright, 1997; Cooper and Schindler, 2011). It can also help to make sense of aspects of social life (Miller, 1997) whilst using a small sample (Brink, 1991; Burns and Bush, 2003). This type of research can also improve the efficiency of quantitative research (McDaniel and Gates, 1998). However, there are several disadvantages to the use of qualitative research methods, and these are summarised in Table 3.4, below. Some of these disadvantages are also discussed in more detail in subsequent sections.

Table 3.4: Advantages and disadvantages of using qualitative methods

Advantages of qualitative methods	Disadvantages of qualitative methods
Economical and timely data collection	Lack of generalizability
Richness of the data	Inability to distinguish small differences
Accuracy of recording marketplace behaviours	Lack of reliability and validity
Preliminary insights into building models and scale measurements	Difficulty finding well-trained investigators, interviewers, and observers.

Source: Hair et al. (2006, p 174)

3.4.2 The Classifications of Qualitative Data Collection

There are several strategies for qualitative data collection within the social sciences. Four of the main classifications are observation, audio-visual materials, the use of documents, and interviews (Creswell, 2009). Interviews are, without doubt, the most used qualitative method in social science (Hollway and Jefferson, 2000).

The current study will rely on the use of interviews, as it is the main qualitative data source for primary collection. The study will not combine the interview with other forms of qualitative data collection, such as observation. Other methods such as audio-visual materials, and the use of documents, are restricted due to availability or accessibility in relation to MNEs in developing countries. Interviews were considered to be more appropriate to the current research when compared to observation. Observation is considered to be one of the oldest qualitative data collection methods (Sarantakos, 1998). However, it has long been recognised that when the researcher is close to those under observation, observer bias may intrude (Saunders et al., 2007). In addition, observation can be vastly more time consuming (Saunders et al., 2007) than simple interviewing. In any event, the data required for this study is not available via observation or any other qualitative data collection method.

In summary, after having considered the appropriateness of multiple qualitative data collection methods for the study, interviews were expected to generate insight, depth and rich data about the prevalence of the largest MNEs in developing countries. They are also considered to be the most appropriate collection method when considering the need for participants to feel at ease during the process. Face-to-face interviews bring a ‘human element’ to data collection which can lead to higher level of participant satisfaction and engagement.

3.4.3 Data Collection by Interview

Simply put, interviewing is a qualitative data collection tool which involves scholars asking questions and research participants answering them. It is a common method in social research, and come in many varieties (Robson, 2002). It is a popular qualitative data collection method, and it is less time-consuming when compared to the ethnography method (Hesses-Biber and Leavy, 2004). Moreover, it is a valuable data collection method for researchers who aim to gather the viewpoints of respondents (Hesses-Biber and Leavy, 2004; Silverman, 2010). Based on the nature of the research, the interviewer can choose to conduct one or multiple interviews (such as within a focus group) per interviewee (Hesses-Biber and Leavy, 2004).

Focus group interviews are a qualitative interview method in which the researcher interviews multiple participants within a group context (Hesses-Biber and Leavy, 2004; Morgan, 2004). It is widely used in academic disciplines, especially in marketing and advertising, and in the context of evaluative research (Hesses-Biber and Leavy, 2004; Morgan, 2004). Focus groups can be used in qualitative research or in combined quantitative and qualitative research. In reality, the focus group is a good way to test any questionnaire or

experiment before developing a final version, as it can highlight errors or misunderstandings (Cooper and Schindler, 2011).

The interviews may be recorded via audio and/or visual means if the interviewees agree, or written notes may be taken (Hesses-Biber and Leavy, 2004). However, none of these methods should affect the eye contact that the researcher needs to maintain with the interviewee, as this is an important part of any successful qualitative interview. A good interview requires a researcher to be a good listener, in order to gather the information which is sought (Marshall and Rossman, 1995; Miller and Crabtree, 2004).

A good interview should be conducted at a steady and slow pace, with a progressive flow. Factors which facilitate this flow should be maximised, and inhibiting factors should be minimised (Miller and Crabtree, 2004). Miller et al. (1999, cited in Hesses-Biber and Leavy, 2004) detail five key guidelines for conducting interviews. These are mapping, designing, preparing, interviewing, and transcribing. In addition, researchers should evaluate the quality of an interview before they start transcribing it (Miller and Crabtree, 2004). According to Marshall and Rossman (1995), interviews have particular strengths and weaknesses, which are listed in Table 3.5, below.

Table 3.5: Strengths and weaknesses of interviews.

<u>Interview Strengths</u>	<u>Interview Weaknesses</u>
(1) They enable the collection of large amounts of data, quickly	(1) It might be uncomfortable for a participant to share all of the information which the interviewer hopes to explore
(2) They enable the gathering of a wide range of information across many subjects	(2) The quality of data might be affected by the inability of the researcher to ask clear and direct questions, due to lack of research skills
(3) They provide the facility for immediate follow-up and clarification	(3) Interviews can be time consuming
(4) They can be combined with observation	(4) Not all participants are necessarily equal in their articulation of views and concepts
(5) They can lead to additional interviews and access to other data	(5) The interview process can be affected by the biases of the interviewer.

Source: adapted from Marshall and Rossman (1995)

As can be seen from table 3.5, an interview can help a researcher to collect large amounts of data, covering a wide range of subjects in a short time. However, this method has some weaknesses, such as the interviewee being uncomfortable with the sharing of knowledge and the variable quality of the data received.

The researcher's responses during the interview will follow one of five patterns, depending on the participant's own responses (Jankowicz, 2005):

1. Recording the responses of the respondent and proceeding to the next question. Or;
2. Clarifying the meaning of an item if the respondent misunderstands it. Or;
3. Maintaining the flow of the interview in the direction which the researcher desires. Or;
4. Noting and remembering comments made by the respondent if they have a bearing on a subsequent item. Or;
5. Responding to any comment which is unexpected.

3.4.3.1 Types of Interviews

There are three types of interview, the structured; semi-structured; and unstructured interview (Saunders et al., 2007). The structured interview is somewhat like a questionnaire, as it follows a written interview guide (Jankowicz, 2005). In a structured interview, the researcher simply reads out the interview questions and records the interviewee's responses (Crouch and Housden, 2003).

The main advantage of this type of interview is that it helps the researcher to analyse such data in a straightforward way. However, it has the disadvantage that the researcher can only collect data from the questions which have been prepared in advance. The researcher will not normally have the freedom to explore more deeply, because follow-up questions were not anticipated or prepared (Crouch and Housden, 2003).

The semi-structured interview is an interpretative method (Wagner and Okeke, 2009), which relies on a list of themes and questions to be covered in the interview. The researcher

may delete or add some questions, or change the order of questions depending on the flow of the conversation (Saunders et al., 2007). The main disadvantage of this type of interview tends to be that researchers may face some difficulties in interpreting and analysing the data which they gather (Crouch and Housden, 2003).

Unstructured interviews are informal, and tend to be used when a general phenomenon needs to be explored in-depth. Although there are no specific lists of questions for use in this type of interview, researchers should have a clear idea about the phenomenon which they wish to explore (Saunders et al., 2007), and general topics which they wish to cover (Crouch and Housden, 2003). The participants in this type of interview have the opportunity to speak freely on the topic area, and it is therefore sometimes called a non-directive interview (Saunders et al., 2007).

3.4.4 The Selection of a Qualitative Data Collection Method

Following the selection of a particular research design, the next step is the choice of an appropriate form of qualitative data collection. In this study, semi-structured interviews have been used to collect the qualitative data. As explained previously, the qualitative data will be used to aid triangulation of the quantitative findings. Semi-structured interviews were conducted with managers and CEOs from MNEs from both developed and developing countries, throughout the academic years of 2010 and 2011. The interview questions were mapped, designed, and prepared in order to ensure clear and holistic findings. More details about the design of the semi-structured interview process, and the procedures related to it, are given in sections 3.7 and 3.8 of this chapter.

3.5 The Qualitative Data Analysis

The process of qualitative data analysis is intended to make sense out of images or textual data (Creswell, 2009). There is no accepted single approach to the analysis of qualitative data (Robson, 2002). However, the approach which the researcher chooses will depend upon a multitude of factors. These include the research aims of the analysis, the time available, and the funds available. In addition, the purpose of analysing the data should be determined. This can be either to seek the answer to specific questions, or to produce a new theoretical understanding in a specific area (Ali, 2010).

According to Ali (2010), there are many different types of qualitative data analysis which can be considered by researchers when analysing their data. These include content analysis, descriptive analysis, narrative analysis, interpretive analysis, thematic analysis, and others. Taking into account the time available to the researcher, the feasibility of different methods, and the aim of the research, it was concluded that the study should use thematic analysis.

3.5.1 Thematic Analysis

Braun and Clark (2006) have argued that the thematic type of qualitative data analysis offers an accessible and theoretically-flexible technique for the analysis of qualitative data. According to Braun and Clark (2006, p.79), “thematic analysis” can be described as “a method for identifying, analysing and reporting patterns (themes) within data. It minimally organises and describes your data set in (rich) detail.”

Although this type of qualitative data analysis is popular and widely used, there is still no specific agreement amongst academics on the correct way to use it (Braun and Clark, 2006). One of the advantages of thematic analysis is its relative non complexity when compared to its power and flexibility. Whilst it is ‘intuitive’ in its execution, it effectively

highlights the differences and similarities between data sets. As with all methods, however, thematic analysis has some disadvantages. These include an increased dependence upon the quality of analysis, and potentially unsuitable research questions for the method itself (Braun and Clark, 2006).

3.5.2 Steps of Thematic Analysis

There are six main steps in thematic analysis research. These are familiarisation with the data; generating initial codes; searching for themes; reviewing themes; defining and naming themes; and producing the report (Braun and Clark, 2006). Table 3.6 summarises these.

Table 3.6: Phases in Thematic Analysis

Phase	Description of the process
Familiarising yourself with your data	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
Generating initial codes	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme.
Reviewing themes	Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic ‘map’ of the analysis.
Defining and naming themes	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme.
Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis.

Source: Braun and Clark (2006, p 87)

As can be seen from the above table, there are six main steps a researcher should follow when analysing qualitative data. In detail, these steps are:

Phase 1: Familiarising yourself with your data

In this phase, researchers should immerse themselves in the data, so as to be familiar with all aspects of it. This can involve reading and re-reading the data, and searching for meaning and patterns. The researcher should also begin to conceive ideas for coding.

Phase 2: Generating initial codes

This phase begins directly after researchers have familiarised themselves with the data. It involves producing initial codes from the data. Codes reflect the basic segment or element of the raw data, and identify a semantic content which appears to be amenable to analysis. See Table 3.7 for an example of codes applied to a part of the research data.

Phase 3: Searching for themes

This phase formally begins after initial coding. It mainly concentrates on analysis at the broader level of themes, and the collection of all data which may be related to each possible theme. To help sort the different codes into themes, researchers may need to use tables, or mind maps. See Table 3.7 for an example of themes applied to a part of the research data.

Phase 4: Reviewing themes

After the researcher has devised a set of themes, they must be reviewed. This is because some evidence may be found that some themes are not ‘really’ themes (for example, there may be a lack of data to support them). In addition, some themes may collapse into each other, whilst some might require further division.

Phase 5: Defining and naming themes

The main purpose of this phase is to refine the specifics of each theme within the analysis. Defining and refining the study themes will help to determine what aspect of data each theme captures. At this stage, the researcher should write a detailed analysis, and identify the story told by each theme. In this phase, researchers should identify whether each

main theme contains any sub-themes. Sub-themes are useful in providing structure to complex themes. See Table 3.7 for an example of sub-themes applied to a part of the research data.

Phase 6: Producing the report

This phase concentrates on writing-up the report for the final analysis. This report should tell the story of the data in an interesting, coherent, logical, and non-repetitive manner. In addition, the report should contain vivid examples of the themes which have been found.

Table 3.7: Example of qualitative data analysis

Main Themes	Sub-themes	Codes	Example Quotes
Authoritarian Regimes	Voice and accountability	Dictatorial countries and The third-world is not democratic	<i>“Developing countries can be classified as dictatorial countries in several aspects of people's lives. If we take the political systems as an example, we will find that most third-world regimes are practicing dictatorship and repression. For instance, the responses of the governments in some Arab countries, such as Libya and Tunisia, to the recent public revolutions show to what extent those regimes are dictatorial. They are trying to suppress people's demands rather than listening and responding to them. Most governments in the third world are not democratic, and in spite of some of them creating slogans to say that they are, in practice they are far away from democracy.”</i>

In this study, the researcher first recorded and transcribed all interviews using word processing software. The data was then carefully examined more than once, so as to ensure familiarity with the data and to recognise the main ideas contained within the data.

As a result of using semi-structured interviews for the purpose of triangulation, the main themes and sub themes were determined before the results, in order for comparisons to be drawn. To aid this process, the researcher used the same variables in both methods. This enabled a direct comparison to be made between the quantitative and qualitative results, which helped to identify codes and how they were relevant to the main themes and sub-themes within the analysis. It also helped to exclude any irrelevant data from the study. For each theme and code, there were many examples of quotes which were found to support the research theory (see Table 3.7). A report was created, and it included several themes which describe the prevalence of the largest MNEs in developing countries.

3.6 Sample selection for the qualitative section

When making a decision about a research sample, a researcher must first know the answer to three main questions (Daymon and Holloway, 2010). Firstly, a decision must be made as to where to sample, which refers to the macro-level of the study. Secondly, a decision must be made about what to sample, including time, events, issues and so on. Thirdly, a decision must be made about whom to sample, which refers to the micro-level of the study.

As has been mentioned in a previous section, any sample is selected on a probability basis (probability sampling or non-probability sampling). In probability sampling, each member of the sample has the same chance to be chosen for the research sample. In essence, this method is based on random selection. In contrast, non-probability sampling is non-random. Each member of the population does not have the same chance to participate in the research sample.

This study will use a non-probability sampling technique (Cooper and Schindler, 2011). Within this choice, there are three types of non-probability sampling which could be

chosen. The first of these is convenience sampling, which is often considered to be the easiest variant to conduct, and tends to incur less cost (Bryman and Bell, 2007; Ellison et al., 2009; Anderson et al., 2009). Using this method, the researcher is free to choose anybody for his sample (Cooper and Schindler, 2006). In other words, the researcher simply uses those participants who are easy to reach (Gravetter and Forzano, 2012).

The second type of non-probability sampling is known as purposive sampling, which in turn comes in two different forms, judgement and quota sampling. Judgement sampling is usually considered to be most appropriate if used in the early stages of an exploratory study. It occurs when sample members are selected in order to conform to some specific criterion (Cooper and Schindler, 2011). In contrast, quota sampling is intended to improve representative nature of a sample (Babin, 2010; Babbie, 2013). It helps to eliminate distortion within research variables. In fact, this type of sampling is very commonly used within market research and political opinion polling (Cooper and Schindler, 2011).

The third main type of non-probability sampling is the snowball sampling technique. For the qualitative part of this study, the researcher has chosen to use the snowball sampling technique, in order to collect data via semi-structured interviews. This technique is used to study people or groups who may wish to hide their identities for some reason. It begins by identifying one member of the research population, and then asks him or her to identify another participant of the population, and so on. This continues until the researcher has collected enough data (Sarantakos, 1998; McIntyre, 2005; Saunders et al., 2007; Poulis et al., 2013).

This sampling technique can be used when the researcher encounters difficulties in identifying members of the research population (Saunders et al., 2007). Also, it helps the researcher to eliminate of inappropriate firms from the research sample (Poulis et al., 2013).

The qualitative method sample in the present study included interviews with fourteen global marketing and international operations managers of MNEs, as well as a CEO (see table 3.8 and/or Appendix 4). The researcher followed pre-determined criteria when MNE managers were selected for participation in a semi-structured interview. These were:

- (i) All interviewees should have some experience within international operations, specifically with MNEs.
- (ii) All interviewees should be employed in a managerial position at the time of interview.
- (iii) All interviewees should work at an MNE rather than at a local firm.

Table 3.8: The qualitative research sample.

Entire sample	Developing country managers	Developed country managers	CEO	Global marketing Managers	International operations managers
15	10	5	1	11	3

According to Saunders et al. (2007), there are four steps that should be followed when conducting snowball sampling. These are listed below, with a description of how they were applied in the context of this study:

1. *The researcher should make contact with one or two cases within the population.*

In this instance, the researcher contacted five cases; a CEO, and global marketing and international operations managers from three different countries (Oman, Saudi Arabia, and Germany). All agreed to participate in the study.

2. *The researcher asks these cases to identify further cases.*

80% of the five cases contacted in the first stage were able to identify further potential cases, either from their home countries or from outside their home countries (for example, Japan).

3. *The researcher should ask these cases to identify additional new cases, and so on.*

A number of additional cases were identified in this stage of qualitative data collection. Therefore, the researcher contacted further cases as the interviews continued.

4. *The researcher should stop when either new cases are not given, or the sample is as large as is manageable.*

After conducting fifteen interviews with the CEO and managers, the researcher stopped because the new cases were not able to provide any other cases to contact. Interviews were also ceased because fifteen cases were deemed to be enough to fulfil the aims of the study, and further work was not practical within the time constraints of the present research. Ten MNEs involved in the qualitative research were based in developing countries, and five MNEs were based in developed countries. Only one representative per MNE was interviewed.

3.7 Designing the Semi – Structured Interview

The researcher designed the semi-structured interview for the purpose of interviewing managers and CEOs involved in international operations within developing countries. The questions used in the semi-structured interview (see appendix 2) were designed with the purpose of examining how non-market capabilities (predictor variables) affect the prevalence of the largest developing country MNEs in developing countries (dependent variables). It was designed to identify similarities or differences between the qualitative and quantitative findings.

The researcher consulted two academics and three managers to check that the interview questions were suitable for the purposes of the current study. Based on their comments, the questions were revised, amended, and then tested with five managers. The experience of this pilot-testing showed that the questions were suitable for this study.

This was the researcher's first experience with academic interviewing, and this pilot stage and mentoring process helped to familiarise him with the questions to be asked. It also provided an opportunity to test his interviewing skills and to find out to what extent these would allow him to gain the specific information in which he was interested.

The formal semi-structured interview which was eventually designed consists of two parts. The first part comprises two sections, and the second part has five sections. The first section in the first part starts with a set of general questions about the background of the MNE, designed largely to 'break the ice' with interviewees.

The second section within the first part contains questions about international operations. These questions were asked in order to gain some information about the MNE and its managers. Specifically, the researcher asked about:

- How long the MNE had been operating globally.
- The motivations for the move towards global operations.
- The number of global markets in which the MNE operates.
- The first and the most strategic markets for the company.
- The challenges encountered when operating globally.
- The effects of geographical distance and cultural difference between markets.

The first section of the second part corresponded to the first hypothesis in the study, and contained questions about authoritarian regimes. The author asked participants for their opinion about:

- The political environment within developing countries.

- The impact of the political landscape upon the MNE's business.
- Their personal experience of government interventions.
- Their experience of operating in overseas markets with the same characteristics as their home market.

Depending on the answers given to these questions, the author often asked follow-up questions in order to obtain more details and understand the answers given more fully.

The second section of part two asked questions about operating within ineffective states. These questions focused mainly on:

- Dealing with an overbearing, bureaucratic foreign government.
- How trade organizations in developing countries were helpful.
- Uncertainty, or unstable business environments, in developing countries.
- How the regulations of developing countries may have limited the company's freedom of operation.
- Their experience of operating in different markets that have the same characteristics as their home market (in relation to ineffective states).

The third section contained questions about working despite poorly protected property rights and pervasive corruption. These questions covered:

- Corruption in developing countries.
- The ways in which MNEs overcome such issues.
- The lack of laws, especially regarding protected property rights, in developing countries.

- Their experience of operating in different markets that have the same characteristics as the home market (relating to methods of working despite poorly protected property rights and pervasive corruption).

The fourth section consisted of questions about the ability of the MNE to provide services to consumers experiencing poverty. These questions dealt with:

- Methods used to understand consumers in developing countries.
- The capability of developing-country MNEs to serve customers in developing countries, and how they may understand their customers' needs better than others from developed countries.
- Their experience of operating in different markets that have the same characteristics as the home market (relating to the capability to provide services to consumers experiencing poverty).

Section five of the second part contained questions about the ability to operate despite poorly developed infrastructures. These questions were about:

- The infrastructure in developing countries.
- The incentive to operate in poorly developed infrastructures in developing countries.
- Their experience of operating in different markets that have the same characteristics as the home market (relating to operations in the context of poorly developed infrastructures).

The last part of the interview contained only one question, which asked more generally about any other institutional or environmental difficulties which MNEs may face

during their operations in developing countries. The author then concluded the interview with a summary of what had happened in the interview.

3.8 Semi-structured Interview Procedures

Two types of qualitative approach are identified by Malhotra and Briks (2003). These are the direct and indirect approaches. The direct approach was followed in the present study, in order to collect primary data about the effect of governance indicators on the prevalence of the largest developing-country MNEs in developing countries.

The application of the semi-structured interview in this study followed the methodological procedures set out by Malhotra and Briks (2003), namely:

1. Listing the key research questions.

The semi-structured questions were drawn from the international business literature. The concepts embodied in the interview questions were based on other concepts that were used in the research framework.

2. Selecting interviewees.

The researcher used the snowball sampling technique, as described above, and the interviewees were contacted to determine a suitable time and place for the interview. Most of them preferred that the interview should be held during their office working hours. Some interviews were conducted via Skype and telephone, especially those in which the interviewee lived a considerable distance away from the interviewer.

3. Conducting pilot interviews or pre-testing the interview

Because of the difference in languages between some of the interviewees, the researcher wrote two different types of interview questions. One set used the Arabic language, whilst the other was written in English. The instructions were also produced in both

languages. The translated version of the interview questions should be ‘back-translated’ into the source language versions, in order to enable comparison between the two versions. This will help others to check or verify the research instrument, and to ascertain if there were any differences in meaning between the two versions (Su and Parham, 2002; Gibson, et al., 2003; Manee and Dixon, 2004).

This study used only forward translation and back translation for interview questions. However, a pre-test was conducted before undertaking the formal interviews, in order to ensure the clarity of the questions, and to minimize any potential cultural biases (Su and Parham, 2002).

A pre-testing interview step was very useful for the researcher, because it allowed him to practise the techniques of interviewing and to develop interview questions. It also enabled him to find out if there were any unclear questions or instructions, to proofread the questions, and to measure the time required to conduct the interview.

In this study, the researcher pre-tested the questions with three Arabic global managers, and with two non-Arabic global managers who speak English. The purpose of this step was to find out how the questions fit with the research theory and assumptions. Moreover, it was used to measure the time taken for each version of the interview, and to clarify the questions. The researcher found that the Arabic version took fifty minutes to complete, whilst the English version took forty-five minutes.

4. Opening the interview and recording the information.

The interviews were conducted with global marketing managers, operations managers, and a CEO. This was because they are knowledgeable in the context of this study. The interviews took place during the 2010/ 2011 academic year, and most interviews were digitally recorded in order to ensure accurate and comprehensive data. The researcher made a

request to record the interview when he contacted the research participants. Most agreed, although some preferred that written notes should be taken.

5. Confidentiality and recording the interview

The researcher began each interview by providing the interviewees with some information about himself and his research. At this point, the issues of confidentiality and the need for explicit permission to record the interviews were addressed.

6. Analysing qualitative data.

Firstly, the researcher collected the raw data and transcribed it using Microsoft Word. It was classified according to the main headings in the interview guide. Then, the researcher began the data analysis using qualitative methods known as ‘thematic analyses’. These should contain four main components; the main theme; sub-themes for the main themes; codes reflecting the sub themes, and example quotes (Aronson, 1994; Braun and Clarke, 2006; Beninger, 2010). Then, the researcher began to compare his findings with the results obtained from the quantitative methods already explained.

The next section will discuss the ethical considerations which arose during the conduct of this research, and will then explain the research procedures followed in this study.

3.9 Ethical Considerations

Research ethics are vital when seeking to conduct a study in a morally appropriate way. A researcher must always seek to protect the participants’ rights (Cooper and Schindler, 2011). This is an issue which emerges whenever access to organizations and individuals is sought in order to collect research data (Saunders et al., 2007).

There are several ethical issues which a researcher involved in such work must consider. These include the privacy of participants, their right to withdraw at any time, the

maintenance of data confidentiality, and the need to avoid harm, pain, and embarrassment to the research participants (Saunders et al., 2007).

In this study, all of these issues were addressed clearly. Firstly, the author applied for ethical approval from the research ethics committee at the School of Business at the University of East Anglia (UEA). Secondly, the author informed all of the interviewees about the purpose of the study and how the resulting data would be collected, analysed, and kept secure. Thirdly, the researcher ensured confidentiality, privacy and anonymity for all of the participants. These points were explicitly addressed in the cover letter of the interview questionnaire, and again at the beginning of each interview. Finally, the researcher informed all participants about their free choice to withdraw from the study at any time.

3.10 Research procedures

This section seeks to explain the research procedures which were followed during the examination of the research hypotheses. Figure 3.7 presents the research procedures followed, by summarising each procedure as it applied to the present study.

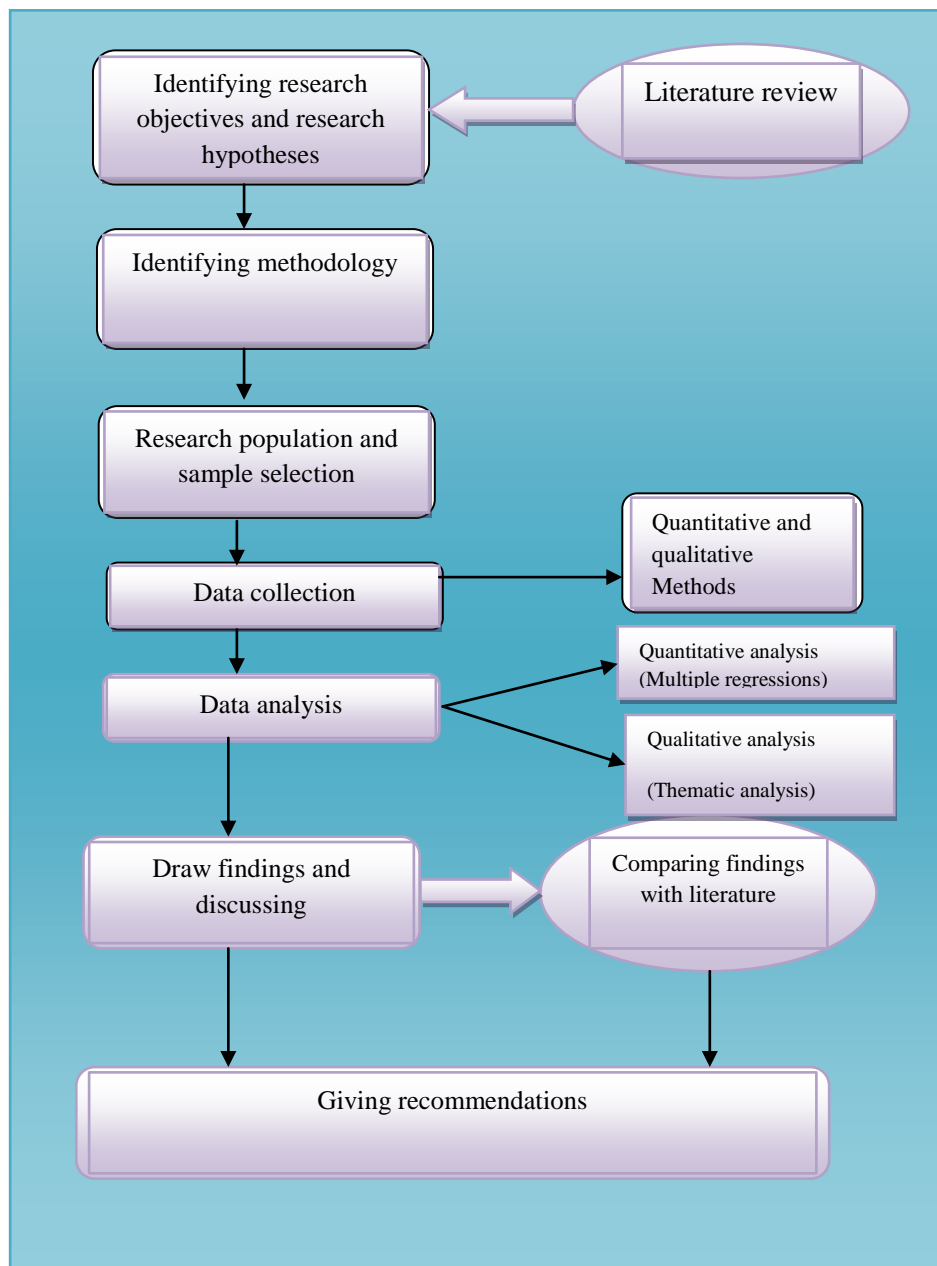


Figure 3.7: Research procedures

1. After reviewing the international business literature review on MNEs in developing countries, the author identified his research objectives and hypotheses, and selected the appropriate research methodology.
2. Defining the research method.
3. Defining the research population and sample selection.
4. Determining the sources of research data and data collection.
5. Identifying the dependent, independent, and control variables.
6. The Statistical Package for Social Science (SPSS) was used for data analysis. Multiple regression was used to test the relationship between the dependent variable and independent variables (see section 3.3.6).
7. Analysing the data collected from interviews using thematic analysis.
8. Describing the research findings after performing the statistical analysis, and analysing the qualitative data.
9. Discussing the research findings.
10. Suggesting those recommendations which arise from the study.
11. Identifying the limitations of the research, and suggesting potential future research

The next section will discuss the initial data analysis of the quantitative results, including data screening, the characteristics of the sample, and Pearson correlations analysis.

3.11. Initial data analysis for the quantitative results

This section is organised as follows. Firstly, section 3.11.1 discusses data screening. The characteristics of the sample are then presented in section 3.11.2, whilst section 3.11.3 details the number and the percentages of developing-country and developed-country MNEs within developing markets. Then, in section 3.11.4, Pearson correlation has been used to determine possible statistical associations between different variables, including the dependent and independent variables. In section 3.11.5, the assumptions associated with multiple regression analysis were tested. These assumptions are normality of residuals, homoscedasticity of residuals, linearity, independence of residuals, and multicollinearity.

3.11.1 Data screening

The research data set was thoroughly checked through use of a statistical package known as SPSS. This included checking the mean, standard deviation, maximum value, minimum value, Skewness, Kurtosis and the number of cases (See Table 3.12).

3.11.2 The characteristics of the sample

The sample of the study included all of the largest MNEs in 88 developing countries, which represent approximately 58% of the total research population. The reason for this percentage was that data were unavailable for other such countries. Out of the eighty-eight developing countries, 52 (59.1%) were from Africa, 23 (26.2%) countries were from Latin America and the Caribbean, and 13 countries (14.7%) were from Asia and the Pacific (see Table 3.9).

Table 3.9: Characteristics of the sample

	Place	Number countries	Percentage
1	Africa	52	59.1%
2	Latin America and Caribbean	23	26.2%
3	Asia and the Pacific	13	14.7%
	Total	88	100%

3.11.3 Number and percentages of developing-country MNEs and developed-country MNEs within developing markets

As illustrated in Table 3.10, Model 1 (which includes all MNEs in developing country markets) shows that 13.2% of the total number of MNEs in developing markets were from developing countries. In contrast, 86.8% of the total number of MNEs were from developed countries. In addition, the percentage of developing-country MNEs in Africa constituted the lowest proportion (12%) when compared to developed-country MNEs in Africa (88%). About a quarter of MNEs in Asia and the Pacific were from developing countries, whereas those from Latin America and the Caribbean constituted 14.1%.

In Model 2 (which excludes MNEs working in the natural resources sector) it could be seen that 14.5% of the total number of MNEs in developing markets were from developing countries. In contrast, 85.5% of the total number of MNEs were from developed countries. In addition, the percentage of developing-country MNEs in Africa again constituted the lowest proportion (13.5%) when compared to developed-country MNEs in Africa (86.5%). About (26%) of MNEs in Asia and the Pacific were from developing countries, whereas those from Latin America and the Caribbean constituted 15%. This clearly indicates that most of the MNEs within developing markets were from developed countries in both models.

Table 3.10: Number and percentages of developing-country MNEs and developed-country MNEs within developing markets for both Models

Place	Model one (All MNEs)					Model two (excluding some MNEs)				
	Developing country MNEs		–	Developed country MNEs		Developing country MNEs		–	Developed country MNEs	
	Total	N	%	N	%	Total	N	%	N	%
Africa	1169	138	12	1031	88	977	132	13.5	845	86.5
Latin America and Caribbean	721	102	14.1	619	85.9	669	98	15	571	85
Asia and the Pacific	80	20	25	60	75	72	19	26.4	53	73.6
Total	1970	260	13.2	1710	86.8	1718	249	14.5	1469	85.5

3.11.4. Pearson correlation analysis

Based on the results from the statistical analysis conducted for this study, the forthcoming section presents the data in relation to the proposed research hypotheses. However, before conducting multiple regressions so as to test the study’s hypotheses in more detail, it is useful to examine the correlations amongst the study’s variables. This enables the researcher to understand the strength of the relationships between the study’s variables. Appendix 5 shows the control, dependent and independent variables. This portion of the study utilised SPSS v.17 in order to calculate and analyse means, standard deviations, and Pearson correlation.

3.11.4.1 Pearson Correlation Coefficient for Model one

a) Pearson Correlation Coefficient for Developing-country MNEs: Model 1

Unexpectedly, the results for Model 1 showed that there were negative relationships between the prevalence of the largest developing-country MNEs in developing economies (dependent variable) and both authoritarian regimes and ineffective governments (independent variables). This was also the case between the dependent variable and inflation; log GDP per capita, and log employment (control variables). Specifically, the results were:

$r = (-.096)$ and $P = (.244)$ for authoritarian regimes; $r = (-.149)$; $P = (.139)$ for ineffective governments; $r = (-.024)$ and $P = (.432)$ for the inflation variable; $r = (-.260)$ and $P = (.028)$ for log GDP per capita; and $r = (-.189)$ and $P = (.084)$ for log employment variable. In simple terms, the negative relationships reflect the fact that when there was an increase in one variable, either dependent or independent, the other decreased.

Moreover, the dependent variable (the prevalence of the largest developing-country MNEs in developing countries) was found to be in a significant relationship with two independent variables. First, the dependent variable is significantly and positively associated with the capability to provide services to consumers experiencing poverty. The results here amounted to: $r = (0.273)$, $P = (0.022)$. This may imply that when the capability to provide services to consumers experiencing poverty is high, the prevalence of the largest developing-country MNEs in developing countries will also be high.

Secondly, the dependent variable is significantly and positively associated with the capability to work within poorly developed infrastructure. The results here were: $r = (0.416)$, $P = (0.001)$. This may indicate that when the capability to work under poorly developed infrastructure is high, the prevalence of the largest developing-country MNEs in developing countries will also be high.

In addition, there were weak positive relationships between the dependent variable (the prevalence of the largest developing-country MNEs in developing countries) and poorly protected property rights, but these were not significant. The results here were: $r = (.0162)$ and $P = (.119)$. Appendix 5 presents a further summary of these statistics.

b) Pearson Correlation Coefficient for Developed-country MNEs: Model 1

In relation to developed-country MNEs, the dependent variable was found to have significant negative relationships with two of the independent variables. Firstly, the

dependent variable was significantly and negatively associated with the capability to provide services to consumers experiencing poverty. The results here were: $r = (-.269)$, and $P = (.024)$. This may imply that when the capability to provide services to consumers experiencing poverty is high, the prevalence of the largest developed-country MNEs in developing countries will be low.

Secondly, the dependent variable is significantly and negatively associated with the capability to work within poorly developed infrastructures. The results here were: $r = (-.408)$ and $P = (.001)$. This means that when the capability to work within poorly developed infrastructures in developing countries is high, the prevalence of the largest developed-country MNEs in developing countries will be low.

The dependent variable was also negatively associated with poorly protected property rights, but this result was not significant. The specific result was: $r = (-.102)$, $P = (.229)$.

In addition, the results show that the dependent variable has some positive but not significant relationships with the rest of the study's variables. The prevalence of the largest developed-country MNEs in developing countries is positively associated with authoritarian regimes: $r = (.131)$, $P = (.170)$; ineffective governments: $r = (.138)$, $P = (.157)$; Log GDP per capita: $r = (.211)$, $P = (.061)$; log employment: $r = (.252)$, $P = (.032)$; and inflation: $r = (.080)$, $P = (.280)$. These results indicate that the relationships between the dependent variable (the prevalence of the largest developed-country MNEs in developing countries) and two independent variables (authoritarian regimes, ineffective governments) seems to be positive but not significant.

3.11.4.2 Pearson Correlation Coefficient: Model Two

a) Pearson Correlation Coefficient for Developing-country MNEs: Model Two

Within Model 2 (which took place after the exclusion of some MNEs operating within the natural resources sector), the Pearson correlation test shows similar results to those in Model 1. Negative relationships were found to exist between the prevalence of the largest developing-country MNEs in developing markets (the dependent variable), and the independent variables of authoritarian regimes and ineffective governments. This was also the case when examining the dependent variable and inflation, Log GDP per capita, and Log employment (the control variables).

Specifically, the coefficients were: $r = (-.079)$ and $P = (.283)$ for authoritarian regimes; $r = (-.128)$ and $P = (.175)$ for ineffective governments; $r = (-.2148)$ and $P = (.058)$ for Log GDP per capita; $r = (-.178)$ and $P = (.097)$ for Log employment; and $r = (-.046)$ and $P = (.369)$ for the inflation variable.

In addition, positive relationships were found to exist between the dependent variable and the rest of the variables within the study. The dependent variable within Model two is positive and significantly associated with two independent variables. The coefficients relating to poorly developed infrastructures were; $r = (0.347)$ and $P = (0.005)$, and the coefficients relating to the capability to provide services to consumers experiencing poverty were; $r = (0.225)$ and $P = (0.049)$. Appendix 6 further summarises these statistics.

b) Pearson Correlation Coefficient for Developed-country MNEs: Model 2

The results in appendix 6 reveal a number of interesting findings, with the dependent variable (the prevalence of the largest developed-country MNEs in developing countries) experiencing significant negative relationships with two independent variables. Firstly, the

dependent variable is significantly and negatively associated with the capability to provide services to consumers experiencing poverty. The relevant coefficients were $r = (-.244)$, and $P = (.038)$. This may imply that when the capability to provide services to consumers experiencing poverty in developing countries is high, the prevalence of the largest developed-country MNEs in developing countries will be low.

Secondly, the dependent variable is significantly and negatively associated with the capability to work within poorly developed infrastructures. The relevant coefficients were $r = (-.370)$ and $P = (.003)$. This may mean that when the capability to work within poorly developed infrastructures in developing countries is high, the prevalence of the largest developed-country MNEs in developing countries will be low. Moreover, the dependent variable is also negatively associated with poorly protected property rights, although the relationship here was not significant. The relevant coefficients were $r = (-.127)$, $P = (.177)$.

Appendix 6 also shows that the dependent variable has some positive but not significant relationships with the other variables within the study. The prevalence of the largest developed-country MNEs in developing countries is positively associated with: authoritarian regimes, $r = (.036)$, $P = (.398)$; ineffective governments, $r = (.156)$, $P = (.128)$; $r = (.154)$, $P = (.131)$ log employment; $r = (.208)$, $P = (.064)$ log GDP per capita; and inflation, $r = (.063)$, $P = (.324)$.

3.11.5 Testing the assumptions behind multiple regression

This study used the regression equation contained within section 3.3.6 in order to discover the effect of independent variables (authoritarian regimes, ineffective governments, poorly developed infrastructures, poorly protected property rights, and the capability to provide services to consumers experiencing poverty) upon both dependent variable 1 (the prevalence of the largest developing-country MNEs within developing markets), and

dependent variable 2 (the prevalence of the largest developed-country MNEs within developing markets). Multiple regression analysis is based upon certain assumptions (Field, 2009), which are important for any researcher to understand and take account of. These are the normality of residuals, homoscedasticity of residuals, linearity, independence of residuals, and multicollinearity.

3.11.5.1 The prevalence of the largest developing-country MNEs within developing markets

This section conducts an examination of the data gained through the study in the light of these assumptions. Firstly, in order to test the normality of the present data, two graphical methods were used to assess both Model 1 and Model 2. These were a normal probability plot of the data and a histogram (Field, 2009). See Figures 4.3, 4.4, 4.5, and 4.6 within appendix 7 for more details. Both models showed roughly normal distribution and, based on this test, it is reasonable to assume the normality of the data within both models.

Secondly, the assumptions relating to both homoscedasticity of residuals and linearity were tested by checking the plot of standardized residuals against standardized predicted values. The scatterplot of Y against X was also investigated. The results of this work are presented within Figures 4.7 and 4.8, in appendix 7.

An investigation of scatterplots between the dependent variable and all of the independent variables assured the researcher that the assumption of linear relationships between Y and each of the X variables was valid. In addition, in order to test a constant variance, Figures 4.7 and 4.8 were used. It was found that the residuals (all points) were randomly spread.

Thirdly, the Durbin-Watson test was used in order to test the independence of residuals (Field, 2009). The values of the Durbin-Watson test were 2.105 for the first Model

and 2.144 for the second Model. These values were within the prescribed limit, which is understood to be more than value 1 and less than value 3, and tending to be close to value 2 (Field, 2009). Thus, the assumption of independent error is also met.

Fourthly, multicollinearity, which refers to strong correlations between two or more independent variables (Field, 2009), is best checked by scanning a correlation matrix for all independent variables, and then verifying if there are any very high correlations (Field, 2009). According to Myers (1990, cited in Field, 2009, p.224), a variance inflation factor (VIF) of less than 10 is a good value which presents no cause for concern. However, if the values of tolerance are below 0.2, this indicates a serious problem (Menard, 1995 cited in Field, 2009, p.224). The results of the multicollinearity checking process are presented in Table 3.11, below.

Table 3.11: Collinearity Statistics

Variables	Collinearity Statistics	
	Tolerance	VIF
Authoritarian regimes	0.573	1.745
Ineffective governments	0.540	1.853
Poorly developed infrastructures	0.536	1.866
Poorly protected property rights	0.395	2.531
The capability to provide services to consumers experiencing poverty	0.263	3.797
Log GDP per capita	0.295	3.394
Log Employment	0.902	1.109
Inflation	0.732	1.366

As can be seen from the results shown above, the variable relating to capability to provide services to consumers experiencing poverty had the highest VIF. This VIF was

(3.797), whilst the VIF relating to poorly protected property rights was (2.531). The VIF relating to poorly developed infrastructures was (1.866), the VIF relating to authoritarian regimes was (1.745), the VIF relating to ineffective governments was (1.853), the VIF relating to inflation was (1.366), the VIF relating to Log Employment was (1.109), and the VIF relating to Log Market size was (3.394).

Of the eight variables outlined in the above table, the capability to provide services to consumers experiencing poverty also had the lowest tolerance, at (0.263). Poorly protected property rights was measured at (0.395), the tolerance for poorly developed infrastructures was (0.536), the value of tolerance for authoritarian regimes was (0.573), the value of tolerance for ineffective governments was (0.540), inflation was (0.732), the value of tolerance for Log Employment was (0.902), and the value of tolerance for Log Market size was (0.295). In summary, all VIF values for the current models were well below a value of (10). Moreover, tolerance values were significantly higher than (0.2). Given the VIF and tolerance levels found in the analysis, multicollinearity does not appear to be a problem between the variables in either of the study models.

In conclusion, the models that were used in the study appear to be statistically accurate, and generalisable to the research sample.

3.11.5.2 Prevalence of the largest developed-country MNEs within developing markets

In a similar fashion to the tests above, in order to test the normality of the present data, two graphical methods were used. These were a normal probability plot of the data and a histogram (Field, 2009), which were both applied to the two research models. Figures 4.9, 4.10, 4.11 and 4.12 give more details of this, and can be found within appendix 7. Both

methods showed roughly normal distribution and, based on this test, it is reasonable to assume normality of the data for both models.

Secondly, both the assumption of homoscedasticity of residuals and linearity were tested by checking the plot of standardized residuals against standardized predicted values, and by investigating the scatterplot of Y against X. This is shown in Figures 4.13 and 4.14 in appendix 7. The investigation of scatterplots between the dependent variable and all the independent variables revealed that the assumption of linear relationships between Y and each of the X variables was valid. In addition, in order to test a constant variance, the figures mentioned above (4.13 and 4.14) were used, and the residuals (all points) were found to be randomly spread.

Third, the Durbin-Watson test was used so as to test the independence of residuals (Field, 2009). The values of the Durbin-Watson test were (2.268) for the first Model, and (2.235) for the second Model. These values were within the prescribed limit (more than value 1 and less than value 3, and tending to be close to value 2) (Field, 2009). Thus, the assumption of independent error was met.

Fourthly, the assumption of multicollinearity was also checked for Model two. The results are presented in Table 3.11. Given the VIF and tolerance levels found in the analysis, multicollinearity does not appear to be a problem between the variables in the study models.

The researcher also used multivariate normality by testing univariate distribution for the dependent and independent variables. Skewness and kurtosis were taken into consideration through the use of this method. Kline (2005) suggests that extreme univariate non-normal distributions exist when absolute values of kurtosis are greater than (5), and absolute values of skewness are greater than (3). Table 3.12 describes the variables and their maximum and minimum values, as well as their skewness and kurtosis values. As can be seen,

these values were within the limits suggested by Kline (2005). Skewness values range from 0.016 to 1.892, with some negative values. In addition, kurtosis values range from 0.050 to 4.438, with some negative values. The results therefore showed that the data are normally distributed. It is worth noting that, the researcher used (log) for two control variables (Employment and GDP per capita) and one dependent variable (percentage of developed-country MNEs, after excluding some MNEs) to enhance the normality for these variables.

Table 3.12: Descriptive analysis of key variables

Variable			Skewness		Kurtosis	
	MAXIMUM	MINMUM	Stat	Std.Error	Stat	Std.Error
Inflation	44	4	1.892	0.267	4.438	0.529
Log Employment	18.42	10.94	-0.457	0.261	-0.106	0.517
Log GDP per capita	11.64	4	0.448	0.291	0.302	0.574
Authoritarian regimes	4.56	0.94	-0.233	0.257	-0.360	0.508
Ineffective state	4.91	0.86	-0.016	0.257	0.778	0.508
Poorly protected property right and corruption	4.78	1.21	0.390	0.257	0.325	0.508
Wealth	14980	140	1.699	0.258	2.768	0.511
Infrastructure	3.87	1.96	0.382	0.330	-0.631	0.650
Percentage of developing- country MNEs	100	50	0.860	0.257	0.066	0.508
Percentage of developing- country MNEs, after excluding some MNEs	50	0	0.773	0.257	0.050	0.508
Percentage of developed- country MNEs	100	50	-0.935	0.257	0.184	0.508
Log percentage of developed- country MNEs, after excluding some MNEs	4.61	3.64	-1.526	0.258	2.831	0.511

In conclusion, the models used in the study appear to be statistically accurate, as well as generalisable to the research sample.

3.12 Chapter summary

This chapter has attempted to provide a comprehensive explanation for the research methodology chosen for the present study. This was done only after the research problem and the aim of the current study had been defined within the preceding chapters. This chapter has sought to explain the choice of methodology in four main contexts. Firstly, the research design was discussed, followed by an explanation of the mixed methods approach, the quantitative approach, and the qualitative approach.

So as to ensure that the process was easy to follow and understand, the quantitative and qualitative approaches were presented separately. This has allowed the researcher to discuss the data collection process and the data analysis used for each approach separately.

Chapter 4: The Quantitative Findings

4. Introduction

This chapter is devoted to a discussion of the main statistical findings, in relation to the research hypotheses. It will show the ways in which non-market capabilities affect competition between MNEs from developed and developing countries within developing country markets. This has been achieved through the collection of secondary data from 88 developing countries. In order to present the results of this study in an easy and understandable way, the researcher first conducted and presented the regression for all MNEs operating within developing countries, from developed and developing countries alike.

Secondly, the researcher conducted another regression test, but did so after excluding all MNEs operating within the natural resources sector. As outlined in previous chapters, this is known as ‘Model two’. Finally, the researcher conducted semi-structured interviews with managers from various MNEs, in order to see if qualitative findings around this issue would produce similar results. Figure 4.1 shows the steps that were followed in order to obtain these results.

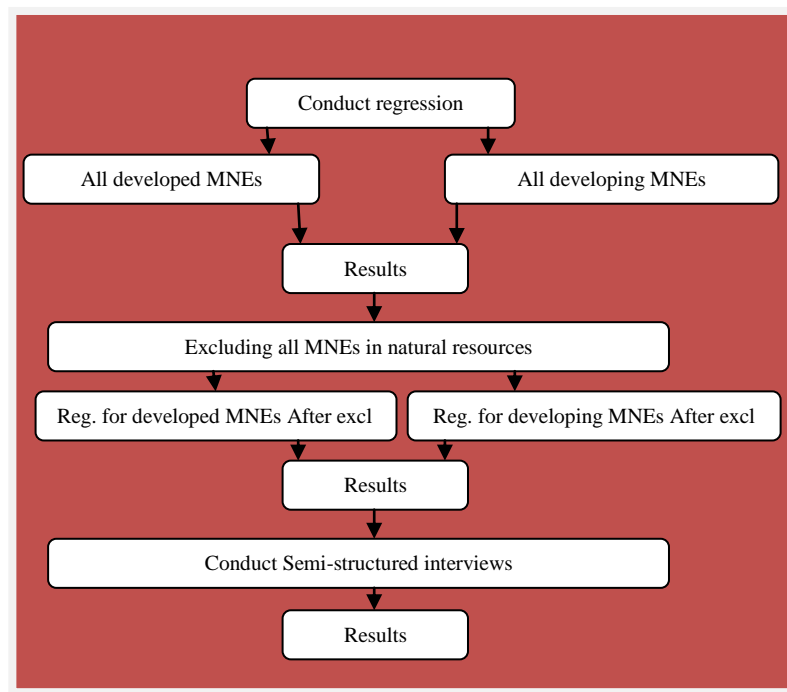


Figure 4.1: Steps followed in obtaining research results

This chapter will begin by presenting the quantitative findings in the context of Model 1 (section 4.1). It will then present the quantitative findings after the exclusion of those MNEs operating within the natural resource sector, also known as Model 2 (section 4.2).

4.1 Test of Hypotheses concerning the operation of Developing/Developed-Country MNEs within Developing country markets (Model 1: All MNEs)

Table 4.1: Multiple Regression Results

Variables	Percentage of Developing-country MNEs			Percentage of Developed-country MNEs		
	Model 1 all			Model 1 all		
	B	Beta	t	B	Beta	t
Constant	50.106*		2.513	50.561 *		2.343
1.Authoritarian regimes	-2.005	-.090	-.597	1.444	.060	.397
2.Ineffective governments	-11.049**	-.444	-2.854	9.838*	.367	2.348
3.Poorly protected property rights	11.878**	.558	3.064	-10.019*	-.437	-2.388
4.The capability to provide services to consumers experiencing poverty	-3.505	-.158	-.708	.125	.005	.023
5.Poorly developed infrastructures	10.637**	.503	3.222	-12.099**	-.532	-3.386
6.Inflation	-.317	-.222	-1.663	.378	.206	1.832
7.Log GDP per capita	-.457	-.058	-.277	-.965	-.114	-.540
8. Log employment	-2.071*	-.247	-2.047	2.791*	.309	2.549
R	.631			.626		
R-square	.398			.392		
Adjust R square	.294			.286		
F change	3.805**			3.708**		
Durbin-Watson	2.105			2.268		
N	55			55		

*p≤0.05; **p≤0.01. Numbers in bold indicate statistical significance.

4.1.1 Proposition 1: Recap

Proposition 1: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes. Thus, we can generate testable hypotheses:

Hypothesis H1a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

Hypothesis H1b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

4.1.2 Results relating to hypothesis H1a

In order to examine the type and strength of the relationship between the independent variable (*operating under the most authoritarian regimes*) and the dependent variable (*prevalence of the largest developing-country MNEs within developing markets*), multiple regression analysis was utilized. Table 4.1, above, shows the results of the regression analysis for Model one.

The analysis tested the effect of *operating under the most authoritarian regimes* on the prevalence of the largest developing-country MNEs in developing countries. In general, the value of the multiple correlation coefficient (R) between the dependent and independent variables is 0.631 for Model one. R square is a measure of how much of the variability in the dependent variable is accounted for by the independent variable (Field, 2009). In this case, independent variables accounted for approximately 40% of the variation in prevalence of developing-country MNEs in developing markets for Model one.

Value B indicates the individual contribution of each independent variable within the model (Field, 2009), as well as the nature of the relationship between the dependent and

independent variables. This was found to be -2.005, when analysing for all developing-country MNEs (Model one). In other words, when the independent variable (*operating under the most authoritarian regimes*) increases by one unit, the dependent variable (prevalence of the largest developing-country MNEs in developing markets) will decrease by 2.005 units.

Beta values have an associated standard error, which is used to determine if the value differs significantly from zero by using the t – statistic (Field, 2009). For all developing-country MNEs, the beta value is -0.090, $t = -0.597$, and $p = 0.553$. This indicates that the t value is not significant, and reveals that whilst *operating under the most authoritarian regimes* negatively affects the prevalence of the largest developing-country MNEs within developing markets, this relationship is not significant. Therefore, the data does not offer support for hypothesis H1a.

4.1.3. Results relating to hypothesis H1b

In order to examine the type and strength of the relationship between the independent variable (*operating under the most authoritarian regimes*) and the dependent variable (prevalence of developed-country MNEs within developing markets), multiple regression analysis was utilized. Table 4.1 shows the results of the regression analysis for Model 1. In general, it can be seen that the value of the multiple correlation coefficient (R) between the dependent and independent variables is 0.626.

In addition, it can be seen that the independent variable accounted for approximately 40% of the variation in prevalence of the largest developed-country MNEs within developing countries for Model one. The value of B for all developed-country MNEs was 1.444. This infers that when the independent variable (*operating under the most authoritarian regimes*) increases by one unit, the dependent variable (prevalence of all developed-country MNEs in developing markets) will increase by 1.444.

For all developed-country MNEs, the beta value was found to be 0.060, $t = 0.397$, and $p = 0.693$. This indicates that the t value is not significant. *Operating under authoritarian regimes* positively affects the prevalence of developed-country MNEs in developing country markets, but it does not do so significantly. Therefore, it can be seen that the data does not offer support for hypothesis H1b.

According to the above findings, hypotheses H1a and H1b are not supported. Therefore, proposition 1 (Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes) is not supported by the findings of Model 1.

4.1.2 Proposition 2: Recap

Proposition 2: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most ineffective states. Thus, we can generate testable hypotheses:

Hypothesis H2a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most ineffective states).

Hypothesis H2b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most ineffective states).

4.2.1 Results in relation to hypothesis H2a

As explained above, in order to examine the type and strength of the relationship between the independent variable (*operating in the most ineffective states*) and the dependent variable (the prevalence of the largest developing-country MNEs in developing markets), regression analysis was used. Table 4.1 reveals that the value of B is -11.049 for developing-

country MNEs. This means that when the independent variable (*operating in the most ineffective states*) increases by one unit, the dependent variable (the prevalence of developing-country MNEs in developing markets) will decrease by 11.049.

The beta value was found to be -0.444, $t = -2.854$, and $p = 0.006$. This indicates that the t value is significant. Contrary to what was expected, the variable of *operating in the most ineffective states* has a negative and significant relationship on the prevalence of developing-country MNEs within developing markets. This data supports an alternative hypothesis 2, which is that developing-country MNEs will be less prevalent in developing countries with the most ineffective states. Therefore the data does not offer support for hypothesis H2a.

4.2.2 The results of hypothesis H2b

According to Table 4.1, the value of B in this case is 9.838. This infers that when the independent variable (*operating in the most ineffective states*) increases by one unit, the dependent variable (prevalence of all developed-countries MNEs in developing markets) will increase by 9.838.

The beta value here was found to be 0.367, $t = 2.348$, and $p = 0.023$. This indicates that the t value is significant for hypothesis H2b within Model one. Surprisingly, *operating in the most ineffective states* has a positive and significant relationship with the prevalence of developed-country MNEs in developing markets. Therefore it can be seen that the data does not support hypothesis H2b.

The findings in relation to hypotheses H2a and H2b clearly indicate a lack of support for proposition 2 (Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most ineffective states). There is no doubt that proposition 2 is not supported within Model one.

4.1.3 Proposition 3: Recap

Proposition 3: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there is poor protection for property rights and pervasive corruption. Thus, we can generate the following two testable hypotheses:

Hypothesis H3a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

Hypothesis H3b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

4.3.1 Results relating to hypothesis H3a

Again, multiple regression analysis was utilized to examine the nature of the relationship between the independent variable (*working despite poorly protected property rights and pervasive corruption*) and the dependent variable (prevalence of developing-country MNEs in developing markets). According to Table 4.1, the B value in this case was 11.878. This means that when the independent variable (*working despite poorly protected property rights and pervasive corruption*) increases by one unit, the dependent variable (prevalence of developing-country MNEs in developing markets) will increase by 11.878.

In addition, the beta value for Model one was found to be 0.558, $t = 3.064$, and $p = 0.004$. This indicates that the t value is significant. As predicted, a country with poorly protected property rights and pervasive corruption has a positive and significant relationship

with the prevalence of developing-country MNEs in its developing markets. Thus, the data supports hypothesis H3a.

4.3.2 Results relating to hypothesis H3b

According to Table 4.1, the corresponding B value in this case was -10.019. This suggests that when the independent variable (*working despite poorly protected property rights and pervasive corruption*) increases by one unit, the dependent variable (*prevalence of developed-country MNEs in developing markets*) will decrease by 10.019. In addition, the corresponding beta value was -0.437, $t = -2.388$, and $p = 0.021$. This indicates that the t value is significant.

As predicted, the independent variable (*working despite poorly protected property rights and pervasive corruption*) has a negative and significant relationship with the prevalence of developed-country MNEs in developing markets. Thus, the data offers support for hypothesis H3b.

In this case, both hypothesis H3a and hypothesis H3b are supported, and the third proposition (Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there is poor protection for property rights and pervasive corruption) is also supported by the data.

4.1.4. Proposition 4: Recap

Proposition 4: Developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there are high numbers of consumers experiencing poverty. Thus, we can generate the following two testable hypotheses:

Hypothesis H4a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the capability to provide services to consumers experiencing poverty).

Hypothesis H4b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (capability to provide services to consumers experiencing poverty).

4.4.1 Results relating to hypothesis H4a

As explained above, the researcher used multiple regression analysis in order to examine the type and strength of the relationship between the independent variable (the capability to provide services to consumers experiencing poverty) and dependent variable (prevalence of developing-country MNEs in developing markets).

The B value was found to be -3.505 for developing-country MNEs within Model 1. This indicates that when the independent variable (*capability to provide services to consumers experiencing poverty*) increases by one unit, the dependent variable (*prevalence of all developing-country MNEs in developing markets*) will decrease by 3.505. The corresponding beta value was -0.158, $t = -0.708$, and $p = 0.483$. This means that the t value is not significant. The percentage of developing-country MNEs decreases insignificantly in

developing countries where there is poverty amongst the customer base. Therefore, the data does not offer support for hypothesis H4a.

4.1.4.2 Results relating to hypothesis H4b

Here, the B value was found to be 0.125, which means that when the independent variable (the *capability to provide services to consumers experiencing poverty*) increases by one unit, the dependent variable (*prevalence of developed-country MNEs in developing markets*) will also increase, by 0.125. The corresponding beta value was 0.005, $t = 0.023$, and $p = 0.981$ (see Table 4.1). This indicates that the t value is not significant.

Contrary to the researcher's initial prediction, the capability to provide services to consumers experiencing poverty positively affects the prevalence of the largest developed-country MNEs in developing markets, although this relationship is not significant. The data does not offer support for hypothesis H4b.

Both hypotheses H4a and H4b have been rejected, and hence, proposition 4 (Developing-countries MNEs are likely to have an advantage over developed-country MNEs where there are high numbers of consumers experiencing poverty) is not supported by the evidence.

4.1.5. Proposition 5: Recap

Proposition 5: Developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in countries with the most poorly developed infrastructure. Thus, we can generate testable hypotheses:

Hypothesis H5a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

Hypothesis H5b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

4.1.5.1 Results relating to hypothesis H5a

As can be seen from Table 4.1 above, the B value here is 10.637 within Model 1. As a result, it can be inferred that when the independent variable (*operating in the most poorly developed infrastructures*) increases by one unit, the dependent variable (prevalence of developing-country MNEs in developing markets) will increase by 10.637.

In addition, the beta value for developing-country MNEs in Model 1 is 0.503, $t = 3.222$, and $p = 0.002$. This indicates that the t value is significant. As expected, *operating in the most poorly developed infrastructures* has a positive and significant relationship with the prevalence of the largest developing-country MNEs in developing countries. Therefore, the data offers support for hypothesis H5a.

4.1.5.2 The results of hypothesis H5b

As can be seen from Table 4.1, the B value here was found to be -12.099 in Model 1. This means that when the independent variable increases by one unit, the dependent variable will decrease by 12.099.

In addition, the beta value for Model one is -0.532, $t = -3.386$, and $p = 0.001$. This indicates that the t value is significant. As predicted, *operating in the most poorly developed infrastructures* has a negative and significant relationship with the prevalence of developed-country MNEs in developing markets. The data, therefore, supports hypothesis H5b.

Given these results, the findings of hypotheses H5a and H5b are supported by the data. Therefore, proposition 5 (Developing-countries MNEs are likely to have an advantage

over developed-country MNEs when investing in countries with the most poorly developed infrastructure) is also supported.

4.2 Test of Hypotheses concerning the operation of Developing/ Developed-Country MNEs when operating within Developing country markets (Model 2: after excluding MNEs working within the natural resources sector)

Table 4.2: Multiple Regression Results

Variables	Percentage of Developing-country MNEs			Log of Percentage of Developed-country MNEs		
	Model 2(after excluding some MNEs)			Model 2(after excluding some MNEs)		
	B	Beta	t	B	Beta	t
Constant	48.767 *		2.339	4.006**		11.467
1.Authoritarian regimes	-1.675	-.076	-.477	-.017	-.047	-.295
2.Ineffective governments	-10.380*	-.421	-2.564	.188**	.454	2.765
3.Poorly protected property rights	11.956**	.566	2.950	-.166*	-.470	-2.451
4. the capability to provide services to consumers experiencing poverty	-3.698	-.168	-.714	.016	.042	.180
5.Poorly developed infrastructures	9.241*	.441	2.677	-.166**	-.472	-2.867
6.Inflation	-.342	-.242	-1.663	.006	.262	1.859
7.Log GDP per capita	-.405	-.052	-.277	-.009	-.065	-.294
8. Log employment	-1.929*	-.231	-2.047	.031	.225	1.774
R	.576			.575		
R-square	.332			.331		
Adjust R square	.216			.215		
F change	2.857*			2.846*		
Durbin-Watson	2.144			2.235		
N	55			55		

*p≤0.05; **p≤0.01. Numbers in bold indicate statistical significance.

4.2.1 Proposition 1: Recap

Proposition 1: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes. This proposition generates two testable hypotheses:

Hypothesis H1a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

Hypothesis H1b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

4.2.1.1 The results of hypothesis H1a

The process followed for the examination of Model 2 also utilised multiple regression analysis, the results of which are summarised within Table 4.2, above.

In general, the value of the multiple correlation coefficient (R) between the dependent and independent variables is 0.576 within Model 2. The value of R square is .332. In this case, independent variables accounted for approximately 33% of the variation in prevalence of the largest developing-country MNEs in developing markets within Model 2.

According to Table 4.2, the value of B is -1.675 when analysed for Model two MNEs. In other words, when the independent variable in question (*operating under the most authoritarian regimes*) increases by one unit, the dependent variable (prevalence of developing-country MNEs in developing markets) will decrease by 1.675 units.

The corresponding beta value is -0.076, $t = -0.477$, and $p = 0.635$. This indicates that the t value is not significant, and reveals that authoritarian regimes do negatively affect the

prevalence of the largest developing-country MNEs within developing markets in a significant fashion. For this reason, the data does not offer support for hypothesis H1a.

4.2.1.2. The results of hypothesis H1b

Table 4.2 shows the effect of *operating under the most authoritarian regimes* on the prevalence of the largest developed-country MNEs within developing markets. In general, the value of multiple correlation coefficients (R) between the dependent and independent variables is 0.575 for Model two. The value of R square is (.331). This indicates that independent variables accounted for approximately 33% of the variation in prevalence of the largest developed-country MNEs in developing countries for Model two.

In the case of the independent variable in question, the B value was -.017. This suggests that when the independent variable (*operating under the most authoritarian regimes*) increases by one unit, the dependent variable (prevalence of developed-country MNEs in developing markets) will decrease by .017 in Model two.

The beta value here is -.047, $t = -0.295$, and $p = 0.769$. This indicates that the t value is not significant. *Operating under the most authoritarian regimes* negatively affects the prevalence of developed-country MNEs in developing country markets, but it does not do so significantly. Therefore the data only offers partial support for hypothesis H1b. The findings in relation to H1a and H1b cannot fully support proposition 1 (Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes). At best, proposition 1 is only partially supported by the data within Model two.

4.2.2. Proposition 2: Recap

Proposition 2: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most ineffective states. Thus, we can generate testable hypotheses:

Hypothesis H2a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most ineffective states).

Hypothesis H2b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most ineffective states).

4.2.2.1 Results in relation to hypothesis H2a

Table 4.2 reveals that the value of B in relation to this independent variable is -10.380. This means that when the independent variable (*operating within the most ineffective states*) increases by one unit, the dependent variable (prevalence of developing-country MNEs within developing markets) will decrease by 10.380.

The beta value here is -0.421, $t = -2.564$, and $p = 0.014$. This indicates that the t value is significant. Contrary to what was expected, the variable of *operating within the most ineffective states* has a significant negative relationship with the prevalence of developing-country MNEs within developing markets. Therefore the data does not offer support for hypothesis H2a.

4.2.2.2 Results in relation to hypothesis H2b

Table 4.2 shows that B value here is 0.188. This means that when the independent variable (*operating within the most ineffective states*) increases by one unit, the dependent variable (prevalence of developed-countries MNEs within developing markets) will increase by 0.188.

The corresponding beta value is 0.454, $t = 2.765$, and $p = 0.008$. This indicates that the t value is significant for Model two. Thus, *operating in the most ineffective states* has a positive and significant relationship to the prevalence of developed-country MNEs in developing markets, within Model two. Therefore, the findings do not support hypothesis H2b.

According to the above results, both hypotheses H2a and H2b are not supported, and so proposition 2 in Model two cannot be accepted as valid.

4.2.3. Proposition 3: Recap

Proposition 3: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there is poor protection for property rights and pervasive corruption. Two testable hypotheses can be generated from this proposition:

Hypothesis H3a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

Hypothesis H3b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

4.2.3.1 Results in relation to hypothesis H3a

Multiple regression analysis was again utilized here, in order to examine the type and strength of the relationship between the independent variable (*working despite poorly protected property rights and pervasive corruption*) and the dependent variable (prevalence of the largest developing-country MNEs in developing markets).

According to Table 4.2, the B value for these variables is 11.956. This means that when the independent variable (*working despite poorly protected property rights and pervasive corruption*) increases by one unit, the dependent variable (prevalence of the largest developing-country MNEs within developing markets) will increase by 11.956 in the context of Model two.

In addition, the beta value in this case is 0.566, $t = 2.950$, and $p = 0.005$. This indicates that the t value is significant. As predicted, countries with poorly protected property rights and pervasive corruption have a significant positive relationship to the prevalence of developing-countries MNEs in developing markets. Therefore, the data supports hypothesis H3a.

4.2.3.1 Results in relation to hypothesis H3b

According to Table 4.2, the value of B here is -0.166. This suggests that when the independent variable (*working despite poorly protected property rights and pervasive corruption*) increases by one unit, the dependent variable (the prevalence of developed-country MNEs which do not work in natural resources in developing markets) will decrease by 0.166.

In addition, the beta value in this case is -0.470, $t = -2.451$, and $p = 0.018$. This indicates that the t value is significant. As predicted, the independent variable (*working despite poorly protected property rights and pervasive corruption*) has a negative and significant relationship with the prevalence of developed-country MNEs within developing markets. Therefore, the data offers support for hypothesis H3b.

Given the findings above, H3a and H3b clearly offer support for proposition 3 (Developing-country MNEs are likely to have an advantage over developed-country MNEs

when investing in developing countries where there is poor protection for property rights and pervasive corruption). Proposition 3 is fully supported within Model two.

4.2.4. Proposition 4: Recap

Proposition 4: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries with high levels of consumers experiencing poverty. From this proposition two examinable hypotheses are generated:

Hypothesis H4a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the capability to provide services to consumers experiencing poverty).

Hypothesis H4b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the capability to provide services to consumers experiencing poverty).

4.2.4.1. Results in relation to hypothesis H4a

The B value here was found to be -3.698. This suggests that when the independent variable (the capability to provide services to consumers experiencing poverty) increases by one unit, the dependent variable (prevalence of developing-country MNEs within developing markets) will decrease by 3.698 units. The corresponding beta value is **-0.168**, $t = -0.714$, and $p = 0.479$. This indicates that the t value is not significant. The capability to provide services to consumers experiencing poverty has a negative effect on relationship with the prevalence of developing-country MNEs in developing markets, but this relationship is not significant. Therefore, the data cannot be said to offer support for hypothesis H4a.

4.2.4.2 Results in relation to hypothesis H4b

According to Table 4.2, the B value here is 0.016. This means that when the independent variable (the capability to provide services to consumers experiencing poverty) increases by one unit, the dependent variable (prevalence of developed-country MNEs within developing markets) will also increase, by 0.016 within Model two. The beta value was found to be 0.042, $t = 0.180$, and $p = 0.858$. This indicates that the t value is not significant.

Given this data, it can be seen that the capability to provide services to consumers experiencing poverty positively affects the prevalence of developed-country MNEs within developing markets, but does not do so significantly. Therefore, the data does not offer support for hypothesis H4b.

The findings above show that hypotheses H4a and H4b are not valid. Hence, proposition 4 is not supported by the evidence.

4.2.5. Proposition 5: Recap

Proposition 5: Developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in countries with the most poorly developed infrastructure. The following two hypotheses can be tested:

Hypothesis H5a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

Hypothesis H5b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

4.2.5.1. Results in relation to hypothesis H5a

As can be seen from Table 4.2 above, the B value here is 9.241. This suggests that when the independent variable (*operating within the most poorly developed infrastructures*) increases by one unit, the dependent variable (the prevalence of developing-country MNEs within developing markets) will increase by 9.241 units.

In addition, the beta value in this case is 0.441, $t = 2.677$, and $p = 0.010$. This indicates that the t value is significant. As predicted, *operating in the most poorly developed infrastructures* has a positive and significant relationship with the prevalence of developing-country MNEs in developing countries. Therefore, the data offers clear support for hypothesis H5a.

4.2.5.2. Results in relation to hypothesis H5b

As can be seen from Table 4.2, the B value here is -0.166 for Model two. This means that when the independent variable increases by one unit, the dependent variable will decrease by 0.166. In addition, the corresponding beta value is -0.472, $t = -2.867$, and $p = 0.006$. This indicates that the t value is significant. As predicted, *operating in countries with poorly developed infrastructures* has a significant negative relationship with the prevalence of the largest developed-country MNEs within developing markets. The data, therefore, supports hypothesis H5b.

Given that the available findings support H5a and H5b, they can also be said to support proposition 5 (developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in countries with the most poorly developed infrastructure). Therefore, proposition 5 is supported within Model two.

4.3 Summary of Findings

The aim of this chapter was to report the results of the quantitative analysis conducted as part of this study. The statistical methods package known as SPSS was used, and ten hypotheses were tested using multiple regression analysis.

As part of this analysis, the study has examined the normality, linearity, constant variance and multicollinearity of the research data (see chapter 3). None of these criteria posed an issue for the study. The variables within Model one (all MNEs), and Model two (all MNEs excluding those that work in the natural resources sector) appear to be accurate, and can be generalised to the research sample.

As has been seen, the results of the multiple regression analysis for Model one do offer support for some of the research propositions. Full support is given to proposition 3, which is that “developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there is poor protection for property rights and pervasive corruption.” This means that there is a positive relationship between the prevalence of developing-country MNEs within developing countries, and the most poorly protected property rights and examples of pervasive corruption. In addition, a negative relationship exists between the prevalence of developed-country MNEs within developing countries, and the most poorly protected property rights and pervasive corruption.

In addition, the results offer full support to proposition 5, which states that “developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries which possess the most poorly developed infrastructure”. This means that there is a positive relationship between the prevalence of developing-country MNEs and the most poorly developed infrastructure. In addition, there is a negative

relationship between the prevalence of developed–country MNEs within developing countries, and the most poorly developed infrastructure.

However, the results of the multiple regression analysis for Model 1 do not offer support for some of the research propositions. Proposition 1 (developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes) is not supported. This means that there is a negative relationship between the prevalence of developing–country MNEs within developing countries and the most authoritarian regimes. In addition, there is a positive relationship between the prevalence of developed–country MNEs within developing countries and the most authoritarian regimes.

The findings also do not offer support to proposition 2 (developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most ineffective states). This means that there is a negative relationship between the prevalence of developing–country MNEs within developing countries and the most ineffective states. In addition, there is a positive relationship between the prevalence of developed–country MNEs within developing countries and the most ineffective states.

In addition, the results of the multiple regression analysis do not offer support for proposition 4, which states that “developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there are high numbers of consumers experiencing poverty”. This means that there is a negative relationship between the prevalence of developing-country MNEs within developing countries and incidences of poverty amongst consumers. In addition, there is a positive relationship between the prevalence of developed–country MNEs within developing countries and incidences of poverty amongst consumers.

For Model 2 (which excludes MNEs that work in the natural resources sector), the results of the multiple regression analysis is similarly mixed. The results of the multiple regression analysis offer full support for proposition 3 (developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there is poor protection for property rights and pervasive corruption). There is a positive relationship between the prevalence of developing-country MNEs within developing countries and the most poorly protected property rights and pervasive corruption. In addition, there is a negative relationship between the prevalence of developed-country MNEs within developing countries and the most poorly protected property rights and pervasive corruption.

In addition, the results offer full support for proposition 5 (developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries with the most poorly developed infrastructure). There is a positive relationship between the prevalence of developing-country MNEs within developing countries and the most poorly developed infrastructure. In addition, there is a negative relationship between the prevalence of developed-country MNEs within developing countries and the most poorly developed infrastructure.

However, partial support is to be found within the data for proposition 1 (developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes). There is a negative relationship between the prevalence of developed-country MNEs within developing countries and the most authoritarian regimes.

However, the results of the multiple regression analysis for Model two do not offer support for some of the research propositions. There is no support for proposition 2, which is that “developing-country MNEs are likely to have an advantage over developed-country

MNEs when investing in developing countries with the most ineffective states”. This means that there is a negative relationship between the prevalence of developing–country MNEs and the most ineffective states. In addition, there is a positive relationship between the prevalence of developed–country MNEs within developing countries and the most ineffective states.

Further, the results of the multiple regression analysis do not offer support for proposition 4, which is that “developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there are high numbers of consumers experiencing poverty”. There is a negative relationship between the prevalence of developing–country MNEs within developing countries and poverty amongst consumers. In addition, there is a positive relationship between the prevalence of developed–country MNEs within developing countries and poverty amongst consumers.

Table 4.3: Summary of Proposition Tests

Propositions content	Hypotheses	Model	Extent of support for the proposition
Proposition 1 : “Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes”	H1a and H1B	ONE	Not Supported
	H1a and H1B	TWO	Partially Supported
Proposition 2 : “Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most ineffective states”	H2a and H2B	ONE	Not Supported
	H2a and H2B	TWO	Not Supported
Proposition 3: “Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there is poor protection for property rights and pervasive corruption.”	H3a and H3b	ONE	Fully supported
	H3a and H3b	TWO	Fully supported
Proposition 4: “Developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there are high numbers of consumers experiencing poverty.”	H4a and H4b	ONE	Not Supported
	H4a and H4b	TWO	Not Supported
Proposition 5: “Developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in countries with the most poorly developed infrastructure.”	H5a and H5B	ONE	Fully supported
	H5a and H5B	TWO	Fully supported

Chapter 5: The Qualitative Findings

5.1 Introduction

The literature review conducted earlier in this study was used as a basis upon which to build semi-structured interview schedules. In particular, the topic of non-market capabilities was focused upon. This area has not often been explored by academic studies, largely because it is a new area within business research (Cuervo-Cazurra and Genc, 2008b). The objective of this chapter is to present the qualitative results of the semi-structured interviews that were conducted. The qualitative results are expected to provide a richer explanation of the relationships between the dependent variable (the prevalence of the largest MNEs in the developing countries) and independent variables (the ability to operate under authoritarian regimes, the ability to operate within an ineffective state or government, the ability to deal with poorly protected property rights and pervasive corruption, the ability to provide services to consumers experiencing poverty, and the ability to operate within a poorly developed infrastructure).

As discussed in chapter 3, the researcher conducted interviews with managers from fifteen MNEs (see Appendix 4). Ten of these MNEs were based in developing countries, and five were based in developed countries. All fifteen operated within developing countries. Only one manager per MNE was interviewed, for a number of reasons. Firstly, the logistical challenge of contacting interviewees and setting up mutually convenient meeting times was significant. Most managers at the level of the people who were interviewed are extremely busy. In addition, many managers are wary of giving away confidential information about their company and its business practices. As a result, some interviews were cancelled less than an hour before commencing. Secondly, it should be remembered that the qualitative interviews were simply being used in order to triangulate the quantitative results. Thirdly, the

cost and time implications for the study as a whole had to be considered. For these reasons, the researcher and his supervisor decided to interview one manager or CEO from each organisation.

The procedure relating to the qualitative data consisted of both transcription and analysis. The interviewees were recorded using a digital audio device or through written notes. The participants' responses were classified according to major headings and themes, which were already contained within the interview schedule. The respondents' answers were then placed under each main question, so as to help the researcher to compare and contrast their answers. This enabled him to establish the differences and the similarities between those answers. In the next step of the procedure, these answers were divided into five main themes, and attributed to many different codes. Finally, an example of each code was taken from the collected data.

The sub-section which follows will examine the perceptions of interviewees as to the effect of non-market capabilities on the achievement of competitive advantage, as well as their effect on the prevalence of MNEs outside of their home markets. As in previous chapters, the examination of developing-country MNEs will precede an examination of developed-country MNEs.

5.2 Proposition 1: Recap

Proposition 1: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes.

As outlined in previous chapters, the authoritarian nature of regimes is measured in the current study by level of ‘voice’, accountability, political instability, and the potential for violence and/or terrorism.

5.2.1. Voice and accountability

It was evident when analysing the interviews that voice and accountability factors within developing country markets were generally similar. As a result of authoritarian regimes in most of these countries, there is a lack of democracy and a prevalence of dictatorial and military governments. People cannot either express their opinion or choose their leader, because the government has the power to control everything within the nation. This view was supported by many participants from developing country MNEs. For instance, one manager stated:

“Developing countries can be classified as dictatorial countries in several aspects of people's lives. If we take the political systems as an example, we will find that most third-world regimes are practicing dictatorship and repression {...} the recent public revolutions in some Arab countries show to what extent those regimes are dictatorial. They are trying to suppress people's demands rather than listening and responding to them. Most governments in the third world are not democratic, and in spite of some of them creating slogans to say that they are, in practice they are far away from democracy. “(Manager Code: TSING)⁴

Another manager highlighted the same point:

“Actually, it is obvious that many developing countries have dictatorial governments or military dictatorships. For example, Libya, Syria, Sudan and Egypt have dictatorial governments where people cannot express their opinions and their free will. In this type of regime, people cannot choose their leader because the government has the power to control everything” (Manager Code: MBING).

⁴ This study will use shorthand notation (ING or ED) at the end of each participant code, so as to differentiate between participants from developing countries (ING) and developed countries (ED).

Managers working for MNEs originating from developed countries also have similar views about the issue of voice and accountability within developing countries. One manager stated:

“Let me tell you something, most of the leaders in third world countries and especially those in Asia and Africa are dictators. People do not have the right to choose their suitable president. In some countries, citizens cannot speak freely about what they think about their government. They are always afraid of the state intelligence and its torture.” (Manager Code:OMED)

Another manager also commented along the same lines:

Although in most of this part of the world, regimes are monarchies, some developing countries have democratic regimes. In fact, they are democratic just by name. A good example of this issue is the previous Egypt regime led by previous President Mohammed Hosni Mubarak. This regime was always encouraging people to participate in the elections. However, the president’s party was always cheating in the election results. It was always changing the people’s votes to be on their side. For this reason, Mubarak always won with no less than 95% “(Manager Code:NIED).

These quotes indicate how many developing countries lack a true sense of democracy, because of the prevalence of dictatorial or quasi-dictatorial governments. In reality, people often do not have the right to speak freely or to choose their governments in these countries.

5.2.2 Political instability and violence/ terrorism

The participants from developing-country MNEs pointed out that an unstable political environment can affect the operation of MNEs negatively. Sometimes it affects the firm’s performance, management decisions, and behaviour in regard to social responsibility issues. These, and other factors, were mentioned by many managers during the semi-structured interviews:

“These affect our ability to plan and meet our production and sales as well as performance targets.” (Manager Code: TSING)

“Such changes affect our operations. These also have an effect on our employment and management decisions, as well as our social responsibility behaviour. Political changes of that nature can cause the company to follow new strategies concerning management and employment decisions.” (CEO Code: ASING)

It was evident from the responses of most of managers from developed-country MNEs that the political environment in developing country markets is deemed to be generally unstable. They largely confirmed what managers from developing-country MNEs stated in their interviews. The following two statements made by two managers illustrate this point:

“I would say that the emerging market countries are politically unstable at the moment, and this affects our planning and investments.” (Manager Code: UGVED)

“I think the political environment is getting unstable. Together with the change in government party, there may be some change in the laws and regulations that may adversely affect our operations”, (Manager Code: NIED)

According to one manager (Manager Code: MAJING), developing countries are characterised by government intervention. As a result, there is often little agreement between the trade sector and government. The government is always intervening, which makes business planning difficult. In particular, many of the Arabic countries suffer from this problem.

For this reason, developing countries can become very risky environments in which to invest. Policies can change without prior notice, and in unexpected directions. One manager clarified his point of view on this issue in the following terms:

“It is very risky; in one country the government can say one thing one day and change it afterwards. For instance, one country allowed a firm to open with 50% made up by a foreign

partner, and then sometime later, the government in the same country changed and a new rule stated that it had to be 40% instead of 50%.” (Manager Code: MBING)

Another manager indicated that:

“No doubt, it is unstable and actually no one can split the investment from the political environment. They affect each other. I think, nowadays, many foreign investors are worried about their investment in Egypt especially after the recent revolution.” (Manager Code: FTING)

The interviewees from developed country MNEs also addressed the fact that markets within developing countries are extremely difficult to predict, and concurred that this can have a negative effect. They particularly mentioned the problem of unexpected government intervention, with some examples following below:

“The political environment in the developing country markets is highly unpredictable. There are high levels of political instability in these markets, especially in developing country markets in Africa and Latin America.” (Manager Code: JVED)

“These affect our planning and overall operational stability. The government interventions affect our personnel planning and our marketing and promotional operations.” (Manager Code: UGVED)”.

As can be seen, all of these statements suggest that markets within developing countries operate within uncertain political environments because of unpredictable authoritarian regimes. Conditions in these countries change rapidly and without warning and, to avoid this, MNEs must have the ability to adapt in such situations. This would allow them to seek out unforeseen opportunities, as well as avoiding unexpected pitfalls. All of this might mean that the experience which managers from developing country MNEs have already gained from operating under authoritarian regimes would enable them to compete successfully with their competitors in similar markets. This was explained as follows:

“When we operate under such authoritarian regimes, we are forced to make changes to meet the realities of the market. The advantage of this is that we learn to change and adapt to market situations, and we can always use this experience in similar markets.” (CEO Code: ASING)

This view was supported by many interviewees, with one manager stating:

“...every company has its own experience. For example, an Egyptian company can serve in Libya, Yemen, Tunisia, and Syria. It will have a tough experience in one country and it will help them to survive in other markets.” (Manager Code: MBING)

However, some managers held the opposite view:

“That is not possible abroad as the company is forced to follow some rules, limits and boundaries of the country in which it is operating, and thus it cannot take each and every step according to its wishes”. (Manager Code: FSING)

Another manager stated:

“The manifestations of authoritarianism in the home markets are different from those in emerging markets in third world markets.” (Manager Code: JNING)

The interviewees from developed country MNEs also addressed the ways in which the experience gained by their developing country competitors from home markets might be transferred to new contexts. One manager explained this as follows:

“...the experience that managers from developing countries have from operating under authoritarian regimes in their home markets enables them to compete better against us in similar markets, but to outperform them we need to accommodate our operations under these types of regimes in a short time.” (Manager Code: UGVED)

To conclude, authoritarianism is present in most developing country markets. As some interviewees indicated, the governments in these countries suffer from a lack of democracy and an unstable political environment. However, some participants supported the view that MNEs from developing countries obtain benefits from operating under authoritarian regimes in their home market. This can enable them to compete against

developed-country MNEs within developing country markets. Nevertheless, after a period of time, developed-country MNEs will be able to adapt their style of operation under authoritarian regimes, allowing them to compete successfully. In addition, not all interviewees supported the view that developed-country MNEs are disadvantaged by such an environment. Overall, proposition 1 was partially supported by the qualitative data.

5.3. Proposition 2: Recap

Proposition 2: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most ineffective states.

5.3.1. Government ineffectiveness

Research participants from developing country MNEs were asked about their perceptions of operating within developing country markets with overbearing bureaucratic governments, and the ways in which they cope with this situation. The vast majority of the developing country MNE participants confirmed that governments within such countries are indeed bureaucratic, and that this problem is best coped with by infiltrating these regimes. The best way to do this seems to be by establishing a good networking relationship with the decision-makers in such governments.

One manager summarized this outlook as follows:

“Some developing countries have overbearing bureaucratic governments. For instant, in my home country one of my friends wanted to call his new company Fai’e and the registry officer refused that and suggested that he should add Al at the beginning of the name.” (Manager Code: FTING)

Another point was highlighted as follows:

“If you want to open a branch for your company, you will need to wait a long time to finish all the unnecessary processes, which could be done within a week.” (Manager Code: MAING)

A CEO interviewee referred to his position on this issue in the following terms:

“We cope with that by accepting that we cannot change everything to our expectations. The political environment of a country is one of the factors that influence how companies operate. Such bureaucratic procedures in government prompt foreign companies to make necessary changes to meet the realities of the market in which they operate.” (CEO Code: ASING)

The vast majority of the participants from developed-country MNEs confirmed that the governments of developing countries are bureaucratic. They try to understand and adapt to this frequently overbearing bureaucracy, particularly through acceptance of those contextual aspects that they cannot change. One manager illustrated this view by stating the following:

“We cope with such issues by understanding that we have to adapt to the environment we operate in. What we cannot change, we have to adapt to! Every society, every nation has its own culture and ways of doing things.” (Manager Code: JVED)

Some of the interviewees also highlighted the importance of trade organizations within developing country markets. Such organisations can provide help and cooperation to foreign investors who seek information about these markets. However, some differences were found between the interview responses with regard to this issue. On one hand, a group of developing country MNE participants agreed that trade organizations within developing country markets are helpful. They saw them as ready to offer whatever resources they have available. One manager stated:

“Yes, they did [help], like Oman there are many organizations that help businesses and try to attract foreign investors.” (Manager Code: MBING)

This viewpoint was confirmed by a manager in the service industry who stated:

“These Chambers Of Commerce also help because they need investors to invest in their countries and today if you need information about any company, these Chambers Of Commerce are ready to help. “(Manager Code: CHING)

On the other hand, another group of participants from developing country MNEs were not satisfied with the level of cooperation from trade organizations within developing country markets. They asserted that these organizations provide little assistance, and often use very bureaucratic methods. One manager made this comment:

“Their bureaucratic processes affect our business operations.” (CEO Code: ASING)

The same conflict of opinions was found between managers of developed-country MNEs. On one hand, a group of participants agreed that trade organizations within developing country markets are helpful, and ready to offer those resources which are available. One manager stated:

“Yes. They are much more familiar with the market situation than us and we can save time/cost/labour by working with them.” (Manager Code: OMED)

On the other hand, a different group of participants were not satisfied with the level of cooperation received from trade organizations within developing country markets. They thought that these organizations generally provided little useful assistance. They also noted that these organizations use very bureaucratic methods. One manager put it simply:

“Chambers of Commerce provide little or no assistance to multinational companies.” (Manager Code: YJED)

5.3.2. Poor Regulation

Participants from developing-country MNEs were asked for their opinions on the quality of regulation within developing country markets. Overall, poor quality of regulation was found to be a pervasive feature within such markets. Some MNE managers thought that developing countries were unstable in terms of regulation. The more changeable political and

economic conditions in such countries can cause serious problems for MNEs. Another manager complained about the restrictions placed on foreign investors:

“The regulations of the foreign markets are more biased toward their national MNEs. They will not make life easy until they are confident that their MNEs are able to survive. For example, if Oman allowed Wal-Mart to enter the Omani market freely, Lulue (an Omani chain hypermarket) could not compete against it and would shut down as a result. So, the majority of developing country governments are protecting their MNEs.” (Manager Code: CHING)

In common with managers from developing-country MNEs, interviewees from developed-country MNEs were asked for their opinions about the quality of regulation within developing country markets. These managers generally found developing countries to be unstable in terms of regulation. They stated that regulations are more changeable than in developed countries, with strict laws, high taxes and other management obstacles often introduced. These have the potential of causing serious problems to MNEs. One manager stated:

“Strict new laws could be introduced against foreign companies, like high taxes and imposition of local content laws (...) as new decisions are usually taken by new governments. New economic policies, new laws, and new codes especially for foreign companies might be introduced as part of such political changes. Such new codes could bring about new tax laws, management issues, local content issues, etc. In some serious cases, where there is political turbulence, the economy may be destabilised, and economic activity will crumble.”(Manager Code: JVED)

Another manager complained about the restrictions that are placed around recruitment:

“The appointment of locals to the management of foreign companies causes serious problems. Firstly, the local personnel may not meet our specifications for the job. Secondly, these local personnel bring with them culture and philosophies that may not match our ways of doing things.” (Manager Code: UGVED)

It should be noted that one manager from a developing country MNE stated that the experience which such MNEs gain from operating within the most ineffective states in their home markets would seem to increase their ability to compete in similar markets. He explained this point as follows:

“... the experience of managing change that comes from operating in such states will enable us to compete successfully against competitors in such markets.” (Manager Code: GNING)

In contrast, some of the other managers from developing country MNEs explicitly rejected the idea that experience gained from working in an ineffective state may help when operating in similar markets. One manager gave his explanation as follows:

“Ineffective states in the home markets are limited to homeland only. When a company is working abroad, it is bound to certain official, social and political limits of that country. Experience with the ineffective state in the homeland can only help in general, so that organization has an idea what type of obstacles they may have in the project execution. This experience will not add to the progress of market capture.” (Manager Code: FSING)

Another manager from a developing country MNE made an interesting comment on this topic, saying that he would not operate within an ineffective state if he had to make the decision now (Manager Code: FTING):

“I think that I will not choose to operate in ineffective states. To invest in a foreign country you need big investments. In ineffective states the risk becomes higher and higher due to the fact that regulations and laws can change without any prior notice, which puts your investment in a high risk situation .To give you an example; if you take what happened in Egypt when Gamal Abdel-Nasser was president, one day he gave a speech in order to nationalise the Suez Canal {...} if those companies have gained any advantage because they did use corruption, they will lose their advantage.”

Managers from developed-country MNEs seemed to have little doubt that the experience gained by developing-country MNEs from operating in the context of ineffective

states within their home markets will increase their ability to compete. The following statement by one manager from a developed-country MNE explains this point:

“(...) the experience of managing change that comes from operating in such states will enable them to compete successfully against us in such markets.” (Manager Code: NIED)

Another participant indicated that:

“Such experience will enable those managers who worked in the company to efficiently collect information, talk with key government people, follow procedures and consequently shorten the time-to-market in a similar market.” (Manager Code: YJED)

To conclude, it seems that developing country markets do indeed suffer from excessive government bureaucracy and poor quality of regulation. Moreover, there is a prevalent view amongst developed country MNEs that the experience gained by developing country MNEs gain from operating in the most ineffective states in their home markets will enable them to compete in similar markets and contexts. However, the vast majority of managers within developing-country MNEs would not choose to invest within ineffective states. Their view was that their prior experience would only help in solving general issues, but would not add to their progress in market capture. Thus, proposition 2 of the present study was only partially supported.

5.4. Proposition 3: Recap

Proposition 3: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with poor protection for property rights and pervasive corruption.

5.4.1. Rule of Law

Participants from developing country MNEs were asked whether markets within developing countries suffered from a lack of laws, especially with regard to the protection of

property rights. The vast majority of the participants agreed that lack of implementation of the rule of law in developing country markets is a problem. One manager stated that:

“Copyright is a contemporary issue in Arabic countries. There are new regulations on copyright but no one implements these regulations.” (Manager Code: MAJING)

A manager from a different country had a similar view:

“Until, and unless, a fault maker is penalized and punished for wrong doing, we cannot ensure a secure and efficient network. But unfortunately the lack of laws encourages them to repeat again and again. And a time comes when they no longer feel their wrong doing as wrong.” (Manager Code: FSING)

Another manager illustrated the point further:

“Definitely, there are a lot of people, for example, people who are artistically talented and when you go to a market like Nigeria, they present these products as illegal copies for [the] public. This will cause no return for the original artists. The company which is producing these things, the originals, will lose because of lack of intellectual property law and copyrights.” (Manager Code: GNING)

Research participants from developed-country MNEs were also asked whether developing country markets suffer from a lack of laws, especially with regard to the protection of property rights. The vast majority of the participants agreed that lack of implementation of the rule of law within developing country markets is a problem. One manager stated:

“China lacks in the recognition of property rights. So, Japanese companies are reluctant to have plants in China with state-of-the-art technology.” (Manager Code: YJED)

5.4.2. Pervasive Corruption

Participants from developing country MNEs were also asked to give their perspectives on whether developing country markets were corrupt and, if so, how they dealt with such a situation. Some differences were found amongst the interviewees regarding this

issue. The majority confirmed that many developing country markets are corrupt. This is hardly a surprise, since numerous international reports reveal this to be the case. Some of those interviewed even thought that corruption prevailed everywhere. The following statements illustrate this point:

“There is no doubt about this, and this thing is proved scientifically. Most of the international academic reports like [those from] UN show that developing countries take first positions in these reports.” (Manager Code: MAJING)

“There is definitely some of this where I come from. Usually any company will try to follow the legal path for its operations, and if they cannot or if they face challenges, they may resort to corruption in order to reduce their loss. {...} there is a lot of evidence in courts and some cases are still ongoing against some state government officials. So, the easiest way to avoid complications is to give these people what they want (bribes). ” (Manager Code: GNING)

Another manager had this to say:

“This is fact, for example, in countries like Sudan, Yemen, and Nigeria, there is a lot of corruption and it is very difficult to set up any business without bribes. (...)When you enter a particular market, the decisions should be made accordingly, how? It will be a mix of having connections, Wasta, some pushing this way or a mix of them but sometimes one experience in one country cannot exist in another.” (Manager Code: MBING)

A particularly interesting example was mentioned by one manager from a developing country MNE, who stated:

“For example, we were planning to invest in one of the GCCs. All construction projects in this country were monopolized by a few national construction companies. These companies were looking for some foreign firms which agreed to get subcontracts. To get these subcontracts we should register our company to get all permissions required. Surprisingly, some of the government employees asked us for a bribe of one million US dollars to get all permissions within three days. Otherwise, we had to wait three months.” (Manager Code: FTING)

However, a few participants looked at this issue as something which is present everywhere, and which cannot be avoided in the majority of cases. One manager stated this belief in the following way:

“It is everywhere, developing or developed countries. In Pakistan the bribes are very popular, and I am sure it will also in India and sure it will in US also everywhere.”
“(Manager Code: CHING)”

Managers from developed-country MNEs were also asked about their perspectives on whether developing country markets were corrupt and, if so, how they dealt with such a situation. The majority confirmed that many developing country markets are corrupt. The following statement serves to illustrate this point:

“Corruption is more pronounced in developing nations. From our experience, yes, some of the developing country markets are corrupted (...) when we sense signs of corruption; we try to require official documentation or receipts for whatever transactions we engage in.”
(Manager Code: UGVED)”

An additional question was asked of participants from developing country MNEs. Specifically, they were asked whether they thought that the experience which their company had gained from dealing with poorly protected property rights and pervasive corruption in their home markets enabled them to compete successfully in similar markets. The analysis of their responses showed that they felt that the experience did help their MNEs to perform more effectively. According to (Manager Code: MAJING), whilst some developing countries have their own copyright regulations, such legislation is often poorly implemented. In contrast, developed countries have strong regulations regarding this issue. Thus, most developed-country MNEs feel that they are monitored when they do business, which encourages them to respect and protect property rights.

On this issue, one manager stated:

“This is a good question. Because I come from such a background, I understand 'law loopholes' in the system. Therefore, I tend to invest in those countries if I have some relationships with locals and better central government officials. Why? Because if you do business, the final aim of most business is profits regardless of any means. Therefore, if I am a tricky business person, I would find a lot of opportunities to invest in such countries as long as I am backed by local officials, of course through bribery.” (Manager Code: CHING)

A similar view was expressed by another manager:

“They cannot completely avoid corruption, but once the company is familiar with the corruption types, they can at least survive longer with less bribe involvement.” (Manager Code: FSING)

One manager indicated that:

“Yes, the experience will win always. Thus, companies from developing countries can compete successfully against developed-country MNEs when they operate in developing country markets, but if they don't have that many resources, they may not succeed.” (Manager Code: MBING)

Participants from developed country MNEs were also asked about this topic. They agreed that prior experience would tend to help developing-country MNEs to perform better. For instance, one manager stated:

“Yes. Any such experience will enable the developing country MNEs to effectively perform their operation without wasting time, money and labour.” (Manager Code: YJED)

To conclude, the interviewees believed that developing countries tend suffer from corruption and lack of law enforcement, especially regarding protection of property rights. Moreover, experience of these disadvantages can be exploited by MNEs from developing countries when they operate in a similar environment. This can give them an edge over their competitors, as they will better understand the ‘legal loopholes’ within the government system. Thus, proposition 3 was supported by the qualitative data.

5.5. Proposition 4: Recap

Proposition 4: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries with high levels of consumers experiencing poverty.

In order to explore this proposition, the researcher asked the managers interviewed for the study about the methods that their company uses when seeking to understand consumers within developing country markets.

Generally speaking, the analysis of the research data showed that two main methods are used in order to understand customers within developing country markets. Some MNE managers use survey and market research, whilst others rely upon customer feedback when investing globally. One manager explained how his MNE deals with this issue:

“Through our partners in these markets, sure, this will be after the investigation about their ability to provide what we want. In some situations, we send some people to that market to know to what extent this market is suitable for our business.” (Manager Code: FTING)

Another manager indicated the preference of his company:

“It is always through market research and practical experience. Based on these we should know what customers require and what the best we can do to succeed is.” (Manager Code: MBING)

The analysis of the research findings showed that developed-country MNEs tend to focus on two methods when seeking to understand customers within developing country markets, namely market surveys and customer feedback.

Specifically, this was confirmed through the answers given to the question mentioned above:

“By asking for customers’ feedback.”(Manager Code: UGVED)

“Market surveys and product feedbacks.”(Manager Code: OMED)

Another method was also mentioned:

“Directly visiting and talking with customers.”(Manager Code: NIED)

Overwhelmingly, the proposition that having the experience and ability to serve where there is poverty amongst the customer base in the home market will allow MNEs from developing countries to be more prevalent in developing country markets was not supported. The vast majority of managers from developing country MNEs did not support the view that a company from a developing country will be more capable of serving customers in developing country markets because of experience with poorer customers. They justified this by saying they will not always understand the needs of their customers better than others from developed countries.

In addition, it was felt that developing country MNEs do not tend to give sufficient attention to customer relationship management, as they often do not have a proper customer database. In contrast, developed country MNEs usually have more resources, and the technology which enables them to build their presence within all segments of developing country markets.

One manager justified this view by pointing out the following:

“I personally do not feel that a company in a developing country can be successful in a developing country market. This is because; this type of company that worked in a developing country will have less exposure to different types of environments and customer attitudes towards purchasing processes. In addition, companies from developing countries usually do not keep proper customer data bases that demonstrate customer choice. Developing country companies are weak in customer relationship management and fail to build customer loyalty and retention. This kind of company might be attractive to the market and to customers due to inexpensive branding; however, it is difficult to capture a big market share.” (Manager Code: JNING)

Another manager stated:

“The settings in the developing country market might not necessarily be the same in another developing country {...}. While it may seem that the developing country may have settings similar to developing country markets, it is not sufficient to say they hold an advantage over their developed country counterpart in this regard. Even if there are some profound similarities, the developed countries can level the playing field by forming alliances with local partners who have local knowledge. In addition to that, developed countries usually have larger resources and the technology to have a huge presence in developing country markets than their developing country counterpart. Technology is fast becoming the way to do business as it is constantly bridging geographical barriers.”(Manager Code: TSING)

Some managers highlighted some of the issues which they thought could lead to better results than experience alone. These included knowledge of consumer needs, the provision of good customer services, and reasonable pricing.

One of them explained his viewpoint in the following terms:

“Experience counts for a lot. But knowing the customers’ needs will count more in helping MNEs become more prevalent in developing country markets. The best example of such a strategy is now given by the Chinese.{...}. The Chinese then entered the market with a new vision that they would help low income people. They provided the products in varying degrees of quality so that the product was accessible to the whole population. We take the example of the mobile phone. If we go ten years back, the mobile phone used to be carried only by people having a high family status or being suitably employed. Nowadays, because of the Chinese market, a person who earns just enough to live hand-to-mouth still has a mobile in his pocket. (Manager Code: FSING)

The same interviewee went on to describe what he believes MNEs should do in countries where many people have low incomes:

“The main products of the company should be available at cheap and reasonable rates with quality ensured status. Then an upgrade or most advanced version should be introduced later

to serve the wealthy people. But the primary concern should be facilitating poorer customers. For example, mobile phones have two basic functions: calling and messaging. With Nokia 3310, you can get that. This mobile cost about 15USD nowadays. Any 4G mobile costing around 700USD also has both basic functions available. But it has many more extra functions. All depends on the interest and use of the person concerned but at least the main functions are there in all mobiles.” (Manager Code: FSING)

Another manager stated that:

“There is something common everywhere and that is that customers need good services; for instance, if you go to a very big shop, mall, small shop, anywhere, customers need good service, and if you have an awareness system, it will definitely help you succeed anywhere. (Manager Code: MBING)

In addition, the vast majority of the managers from developed country MNEs did not support the view that a company from a developing country will be more capable of serving customers in developing country markets because they are used to catering to poorer consumers. It was felt that such companies would not necessarily always understand the needs of customers better than those from developed countries. In particular, it was felt that developing country MNEs lack the advanced technology needed to dominate developing country markets. One manager summarised this belief as follows:

“I do not think so. Even if the company from the developing country understood their customers’ needs, they do not have enough technology or enough knowledge to satisfy their customers’ needs.” (Manager Code: YJED)

To conclude, it is clear that proposition 4 was not supported. The vast majority of MNE managers believe that, largely because of a lack of adequate technology, MNEs from developing countries will tend to fail to satisfy consumer need. This is due to the fact that a developed-country MNE which is able to count upon technological advances within its business operations will save time, money and labour in comparison with developing country

MNEs. Experience, it appears, is not valued as highly as cutting edge management, production, and marketing techniques.

5.6. Proposition 5: Recap

Proposition 5: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries with the most poorly developed infrastructure.

For the purpose of gaining a better understanding of infrastructure within developing country markets, this study explored the views and experiences of interviewees of such infrastructure. The views of participants were mixed, as some saw the infrastructure in developing country markets as poor, whilst some thought that it was poor in some countries and reasonable in others. Nevertheless, the majority of developing country MNEs believed that the infrastructure in developing country markets is poor.

One manager made the following comment:

“The infrastructure in developing countries I can tell you about is poor. For example, until some years ago, some banks in Pakistan still did not have electricity. Branches working there, customers coming there and doing their transactions, and sometimes these branches [were] working till night. Also, some developing countries did not have good roads, phones, or landlines.” (Manager Code: MBING).

In contrast, some managers believe that the true picture of infrastructural developing is mixed, with one interviewee stating:

“It is a mix, where countries like Angola has poor infrastructure, and countries like Nigeria have regions with developed infrastructure and other regions that are less developed. Thus, the infrastructure is very important to any company that wants to invest globally.” (Manager Code: GNING)

A generally held opinion amongst managers within developed-country MNEs is that the infrastructure within developing country markets is poor. The following statement is a representative example of their views:

“Generally, infrastructures in developing country markets are fairly poor. For the development of developing country markets, improvement of transportation infrastructure is indispensable.” (Manager Code: YJED)

However, some investors viewed poor infrastructure as a good incentive to invest. This was particularly the case for those who came from home markets with less developed infrastructure. For instance, one manager from a developing country MNE stated:

“The company has already undergone such a situation before. It already knows the ups and downs in the execution. It already has an idea about the required resources and possible obstacles on the way.” (Manager Code: FSING)

In contrast, some managers from developed countries had different views about the incentives offered by poor infrastructure within developing country markets. They thought that this type of infrastructure would require heavy investment, which might increase the cost of their products. Thus, they did not tend to invest in countries with poor infrastructure.

This view was supported by some of the participants, with one manager stating that:
“...it means we would have to invest more into the system, in order to be able to operate in such markets. To start investing heavily at the beginning is a bit risky.” (Manager Code: UGVED)

Another manager had this to say:

“The disadvantage is that to operate in such markets, a company will require more financial investment to bring the infrastructure to a good level, for its operations.” (Manager Code: JVED)

The data also indicates that the benefits of experience within similar business environments may help developing country MNEs which seek to operate within poorly developed infrastructures. The following statements from developing country managers support this view:

“Yes, experience counts in business, you will always gain experience when you operate in a market and it will help you to operate successfully when you want to operate in a similar market compared to a company entering for the first time.” (Manager Code: MBING).

“Yes, definitely it will help, because you already have the experience of operating in difficult situations of infrastructure. Then, it will be easy.” (Manager Code: GNING).

“The ability to deal with difficulties can help us be successful in business.” (Manager Code: YSING).

Managers from developed-country MNEs also supported the idea that the experience which managers from developing markets gain when working within poorly developed infrastructures tends to provide them with a competitive advantage.

The following statements support this view:

“Of course, the experience gained by operating in such circumstances will enable them to compete favourably against us when they operate in similar markets to their homes.” (Manager Code: NIED).

“Yes. For a manufacturer, infrastructure is very important. Such experience will enable developing-country MNEs to effectively proceed with a feasibility study without wasting time, money and labour when considering investment.” (Manager Code: YJED).

To conclude, undeveloped infrastructure is a catalyst which serves to attract investment from developing country MNEs. It can provide companies from developing countries with an edge over their competitors from developed countries, especially if they are able to find an appropriate partner. In addition, developed country MNEs simply do not seek to invest within such countries, given the extra financial overheads and increase in investment

risk which it may entail. For these reasons, proposition 5 was supported by the qualitative data.

5.7. Summary of key findings

The findings produced through the qualitative research conducted in this study suggest that authoritarianism is present in most developing country markets. Governments in such countries also tend to suffer from a lack of democracy and an unstable political environment. Although the experience which developing-country MNEs gain from operating under the most authoritarian regimes in their home markets should enable them to compete successfully against their competitors in similar markets, some participants did not agree that this experience would be enough to compete successfully. Those interviewed thought that, after a period of time, developed-country MNEs are able to adapt their operations under authoritarian regimes, and are thereafter able to compete successfully.

In addition, the responses of those interviewed demonstrated widespread agreement over the fact that developing country markets suffer from governmental bureaucracy and poor regulatory environments. Moreover, there is a view that the experience which MNEs gain from operating within ineffective state structures in their home markets enables them to compete and to be more prevalent within similar markets. However, the vast majority of managers from developing-country MNEs do not, in fact, choose to invest within ineffective states. This is because their experience might only help in solving general issues, and would not add to the process of effective market capture.

Moreover, it was found that markets within developing countries suffer from corruption and a lack of law enforcement, especially regarding protection of property rights. These disadvantages can be exploited by MNEs from developing countries, however, when they have had experienced of operating within a similar environment. This can provide them

with an edge over their competitors, as they will understand the ‘legal loopholes’ within the governmental system.

The vast majority of managers associated with developing country MNEs disagreed with the proposition that their companies would have an advantage within markets in which there are high levels of consumers experiencing poverty.. Instead, they agreed with managers from developed-country MNEs in believing that a lack of technology makes it difficult for developing country MNEs to satisfy consumer needs. This is due to the fact that a developed-country MNE which is able to count on technological advances within its business operations will save time, money and labour in comparison with its competitors.

Finally, poorly developed infrastructure is seen by those interviewed as an important incentive in attracting investment from developing country MNEs. This can give them the edge over their competitors from developed countries, particularly as MNEs from more developed nations tend to avoid investing in such countries. This is because to do so requires additional financial investment, and an increase in investment risk.

Table 5.1: Summary of Proposition Tests

Proposition content	Extent of support for the proposition
Proposition 1 : “Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most authoritarian regimes”	Partially Supported
Proposition 2 : “Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with the most ineffective states”	Partially Supported
Proposition 3: “Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there is poor protection for property rights and pervasive corruption.”	Fully supported
Proposition 4: “Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries with high levels of consumers experiencing poverty.”	Not Supported
Proposition 5: “Developing-countries MNEs are likely to have an advantage over developed-country MNEs when investing in countries with the most poorly developed infrastructure.”	Fully supported

Chapter 6: Discussion, Conclusion, Implications, and Limitations

6. Introduction

Chapter Four reported on the quantitative results of the current study, and Chapter Five reported on its qualitative research. The aim of this chapter is to discuss the findings of this study, and then to link them with the existing literature. This chapter will be divided into seven main sections. The first will aim to discuss the main findings of the research. The second will examine the research conclusions, and the third will provide an overview of the whole thesis. The fourth and fifth will discuss the implications of the research findings, both theoretical and managerial, respectively. Finally, this chapter will highlight the limitations of the study, and recommend further research options.

6.1 Overview of the main findings

Both the quantitative and qualitative results of this study, when applied to the propositions and hypotheses outlined in previous chapters, have shown that developing-country MNEs have an advantage over developed-country MNEs when investing in developing countries with the most poorly protected property rights and pervasive corruption (P3), and when investing in countries with the most poorly developed infrastructure (P5). Also, both quantitative (Model 1 and Model 2) and qualitative data indicated that the fourth proposition (P4) should be rejected. Therefore, it can be said that the capability to provide services to consumers experiencing poverty negatively affects their prevalence within developing markets. Whilst this capability has a positive impact on the prevalence of developed-country MNEs within developing markets, such an impact is not significant.

Whilst the second proposition (P2) was not supported by quantitative data, it was partially supported by the qualitative findings. Some interviewees believed that the number of

developing-country MNEs increases in developing countries when the ineffectiveness of a state increases. Regarding the first proposition (P1), although the results of Model 1 have not given it support, it has been partially supported by the findings of Model 2, and by the qualitative findings. Therefore it can be said that there is a negative relationship between the prevalence of developed-country MNEs within developing countries and the presence of the most authoritarian regimes.

6.2. Discussion of the propositions in relation to the study's findings

The following subsection presents a discussion of each research proposition.

6.2.1 Discussion of the first proposition

One of the most important goals of this study was to establish which factors could affect the ability of MNEs to operate under authoritarian regimes within developing-country markets. The proposition used to determine this information is outlined below, together with its corresponding hypotheses.

Proposition 1: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with authoritarian regimes.

Hypothesis H1a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

Hypothesis H1b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most authoritarian regimes).

As explained previously, the ability to operate under the most authoritarian regimes in developing-country markets was measured using two factors. These were 'voice' and accountability within the country, and political stability and absence of violence. Using the

database from Kaufmann et al. (2008), the author was able to determine the first independent variable for this study. The data collected from the semi-structured interviews was also utilised. The dependent variable was the prevalence of MNEs within developing-countries. Due to the lack of data about the financial performance of MNEs in developing countries, the researcher used the percentage of the largest MNEs in developing countries to measure the prevalence of developing country MNEs within these countries. This technique has been used in previous studies such as this conducted by Cuervo-Cazurra and Genc (2008a).

Hypothesis H1a has not been supported in both models (Model 1 and Model 2). The researcher expected that the prevalence of developing-country MNEs in developing countries would be higher when operating under the most authoritarian regimes. However, the result demonstrated a negative relationship between the ability of MNEs to operate under authoritarian regimes (independent variable) and the prevalence of MNEs in developing countries (dependent variable). It should be noted, however, that these were not significant. This result was attained in both models, namely when considering all MNEs (Model 1) and when excluding MNEs which work in the natural resources sector (Model 2). This result can be understood as demonstrating that most MNEs from developing countries attempt to avoid investment in countries governed by significantly authoritarian regimes.

Although developing-country MNEs may know how to deal with a lack of accountability within a country, as well as with violence and an absence of political stability, they nonetheless prefer to invest in developing countries where accountability and political stability are assured, and where violence is absent. Managers of developing-country MNEs may be more aware of the problems and challenges which arise when investing in politically unstable states with no accountability and with a high likelihood of violence. For this reason, they actively attempt to avoid investing in such countries.

In contrast, the researcher predicted that the prevalence of developed-country MNEs in developing countries would be lower when operating under the most authoritarian regimes (giving rise to a negative relationship)(H1b). The study's results conflict somewhat in this area, with differing results from the two models which were used. However, both models demonstrated a non-significant relationship between the ability of developed-country MNEs to operate under the most authoritarian regimes (independent variable) and the prevalence of MNEs in developing countries (dependent variable). According to the findings, the percentage of developed-country MNEs will increase in Model 1 and will decrease in Model 2. This means that MNEs serving in natural resources such as MNEs specialised in the extraction of natural resources (oil, aluminium, etc.) are more likely to operate in developing countries which are governed by authoritarian regimes.

This result can be explained because many developing countries are very rich in natural resources. This is especially the case for African countries (Tragakes, 2012). Also, many resource rich countries are governed by authoritarian regimes (Francis, 2011). In addition, unlike other MNEs, which prefer to invest in democratic countries which are politically stable, MNEs operating in the natural resources sector are purely attracted purely by the location of resources (Kahale, 2011). In other words, natural resources attract companies which work in the extraction sector, regardless of the authoritarianism of the country's regime. For this reason, the relationship between the prevalence of developed-country MNEs and authoritarian regimes is positive when considering all MNEs, and negative when natural-resource sector MNEs are excluded.

In addition, the qualitative findings of this study demonstrated that authoritarianism is present in most developing country markets. As some participants indicated, the governments in these countries tend to suffer from a lack of democracy and an unstable political environment. This affects the ability of MNEs to plan properly. Although the experience

which developing-country MNEs gain from operating under the most authoritarian regimes in their home markets should enable them to compete successfully against their competitors in similar markets, some participants did not agree that this experience would be enough to compete successfully. They stated that after a period of time, developed-country MNEs would be able to adapt their operations under such authoritarian regimes, enabling them to compete successfully.

Therefore, for hypothesis H1a, these results support the findings of Cuervo-Cazurra and Genc (2008a), who found in their study that voice and accountability, and political stability and absence of violence, had a negative but not significant relationship upon the prevalence of developing-country MNEs. The same findings are supported by Han (2011), who found that voice and accountability had a negative but not significant relationship with the prevalence of developing-country MNEs. Many studies have also found that political instability has a negative relationship with FDI inflow (Nigh, 1985; Schneider and Fery, 1985; Woodward and Rolfe, 1993; Chakrabarti, 2001). In contrast, Globerman and Shapiro's (2002) study, which was about the role of governance infrastructure, found a positive relationship between voice and accountability and foreign direct investment. It also found a positive relationship between the independent variable (political instability/violence) and the dependent variable (foreign direct investment).

In addition, Harms and Ursprung (2001) found that MNEs prefer to operate within countries where civil and political freedom is respected. Also, in his study, Jensen (2003) found that democratic countries attract a large amount of foreign direct investment inflows.

For hypothesis H1b, the results support the findings of Resnick (2001), and Tuman and Emmert (2003). Tuman and Emmert (2003) conducted their study on the topic of United States FDI within Latin America, and found that poor human rights records and coup d'états positively affected FDI. Resnick (2001) attempted, in his study, to uncover a connection

between transition to democracy and FDI in Asia, Latin America and the Caribbean. His findings showed that transition to democracy has a negative correlation with FDI and deters foreign direct investors.

A possible explanation for the result of hypothesis H1b may be that authoritarian regimes are less important to MNEs when compared to other non-market capabilities such as corruption (Cuervo-Cazurra and Genc, 2008b). Furthermore, as long as regimes treat foreign investors well, MNEs will invest where good business opportunities exist (Cuervo-Cazurra and Genc, 2008a). A well-known example of this is China, which has an authoritarian government. China is governed by a dictatorial communist party and has a weak legal system (Li, 2005). Despite this, it has received a large amount of FDI inflows. For example, in 1996, China received 38% of the total FDI inflow to developing countries (Moran, 1999), reaching a sum of \$42 billion. In 2010, FDI inflows for China increased to \$185 billion (World Bank, 2010). Another possible explanation is that when a country presents a high risk, but also promises significant potential returns, MNEs will prefer to continue investing in the hope of generating profit (Anwar et al., 2008).

It is worth noting that MNEs can sometimes encounter government intervention, although this can be overcome through such companies building and maintaining strong relationships with governmental authorities (Ul-Haq and Farashahi, 2010). This is what Li (2005) has called a relation-based governance system, in which people and business organizations rely on private relationships in order to manage their social and economic transactions.

Moreover, although the quantitative results have shown a negative relationship between the prevalence of developing-country MNEs within developing countries and the most authoritarian regimes, some interviewees believed that MNEs from developing countries can obtain benefits from operating under the most authoritarian regimes. Therefore,

the qualitative results indicated that the prevalence of developing-country MNEs should increase within developing countries with the most authoritarian regimes.

One may explain this result by examining the success of the specific developing-country MNEs to which the interviewed managers belonged. Such managers are working within those developing countries with the most authoritarian regimes, and despite this, their companies are experiencing success. It is also worth noting that, due to the non-significant nature of the quantitative result, such qualitative findings could be said not to conflict with it. Thus, the researcher has suggested two resulting implications for decision makers who wish to operate within countries with authoritarian regimes (implications 1 and 4).

6.2.2 Discussion of the second proposition

Proposition 2 states that developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with ineffective states. The following two hypotheses have been tested:

Hypothesis H2a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most ineffective states).

Hypothesis H2b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most ineffective states).

As with proposition 1, the ability to operate within ineffective states in developing-country markets was measured using two factors. These were government effectiveness and the quality of regulation (Cuervo-Cazurra and Genc, 2008b). These two factors deal with the ability of a firm to create and apply sound economic policies (Cuervo-Cazurra and Genc, 2008b). Using the database from Kaufmann et al., (2008), the author was able to determine the second independent variable for this study. Data from the semi-structured interviews was

also utilised. The hypotheses H2a and H2b were not supported in both models, and so proposition 2 as a whole is not supported.

For hypothesis H2a, the results have shown a negative and significant relationship between the ability of MNEs to operate within the most ineffective states (independent variable) and the prevalence of developing-country MNEs within developing countries (dependent variables). The results have also shown a positive relationship between the ability of MNEs to operate within ineffective states, and the prevalence of developed-country MNEs in developing countries. This signifies that the percentage of developing-country MNEs will decrease in a country with an ineffective state, and this is the case in both models. In contrast, the percentage of developed-country MNEs will increase in a country with an ineffective state in both models.

The qualitative findings of this study have demonstrated agreement from interviewees over the fact that developing country markets suffer from excessive governmental bureaucracy and poor regulation. Moreover, there is a view that any experience which developing country MNEs gain from operating within ineffective states in their home markets will enable them to compete in similar markets. However, the vast majority of developing-country MNE managers did not choose to invest within ineffective states, stating that such experience might only help in solving general issues, but would not add to the progress of market capture.

These results are not in line with research undertaken by Han (2011) who suggested that there is a positive relationship between the prevalence of MNEs within LDCs and the effectiveness of governmental and regulatory quality. Cuervo-Cazurra and Genc (2008a) also found positive relationship between the prevalence of MNEs in LDCs and government effectiveness. Moreover, Globerman and Shapiro (2002) found a positive relationship

between FDI and the factors of government effectiveness and regulatory burden. In contrast, a study undertaken by Rammal and Zurbruegg (2006) found a negative relationship between poor regulatory quality and FDI. In addition, a study by the World Bank (2010) has found that countries with poor regulation and inefficient governmental processes tend to receive lower amounts of FDI. Developing countries tend to have poor contractual and legal systems (Reinhardt et al., 2008), and as a result, foreign investors are often discouraged from entering such markets (Huang et al., 2010).

In essence, the results show that although developing-country MNEs may have an edge in developing-country markets because of their ability to deal with ineffective states and poor regulatory bodies, they actually prefer to operate in those markets where the government is more effective and oversees a strong regulatory environment.

Managers from developing countries may be more effective when working in countries with poorly protected property rights and pervasive corruption. However, they still prefer working where there are sound government policies and regulations. Whilst some developing-country MNEs have come from countries with poor government effectiveness and weak regulatory quality (Sun, 2007; Reinhardt et al., 2008), and therefore have experience in dealing with such environments, they actually have the same needs as any other MNE. In reality, MNEs from developing countries require the basic protection of an effective government with good statutory regulations in order to become successful.

Weak enforcement of regulatory policies is likely to be preferred by MNEs who have a significant existing portion of the market share, and the ability to access decision makers. This may create a bias against foreign investors overall (Spar, 2001; Bevan et al., 2004), although it may also lead to certain developed-country MNEs tending to prefer investment within a country with an ineffective state. This is particularly the case when examining

companies from countries such as the UK, France and Germany, which have existing links to Africa and other developing continents through the historical legacy of colonisation. This allows such companies to advance in these regions, as they have experience in dealing with ineffective states with poor regulatory quality. If this is the reality, further research needs to be conducted in order to examine the effect colonization may have on the prevalence of MNEs in developing countries.

An additional possible explanation for these results is that developing-country MNEs might have similar problems with their home government, causing many obstacles for their business operations. Therefore, they want to rule out facing the same problems when dealing with ineffective policy makers in other countries. In contrast, developed-country MNEs are well aware that corrupt government officials within the developing world can be bribed to gain favours. The other possible reason is that the management knowledge possessed by developed country MNEs, when allied with an understanding of inefficiencies within developing nations, enable such companies to run businesses effectively even within an ineffective state.

The second proposition (P2) is not supported by the majority of interviewed managers. However, some interviewees have presented opposing points of view. They believe that ineffective states offer a good environment for MNEs which are looking to invest. Therefore, they state that when ineffectiveness of states increases, the prevalence of developing-country MNEs increases also. The reason for this opposing view would seem to lie within individual experience. These interviewees work within ineffective states which, nevertheless, have provided a good environment for their particular business. Generalising from their particular experience, they have come to the conclusion that all developing country MNEs must have similar experiences within similar states. This does not appear to be supported by the facts.

Thus, the researcher has been suggested implication 5 for policy makers who plan to invest in the most ineffective states.

6.2.3. Discussion of the third proposition

Proposition 3 asserts that developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries with poorly protected property rights and pervasive corruption. This proposition has been tested by examining the two following hypotheses:

Hypothesis H3a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

Hypothesis H3b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly protected property rights and pervasive corruption).

A growing body of literature on the topic of corruption shows that it takes place when people break the law for their own gain (Khan, 2006). Hence, corruption creates challenges for foreign firms, as it raises the cost of operating outside their home market and, in addition, increases uncertainty and risk (Cuervo-Cazurra, 2006).

As explained in the research methodology chapter, the ability to work despite poorly protected property rights and pervasive corruption combines two important factors. These are the rule of law and pervasive corruption. These factors deal with the respect which both the government and the people have for the laws of their country (Cuervo-Cazurra and Genc, 2008b).

Hypotheses H3a and H3b were largely supported by the findings of the study. The results all pointed in the same direction, and showed a significant relationship between the prevalence of MNEs in developing countries (dependent variable) and the ability to work despite poorly protected property rights and pervasive corruption (independent variable).

For H3a the researcher expected that the prevalence of developing-country MNEs within developing countries would be higher when such organisations are working in an environment of poorly protected property rights and pervasive corruption. The results showed a positive and significant relationship between the ability to work in a context of poorly protected property rights and pervasive corruption (independent variable) and the prevalence of developing-country MNEs in developing countries (dependent variable).

In contrast, and as was expected, the results have shown a negative relationship between the ability to work in a context of poorly protected property rights and pervasive corruption (independent variable) and the prevalence of developed-country MNEs in developing countries (dependent variable). This reveals that the percentage of developing-country MNEs will increase in a country with such an environment, across both models. In contrast, both models indicated that the percentage of developed-country MNEs will decrease within developing states which protect property rights poorly and suffer from pervasive corruption.

The qualitative findings of this study were in line with the quantitative findings, and demonstrated that markets within developing countries suffer from corruption and a lack of law enforcement, especially regarding protection of property rights. Moreover, these disadvantages can be exploited by those MNEs from developing countries which originate from a similar environment. This can provide them with an edge over their competitors, as

they will tend to understand the ‘legal loopholes’ to be found within the governmental system.

This finding is consistent with RBV, which is based upon having unique, rare, valuable, and imitable resources. This indicates that there might be some advantage to be gained from the ability to work in developing countries with poorly protected property rights and pervasive corruption. Thus, it is consistent with the research argument and literature that non-market capabilities are important for managers to succeed within developing country markets.

These findings concur with many studies (Egger and Winner, 2005; Cuervo-Cazurra, 2006; Zhou, 2007; Cuervo-Cazurra and Genc, 2008a; Han, 2011) all of which found that developing-country MNEs can achieve an advantage over their competitors when they operate in countries which lack the rule of law and suffer from pervasive corruption. However, the findings were contrary to those investment studies (Mauro, 1995; Wei, 2000a; Wei 2000b; Lesser, 2001; Drabek and Payne, 2001; Smarzynska and Wei, 2002; Habib and Zurawicki, 2002; Goodspeed et al., 2006; Daude and Stein, 2007; Straub, 2008), which have found that corruption negatively affects foreign investment.

The results of the present study reveal that developing-country MNEs know which tactics to use, and that they rely on their networking capabilities for the implementation of contractual enforcement, as well as for locating the right business partner. Developing-country MNEs may even go so far as to use local gangs to impose their business agreements (Han, 2011). In contrast, developed-country MNEs tend only to rely upon what is written in contracts (Han, 2011). Besides that, developed-country MNEs have a large number of patents compared to developing-country MNEs, and they often require protection for their

intellectual property rights. Therefore, working in a country where there is a lack of the rule of law may hinder their operations.

In addition, managers from developing-country MNEs have knowledge with regards to bribery. This includes who to bribe, the amount required and the timing of the bribe (Han, 2011). They do not normally care about property rights, as they are not used to them existing. As a result, they are confident when operating in this context. In comparison, developed-country MNEs do not have much experience in the area of bribery, as this is strictly monitored by their home governments and non-governmental organisations, making it difficult to carry out (Han, 2011). Moreover, in some host countries, government officials may ask for a bribe and these MNEs will be at disadvantage compared to domestic firms. This is because they do not have personal connections and knowledge of domestic customs (Straub, 2008). An effective understanding of the effect and consequences of corruption is very important (Khan, 2006; Ul-Haq and Farashahi, 2010). Based on the above discussion, the researcher has identified implication 3 as being particularly important for managers who plan to invest in countries which suffer from corruption and a lack of effective law enforcement.

6.2.4 Discussion of the fourth proposition

Proposition 4 states that developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in developing countries where there are high numbers of consumers experiencing poverty. The following two hypotheses have been tested in order to examine this proposition.

Hypothesis H4a: Developing-country MNEs will be more prevalent among MNEs in developing countries where there is poverty amongst the customer base.

Hypothesis H4b: Developed-country MNEs will be less prevalent among MNEs in developing countries where there is poverty amongst the customer base.

The capability to provide services to consumers experiencing poverty was measured using GNI per capita from the World Development Indicators (WDI) database of the World Bank, which is widely recognized and used. This particular measure has been used to determine the wealth of a country's population in some studies published in reputable journals, such as the *Journal of International Business Studies*.

Hypotheses H4a and H4b were not supported. The direction of the relationship between the dependent variable and independent variable was negative for the case of developing-country MNEs and positive for developed-country MNEs.

The researcher had expected to find a positive relationship between the prevalence of developing-country MNEs in developing countries and the capability to provide services to consumers experiencing poverty. This expectation was based on the fact that many people in developing countries such as Pakistan, China, Brazil, India, and Nigeria live on a daily income of less than \$1.25 US (World Bank, 2004). Therefore, MNEs coming from such countries have the capability to provide services to consumers experiencing poverty, and frequently employ workers from low-income backgrounds. Consequently, they have more experience and should be more capable of offering services to other poor customers in other developing countries. In contrast, most customers in developed countries have relatively high levels of income, and developed-country MNEs accommodate their business for this type of customers (Cuervo-Cazurra and Genc, 2008a). As a result, these MNEs should face a challenge when they operate in poorer developing countries.

However, the result was opposite to what was expected, and a negative relationship was found. This means that the percentage of developing-country MNEs will decrease in a

country where there is a high level of poverty amongst consumers. It should be noted that this relationship was not statistically significant.

In parallel, the result found a positive relationship between the prevalence of developed-country MNEs within developing countries and poverty within the customer base. This reflects that developed-country MNEs are more prevalent in a country where there is poverty amongst consumers. However, it should be noted once more that this result was not statistically significant.

The qualitative findings of this study demonstrated differing views on this topic. The vast majority of developing-country participants, however, did not believe that prior experience in serving poor customers provided a benefit. Managers from developed-country MNEs seem to believe that the lack of adequate technology on the part of developing country MNEs makes it difficult for them to satisfy the needs of their consumer base, regardless of income. In addition, it was pointed out that a developed-country MNE which is able to count on technological advances in its business operations will save time, money and labour in comparison to its competitors.

This result was supported by Han (2011), who found a negative relationship between the largest affiliates of MNEs from developing countries within LDCS, and GNI per capita. Woodward (1992) also found a negative relationship between FDI and poverty. However, the current study contrasts to the findings of Cuervo-Cazurra and Genc (2008a), which demonstrated a positive relationship between GNI per capita and the prevalence of developing-country MNEs. It seems that developing – country MNEs have negative experiences about investing in poor countries. They might find that poor people are not attracted by their products and services, and so it needs more time and effort from them to convince those people about their products and services.

In contrast, developed-country MNEs have R&D departments, which provide significant assistance when determining the exact needs of customers within any market. For example, 91% of the research and development which has been undertaken by MNEs from the United States was located in developed countries (Dunning, 1998). This enables such MNEs to design the perfect product to sell within each market. Indeed, developed-country MNEs have the ability, and the financial resources, to create strong networks which help in distributing their products and services. Moreover, these MNEs have advanced customer finance techniques, which enable even poorer customers to buy their products, as well as strong marketing strategies. Based on all of the above, it can be seen that implication 6 will be a focus of particular interest for managers from developing countries who wish to invest in other developing country.

6.2.5 Discussion of the fifth proposition

Proposition 5: Developing-country MNEs are likely to have an advantage over developed-country MNEs when investing in countries with poorly developed infrastructure.

In order to examine this proposition, the following two hypotheses have been tested:

Hypothesis H5a: there will be a positive relationship between X (developing-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

Hypothesis H5b: there will be a negative relationship between X (developed-country MNEs prevalence in developing countries) and Y (the most poorly developed infrastructure).

According to the quantitative results of this study, hypotheses H5a and H5b have been supported in both models (Model 1 and Model 2). The direction of the relationship between the dependent variable and independent variable is positive in the case of developing-country MNEs and negative for developed-country MNEs.

This result was expected by the researcher, as firms from developing countries are used to operating within the context of poor infrastructure (Khanna and Palepu, 1997; Hammond and Prahalad, 2004; Briceno-Garmendia et al., 2004). For example, such companies are better able to operate within a context of unreliable telecommunications (UNCTAD, 2009), poor electricity supply, or problematic transportation networks (Un and Cuervo-Cazurra, 2004). They have adapted their products, managerial capabilities, and technology to meet these limitations (Lall, 1983; Un and Cuervo-Cazurra, 2004). Developed-country MNEs, however, are accustomed to operating within effective infrastructures in their home countries and can, therefore, encounter difficulties when seeking partners in developing countries. In fact, the lack of infrastructure in the host market may negatively affect their operations and make it difficult for them to operate within these markets (Han, 2011).

The qualitative findings of this study demonstrated that infrastructure is a catalyst which leads MNEs from developing countries to invest in those countries where infrastructure is poorly developed. This can give such companies an edge over their competitors from developed countries. This is particularly the case as developed country MNEs often avoid investing in such countries at all, given that this will require extra financial resources and will increase risk.

The current result is in line with the findings of Cuervo-Cazurra and Genc (2008a), namely a negative effect between infrastructure and the prevalence of developing-country MNEs. It is similar to what was found by Han (2011), who demonstrated a negative relationship between the largest affiliates of MNEs from developing countries in LDCs and phones per capita. In contrast, many studies, such as the studies conducted by Coughlin et al. (1991); Cheng and Kwan (2000); Goodsped et al. (2006); and Ragimana (2012); have found positive relationships between good infrastructure and FDI.

The prevalence of developing-country MNEs within developing countries is positively and significantly affected by the ability to operate via poorly developed infrastructures. This means that the likelihood of developing-country MNEs operating where there is poorly developed infrastructure in developing-country markets is higher. In comparison, the prevalence of developed-country MNEs is negatively affected when there is poorly developed infrastructure within developing countries. The relationship is also statistically significant. In other words, developed-country MNEs did not prefer to operate in developing-country markets which are characterised by poorly developed infrastructure.

The qualitative findings of this study have found that although developing countries have poor infrastructure, some developing-country MNEs view this as an incentive to invest, whereas some of developed-country MNEs view this as a barrier to invest as it will require more financial investment to bring the infrastructure to a fair level. Also, the vast majority of developing-country managers indicated that the experiences gained from operating in poorly developed infrastructures in their home countries gives them an advantage over developed-country MNEs. Managers from developed-country MNEs have also confirmed this result.

Again, these results identified the fact that developing-country MNEs are accustomed to suffering from poor infrastructure (Khanna and Palepu, 1997; Hammond and Prahalad, 2004; Briceno-Garmendia et al., 2004), and that their experiences in operating within this framework help them to overcome any difficulties. Their international experience should lead to a rise in the equity position of foreign firms (Delios and Reamish, 1999). This can be contrasted to the attitude of most developed-country MNEs, who are used to operating within the context of an advanced infrastructure (Cuervo-Cazurra and Genc, 2008b). Such companies tend to rely on advanced technology to facilitate their operations, products and services. Clearly, this is something which many developing countries lack. This poses a challenge for developed-country MNEs when they seek to expand their operations into

developing-country markets. Based on all of the above, implication 3 is suggested as an area of particular focus for managers from developed countries who wish to invest in developing countries.

6.3. Conclusion

This study has sought to study the effects of non-market based capabilities upon the operations of MNEs from developing and developed countries within developing-country markets.

The fundamental conclusion of this study is that developing-country MNEs have an advantage over developed-country MNEs when investing within developing country markets. Developing-country MNEs are, in general, more able to seek and exploit business opportunities within developing country markets as they are used to operate within similarly challenging economic and political environments in their home markets, particularly as compared to developed-country MNEs. More specifically, it has been found that MNEs from developing countries will have an advantage over MNEs from developed countries when operating in developing countries with the most poorly protected property rights and pervasive corruption, as well as when operating in countries with the most poorly developed infrastructure.

On the other hand, both quantitative and qualitative data reveal that the fourth initial proposition of this thesis should be rejected. In other words, the capability to provide services to consumers experiencing poverty actually negatively affects their prevalence within developing markets, albeit in a statistically insignificant manner. In turn, this capability actually has a positive impact on the prevalence of the developed-country MNEs within developing markets, although this impact is also not statistically significant.

The findings of this study clearly add to the existing literature regarding the competition between MNEs from developed and developing countries when they operate in developing-country markets. The study also contributes to the existing literature by quantifying and clarifying the effect of non-market capabilities in developing countries, as well as revealing how MNEs in such countries can gain a competitive advantage in these markets (Cuervo-Cazurra and Genc, 2008b). It investigates the effect of a number of institutional environments on MNE operations, such as the capability to operate under authoritarian regimes, ineffective governments, poorly developed infrastructures, and poorly protected property rights, as well as the capability to provide services to consumers experiencing poverty (Cuervo-Cazurra and Genc, 2008b).

Another effect of this study is the contribution it makes to the Resource Based View (RBV) model. It introduces another group of resources (non-market capabilities) which give firms an advantage over their competitors, and also seeks to explain why in some specific situations these resources are important in offering distinctive advantages for firms. This study helps further to clarify the theoretical lenses used, and to justify why developing-country MNEs outperform developed-country MNEs when they operate within a developing country. In fact, these resources can be considered as entirely new when compared to other resources used to explain and understand the RBV model. The findings of this study have confirmed the importance of the role of non-market capabilities in conveying an advantage to MNEs when they operate in similar settings to that of their home environment.

Undoubtedly, there emerge from this research some practical, managerial-level implications for MNEs. It also provides useful data and conclusions for policy makers within developing countries themselves. These implications and conclusions are discussed below:

1. Policy-makers in developing countries should recognise and understand the motivations of foreign businesses which seek to invest in their countries. This will assist them in formulating appropriate strategies and regulations in order to attract foreign direct investment to develop their economy. Obtaining further knowledge about the effect of non-market capabilities will help their government to reform their regulations and laws, thus making it possible for them to gain appropriate FDI without damaging their economy.

2. A framework which is based on RBV is particularly useful in explaining the impact of non-market capabilities on gaining competitive advantage within developing countries. In such countries, the business environment is complicated with respect to economic, social, and political conditions. This study has provided a useful tool for decision makers seeking to evaluate the conditions within developing country markets, which will assist in the choice of a proper investment strategy. Managers should take this model into account when seeking to understand the investment behaviour of both their own firms and of their competitors. MNE managers who do so will be able to identify the most valuable resources within the market environment, and to protect and sustain them in order to gain competitive advantage.

3. Developed country MNEs may suffer when investing in developing countries, and so managers should be cautious when they decide to enter any developing country market which has an unfavourable institutional environment. They should consider

the features of the institutional environment within developing countries, and pay more attention to features which can affect the performance of their competition. This require managers from developed country MNEs to be more professional in dealing with markets which have poorly developed infrastructure, and when investing in markets with poorly protected property rights and pervasive corruption

4. Although developing country MNEs may have the advantage over developed country MNEs when both operate in a developing country with a poor institutional environment, the development of a unique source of competitive advantage is still vital. This is because, after a period of time, developed country MNEs will be able to adapt to even unfavourable non-market capabilities within developing countries.

5. It was hypothesised that developing country MNEs would have an advantage over developed country MNEs when operating within the most ineffective states. However, a negative relationship was found in this study. Managers from developing country MNEs would be well advised to consider whether their management knowledge and understanding of the inefficiencies within such countries are good enough for them effectively to run businesses within ineffective states.

6. Findings obtained from this study indicated a negative relationship between the prevalence of developing country MNEs and countries where there is poverty amongst the customer base. In contrast, a positive relationship was found between the prevalence of developed country MNEs and countries with poor consumers. This may be because developed-country MNEs have research and development departments, which help them to determine the exact needs of customers in any market. They also have the ability and financial resources to create strong networks, which help in distributing their products and services. If this is the case, managers

from developing countries need to pay more attention to their customer service management when operating within developing countries. In addition, they ought to give thought to effective development of research and development departments, which would help them to determine their customers' needs.

6.4. Research Limitations and Future Research

Although the current research has produced a number of interesting findings on the topic of competition between developing-country MNEs and developed-country MNEs, it has not resolved all outstanding issues. Therefore, a number of limitations exist in relation to the current study. It is important to recognise these limitations, and further research is suggested below.

- The main limitation of this research relates to the lack of data for developing countries, especially at the firm level (Cuervo-Cazurra and Genc, 2008a). This decreases the available sample, as many developing countries lack data about MNEs and their performance (Cuervo-Cazurra and Genc, 2008a). Further studies should include more developing countries in order to increase the sample size, and they should also take into account the type of industry in which the MNEs are engaged. This will help future researchers to recognise which types of industry are more affected by non-market capabilities.
- Although the researcher only examined competition between developed-country MNEs and developing-country MNEs, there is also competition between firms in each group. In addition, there is a variation between countries in each group (Cuervo-Cazurra and Genc, 2008a). A good example of this is that the average governance

index score for South Africa was 2.99. In contrast, it was 1.43 for Iran, despite both of them being recognised as a developing country. In fact, the institutional environment for South Africa is far better than Iran's, and this is why they have different comparative advantages (Han, 2011).

- As a result of the lack of MNE-level data, and the need to rely on country-level data, the researcher was not able to obtain information about the performance of each firm operating in developing-country markets. Instead, this study used the percentage of the largest affiliates of foreign firms (MNEs) in each developing country. Such information about firm performance would be better for measuring success than using the percentage of MNEs, because the ability to make FDI in developing countries does not reflect profitability (Han, 2011). Therefore, further studies need to be carried out using firm-level data on performance.
- As the current study used cross-sectional data, further investigation is needed when more data becomes available (Han, 2011). A time-series, testing the effect of non-market capabilities on the prevalence of MNEs in developing-country markets, should be carried out using a longitudinal framework so that probable causation can be investigated.
- The researcher cannot directly control the effect of some variables, such as experience in developing-countries (Cuervo-Cazurra and Genc, 2008a). Developed-countries MNEs may, after a period of time, become able to operate effectively within developing-country markets. They may, in effect, be able to adapt and to obtain crucial non-market capabilities. Moreover, the researcher did not control for the effect of distance between countries and culture. Cuervo-Cazurra and Genc (2008b) have argued that culture is not significant when investigating MNEs from countries

with different levels of economic development. This is because describing a country as developing or developed does not provide any meaning with regards to the cultural norms that are prevalent in them. It simply indicates to what extent the country is developed.

- The researcher used only the WGI database from Kaufmann et al. (2008) as indicators for three independent variables (authoritarian regimes, ineffective states, and poorly protected property rights and pervasive corruption). Further studies could incorporate additional databases, in order to ensure that all aspects of these factors are captured.
- The final possible limitation concerns the number of interviews in the qualitative section of this study. Alqur'an (2005) confirmed that there is no agreement on the number of interviewees required for a qualitative study (i.e. sample size), as this is dependent on the study's resources, time, and purpose. The sample size for the qualitative part of this study was fifteen managers from MNEs originating in both developed and developing countries, and it is hoped that it has been sufficient for the study's purpose.

6.5 Summary

Chapter six has discussed the findings of this study regarding the five non-market capabilities in question. It concluded that three of these non-market capabilities were statistically significant. These are the ability to operate under ineffective governments, to operate within poorly developed infrastructures, and to operate in a context of poorly protected property rights.

This study has contributed to the existing literature by filling the gap with regards to competition between MNEs from developed and developing countries when they operate in a developing country's market (Cuervo-Cazurra and Genc, 2008a). Moreover, this study has used mixed method design (quantitative and qualitative) for a more comprehensive understanding about competition in developing markets.

The current research findings have practical managerial implications for MNEs, and the conclusions of this research are expected to be beneficial for policy makers in developing countries. However, this chapter has also highlighted the limitations of this research, and the further studies which are needed. It has indicated that there are some limitations which can be resolved by conducting further research. Despite these limitations, the applicability of this framework when studying developing country markets has emphasised its potential as a useful tool when examining other non-market capabilities.

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8. Appendices

Appendix 1: Developing countries

According to the International Monetary Fund's World Economic Outlook Report, April 2011 (<http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf>) the full list of developing countries is:

Developing Countries

Composed of 150 countries: Republic of Afghanistan, Albania, Algeria, Angola, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, The Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belize, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Brunei Darussalam, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Democratic Republic of Congo, Republic of Congo, Costa Rica, Côte d'Ivoire, Croatia, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, The Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hungary, India, Indonesia, Islamic Republic of Iran, Iraq, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, Kosovo, Kuwait, Kyrgyz Republic, Lao People's Democratic Republic, Latvia, Lebanon, Lesotho, Liberia, Libya, Lithuania, Former Yugoslav Republic of Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mali, Mauritania, Mauritius, Mexico, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Qatar, Romania, Russia, Rwanda, Samoa, São Tomé and Príncipe, Saudi Arabia, Senegal, Serbia, Seychelles, Sierra Leone, Solomon Islands, South Africa, Sri Lanka, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syrian Arab Republic, Tajikistan, Tanzania, Thailand, Democratic Republic of Timor-Leste, Togo, Tonga, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Tuvalu, Uganda, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vanuatu, Venezuela, Vietnam, Republic of Yemen, Zambia, and Zimbabwe.

Appendix2: Semi – structured interview (English version)



Dear Sir/Madam,

My name is Awadh Almamari, and I am currently doing a research study for my PhD at University of East Anglia (England). I am being supervised by Prof. Naresh Pandit, Norwich Business School.

This study aims to provide insight into the internationalisation of MNEs from developed and developing countries in developing countries, and to provide a better understanding of what developing-country MNEs do more effectively than developed-country MNEs in these markets.

I propose to conduct interviews as part of my research methodology for data collection.

Your participation in this research is entirely voluntary and no information that you may give, could lead to the identification of any individual nor will it be disclosed in this or any other research project without your knowledge and consent. The interview will take approximately one hour to complete and will be conducted at your office or alternatively at any other place.

All participants to the research study will be provided with a copy of the results if requested. If you have any inquiries or would like to be informed of the aggregate research finding, please contact:

Professor Naresh R. Pandit University Of East Anglia Norwich Business School Tel: +44 (0)1603 59 2886 Email: n.pandit@uea.ac.uk	Awadh Almamari University Of East Anglia Norwich Business School Tel: +44 (0)1603 592744 Email: A.Al-Mamari@uea.ac.uk
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The competition between MNEs in Developing country markets: Developing country – MNEs versus Developed country- MNEs.

Note: the scholar prefer if you do not mention your name and your company name when you answering these questions

Company and interviewee background:

- When your company has been established?
- What is your company's industry?
- **Could you please briefly tell me about your role in the company?**

International operations:

2 How many years now is your company operating outside its home country?

3 What motivated this step?

4 Which country/market did your company first operate in?

Follow – up question:

- How many countries/markets does your company currently operate in?

5 Which of the countries/markets is most strategic to you company?

Follow – up question:

Why?

6 Are there any challenges faced your company when it operates globally?

If yes, what are these challenges?

7 Do you think geographic distance and culture between markets affect your company's operations outside its home market?

Operating under the most authoritarian regimes:

1 What is your opinion about the political environment in the developing country markets in which your company operates? In general

2 How does the political landscape of each Developing country market impact on your business?

3 Does your company experience any kind of government interventions?

If yes, what effects do they have on your company's operations in these markets?

4 Do you think the experience which the company gains from operating under the most authoritarian regimes in their home markets will enable the ability to compete successfully against their competitors in similar market?

If yes, How might this happen?

Operating in the most ineffective states

1. During your company operations in developing country markets, did you deal with an overbearing bureaucracy government?

Follow – up question:

- How your company cope with this issue?

2. Are the trade organizations in developing country markets helpful, and ready to provide information that your company need?

- If No, could you please give me any examples here?

3. Do the chambers and commerce in developing country markets provide the support required?

4. Did your company face a lot of uncertainly or unstable business environment in developing country markets?

Follow – up question:

- What were these and how you dealt with?

5. Do you think some of developing country markets regulations limit the company freedom of operation?

- If yes, could you please give me any examples here?

6. Do you think the experience which the company gains from operating in the most ineffective states in their home markets will enable the ability to compete successfully against their competitors in similar market?

- If yes, How might this happen?

Dealing with poorly protected property rights and pervasive corruption

1. Do you think some of the developing country markets are corrupted (additional irregular payments)?

1. If yes, is it possible to give some examples?

- 2. How does your company deal with and overcome such issues?**
- 3. Do you agree that Developing country market countries suffer from the lack of law especially with protected property rights?**
 - If yes, how?
- 4. Do you think the experience which the company gains from dealing with poorly protected property rights and pervasive corruption in their home markets will enable the ability to compete successfully against their competitors in similar market?**
 - If yes, How might this happen?

The capability to serve where there is poverty amongst the customer base

- 1. What methods have your company used to understand consumers in developing country markets?**
- 2. Is it true that company from developing country will be more capable to serve customers in developing country markets, because they understand their customers' needs better than others from developed countries?**
- 3. Do you think the experience which the company gain it from the capability to serve where there is poverty amongst the customer base in their home markets will allow them to compete successfully against their competitors in similar market?**
 - If yes, How might this happen?

Operating in the most poorly developed infrastructures

- 1. Could you please tell me something (your opinion) about the infrastructure in these markets (Developing country markets)?**
- 2. Do you think poor developed infrastructure in developing country markets is a good incentive to operate at them?**
 - If yes, is it because the company faced the same issue in its home markets?
 - If no, any practical example in this connection?
- 3. Do you think the experience which the company gains from operating in the most poorly developed infrastructures in their home markets will enable them to compete successfully against their competitors in similar market?**
 - If yes, How might this happen?

Conclusion: (10 minutes)

- 1. Are there any other institutional environment difficulties that influenced your operations in developing country markets?**

If yes, could you please name a few?

Transition: well, it has been a pleasure finding out more about you. Let me briefly summarize the information that I have recorded during our interview.

- Summarize:** all the answers given by the interviewee to questions would be repeated to her.....etc.
- b. Is there anything else you think would be helpful for me to know?
- c. Would you like to have the transcription of this interview?

(We certainly appreciate your time and contribution to this topic, thank you so much once again)

Appendix3: Semi – structured interview (Arabic version)

المنافسة بين الشركات المتعددة الجنسيات في دول العالم النامي (شركات دول العالم النامي في مواجهة

شركات العالم المتقدم)

1- أسئلة عامة

1. ماهو مجال عمل شركتكم؟
2. هل من الممكن ان تذكر لي باختصار مهام عملك بالشركة؟
3. ما هو عدد السنوات لشركتكم منذ بدء اولى خطواتها تجاه الاستثمار الاجنبي؟
4. ما هي الدوافع خلف هذه الخطوة؟
5. ماهي اول دولة اجنبية استثمرتم بها؟
6. حالياً، ما هي افضل الاسواق الخارجية لمؤسستكم؟
7. ما هو العدد التقريبي للدول الخارجية التي تستثمرون فيها؟
8. هل هناك تحديات واجهة بداية استثمارتكم الخارجية؟
9. هل تعتقد ان عاملي المسافة والبعد الثقافي بين السوق المحلي لاي شركة والسوق الدولي، يؤثر على أداء المؤسسة الخارجي والداخلي؟ كيف؟

المحور الاول: القدرة على العمل تحت سيطرة الانظمة الاستبدادية

1. مو هو رأيك حول البيئة السياسية في دول العالم النامي؟ وخصوصا في الدول التي تعمل بها مؤسستكم؟
- كيف استطاعت شركتكم التغلب على هذه المشكلات؟
2. كيف يمكن ان تؤثر البيئة السياسية للدولة المراد الاستثمار بها على طبيعة استثمارتكم؟
3. هل واجهت شركتكم اي نوع من التدخلات الحكومية للدولة المضيفة؟
- وكيف أثرت على طبيعة الاستثمار في تلك الدول؟

4. هل تعتقد ان الخبرة المكتسبة من العمل في بيئة استبدادية ، ستكون عامل نجاح للشركات العالم النامي عندما تستثمر في بيئة (سوق اخر) اخرى لها نفس الميزة وبالتالي سيحقق نجاحها ضد شركات دول العالم المتقدم؟

المحور الثاني: القدرة على العمل في الدول الغير فاعله

1. من خلال العمل في الدول النامية لمؤسستكم ، هل تعاملتم مع بعض الحكومات البيروقراطية، وكيف تعاملت مؤسستكم مع هذه المشكلة؟

2. من خلال خبرتكم، هل المنظمات التجارية في الدول النامية متساعده وجاهزة لتقديم المعلومات التي تحتاجها الشركات، بمعنى انها قابلة لتوفير المساعدة عند الحاجة اليها؟ هل هناك مثال يدعم ما تفضلتم به

3. هل الغرف التجارية في الدول النامية توفر الدعم المطلوب؟

4. هل واجهت مؤسستكم الكثير من الضبابية وعدم استقرار البيئة الخارجية في دول العالم النامي؟ ما هي تلك المشكلات وكيف تعاملتم معها؟

5. هل تعتقد ان بعض اللوائح والقوانين في الدول النامية تحد من الحرية في العمل والاستثمار؟

- هل من الممكن ان تذكر مثال؟

6. هل تعتقد ان الخبرة التي يمكن ان تجنيها شركات دول العالم النامي من العمل في دولة تتميز بعدم الفاعلية (الدولة الام) سيساعدها على النجاح ضد المنافسين (شركات دول العالم المتقدم) في دولة اخرى تتميز ايضا بضعف فاعلية حكومتها؟

- كيف يمكن ان يحصل هذا؟

المحور الثالث: القدرة على العمل في بيئة غير حامية لحقوق الملكية الفكرية وتتميز بانتشار الفساد

1. هل تعتقد ان دول العالم النامي منتشر فيها الفساد بصورة كبيرة؟

- هل هناك مثال يمكن ان يذكر هنا؟

2. كيف تعاملت شركتكم مع هذه المشكلة؟

3. هل توافق على ان الدول النامية تعاني من نقص تطبيق القوانين وخصوصا مع مشكلة الحقوق الملكية الفكرية؟ كيف؟

4. هل تعتقد ان الخبر المكتسبة للشركات دول العالم النامي من خلال تعاملها مع حكوماتها المحلية التي ينتشر فيه الفساد ونقل فيها

حقوق الملكية الفكرية ستكون اكثر منافسة ونجاح ضد شركات دول العالم المتقدم عندما تستثمر في سوق مشابه للسوق الام لها؟

المحور الرابع: القدرة على خدمة الزبائن ذوي الدخل المحدود

1. ما هي الطرق المستخدمة من قبل شركتكم لفهم احتياجات الزبائن في دول العالم النامي؟
 2. هل تعتقد ان شركات الدول النامية ستكون اكثر قدرة على فهم المستهلكين في هذه الدول وبالتالي ستساعدهم على التنافس بنجاح ضد شركات دول العالم المتقدم؟
- كيف يمكن ان يحصل هذا؟

المحور الخامس: القدرة على العمل في ظل ضعف البنى التحتية

1. في البداية كيف تقيمون مستوى البنى التحتية الموجودة في اسواق الدول النامية؟
 2. هل تعتقد ان ضعف البنى التحتية في اسواق الدول النامية قد يشكل حافز للاستثمار بها؟
- هل من الممكن ان تذكر مثال؟
3. هل تعتقد ان الخبرة المكتسبة للمؤسسة من العمل في الدولة الام التي تتميز بضعف البنى التحتية سيكون عاملاً قوياً لنجاحها في المنافسة عندما تستثمر في دولة اخرى من دول العالم النامي التي تتميز بضعف البنى التحتية ضد شركات دول العالم المتقدم؟
- كيف يمكن ان يحدث هذا؟

اخيراً:

هل هناك اي من صعوبات البيئة المؤسسية لم تذكر وتود ذكرها؟

ملخص المقابلة

شكراً جزيلاً على حسن التعاون

Appendix 4: Semi- structured interview participants

Case	Manager's code	Position	Home Country	Industry	Length of interview (approximately)
1	JNING	International operations manager	Nigeria	Food	40 mins
2	ASING	CEO	Nigeria	Business services	55 mins
3	GNING	Global Marketing Manager	Nigeria	Manufacturing	55 mins
4	YJED	Global Marketing Manager	Japan	Manufacturing	40 mins
5	UGVED	Global Marketing Manager	Germany	Telecommunication	47 mins
6	JVED	Global Marketing Manager	Germany	Manufacturing	40mins
7	CHING	Global Marketing Manager	UK	Financial	1hour
8	MAJING	Global Marketing Manager	Jordan	Financial	50 mins
9	FTING	International operations manager	Oman	Food	1h and 20mins
10	MBING	Global Marketing Manager	Oman	Financial	1hour
11	YSING	Global Marketing Manager	South Korea	Construction	40 mins
12	FSING	International operations managers	K.S.A	Telecommunication	55 mins
13	OMED	Global Marketing Manager	USA	Oil	40 mins
14	TSING	Global Marketing Manager	Egypt	Food	1 hour
15	NIED	Global Marketing Manager	USA	Manufacturing	52 mins

Appendix 5: Summary of statistics and Pearson Correlation Coefficient for Model 1 (All MNEs)

Variables	Mean	Std	1	2	3	4	5	6	7	8	9	10
1. Percentage of Developing- country MNEs (ALL)	15.60	10.66	1									
2. Percentage of Developed-country MNEs (ALL)	83.94	11.48		1								
3. Authoritarian regimes	0.34	0.47	-0.096	.131	1							
Sign.			(.244)	(.170)								
4. Ineffective governments	0.23	0.42	-0.149	.138	0.496	1						
Sign.			(.139)	(.157)	(.000)	**						
5. Poorly protected property rights	0.43	0.50	.0162	-.102	0.517	0.632	1					
Sign.			(.119)	(.229)	(.000)	(.000)	**	**				
6. The capability to provide services to consumers experiencing poverty	0.65	0.48	0.273	-.269	0.126	0.224	0.408	1				
Sign.			(.022)	(.024)	(.180)	(.050)	(.001)	**	*			
7. Poorly developed infrastructures	0.49	0.50	0.416	-.408	0.128	0.139	0.236	0.637	1			
Sign.			(.001)	(.001)	(.176)	(.157)	(.041)	(.000)	**	*		
8. Inflation	12.04	7.47	-0.024	.080	0.333	0.201	0.457	0.201	0.242	1		
Sign.			(.432)	(.280)	(.006)	(.070)	(.000)	(.071)	(.038)	*		
9. Log GDP per capita	7.34	1.36	-0.260	0.211	-0.240	-0.198	-0.297	-0.806	-0.619	-0.179	1	
Sign.			(.028)	(.061)	(.039)	(.073)	(.014)	(.000)	(.000)	(.096)	**	**
10. Log employment	15.52	1.26	-0.189	0.252	0.235	0.056	0.155	0.036	0.133	0.151	0.006	1
Sign.			(.084)	(.032)	(.042*)	(.343)	(.129)	(.398)	(.206)	(.135)	(.482)	

*Correlation is significant at the 0.01 level. **Correlation is significant at the 0.001 level.

Appendix6:Summary of statistics and Pearson Correlation Coefficient for Model 2 – Developing-country MNEs (After excluding some MNEs in natural resources)

Variables	Mean	Std.	1	2	3	4	5	6	7	8		
1. Percentage of developing-country MNEs (Model 2)	16.03	10.57	1									
2. Log percentage of Developed-country MNEs (Model2)	4.40	0.17		1								
3. Authoritarian regimes	0.34	0.47	-.079	.046	1							
Sign.			(.283)	(.374)								
4. Ineffective governments	0.23	0.42	-.128	.156	0.492	1						
Sign.			(.175)	(.128)	(.000)							
5. Poorly protected property rights	0.43	0.50	.165	-.127	0.517	0.632	1					
Sign.			(.115)	(.177)	(.000)	(.000)						
6. The capability to provide services to consumers experiencing poverty	0.65	0.47	0.225	-.241	0.126	0.224	0.408	1				
Sign.			(.001)	(.038)	(.180)	(.050)	(.001)					
7. Poorly developed infrastructures	0.49	0.50	0.347	-.370	0.128	0.139	0.236	0.637	1			
Sign.			(.005)	(.003)	(.176)	(.157)	(.041)	(.000)				
8. Inflation	12.04	7.07	-.046	.063	0.333	0.201	0.457	0.201	0.242	1		
Sign.			(.369)	(.324)	(.006)	(.070)	(.000)	(.071)	(.038)			
9. Log GDP per capita	7.34	1.36	-.214	.208	-.240	-.198	-.297	-.806	-.619	-.179	1	
Sign.			(.058)	(.064)	(.039)	(.073)	(.014)	(.000)	(.000)	(.096)		
10. Log employment	15.52	1.26	-.178	.154	.235	.056	.155	.036	.113	.151	.006	1
Sign.			.097	(.131)	*	(.434)	(.129)	(.398)	(.206)	(.135)	(.482)	

*Correlation is significant at the 0.05 level. **Correlation is significant at the 0.001 level.

Appendix 7 : Multiple regression assumptions

1) The prevalence of developing country MNEs in developing countries

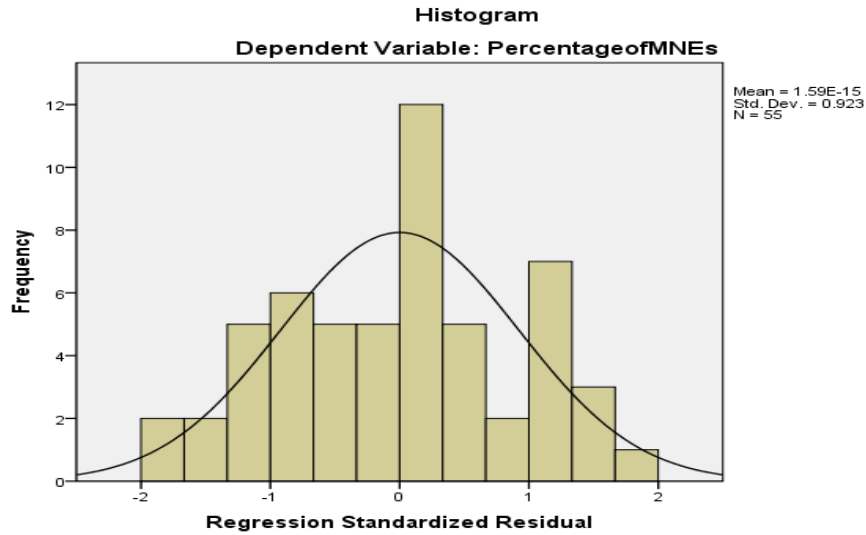


Figure 4.3: Histogram for Model 1

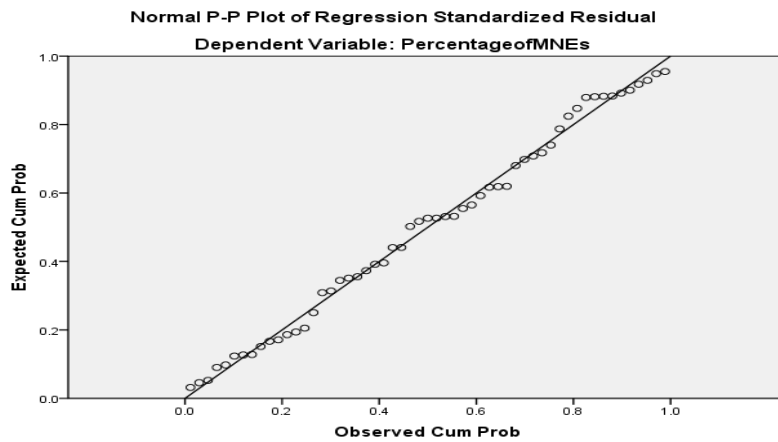


Figure 4.4: Normal probability plot of the data for Model 1

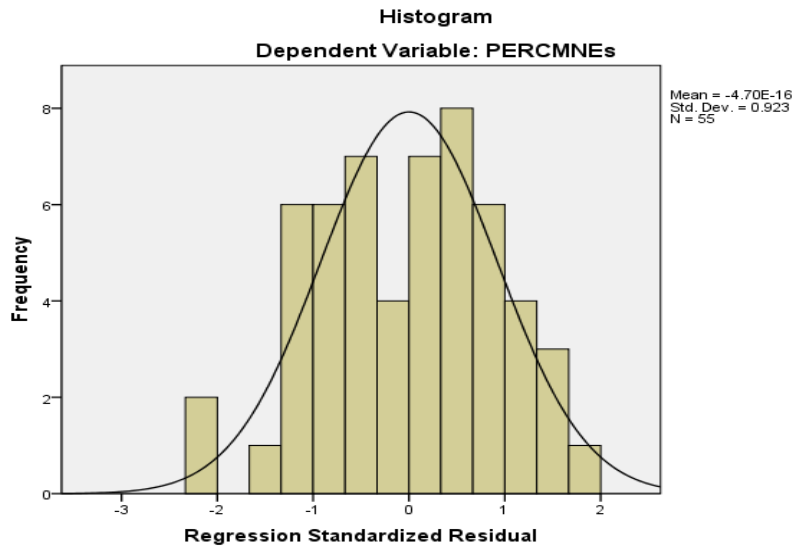


Figure 4.5: Histogram for Model 2

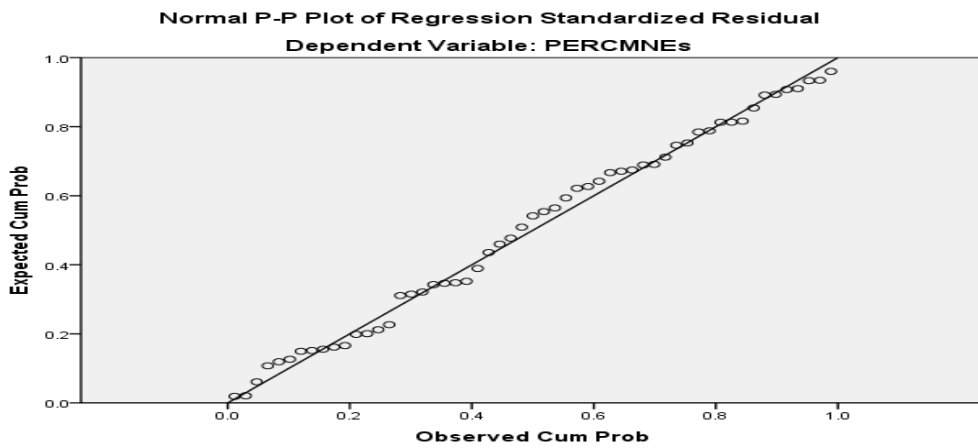


Figure 4.6: Normal probability plot of the data for Model 2

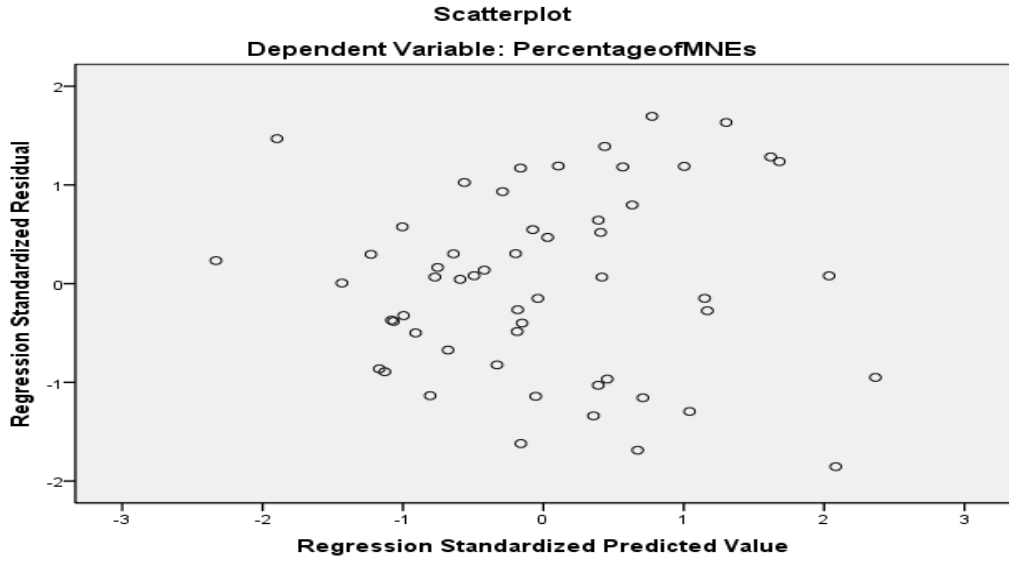


Figure 4.7: Plot of standardised residuals against predicted values for Model 1

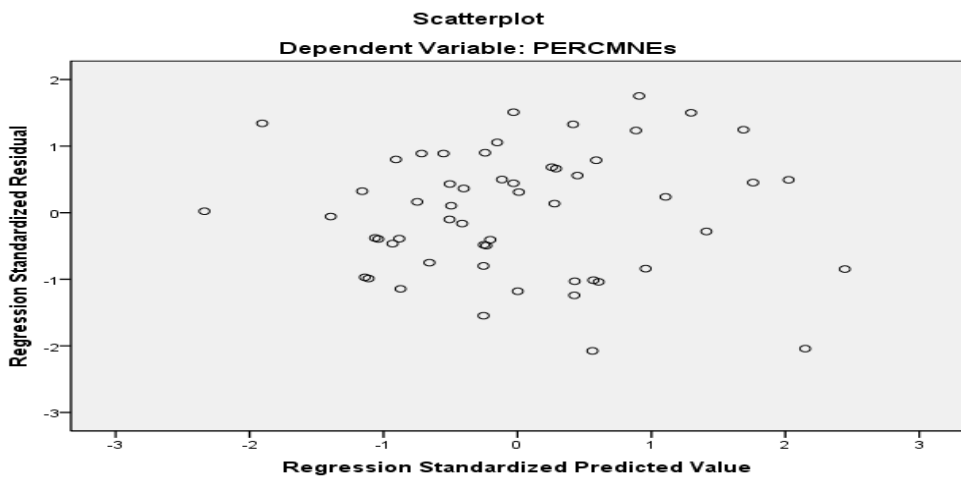


Figure 4.8: Plot of standardised residuals against predicted values for Model 2

2) The prevalence of developed country MNEs in developing countries

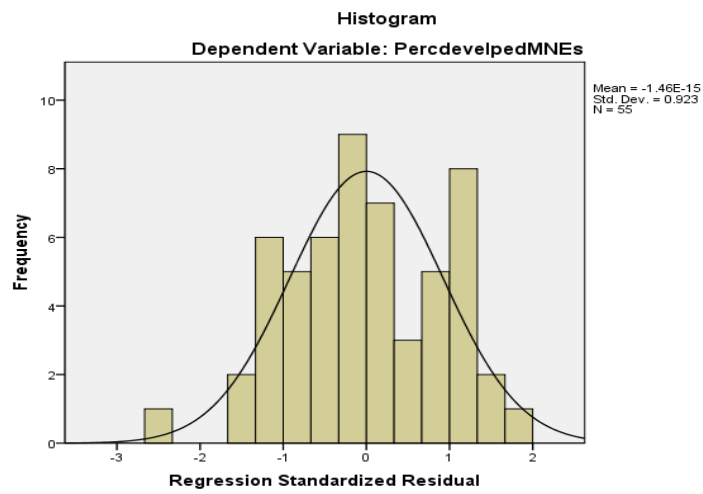


Figure 4.9: Histogram for Model 1

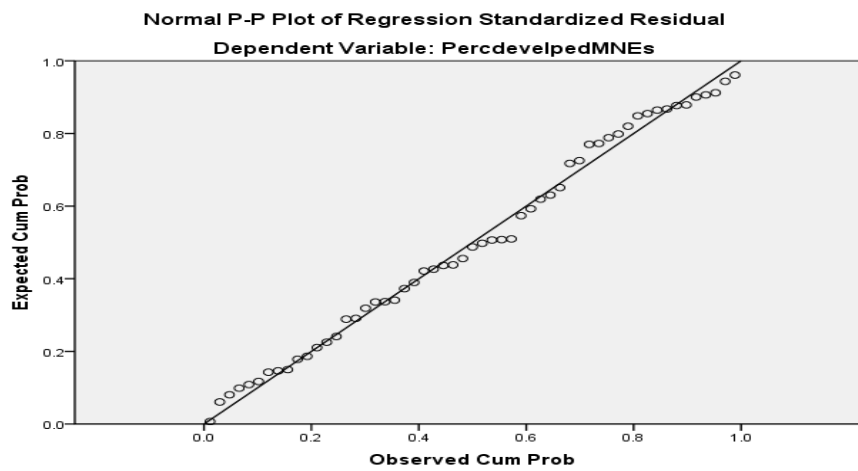


Figure 4.10: Normal probability plot of data for Model 1

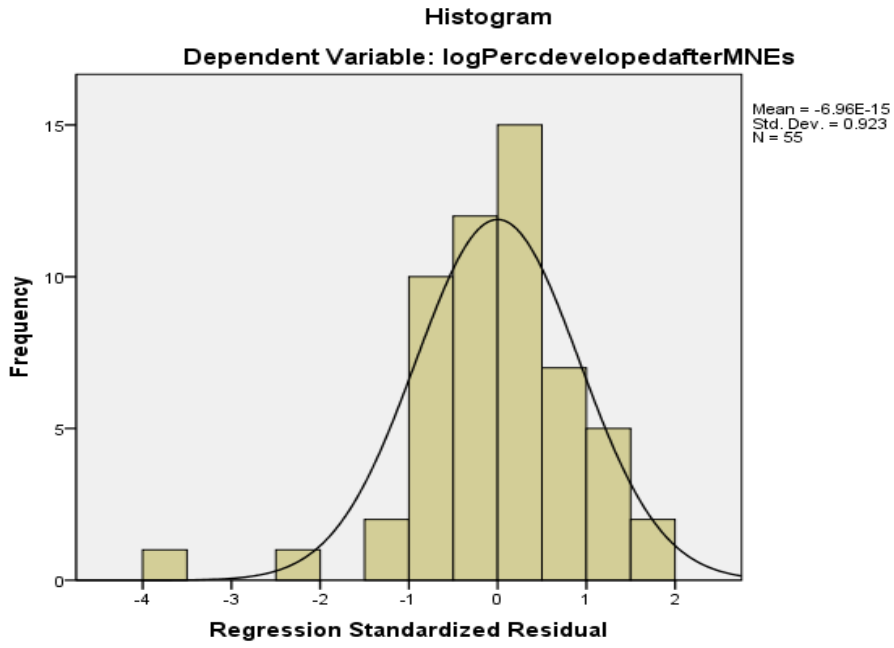


Figure 4.11: Histogram for Model 2

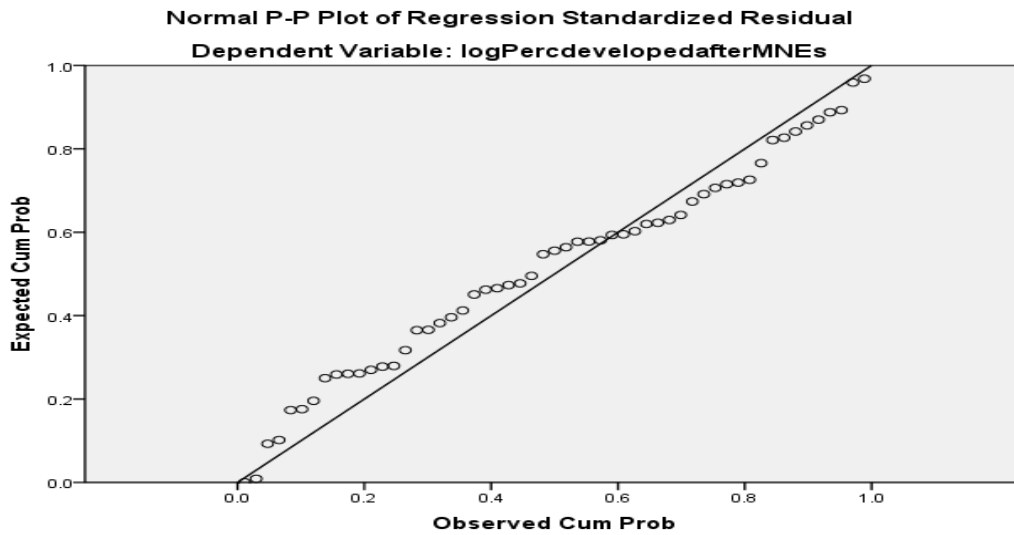


Figure 4.12: Normal probability plot of data for Model 2

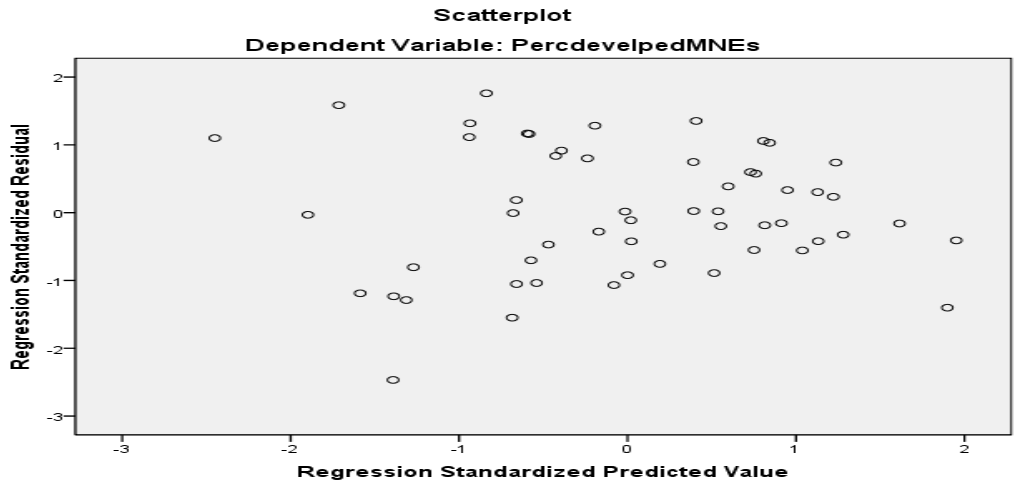


Figure 4.13: Plot of standardised residuals against predicted values for Model 1

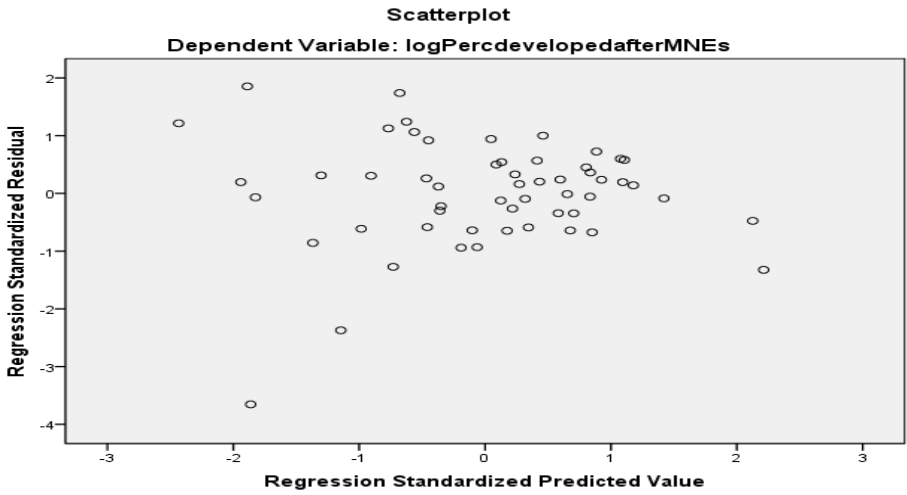


Figure 4.14: Plot of standardised residuals against predicted values for Model 2

Appendix 8: Multiple regression results

	Percentage of Developing-country MNEs				Percentage of Developed-country MNEs			
	Model 1 all		Model 2 after		Model 1 all		Model 2 after(log)	
	B	Beta	B	Beta	B	Beta	B	Beta
Independent variables								
1.Authoritarian regimes	-2.005	-.090	-1.675	-.076	1.444	.060	-.017	-.047
2.Ineffective governments	-11.049**	-.444	-10.380*	-.421	9.838*	.367	.188**	.454
3.Poorly protected property rights	11.878**	.558	11.956**	.566	-10.019*	-.437	-.166*	-.470
4. The capability to provide services to consumers experiencing poverty	-3.505	-.158	-3.698	-.168	.125	.005	.016	.042
5.Poorly developed infrastructures	10.637**	3.302	9.241*	.441	-12.099**	-.532	-.166**	-.472
Control variables								
6.Inflation	-.317	-.222	-.342	-.242	.378	.206	.006	.262
7.Log GDP per capita	-.457	-.058	-.504	-.052	-.965	-.114	-.009	-.065
8. Log employment	-2.071*	-.247	-1.929	-.231	2.791*	.309	.031	.225
R	.631		.576		.626		.575	
R-square	.398		.332		.392		.331	
Adjust R square	.294		.216		.286		.215	

Appendix9: Internal consistency

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	88	100.0
	Excluded ^a	0	.0
	Total	88	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.770	2

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
VoiceandAccountability	3.0494	.935	.635	. ^a
Politicalstabilityandabsenceofviolence	3.1076	.670	.635	. ^a

a. The value is negative due to a negative average covariance among items. This violates reliability model assumptions. You may want to check item codings.

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	88	100.0
	Excluded ^a	0	.0
	Total	88	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.922	2

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
GovernmentEffectiveness	2.9157	.517	.858	. ^a
RegulatoryQuality	2.9164	.450	.858	. ^a

a. The value is negative due to a negative average covariance among items. This violates reliability model assumptions. You may want to check item codings.

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	88	100.0
	Excluded ^a	0	.0
	Total	88	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.948	2

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
RuleofLaw	2.9917	.428	.903	.a
ControleofCorruption	2.8781	.495	.903	.a

a. The value is negative due to a negative average covariance among items. This violates reliability model assumptions. You may want to check item codings.

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	88	100.0
	Excluded ^a	0	.0
	Total	88	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.937	6

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
RuleofLaw	14.9808	11.131	.921	.913
ControleofCorruption	14.8671	11.594	.882	.919
VoiceandAccountability	14.7513	11.124	.762	.933
Politicalstabilityandabsenceofviolence	14.8094	10.332	.754	.940
GovernmentEffectiveness	14.9425	11.431	.897	.917
RegulatoryQuality	14.9431	11.688	.762	.932

