



An in-depth analysis of the strategic decisions made by multinational investment property companies engaged in internationalisation, using the eclectic paradigm as a framework.

Student name: Tod Ridgway

Student no: 25481551

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

13 November, 2008

ABSTRACT

The rise of globalisation has led to more and more companies expanding beyond their borders. Gray (2002) sees this rise as a direct result of technology. He feels that technology has been the main factor leading to internationalisation. Desai (2003) feels that it is a combination of both market forces and technology giving rise to greater cross-border trade. The flow of foreign direct investment (FDI) around the world increased by up to seven times between 1992 and 2006 (Hill, 2007). This led to a 150 percent increase in world trade value and a 45 percent increase in output (2007). According to Hill by 2005 stock of global FDI exceeded \$10 trillion.

The objective of this research is to understand the intricacies of the strategic decisions of multinational property companies that expand beyond their borders, with a focus on investment property. The research uses the internationalisation theory known as the eclectic paradigm as a lens through which to view the subject. The paradigm is made up of three sub-paradigms – ownership, location and internalisation - and focuses on how multinational companies internationalise their operations.

Multinational property companies (MNPCs) are increasingly looking to increase their foreign direct investments into investment property outside their borders where the yields may be better, or perhaps to spread their risk (de Rauville, 2008). Using the case study methodology the research aims to understand not only how these companies achieve their fdi ends, but why they chose particular

modes of entry; their specific country choices; and what led them to believe that they had the capability to ensure success. Of added interest is the application of the eclectic paradigm within this context.

The research proved successful in that the intricacies of the strategic decisions made by the multinational investment properties in the study were revealed.

These led to further insights for current and future work on the topic. In addition the eclectic paradigm proved a most useful lens with which to view the topic.

DECLARATION

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

Tod Ridgway

13 November, 2008

ACKNOWLEDGEMENTS

The following people were instrumental in the completion of this research and I would like to acknowledge and thank them for all their guidance, support and invaluable input:

- My wife, Angelique, whose support, words of wisdom, and unending patience, provided, and continues to provide, me with the energy and enthusiasm to tackle projects of this nature.
- The companies and the executives who were kind enough to allow me to interview them for the purposes of the research. Their open and honest response to the interview questions provided me with invaluable information upon which to base the research.
- Dr Albert Wöcke, for his insight, guidance and practical anecdotes on the topic which provided me with the much needed momentum and direction to complete the research.
- Those class mates who provided invaluable insight in terms of databases and additional research thoughts.
- The Gordon Institute of Business Science, in particular Doctor Margie Sutherland, who provided clear guidelines to approach research of this nature.

CONTENTS

ABSTRACT	ii
DECLARATION	iv
ACKNOWLEDGEMENTS	v
CHAPTER 1: INTRODUCTION	2
1.1 Globalisation.....	2
1.2 Internationalisation and the eclectic paradigm.....	3
1.3 Commercial Property	7
1.4 Research Scope	10
CHAPTER 2: THEORY AND LITERATURE REVIEW.....	12
2.1 Introduction.....	12
2.2 Globalisation.....	12
2.3 Internationalisation and the eclectic paradigm.....	16
2.3.1 The evolution of the ownership sub-paradigm (O).....	23
2.3.2 The location sub-paradigm (L).....	24
2.3.3 The internalisation sub-paradigm (I)	25
2.4 Commercial Property	31
2.4.1 The commercial property market.....	31
2.4.2 Commercial Property as an asset class	34
2.4.3 Understanding commercial property	35
2.4.4 The risks associated with commercial property	38
2.4.5 Investment property investment considerations.....	43
CHAPTER 3: RESEARCH PROPOSITIONS	46
3.1 Proposition One (O)	46
3.2 Proposition Two (L)	48
3.3 Proposition Three (I)	50
CHAPTER 4: RESEARCH METHODOLOGY	52
4.1 Introduction.....	52
4.2 Unit of analysis.....	54
4.3 Population of relevance.....	54
4.4 Sample selection and criteria	55
4.4.1 Sample Size	56
4.5 Sampling method and data collection process	56
4.6 Data analysis.....	57
4.7 Research limitations.....	60
CHAPTER 5: RESEARCH FINDINGS	63
5.1 United Kingdom	65



5.1.1 Company One.....	67
5.1.2 Company Two.....	76
5.2. Germany	84
5.2.1 Company Three.....	85
5.3. South Africa.....	92
5.3.1 Company Four	94
5.3.2 Company Five.....	99
CHAPTER 6: DISCUSSION OF RESULTS.....	106
6.1 Discussion of findings relating to Proposition One.....	108
6.2 Discussion of findings relating to Proposition Two.....	112
6.3 Discussion of findings relating to Proposition Three.....	117
6.4 The eclectic paradigm in the investment property context.....	121
CHAPTER 7: CONCLUSION	124
REFERENCES	130
ADDENDUM 1	140

CHAPTER 1: INTRODUCTION

1.1 Globalisation

The world is becoming more and more competitive as the barriers to international trade are lowered and markets begin freeing themselves up. With the advent of this increased competition companies find that their competitive advantage lies in expanding beyond their borders to spread their risk, grow their base and obtain economies of scale (Hill, 2007).

John Gray (2002, p.191) puts forward that the most important feature of globalisation is its international nature, or the “transnational organisation of production”. He sees this decentralisation as a direct result of technology. Desai (2001) feels that there is more to it than technology alone, and argues that globalisation is a combination of ideology and market forces along with technology as an accelerator.

Wolf (2005) feels that globalisation is a process whereby the markets create a merging of economies, driven by a decrease in transport costs, technological innovation and an increased reliance on the forces of the market.

Porter (2007) feels that without understanding a particular phenomenon it is not possible to engage the appropriate strategies to the phenomenon. Businesses need to understand that globalisation is a very real macroeconomic

phenomenon. Aligning the company's internal resources to the current external forces is where Porter feels true competitive advantage is achieved.

Clark and Lund (2000) feel that globalisation has led to an increase in property agents around the world. They feel that the extent to which globalisation effects the property market depends largely on what aspect of property each firm concentrates on. Property in and of itself may have a built in barrier to globalisation because it is by nature immobile and very diverse.

Globalisation has led to a remarkable increase in internationalisation by domestic firms wishing to maintain their growth in the context of domestic markets. These markets are becoming increasingly competitive and as a result don't offer enough scope to sustain real growth for firms doing business within the local context. How companies manage their international strategies and operational processes, decide on where to invest, and what methods of entry to engage in, when undertaking foreign expansion are all real issues facing the modern firm today.

1.2 Internationalisation and the eclectic paradigm

A number of theories have been borne as a result of globalisation and the increase of multinational companies' international expansions beyond their own borders. These theories are grouped into an overall theory base known as internationalisation. Axinn (2002) feels that a number of these theories are not relevant because they are way too situation specific. By this she means that they were developed with particular business environments in mind in order to explain

observable firm behaviour. Dunning's eclectic paradigm consists of a mix of internationalisation theories and, as such is included in Axinn's mix of theories which she finds limiting.

However, the very fact that the eclectic paradigm is made up of a number of internationalisation theories allows it greater scope across different spectrums in different environments. The paradigm purports that the decision of a firm to expand beyond its home borders is based on three important factors: ownership-specific advantages, location-based attractiveness of potential countries, and internalisation advantages, or modes of entry (Axinn, 2002). The theory is also referred to as OLI theory.

Dunning (2000) feels that although the earlier work on the eclectic paradigm may have been context specific, by allowing the paradigm to be more dynamic, and by widening its scope to include the supplementation of assets and multinational enterprise activity, it may yet be the leading paradigm to help with understanding the how's and why's of a firm's international expansion within the context of the current world economy. The paradigm has certainly changed over the last 20 years with particular allowance for the dynamic nature of competition and the strategies which firms employ with respect to location.

Dunning (2000) feels that the changes applied to the theory were in response to the growth of the knowledge-based economy; growth in international economic

integration; relaxing of cross-border trade; and the appearance of new countries on the global competitive stage. As a result of these factors in the new world economic order and the changes applied to the theory, the different sub-paradigms have also evolved as a result.

The ownership sub-paradigm has evolved from the three original firm specific advantages (FSAs or O) – monopoly power, a unique set of resources and capabilities, and how managers utilise these resources internally and across borders – to the emergence of what Dunning (1995) terms “alliance capitalism” and the need for firms to supplement and protect their own assets. The result is that “multinationality” becomes an asset in its own right. It is put forward that as long as this development of O specific advantages does not undermine the building blocks of the eclectic paradigm then they can easily be incorporated into the paradigm. The result is the need for firms to increase their dynamic O, or firm specific advantages.

Dunning (2000) puts forward that the location sub-paradigm (L) or country specific advantages (CSAs) have moved from being based on the country’s unique set of natural resources and immobile capabilities, to the ability of a country to create unique, difficult to imitate, location based assets. A part of this would be companies that are able to do business with multinational enterprises (MNEs). The final decision rests on whether or not the acquisition of an asset in

a country will add to the investing firm's competitiveness, as well as their strategic momentum.

Once a firm has ascertained it has the right mix of FSAs, and the locational assets are attractive, the firm must now decide on what method of entry is most appropriate to the investment. All the costs associated with the international corporate activity need to be taken into account. According to Dunning (2000) there is a positive correlation between the imperfections of the external market and the transaction costs of using that particular market. Thus, this sub-paradigm gives credence to the importance of examining the market entry positions available in a competitive environment, as well as understanding where these opportunities lie in a market that is not certain to the investing firm (Klein and Wöcke, 2007).

The extension of the eclectic paradigm's component parts to allow for "asset augmentation" and "alliance related cross-border ventures" (2000, p.184), along with a dynamic component give the theory weight in the study of international expansion. Stoian and Filippaios (2008) agree that Dunning's paradigm has long been the foremost framework for investigating the determinants of fdi. They believe that it provides a complete framework for investigating why MNEs expand beyond their borders as well as their ongoing activities with respect to fdi. The other aspect with which they agree with Dunning is that the paradigm is context

specific and depends to a large degree on the motivations of the firm engaging in fdi.

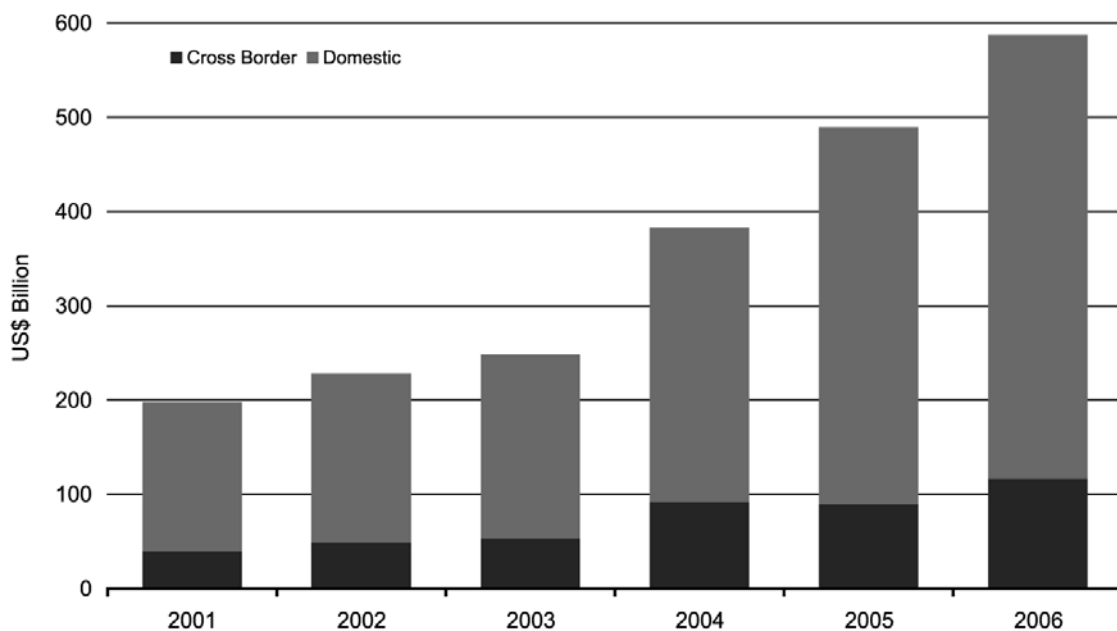
1.3 Commercial Property

The focus of this paper is on multinational commercial property companies and the decisions behind their foreign direct investments into investment property outside of their borders. The lens through which the topic will be viewed is the eclectic paradigm, otherwise known as the OLI theory.

Despite the global credit crunch which has hit the world's economy the globalisation of the property investment sector has not slowed. According to Ian Fife (FM, 2008) it has in all likelihood hastened. He refers to the fact that promoters are scurrying to launch property funds in Hong Kong, Singapore and China. Fife puts the opening up of global property investment down to two factors. Firstly, there is an enormous amount of property information available to investors provided by the likes of the International Property Databank (IPD, 2007) and other global property investment services. Second, the growth of real estate investment trust (REITS), which have greater liquidity, daily pricing, tax transparency, continual analysis, a greater diversity of investment, and lower transaction costs than traditional real estate investment vehicles, are proving very attractive.

Prior to the sub-prime catastrophe, global market real estate had seen strong and sustained performance over a number of years. This in turn led to a “surge of investment activity across most global real estate markets.” (Topintzi, Chin and Hobbs, 2008). This has led to turnover within the sector more than doubling over the three years leading to 2006 to around US\$600 billion - Figure 1 (Chin, Topintzi and Hobbs, 2007).

Figure 1



Source: Chin, Topintzi and Hobbs (2007)

According to Hudson-Wilson *et al* (2005) the past 15 years of positive performance by the real estate sector has seen it make its way into diversified stock portfolios including stocks, equity and bonds.

Both direct and indirect property investments have shown tangible growth. Direct property involves direct investment and the management of physical property, while indirect investment into property involves “pooled” (IPD, 2008, p.286) investments into securitised vehicles (funds).

Direct property is sometimes chosen as the alternative to indirect property because of its high returns coupled with comparatively low risks. However with the upside comes the downside of high cost and low liquidity. The opposite can be said for indirect property which is perhaps why it is the more popular option because of its liquidity, transparency and diversification (Chin, Topintzi, Hobbs, Mansour and Tan, 2007).

Further to this increase in overall global activity there has been a huge spike in cross-border investing as global markets begin to mature and investors look to diversify their real estate investment exposure. Looking back at figure 1 the cross border investment figure has tripled from 2001 to 2006 to reach US\$116 billion, which was 20 percent of the global total (Chin, Topintzi and Hobbs, 2007). It is important to note at this point that this was global activity (global flows) and not global stock. Global stock would be the total amount of investment property held.

By investing into international markets investors are able to mitigate or spread the risk of their property portfolios (Eichholtz, Koedijk and Schweitzer, 2001). As property markets are driven by local factors, there is a suggestion that the

benefits of this diversification could be great indeed. Eichholtz (1996) showed that international property markets have lower degrees of correlation than those of the international stock and bond markets. He continues to state that investing in international property is more effective at reducing the risk of a portfolio than investing into international stocks and bonds.

1.4 Research Scope

The evidence suggests that the international real estate market is growing in leaps and bounds, particularly the cross-border transactions which tripled between 2003 and 2006. It also appears from the aforementioned that research into this rapidly expanding field tends to focus on investment returns, risk and yields and not much on the strategic choices multinational companies make when making their foreign investment decisions. Using the case study approach, with qualitative interviews being the backbone of the research, this paper will attempt to understand the intricacies of the strategic choices MNPC executives make when expanding globally. The eclectic paradigm will be used as a framework through which to view the topic.

For the purposes of this research multinational property companies from South Africa, the United Kingdom and Germany made up the individual case studies. Both established and new organisations were approached. (It is important to note that each of the firms engaged with in the research are made up of different legal constitutions, and that they are all referred to as companies for ease of reference

throughout the paper). The intention behind the multi-country case study was to gain perspectives of international investment property companies' international expansion processes from a truly global perspective.

CHAPTER 2: THEORY AND LITERATURE REVIEW

2.1 Introduction

In order to understand the complexities of the decisions behind multinational property companies (MNPCs) that expand beyond their borders it is helpful to look at the literature base for a framework which applies to this field of study.

Globalisation, as a phenomenon, needs to be understood as a part of the reason for why multinational firms are undertaking more and more foreign direct investment (fdi). In addition, the field of internationalisation in particular the eclectic paradigm needs to be understood as the all important framework for understanding international strategy. Further to the theory base the fundamentals of commercial property need to be understood in order to apply the theory within the correct context.

2.2 Globalisation

More and more companies are expanding outside their borders as the world becomes more competitive and the barriers to trade are diminished.

Understanding the concept of globalisation therefore provides an important stepping stone to understanding internationalisation.

Desai (2001) describes globalisation as a phase of capitalism. In fact he goes so far as to compare it to a similar phase of Capitalism dating back to the 19th century. He delves deeper into the topic by comparing the two contrasting philosophies of globalisation – organistic versus mechanistic. The organistic approach includes the deliberate intervention of a mechanism - like the state - as

being crucial to the success of the market. On the other hand the mechanistic approach puts forward that the market should be free to make its own adjustments free of government intervention. In fact, left to its own devices the market should behave more efficiently.

Desai (2001) further believes that globalisation creates disequilibrium in markets over time, and re-invents itself through cycles of disruption and correction. In much the same way John Gray (2002) proposes that globalisation is a process which is in a particular phase of its development. He sees the most important feature of globalisation as being the international nature, or “transnational organization of production” (2002, p.191). He sees this decentralised nature of production as a direct result of technology, and not as a result of free global markets. Desai on the other hand feels that globalisation is a combination of ideology and modern market forces. It is “ideology plus technology plus deregulated capital” (2001, p.29). He sees this as a self organising system in the true organic sense.

Gray sees globalisation as having given rise to all kinds of global capitalism – from Russian to German – and sees it as a problem with no real solution. He agrees that as a system, globalisation is politically ungovernable, but limited by the availability of resources. The issue of the battle for resources combined with the rise of religious and ethnic groupings may lead to a battle for resources into the future with disastrous consequences.

Wolf (2005, p.14) provides a concise definition of globalisation, with a quote from David Henderson (1999), who sees globalisation as the “free movement of goods, services, labour and capital, thereby creating a single market in inputs and outputs”. Gray feels that this move towards greater integration creates a “democratisation of decision-making and information flows” (2005, p.17). As a result the costs of communications are lowered. Unlike Gray, Wolf feels that the idea that the process of globalisation is controlled by technology and will lead to total liberalisation of information is slightly exaggerated. He feels that as technology increases so do governments’ opportunities to impose greater controls over their physical markets.

Wolf (2005, p.19) defines globalisation as a process of economic integration through the markets, and feels that it is driven by lowered transport costs, technological innovation and “greater reliance on market forces”. Wolf admits that his is an economic perspective of globalisation and acknowledges that any approach has further reaching social, cultural and political consequences.

Canton (2006) sees “Sustainable Globalization” as the key to the future (p.187). He agrees with Gray that globalisation is resources-based. As a result, if little attention is paid to a more equitable distribution of wealth, as the global population swells an increasing portion of the global population will be

impoverished in years to come. A position which he feels creates a fertile breeding ground for terrorism.

Understanding globalisation as a major part of the macro environment of business allows one to incorporate strategies which align the company's internal resources with external forces to create a competitive advantage (Porter, 2007). The resources available to create these competitive advantages are finite and fiercely competed for (Rees, 2002/3).

Clark and Lund (2000) define globalisation within the property market as the increase in the number of agents at greater and greater distances from the "market area". These agents are involved in the "production, ownership, maintenance, use and production of the built area" (2000, p.468). In particular the authors feel that the globalisation of the property market is dependant on which function the firm focuses on. Of interest with respect to the flow of capital is the barrier to globalization which property may possess. Its very nature makes it immobile and heterogeneous. Understanding the fundamentals of commercial property is an important part of understanding the issues firms in this sector face when considering investing beyond their borders.

Before focussing in on the nature of commercial property it is important to narrow the scope of the project down from the broader context of globalisation to within a theory base for the study of fdi by multinational companies.

2.3 Internationalisation and the eclectic paradigm

Internationalisation is the theory base most suited to provide a framework for the topic. However there are a number of theories which relate to the topic of internationalisation which Axinn (2002) feels are not relevant. She feels they were designed for specific scenarios and are not relevant to all modern business situations. The theories she lists are industrial organisation theory (IO), internalisation theory (INT), transaction cost theory (TC), the Uppsala Model of Internationalisation, and the network theory. Her main argument for the weaknesses of these theories stemmed from the notion that they were all developed “within a specific environmental context to explain a fairly specific set of observed firm behaviours” (2002, p442).

Included in her criticism of the traditional theories of internationalisation is Dunning’s eclectic paradigm, otherwise known as OLI theory. Dunning’s paradigm includes “elements from IO, INT and TC” (Axinn, 2002 p.442). Although Axinn finds this theory limited, the paradigm puts forward that the decision of a firm to expand internationally is based on three important factors: ownership-specific advantages, locational attractions of countries....and internalization advantages” (Axinn, 2002 p. 442).

The very fact that the OLI theory is an eclectic mix of internationalisation theories gives it further scope for application across the spectrum of business realities. An in depth look at the eclectic paradigm through the literature will reveal that it is in

fact one of the more relevant internationalisation theories available today, with a breadth of application far beyond what Axinn might suggest.

According to Klein and Wöcke (2007) a good point of departure for studying the theories of internationalisation is Rugman and Verbeke's (2003) article on the extension of the theory of the multinational enterprise. The article focuses on both internalisation and the strategic management approach, and is an assessment of the current applicability of Buckley and Casson's (1976) book entitled *The Future of the Multinational Enterprise (MNE)*. Rugman and Verbeke (2003 p.125) see this as the starting point for examining MNEs and feel that it represents a "landmark study on the economic analysis of the multinational enterprise (MNE)". They feel that it could be considered one of the building blocks to transaction-cost-based theory of MNEs.

Rugman and Verbeke (2003 p.126) note that it was Buckley and Casson's view (1976) that the rapid growth of MNEs was driven by five concurrent elements: demand for technology driven products; economies of scale and efficiency with respect to knowledge growth; how to manage these new markets in the light of all this new information; reduced international communication costs; and the opportunity for tax reduction through "transfer pricing". In other words the rise of Globalisation gave rise to the MNE.

Of particular interest is Rugman and Verbeke's (2003) observation that internalisation only occurs up to the point where the "benefits equal the cost" which Buckley and Casson had already recognised. Evidence of this lies within the parameters within which they feel internalisation decisions are made. These were:

- Industry-specific factors
- Region-specific factors
- Nation-specific factors
- Firm-specific factors

Rugman and Verbeke (2003, p. 126) refer to Buckley and Casson (1976) who describe the MNE as an "international intelligence system for the acquisition and collection of basic knowledge relevant to R&D, and for the exploitation of the commercially applicable knowledge generated by R&D".

Buckley and Casson (in Rugman and Verbeke p.127) were very aware of the transaction costs of managing an "internal market across borders". Rugman and Verbeke (1992 in 2003) and Rugman (1996 in 2003) put forward the idea that the configuration of MNEs internationally, with the objective of adding value to the organisation, was dependent on the stock of firm-specific advantages (FSAs) and how it used its country-specific advantages (CSAs). Organisation is a vital component of the establishment of a firm with operations outside of the host country.

Dunning (2003) puts forward that there are two juxtaposed “strands” of economic history to this approach. One of these is the “exchange function” (Dunning, 2003, p.109), which looks at why firms internalize transactions (Klein and Wöcke, 2007). The second strand views the firm from the perspective of how it adds value. In other words how it transforms inputs. According to Klein and Wöcke (2007), Dunning’s eclectic paradigm of internationalisation uses this work as its building blocks and provides a point of departure for the examination of global strategies.

Following on from his earlier work on the eclectic paradigm, Dunning (2000 p.163) provides an update on his thinking. He suggests that by allowing the paradigm to be more dynamic, and by broadening its scope to include the augmentation of assets and MNE activity, he feels that it may still stake a claim to being the leading paradigm to aid with the understanding of the “foreign value added activities of firms in a globalizing, knowledge intensive and alliance based market economy”.

According to Dunning (2000) his eclectic paradigm has been the foremost analytical framework within which a number of economic theories have been able to be tested. In particular, the theories which relate to foreign direct investment (fdi) and the external or foreign activities of multinational enterprises (MNEs).

He states that the paradigm is a “simple, yet profound, construct” (Dunning, 2000, p.163) which puts forward that the size, geography and structural, or functional, make up of foreign investment which MNEs engage in, is dependent on the interaction of three sets of interdependent variables. Each of these variables consists of three sub-paradigms.

The first of these are the set of unique competitive advantages which firms engaging in fdi activities possess. These advantages are specific to the firm. Dunning (2000) refers to these as ownership (O) specific advantages. It is important to recognise the assertion of this sub-paradigm which puts forward that, all things being equal (*ceteris paribus*), the greater the investing firm’s competitive advantage – relative to other firms, in particular those from the market to be invested in – the greater the firm’s ability to continue or increase its fdi.

The second sub-paradigm (Dunning, 2000) refers to the attractiveness of the location (L) of those countries into which firms want to invest. It is important to note that Dunning refers to this as the value adding activities of the firm, which is an essential strategic notion for any firm. The assertion of this sub-paradigm is that the more the fixed, natural, or man made “gifts” of the foreign location can be combined with the firm’s own competitive advantages - over and above those of a domestic location - then the firm will supplement its O specific advantages with fdi.

The third sub-paradigm of what Dunning refers to as the “OLI tripod” (2000, p.164) is how firms organise the growth and development of their core competencies within the foreign country context, given the different country attractions. In other words how do they best inculcate country specific advantages most effectively into the firm framework to become a part of their firm’s core competencies? This is referred to as internalisation (I). The assertion of this sub-paradigm is that the greater the benefits of internalising foreign investment opportunities to intermediate markets, the greater the likelihood of the firm to prefer to engage in fdi itself. The corollary is that the weaker these benefits the greater the likelihood of the firm licensing the right to carry on fdi on its behalf through franchising or the likes.

The eclectic paradigm further purports that the precise make up of the OLI factors within the firm are very particular to the context within which the firm operates. Contextual features include: the economic and political stability of the country the firm is investing into; the industry into which the firm is investing; what kind of value add is being created; the complex characteristics of the investor firm; and the “raison d’être” – the reason for being, or original purpose – of the fdi (Dunning, 2000).

Further to this last point Dunning (2000, p.164) identifies four distinct types of MNE activity which extend beyond the host country’s borders:

1. *Market seeking*, or demand specific, fdi. This is seen as MNE activity which is aimed at satisfying the needs of one or more foreign markets.
2. *Resource seeking* or supply specific, fdi. This is seen as MNE activity which is aimed at obtaining access to natural resources. Natural resources like agricultural products, labour and minerals.
3. *Rationalized or efficiency seeking* fdi. Those activities which are constructed to make the asset and labour specialisations more effective. Dunning sees this step as related but “sequential” to the first two points.
4. *Strategic asset seeking* fdi. Those activities which would protect or supplement the current O specific advantages of the firm, while at the same time possibly reducing those of their competitors. Dunning refers to this behaviour as “strategic asset seeking fdi”. (2000, p.165)

Dunning (2000) admits that the eclectic paradigm was originally too static, addressing only cost and efficiency related issues. The paradigm has changed over the past 20 years with respect to the attention it has given to the dynamic nature of competition and the location strategies of firms.

According to Dunning these changes were a necessity based on four significant changes:

1. the growth of the knowledge-based economy;
2. the growth in international economic integration specifically through the advances of electronic networks;

3. the relaxing of cross border trade, along with the flotation of some of the worlds major currencies; and
4. the appearance of new countries as global competitors.

2.3.1 The evolution of the ownership sub-paradigm (O)

Dunning (2000) suggests that since the 1960's the literature has identified three main kinds of O, or firm specific advantages (FSAs). The first of these relates to monopoly power (Bain, 1956) - how much monopoly power a firm possesses and how it is exploited. The advantages gained from monopoly power create barriers to entry for firms that do not possess these competitive advantages (Porter, 1980, 1985). This was the realm of the industrial organisation theorists. The second kind of FSA relates to a unique set of resources and capabilities. Again, these create a barrier to entry for those firms not in possession of these unique attributes. The third kind of FSA relates to how managers are not only able to identify resources and capabilities across borders, but how they utilise these capabilities. The proper co-ordination of these new resources, along with the firm's existing capabilities and resources to create value for the firm in the long run is the key to this notion.

Dunning (2000) purports, that the importance of these three kinds of FSAs has diminished over time, as a result of more open markets, combined with the growth of the knowledge intensive world economy. This has led to the emergence of what Dunning (1995) terms "alliance capitalism" and the rise of fdi

by firms needing to supplement and protect their current assets. As a result, “multinationality” became an asset in its own right. Dunning (2000) argues that as long as the evolution of O specific advantages do not “undermine” the building blocks of the eclectic paradigm then they can readily be incorporated into the paradigm.

Over the last two decades greater importance has been placed on the firm’s fdi being reliant on the claim, or the quest for, dynamic O, or firm specific advantages. “Strategic asset seeking (SAS) fdi is dependent on intellectual capital being located in more than one country, and that it is economically preferable for firms to acquire or create these assets outside, rather than within, their home countries” (Dunning, 2000 p.173)

2.3.2 The location sub-paradigm (L)

The eclectic paradigm has always acknowledged the importance of location advantages to fdi (Dunning, 1998). The different variables which explain why firms find locations attractive are seen to vary according to the investing firm’s fdi motives, the make up of the sector it competes in, the status of the firm’s home country, and a number of other considerations linked to firm specific advantages. Research in this field has extended their location specific theories to incorporate additional attributes that firms need to be cognisant of including labour regulation, efficient financial institutions, political stability, and cultural differences.

According to Dunning (2000) modern economic activity suggests that the traditional competitive advantages of a country have moved from being based on its unique set of natural resources and capabilities which are “immobile”. The focus is now on the ability to create unique, difficult to replicate location based assets. Included in this list of assets would be local firms that have the capacity to do business with MNEs in a manner which adds value to their own core competencies.

Dunning (2000, p.179) feels that while the exchange rate might affect the timing of cross border investments, the crucial decision will rest on whether or not the acquisition of the asset – along with the environment of which they are a part – will add to the overall “competitiveness and strategic trajectories of the investing firms”.

2.3.3 The internalisation sub-paradigm (I)

In order to understand the internalisation sub-paradigm one should consider that the firm already has a complete set of FSAs, and the immovable assets of a country are sufficiently attractive for the firm to locate its asset supplementation or value adding activities there. The decision now is to whether or not the activities in country are performed by the firm with the advantages, or by local companies that buy the advantages, the right to use those advantages in the local market, or through some other mechanism of acquisition.

According to “orthodox” internalisation theory (2000), if the costs of going via the market in the exchange of intermediate goods, information, technology, and the likes, are more than those used internally by the firm, then the firm will pay a local firm to engage in fdi on its behalf. Dunning (2000, p.179) describes it thus: “In general, the transaction costs of using external markets tend to be positively correlated with the imperfections of those markets.” All the costs of corporate activities should be included in the decision – not just the transaction costs – for the decision to be of value. This third sub-paradigm gives weight to the importance of examining the different market entry options within a competitive environment, as well as the need to understand where opportunities exist within an uncertain environment (Klein and Wöcke, 2007).

How international firms internalise their foreign market transactions is also known as the entry mechanism or mode of entry of the foreign firm. According to Slangen and Hennart (2007) there are a number of entry modes:

- Contractual and equity modes;
- Joint ventures and wholly-owned investments; and
- Greenfield investments and acquisitions

Slangen and Hennart (2007) refer to Greenfield investments as the building of a new subsidiary from scratch either as a wholly owned subsidiary (WOS) or through joint ventures with partners who have complimentary assets or skills.

Acquisitions on the other hand involve the purchasing of part or all of an existing firm. As a result these purchases can also be partially or wholly owned (Slangen and Hennart, 2007). The price one pays for these transactions consists of the price associated with the firm as a going concern, with an additional takeover value added to the transaction. The premium associated with takeover value is normally higher for cross-border deals. Slangen and Hennart (2007) feel that this is perhaps as a result of the international acquirer not having the same knowledge of the true value of the asset / target as local firms.

Slangen and Hennart (2007) note that the greater the tacit component of a target the more difficult it is for the foreign buyer to determine the true characteristics of the deal and the more likely the buyer will pay too much for the deal or will walk away from the deal. The same point goes to the fact as to how the foreign firm enters the market. Logic would have it that the more explicit the target then the more likely the foreign firm would engage in greenfields – wholly owned entry mechanisms. The corollary would also be true whereby the more tacit or tricky the target or deal appears the more likely the foreign firm would be to acquire through joint ventures and partnerships.

Pehrsson (2006) believes that there are two major types of market entry:

- Full control (sole ownership)
- Shared control (Collaboration)

The association between entry mechanisms and international strategy is very limited according to Pehrsson and should include both tangible resources and intangible resources. Pehrsson agrees with Slangen and Hennart in terms of the types of entry modes and adds two more: licensing and franchising, and exporting directly or through independent channels.

According to Pehrsson (2006) the choice of entry mechanism boils down to the location and the type of control. In other words the ability, or authority, a firm has to influence control over the systems, methods and decisions of the foreign business. This leads the firm to ask the question whether they should enter a foreign market through the internalisation of the activities within its own boundaries with full control, or, through collaborations and partnerships. The choices are as follows according to Pehrsson (2006):

- Full control means higher risk and greater commitment, but also higher share of return on the investment;
- Shared control means less risk and less commitment, but lower share of return.

Another point that Pehrsson (2006) makes is similar to the tacit versus explicit argument whereby the degree of business relatedness will influence the internalisation decision. In other words international corporate experience will play a factor in the strategic decision making process according to Pehrsson, and

the degree to which the target firm has similar business fundamentals to the acquiring firm.

According to Glückler (2005) one of the most important underlying causes of international entry relates to the firms social networks. As a result the organisational entry mechanism may be affected at a systematic level.

Glückler (2005) feels that firm specific advantages (FSAs) alone cannot explain the internationalisation of business. As a result the external relationships of firms need to be taken into account. Social networks and the effect they have on internationalisation change over time. The increase of international social networks and more experience of doing business in foreign markets lead to a greater propensity to enter into a foreign market through brownfield foreign direct investment.

In addition to the aforementioned entry strategies brownfield can be considered a mix or “hybrid” of both acquisition and greenfield strategies (Cheng, 2006). In its purest sense it is regarded as an acquisition strategy that closely resembles a greenfield. The essence of brownfield strategy is the purchase of an existing firm by a firm headquartered outside of the target country, with the aim of starting a new venture or operation (2006). This is done through the use of one or more partners providing the outside firm with overall control. Once this has been achieved the newly acquired firm is stripped of all its assets, and restructured

with resources – both human and physical – by the acquiring firm. Firms that are in need of a high level of integration and local resources will pursue the brownfield route if the other routes prove to be too costly.

Dunning (2000, p.184) puts forward that although the eclectic paradigm in its original form may have been construed as static, the addition of a dynamic component, and “an extension of its constituent parts to embrace both asset augmentation and alliance related cross-border ventures can do much to uphold its position as the dominant analytical framework”.

Stoian and Filippaios (2008) agree that Dunning’s eclectic paradigm has long been the most influential framework for empirical investigation with respect to what determines fdi. They put forward that it provides a holistic framework for investigating the influencing factors of initial MNE expansion, as well as their ongoing fdi activity. They also agree with Dunning with respect to the fact that the paradigm is context specific and will depend to a large degree on the motivations of the firm for fdi activity. An essential inclusion to their paper is the importance of institutional infrastructure which can have a positive effect on a country’s “pull factors” (2008, p.14) which determine the country or region’s competitive advantage. They use Dunning’s contributions in this matter to lead them to investigate the significance of institutional infrastructure. These institutional determinants are not restricted to country specific determinants and include firm specific institutional determinants (Dunning, 2006).

2.4 Commercial Property

The basis for this paper is the study of the strategic decisions made by MNPCs – focussing on investment property - when expanding beyond their borders through the lens of the eclectic paradigm. With that in mind it is important to understand the fundamentals of commercial property. Reference will be made to the commercial property market in the United Kingdom and its fundamentals as all the principals applied in that market are common to the understanding of investment property in other global markets. Discovering the importance and widespread use of these fundamentals is a part of what this study aims to ascertain.

2.4.1 The commercial property market

There has been a “surge of investment activity across most global real estate markets” (Chin, Topintzi and Hobbs, 2008) which has led to massive turnover within the sector. From the aforementioned figure 1 turnover has more than doubled over the three years leading to 2006 to around US\$600 billion.

Hudson-Wilson *et al* (2005) feel that the last 15 years of positive performance by the real estate sector has led to it becoming a part of diversified stock portfolios including stocks, equity and bonds, the world over.

A major part of the increase in activity in international investment property has been the massive increase in cross-border investing. As global markets begin to mature, investors are increasingly looking to diversify their real estate investment

exposure. Looking back at figure 1 the cross border investment figure has tripled from 2001 to 2006 to reach US\$116 billion, which was 20 percent of the global total (Chin, Topintzi and Hobbs, 2007).

In the United Kingdom alone there is approximately £762bn worth of commercial property according to the Investment Property Forum (IPF, 2007). The market consists of the core commercial property sectors – retail, office and industrial – which comprise approximately 80% of the market. According to the IPF (2007) half of this amount is made up of “investment property” (2007, p.3). Investment property is that portion of the market which is rented to tenants by landlords. This portion of the market is rising according to the IPF and is mainly held by UK insurance companies and pension funds.

The market is made up of 114 listed property companies and over 3,300 private property companies which range from very large portfolio owners to companies with a single property (IPF, 2007).

Increasingly, foreign investors are investing in the UK property market with 15% of the commercial property being held by foreign investors (IPF, 2007). The reason for this entry into the UK market is that they are looking to supplement their returns and diversify their risk portfolios beyond their local country borders.

Additional reasons for these companies being attracted to the UK market may be that the yields in this market outweigh their finance costs. In other words the margin that is being offered is attractive (IPF, 2007). Other reasons cited by the IPF are that those companies in countries with common business cultures, languages, and within close proximity may find the familiarity of doing business in the UK an advantage.

The key players in the commercial property space are:

- Trusts, estates and charities
- Private investors
- Limited partnerships and unit trusts

Additional sector players include:

- Developers
- Bankers
- Occupiers
- Chartered surveyors and property consultants (IPF, 2007).

Each of these players and specialists plays a part in the role of putting together suitable sites, arranging finance, finding an attractive tenant mix, marketing properties, negotiating purchase prices, valuing properties, and managing the properties on behalf of their investors (IPF, 2007).

Further to the key players commercial property is made up of three “principal investment property sectors:

1. Retail - shopping centres, retail warehouses, normal shops, supermarkets and department stores
2. Offices - office and business parks
3. Industrial - industrial estates, distribution warehouses, and logistics operations

In addition to these three principal sectors there are smaller sectors like leisure – parks, restaurants, pubs and hotels – “student accommodation” and healthcare property (IPF, 2007).

2.4.2 Commercial Property as an asset class

According to the IPF (2007) Commercial property is very distinct from residential property in the following ways:

- Commercial tenants usually sign long term rentals sometimes in excess of ten years, but averaging around 8 years. Residential tenants would usually only sign up for shorter term leases which are continually renewable
- Commercial tenants are responsible – liable – for any damages sustained to the property

- The major portion of value from commercial property comes from income from rentals as opposed to capital appreciation which is mainly the case of residential property
- Commercial property acquisition prices can run into the hundreds of millions of pounds

2.4.3 Understanding commercial property

Above all, commercial property offers safe and stable cash flows. According to the IPF (2007) commercial property leases provide an income stream of up to 7.1 years on average. Because the major part of the return on commercial property is in the form of income it needs to be fairly high return for it to be attractive, and it is. The yield for commercial income is 4.9% while equities are 3.2%, and gilts return a yield of 5.6% (IPF, 2007). According to the IPF (2007) this is what makes this asset class attractive in geographies with low inflation.

While other asset classes have been trending downwards over the past ten years commercial property yields have remained fairly stable returning an average of 6.5% (IPF, 2007). In fact, according to the IPF, since records began commercial property has produced annualised returns of 12.2% which outstripped both gilts and cash.

Those companies or investors that have direct ownership of commercial property have the opportunity to add value to their assets by playing an active role in the

management of the properties. This is done through re-negotiating leases, buying existing tenants out of their leases, and/or redeveloping the assets for redeployment. These added value inputs are required to attempt to create value in a property which may lose value as it ages.

Investors into commercial property have stated that the one downside to the asset class is its lack of liquidity. The IPF however notes, from research published by them in 2004, that the average holding period for an investment is seven years, and that this period has been steadily shortening (IPF, 2007). This suggests that liquidity is on the increase.

The IPF notes that there are two reasons for this “stickiness”. The first is that it can be very expensive to do a deal in this sector, while the second is that commercial property deals tend to take a lot longer to complete. It can take many months to finalise a deal which can present a significant opportunity cost hurdle for investors to overcome (IPF, 2007).

As stated the costs included in commercial property transactions can be quite significant. A fair portion of these costs can be reflected in the due diligence needed to undertake these types of transactions.

The IPF puts the market norm at 1.7625% (IPF, 2007) which includes the following services:

- Agent's purchase advice
- Legal fees
- Stamp Duty Land Tax

A part of the buying process is the valuation of the property. As there is no public exchange with openly quoted prices or values, valuers are required to put forward an estimate of the asset's likely selling price. How the valuer comes to his or her conclusions is a key part of the decision:

"This process combines financial information about the property with market data to come to a balanced, evidence-supported assessment of its price: a valuation. But sometimes not all the pieces of the puzzle are available. Here, the valuer uses his or her expert knowledge and experience of the market to make a judgement." (IPF, 2007)

REITs

It is worth mentioning at this stage that a new investment vehicle has been introduced to the UK market in the form of real estate investment trusts (REITs). REITs provide tax-efficient investment vehicles into commercial property and they are expected to revolutionise the market. REITs have been a feature of the US market for some time and are being considered for the South African market. This will not have an impact on the research as it is not clear when this new vehicle will be introduced and as such does not play an important role in the decision making processes with respect to cross-border investment other than

into the United States. Those companies that do make the move towards the United States have already factored REITs into their decision making processes with respect to issues like liquidity and taxation. REITs are mentioned here for the role that they might play in the future in investment property.

2.4.4 The risks associated with commercial property

Being aware of the risks associated with commercial property is a fundamental part of the investor's decision to invest. The four major risks are property risk, market risk, product risk and tax risk (IPF, 2007).

Property risk

One of the most important decisions when trying to ascertain the market value of a building is its **location** (IPF, 2007). As a result of the average holding period of a commercial property investment of around 7 years it is important to know how the location might be affected during that time. Urban regeneration schemes may have a positive impact on the location and as a result on the market value of the property. On the other hand large industrial developments or re-routed arterial roads may have a negative impact on the market value.

The **physical characteristics** of a property – building type and the intended use thereof - are another property risk (IPF, 2007). The types of things that affect the use of a building are not easy to measure and go to the location and the quality

of the building. The risk here is that of depreciation and items like the materials used, layout of the building, and the specification of the finishes.

One of the most, if not the most, important parts of the value of a building is the income it returns to its owners. This income is derived from rentals paid by **tenants**. Not only is the risk of default an issue for the owner, but the overall credit rating of the tenant over time (IPF, 2007). If the credit rating of the tenant lowers over time the market value of the property will follow suit.

The length of the lease is another important risk factor to consider when weighing up the property risk. With a good quality tenant secured in a long lease then the income from the investment is guaranteed regardless of market conditions (IPF, 2007).

Market risk

Over and above the property risk there are a number of market factors to consider when ascertaining the risk of investment. The first of these is the market yield (IPF, 2007). Like the rest of the market the property market goes through cycles. There are periods of growth which lead to market oversupply and weakness. This is followed by a period of stability or decline, followed by an absorption period, and then back to growth. In order to ascertain the value of a property at any given time it is easiest to look at the initial yield.

The formula for the initial yield is shown below:

Initial Yield = Current Annual Rent / Property Value (including purchase costs)

The economy's interest rate has an effect on property yields. As a result the average yield across the property market fluctuates over time and is a good indicator of economic cycles or sentiment towards the sector (IPF, 2007).

In addition to the general market yield there is sector risk. As mentioned earlier there are three main sectors within the commercial property sector – retail, office and industrial. Each of these sectors may perform differently relative to the overall market. The sector into which any particular property falls can therefore be susceptible to “sector effects” (IPF, 2007 p.27), and these need to be taken into account when evaluating a property.

A further market risk is that of **rental growth**. Future cash flows are an important part of any investment evaluation. The same is true for property. The difference is that property derives its income from rental income and not as dividends as does the rest of the market. In other words it is the discounted future value of the rental income that matters in property investment decisions. Adjusting the formula from market yield the value of a property is equal to the rental obtained over the yield. As a result the value of a property will increase if the rental income

increases. The value the market puts on a property could therefore be seen as the expectations of the future growth of rental income of the property. According to the IPF (2007, p.27) "Changes in these expectations for rental growth can have a profound effect on the value of a property". Factors which can effect rental growth include the following: the local economy, general trading conditions, property supply, and the availability of rental space amongst others (IPF, 2007).

The process of buying and selling a property has market risks attached to it. One of the most important of these is stamp duty (IPF, 2007). Stamp duty starts at 1% and can be as high as 4%. Schemes which have been set up to avoid paying stamp duty may be considered risky as regulations are susceptible to change and companies might find themselves being charged retrospectively (IPF, 2007).

Product Risk

The nature of an investment into commercial property can reduce the risk of investing into property. Unit trusts or limited partnerships can help mitigate risks. The nature of the investment can also increase the risk. Direct investments into commercial property for example are relatively illiquid. This is the case in a normal market. When the market turns and becomes depressed transaction times become even slower. In these kinds of markets it may be difficult if not impossible to find a buyer at the right price. **Liquidity** risk is a major concern with commercial property as a product. Listed property shares and REITs provide investors the opportunity to invest indirectly into commercial property. These

shares are listed on the London Stock Exchange (LSE) and have the ability to be traded quickly (IPF, 2007).

Like all investments **diversification** allows an investor the opportunity to spread the risk. The same applies to property. Investing into one property or one listed property stock concentrates the risk. Along with property fund spreads, the investor has the opportunity to further mitigate the risk further by diversifying across geographies and across sectors (IPF, 2007).

Unit trusts and limited partnerships allow the investor the opportunity to gear – the use of debt leverage – in order to invest in larger investment property opportunities. This would potentially increase the risk of the investor while also providing for an opportunity for greater returns (IPF, 2007). Gearing into commercial property can be higher than 70%, which significantly increases the opportunity for higher returns – and risk. If a highly geared investment is concentrated on one property the risk is highly focussed. However, if the property has good fundamentals underpinned by a high quality tenant then the risk could be mitigated as the income from the investment is secure and hence the chance of default on the loan is minimal. The IPF puts forward five points for consideration when trying to assess the risk “inherent” (IPF, 2007 p.28) in a geared instrument:

1. How credit worthy is the tenant?
2. How long is the lease?

3. What is the term of the investment?
4. What is the term of the loan?
5. What kind of rental growth can be assumed?

Tax Risk

For all investors into commercial property it is important to understand the status of the vehicle through which the investment is made. The vehicle can have a significant impact on the amount and form of tax due. For example certain vehicles are exempt from capital gains tax but have to pay tax on income gains. If these vehicles are seen to be “dealing” they will pay tax on income rather than receiving their allowance on capital gains (IPF, 2007).

2.4.5 Investment property investment considerations

A major part of the case study methodology is the refinement of the research questions by the use of exploratory interviews (Perry, 2001) Combining exploratory research with the theory base can help to formulate the underlying research questions.

An exploratory interview with international property expert Angelique de Rauville (de Rauville, A.N. 2008) provided the following insights into what MNPCs are searching for when considering a potential country to invest into investment property:

- **Countries with steady GDP growth** with growing, sustainable economies, with no history of negative growth, and inflation stability, which should suggest steady income streams from investment property.
- **Political Stability** provides investor confidence that the likelihood of repossessions is miniscule. Zimbabwe was cited as an extreme case.
- The **opportunity to use leverage** to buy into the market. Incomes derived from rental returns must outweigh the cost of funding or gearing. Property values can fluctuate. What is important is that the income from the property rental services the debt.
- **“Undiscovered Economies”** with cheaper properties with great yields relative to the host country yields. In these environments greater positive cash flows are possible until new entrants enter the market and the law of supply and demand takes hold and makes the market more competitive.
- **Developed, sophisticated financial services sectors** are of increasing importance with respect to tax efficient mechanisms and business friendly regulatory environments. In addition developed markets need to provide an exchange control friendly environment. Tax issues and exchange regulations can hinder opportunities to liquidate and could lead to an erosion of profits.
- **The cultural and management style** of the countries into which the MNC is looking to invest into is equally important as conflicting styles and cultures can be extremely complex to manage.

The preceding issues can be analysed and decisions made using desktop analysis through information readily available on country and economic web sites. It is the aim of this research to provide greater insights into the strategic decision making processes involved when MNPCs internationalise their operations. The use of the eclectic paradigm as the framework for investigation, along with the qualitative interviews of MNPC executives should lead to a richness of insight into the strategic decisions made by multinational property companies engaging in fdi. Also of interest was the ability of the eclectic paradigm to make sense of the internationalisation of commercial property companies.

The formulation of propositions based on both the literature and theory base provided a framework for analysis. The thought process behind the construction of these propositions and the proposition statements are addressed in chapter 3.

CHAPTER 3: RESEARCH PROPOSITIONS

Zikmund (2003, p.43) puts forward the idea that a proposition is a statement that has as its main concern the relationship between concepts. Propositions are thus allegations that there is a general connection between concepts which may be true. They are not statements of fact, but proposed links between two or more concepts or ideas.

Three propositions are put forward for the purpose of this study, and a brief discussion of how each of the propositions was formulated is provided below with each proposition stated in bold.

The propositions were formulated building on both the literature surrounding the theories of internationalisation – specifically the eclectic paradigm – and the commercial property literature. They are placed into their separate sub-paradigms: ownership (O), location (L), and internalisation (I).

3.1 Proposition One (O)

Proposition one is drawn from the first sub-paradigm of Dunning's eclectic paradigm and relates to ownership, or firm specific, advantages. From the literature Dunning (2000) believes that firms that engage in fdi activity have a unique set of firm specific advantages which allow them to be competitive. He asserts that the greater the investing firm's competitive advantage relative to

competitors – particularly in the target market – the greater the firm’s ability to engage in fdi activity and indeed expand its scope of fdi activity.

Successful multinationals are able to develop skills beyond their core capabilities as a result of doing business in a number of different geographies. This is what Dunning (2000, p.173) refers to as “multinationality” and goes on to state that “Strategic asset seeking (SAS) fdi is dependent on intellectual capital being located in more than one country, and that it is economically preferable for firms to acquire or create these assets outside, rather than within, their home countries”. The skills that allow multinational property companies to compete on a local level may be sufficient to gain these companies entry into international markets, but in order to remain competitive, and to gain significant competitive advantage to be successful, these companies need to gain international business experience beyond that of their competitors.

Recall now that Clark and Lund (2000) refer to globalisation within the property market as the rise in the number of agents at greater and greater distances from the “market area”.

Combining Clark and Lund's thinking with that of Dunning's, MNPCs that expand further and further beyond their own borders need to develop skills beyond the ordinary firm specific advantages to include skills which increase their “multinationality” and therefore their competitive advantage.

Proposition one relates directly to the idea that firms not only need certain core capabilities, but that they are in need of an additional advantage – multinationality – in order to remain competitive. The greater the firm's degree of multinationality, the greater the firm's opportunity for competitive advantage. The proposition is stated below:

Proposition 1

In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

3.2 Proposition Two (L)

Proposition two is drawn from the second sub-paradigm of the eclectic paradigm and refers to the location specific factors which firms take into account when making their fdi decisions.

From the literature Dunning (2000) states that in the present business arena country specific advantages are those abilities which countries possess which are unique, difficult to imitate and are location based. These abilities should improve the overall attractiveness of a location for foreign firms to do business in these locations relative to other locations. Dunning however purports that the

overall decision rests in the location's ability to add to the overall competitiveness of the investing firm as well as the investing firms' strategic momentum.

This is not to say that the location analysis should be overlooked. On the contrary the analysis of potential locations provides the foundation upon which to overlay the firm's strategic focus in order to discover synergies or obstacles to the firm's strategic momentum. The following points need to be considered when considering a location (de Rauville, 2008):

- Country GDP growth;
- Political stability;
- Opportunities for leverage;
- "Undiscovered Economies" – economic stability versus growing economies;
- Efficiency of financial markets;
- Cultural effects and management styles

Building on the fundamentals of the country analysis to include the strategic vision or direction of the firm is the key to maintaining the firm's strategic momentum. Firms within certain industries engage in different kinds of MNE activity. From the literature Dunning (2000, p.164) puts forward four types of MNE activity:

1. *Market seeking;*
2. *Resource seeking;*

3. *Rationalized or efficiency seeking; and*
4. *Strategic asset seeking.*

From the literature investment property revolves around the purchasing of assets – both direct and indirect property - to create a return commensurate with the firm's strategic vision. In other words MNPCs are looking to augment their current asset base in order to fulfil their strategic mandates, and create possible advantages over their rivals. It would therefore be safe to assume that MNPCs fall into the fourth category of MNE activity – strategic asset seeking.

Proposition two follows on from the thinking above and is stated below:

Proposition 2

Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analysis to include the greater strategic vision of the firm in order to achieve strategic momentum.

3.3 Proposition Three (I)

Proposition three is taken from the third sub-paradigm of the eclectic paradigm and refers to the process of internalisation.

This third sub-paradigm looks at the importance of analysing all the market entry mechanisms available to a firm within a competitive, uncertain environment, and

understanding where opportunities exist within these environments (Klein and Wöcke, 2007).

Slangen and Hennart (2007) refer to a number of entry modes in the literature review:

- Contractual and equity modes;
- Joint ventures and wholly-owned investments; and
- Greenfield investments and acquisitions

They put forward that the mode of entry is determined by the nature of the target deal. The degree to which acquisition of the target asset is tacit or explicit will be the underlying force behind the internalisation decision.

Following on from this logic the third proposition is stated below:

Proposition 3

The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

The research methodology is all important to the way data is gathered and the type and quality of the data which is received. The overall quality of a study can be affected by improper research techniques. The corollary to this is that carefully structured techniques can add to the overall quality of the research.

The case study methodology was chosen for this study. Some of the reasons for the case study approach are provided below and have their base in the literature based on the case study approach:

If the topic involves a look at a modern, continually evolving theory which expands through its application within different contexts (Eisenhardt 1989; Yin 1994; Romano 1989; Chetty 1996; Gable 1994; Bonoma 1985). This study focussed on the use of the eclectic paradigm as an evolving, dynamic theory base to use as a lens through which multinational property companies (MNPCs) and their fdi decisions could be assessed. With this in mind it certainly qualified for the case study methodology.

If it is a part of a “real-life” business situation where the difference between what the theory states and how it relates to the context is not certain (Bonoma 1985; Chetty 1996; Stake 1994; Yin 1994). Again this study qualified as how the OLI

theory could be applied as a framework and how MNPCs make their fdi decisions was uncertain.

The causal links between the why and how of what it is that is being investigated is not straight forward enough to be assessed through the use of surveys or “experimental methods (Eisenhardt 1989; McGuire 1997) and multiple outcomes might result from single questions” (McGuire 1997). This was certainly the case in the context of MNPCs fdi decisions as a single question about strategy lead to multiple answers from the different company executives.

If the data is to be collected through the use of “interviews, observation and other multiple sources of data (Bonoma 1985; Perry 1998a; Robson 1993). This was certainly the case in this study as in-depth interviews, regional economic results, as well as journal and newspaper sources were used as part of the observation process.

Rowley (2002) feels that case studies should emphasise the study of a “phenomenon” within its context and should answer the how and why questions. This was indeed the case and the research was successful as a result.

Perry (2001, p.303) would argue that through the use of a carefully structured approach to case studies that studies of this nature can meet the required “rigorous academic standards” required.

4.2 Unit of analysis

The unit of analysis in this study was ultimately what constitutes a case. The research problem focused on multinational investment property companies and understanding what influences the strategic decisions made by these companies. As a result the unit of analysis was investment property companies in the United Kingdom, South Africa and Germany. Each company formed a case study.

4.3 Population of relevance

The population of relevance in this study consisted of those commercial property companies that have their base in the United Kingdom, South Africa and Germany that have expanded beyond their own country's borders. Both listed and private companies were included in the population of relevance. Only those companies that invest in investment properties – those deriving income from their property investments - were considered.

The types of companies chosen for each case study were done on the basis of replication and were chosen for their relevance rather than their representativeness (Perry, 2001). As a result the companies chosen were done so on a convenience, non-random sample basis.

4.4 Sample selection and criteria

According to Perry (2001) the literature does not give exact guidelines for the number of cases to be used and is often left to the researcher. The reason for this is that time and cost constraints are not taken into account by those writing on the topic. He does however put forward certain guidelines for the number of cases to be used:

- Unless the case is vital to the proving or disproving of a theory base and is the only one of its kind and “unusual access” has been granted for academic purposes Perry (2001, p.312) does not recommend going with one case.
- For more than one case, which is generally the norm, Perry borrows from Eisenhardt (1989) who suggests between four to ten cases with no fewer than four cases. Perry refers to other literature sources suggesting a minimum of two cases while Hedges (1985) suggests “in practice, four to six groups probably form a reasonable minimum for a serious project.” Overall Perry (2001) suggests that the most acceptable range falls between 2 to 4 as a minimum with 10 to 12 being the maximum.

The sample was chosen using judgemental sampling which, according to Zikmund (2003 p.738), is a “non-probability sampling technique” used to select a sample based on “some appropriate characteristic of the sample members”. In

this project the cases and respondents were chosen according to their ability to answer the research questions (Wöcke *et al*, 2007).

4.4.1 Sample Size

Due to time and cost constraints the study aimed to have between four to six case studies as its sample, with a minimum of four case studies. Five companies or cases were achieved in the end with two cases from the United Kingdom, one from Germany, and two from South Africa.

4.5 Sampling method and data collection process

The basis for the sampling method was – through the use of the case study approach - in-depth qualitative interviews with executives from the chosen commercial property companies. The interview questions are provided in Addendum 1. These interviews were recorded in digital format, saved on flash drive, and transcribed for closer analysis. Other sources of data were used to supplement and give further weight to the results from the interviews. Additional sources included company financials where available, magazine, newspaper and journal articles, as well as exploratory interviews with industry specialists. The in-depth case interviews were conducted with those executives that were engaged at the strategic decision making level of the company and were chosen for their ability to provide a rich source of accurate and relevant information.

The interview questions followed on from the research proposals which were formulated from the three sub-paradigms of the eclectic paradigm: ownership; location; and internalisation. The same interview questions were asked in each of the interviews.

In addition an initial “warm up” question was asked of each interviewee:

“What has been the historical attraction to investment property?” (Zikmund, 2003)

Similarly each interviewee was asked the closing question:

“Is there anything you would like to add in terms of strategic decisions when it comes to investing in investment property abroad?” (Zikmund, 2003).

Pilot interviews were conducted with those knowledgeable in commercial property to further the author’s grasp of the topic. In addition the author’s supervisor helped eliminate irrelevant questions. Prompts and expansionary questions were asked where deemed necessary by the author, who doubled as the interviewer.

4.6 Data analysis

When analysing multiple case study data it is the norm to firstly analyse the individual cases before doing cross-case analysis (Perry, 2001). The reason for this is that the individual cases make up the building blocks for the cross-case analysis. As the cross-case analysis was the major focus of the analysis the

introduction to each individual case was not given major weighting – half a page per case was the suggestion from Perry – with any other descriptive data being relegated to the appendices.

In contrast to the individual cases the cross-case analysis is where the similarities and differences occur (Perry, 2001). The reasons for the differences and similarities are identified at this stage and are where the meat of the analysis should lie. It is quite often the case to use quotations from the interviews performed to back up the data and these certainly formed a part of the analysis in this study.

However, before analysing the data the content needed to be analysed. This was done through the coding or grouping of words with the relevant key notions presented in the study. Groups of words or ideas were placed into grouped categories (Zikmund, 2003). The categories for grouping of the different themes were decided upon by focussing on the initial research problem and the research questions. In other words how responses from each of the cases fitted into the sub-paradigms of ownership, location and internalisation. The questions themselves were borne out of the propositions derived from eclectic paradigm theory, investment property literature, and from initial exploratory interviews with industry experts. According to Miles and Huberman (1984, p.56 in Perry 2001) codes can be seen as “retrieval and organising devices that allow the analyst to spot quickly, pull out, then cluster all the segments relating to a particular question, hypothesis, concept or theme”. Once the data has been properly sorted

the cross-analysis can begin. In this manner differences can be easier to pick up (Perry, 2001).

Using the OLI theory as an example the choice of where to expand internationally may not be explained by ownership specific advantages (O). This would lead the analysis to the next step which might relate more to country specific advantages (L) and so the process continues through to internalisation for an explanation (I), until the reasons for certain answers is unpacked. This would form a progressive form of analysis (Perry, 2001). As stated previously all notes and recordings have been stored for validity checking.

In addition to the author viewing the data, additional observers were invited to test the analysis for subjectivity or any other errors. An international property specialist and the supervisor of this work were both invited to check for any basic errors to form a part of the “panel” of analysts (Perry, 2001), which included the author.

Further options to enhance consistency included interviewing executives at a similar level across the cases, and setting up a standard interview template to ensure that the same questions were asked using the same procedure. In each instance the most senior strategic decision makers in each company were generous enough to give of their time to engage in the research. This provided

the relevant insight and richness appropriate to the case study approach in this paper involving in-depth interviews.

To give additional meaning to the overall quality of the research the case study approach gathers data from a number of sources. Over and above the open ended interviews financial data was also assimilated – where available - along with supporting data from newspapers, journal articles, reputable financial publications, and financial web sites. These provided the opportunity to view the data from a number of angles to provide contextual relevance. This process of viewing data from a number of different perspectives is referred to as “triangulation” (Perry, 2001).

With respect to the ethical considerations of the paper an ethical clearance was obtained from the University of Pretoria for the purposes of this study. As a part of this clearance all respondents were informed that the interviews would remain confidential and the names of their companies and the individual respondent’s names would remain anonymous. The companies have been given numerical and region specific identifiers. For example, Company One, United Kingdom.

4.7 Research limitations

Any research has its limitations. There were some possible limitations in this research, but none of a substantive nature to warrant any major concern, or influence the outcome or richness of the results, and/or data collection process.

They are raised below to highlight the fact that they were considered and precautions were taken to ensure accuracy and objectivity during the course of the research:

Sometimes interviewer bias is difficult to avoid when conducting open-ended in-depth interviews. However, every precaution was made to make the interviewee feel comfortable and proceed with the interview in the knowledge that it was “their interview” and that they were free to speak their mind in the full knowledge that confidentiality would be strictly maintained;

Sometimes sensitive information relating to company strategy can be difficult to obtain. However, the companies that did take part in the exercise provided a richness of insight which far exceeded the author’s high expectations;

A judgemental, non-probability, convenience sampling method was used which did not give every company in the population of relevance an equal opportunity of being chosen. The sample chosen did however provide valuable insights and the consistency of their answers suggests that the sample was strong enough to provide representative insight which may be of value to the balance of the market, and for future study.

Statistical analysis was not possible in this qualitative case study; however generalisations about the study were made (Wöcke *et al*, 2007). This is the case

in a study of this nature where deeper qualitative insights into the topic are the key objectives of the study.

CHAPTER 5: RESEARCH FINDINGS

The research findings presented in this chapter stem from qualitative interviews conducted with the most senior decision making executives within each of the five multinational property companies (MNPCs) engaged with during the process. Additional data is provided from recognised financial publications, web sites and a panel discussion presented by property experts.

The data is qualitative in nature and is presented in an attempt to understand the intricacies of internationalisation by MNPCs, and whether or not the aforementioned eclectic paradigm can be applied as a relevant framework for study in this context. The aim of this chapter does not however attempt to explain these factors. The purpose here is to present the findings as recorded in an orderly fashion for further analysis in the subsequent chapter.

The findings are separated firstly by country, and then further separated into the respective propositions, and by company. A brief introduction of the market within which the different MNPCs operate provides context. In addition a very brief description of each of the MNPCs themselves is provided. In the interests of respecting their privacy the company names and individual respondent names have been omitted from the findings. The companies are labelled Company One, Company Two and so on, through to Company Five. In addition the findings are supported by accurate quotes provided by the interviewees. These were digitally recorded and transcribed for accuracy in the reporting and capturing process

during the qualitative interviews. The remarks are grouped into key ideas in the findings.

The regions represented in the research include: the United Kingdom; Germany; and South Africa. Each region is further categorised by company and additionally by each of the first three propositions:

Proposition 1: In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

Proposition 2: Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analysis to include the greater strategic vision of the firm in order to achieve strategic momentum.

Proposition 3: The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.

5.1 United Kingdom

The joy of internationalisation is that markets do not compete in isolation. No economy is completely self reliant. As a result global factors need to be taken into account when considering any specific market. Before providing a summary of the market in the United Kingdom it would be remiss not to provide a summary of the larger context in the form of a summary of the global investment property market.

According to the global real estate report provided by Jones Lang LaSalle (2006) global real estate investment was looking really positive with record volumes of \$900 billion being achieved in 2006. This amounted to a 40% increase from 2005. According to the report cross border investment represented 42% of the entire market. This was an increase of 34% on the previous year.

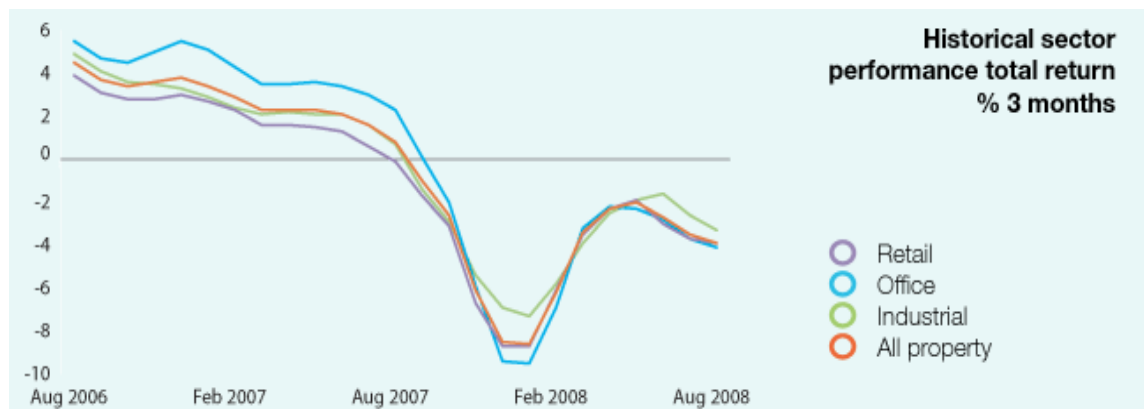
The CEO of Jones Lang LaSalle, Tony Horrell, put forward that 2006 represented the first year that all major developed and emerging market returns were “both aligned and positive” (2006, p.1). This gave rise to two further developments within the global property markets: an increase in the number of “mega-deals” (2006, p.1) and a “continued globalisation of the asset class”. Horrell also pointed out that the collective rise of global fund investment into the United States, United Kingdom and Japan was 240%.

According to the report (2006) the European market became the most active real estate investment market in 2006, with 61% of the total investment being made up of cross-border transactions. At the end of 2006 annual total returns for investment property were at 18% which was driven by returns on income and capital growth of 5.2% and 12.4% respectively (IPD, 2007). According to the IPD this was as a result of yields of 9.9%.

By contrast according to the August 2007 figures supplied by IPD (2007) the annualised returns were at 9%, made up of income returns of 4.9% and capital growth of 3.9%. It would appear already that the boom period for investment property was well and truly over.

Factor in the effects of the US sub-prime debacle and the UK market in 2008 presents a slightly gloomier picture. Figure 2 below shows that the total property returns for all property fell by -1.1% in August, 2008. This was compared to -1.3% in July, 2008 (IPD, 2008). Further to the total return figures capital growth declined by -1.6% in August, 2008 compared to -1.8% in July, 2008 according to IPD (2008).

Figure 2 IPD UK Monthly Property Index



IPD, 2008

Having provided sufficient context the results of the interviews with the first two investment property companies is provided below for reference purposes.

Analysis of the similarities and differences between each of the cases/companies will be provided in chapter 6.

5.1.1 Company One

Company One has listings on the London alternative investment index (AIM) and on the Berlin Stock Exchange. The company manages in excess of £110 million worth of investment property in the United Kingdom, Germany, Poland and Switzerland. As an active MNPC engaging in foreign direct and indirect investments they were an ideal candidate to represent one of the cases for the study.

All interviews with the respective executives from all the companies interviewed lasted between 45 minutes and an hour and a half. As stated all information was recorded and transcribed. Key points and phrases were then separated into each of the different propositions for ease of analysis in chapter 6. The results are presented below.

Company One sees investment property as a “solid way of preserving wealth”, and felt that it has more to do with capital preservation than “shooting the lights out”. In reference to the three year boom to end 2006 Company One felt that investment property “only became sexy while the market ran”. To them however the asset class is more about “bricks and mortar, the safe haven” which ensures that the fundamentals are right and that “inherent value” is retained.

Proposition 1: In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

In order to compare the similarities and differences of the capabilities required in order to participate in international investment property between the different companies each company was asked what they considered to be important CSAs in their quest for internationalisation.

A strong base from which to operate provides security within the home base which gives the company the confidence to move further a field. Home based country specific advantages form a part of Company One's FSAs.

"The UK market place.....very well established for 100 years; you know you are protected in your investment". In addition, the historical liquidity of the market provides easier access to cash for foreign investment. With large shareholders and a solid foundation they are in a position to pick and chose the deals that suit their business model and risk profile:

"The nice thing now is that you don't have to do these deals"....." We have a nice group of shareholders that are huge."

Company One finds itself in a very fortunate position where deals are coming to them. When asked about deal pipeline the response was: *"That has never been a problem in the market"* alluding to the fact that their networking skills are solid and that the current market is looking for companies with cash.

In-house in-depth knowledge of foreign markets with strong country networks was considered of paramount importance:

"Having people focused on those countries and getting country-knowledge and ideally finding a local partner is... always the most important thing."

The ability to forecast trends in different countries provides one with a very positive advantage in terms of predicting where demand for investment property will be high:

“seeing that Europe was becoming one big market place; whereas three or four years ago a lot of those companies hadn’t joined the EU” ... “But you saw a change rapidly.....So in front of our eyes we could just see it becoming one big market place...so we just said ‘you know you can’t isolate the UK from the rest of the market place, it is on our doorstep’.”

Similarly it was seen as important to realise where the company’s knowledge is limited:

“We can never say the same thing about America”

Another important advantage is that of being receptive and open to potential opportunities. When the international markets are aware of your propensity to purchase investment property then the deals start coming to you:

“We were open to the deals because we had been running around the market place looking.”

Company One felt that their reputation for being flexible and a good partner to invest with has allowed them to find the right relationships in country which has bought them great opportunities:

” We are flexible, very flexible in our structure...we think we are good at co-investing. People come in with us, join with us.....I think we have a good model

for partnering, and I think we are good partners.....the fact that we are small and flexible and quick is all part of our value proposition to the good partner.”

One of their key differentiators is their lean central team. They want to keep themselves small *“if we can”*. They believe this allows them the opportunity to focus on the regions where they are strong and create a disciplined unit focused on the fundamentals. It makes *“business sense, you can’t take your eye off the ball....So it is keeping the whole internal disciplines and procedures and making sure what you have works well.....making sure the basics are done well.”*

Establishing a profile within the regions which one operates is vital in the current market: *“in these markets more guys are coming to us.....because they need money and they need presence and they need profile”*. This provides opportunities: *“Suddenly we have found ourselves with some really major and interesting projects so we have established a presence and that is nice, we like it!”*

It is important to have the appropriate structure which fits with the strategy: *“We have these silos and each has a jockey and we basically manage the jockey, back the jockey and put him into a framework which is our framework...Instead of bringing in everybody to the centre, I would rather keep the centre small.....it keeps us tight at the core.”*

Proposition 2: Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analysis to include the greater strategic vision of the firm in order to achieve strategic momentum.

In order to establish the similarities and differences between the companies' decisions with respect to location, each company was asked what they felt were important factors when considering what country location to expand into.

Company One felt that those emerging countries which displayed a propensity to want to be westernised, with an increased spending capacity as their countries become wealthier, looked attractive:

“ they want to be like us; they are aspirational, they want to be westernized, they want the brands, the cars, the home-ownership, the sidewalk cafes”.....” people become able to pay for their consumption”.

This is a link to having the ability to spot an emerging country with potential for growth where demand for investment property is high. First mover advantage is vital in these markets to gain the benefit while the market turns and exit at the correct time.

Countries with good partnership opportunities were particularly attractive to Company One:

“finding a local partner is....always the most important thing, to find someone in the country that you can work with and trust and basically trust with your money; or that puts money in next to you for the deal.” The most important aspect for them is *“the property community, the partners.”* In fact they are in the process of seriously considering an opportunity in Poland because they feel they have found the right partner. They are *“looking now at Poland for the first time properly, because again it is a partner that has come to us”*

Internal financial strategy plays an important role. The propensity for risk and the potential return from a market needs to be considered:

“We just looked basically at our return on our investment. We set our parameters and we always benchmark these deals in those parameters and it either fits or doesn’t fit.”

Referencing countries with minimal political and economic risk the phrase: *“I mean Switzerland and Germany”* was thrown out as a response implying that these were “no-brainers”. However, Croatia had plenty of downside political and economic risk *“for that reason we didn’t go...the market wasn’t developed enough.....the kind of things we wanted to do wouldn’t be easy to do there at that stage”*.

When asked about the factors that would scare them away from a market the response was: *“It is all the ‘normals’ – tax, banks, finance, tenancy, location, local*

partners you don't know, culture, language". Reversing the logic these "normals" would in essence be the factors which they would consider when looking at a market for potential investment...."evaluate them and then it makes sense...the criteria... location, tenant, population, demographics and all that sort of stuff and area, competitor, whatever, new schemes around.."

Cultural differences of potential partners were seen to be a major consideration: *"It is not so much the culture of the country but the culture of the partner. A guy walks in from Germany and can't speak a word of English and can't understand our sense of humour and you don't want to jump into bed with a guy like that."* Culturally they are looking for *"a good fit for us"*.

Other country factors to consider were *"things like experience, track record, resources, improvement capabilities, relationships with tenants and with banks, developers. The ability to co-invest, have skin in the game"*. In other words not only Company One's ability to partner but locations that provide good partners are seen as attractive.

Proposition 3: The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.

In order to ascertain the methods of internalisation it was important to understand what types of entry modes were preferred and why.

Company One prefers to deal with partners in country. Partners that are as committed to the deal as they are: *“skin in the game”*. In fact the partnership model is core to their strategy: *“most of our stuff is some form of joint venture or partnership”*.

Despite the fact that Company One has strong knowledge of other international markets they still prefer to engage in partnerships as they feel that well chosen partners *“always brings something, some value”*

What they considered to be the attributes of a good partner followed on from the following statement: *“I suppose things like experience, track record, resources, improvement capabilities, relationships with tenants and with banks, developers. The ability to co-invest, have skin in the game. All the normal things, it doesn’t matter what country it is, I would say it is the same as here. You know, if someone came to us with a deal and wanted us to join with them it would be basically the same issues”*.

Company One alluded to the fact that company size may have an important factor to play. The really big players prefer acquisitions to partnerships:

“I suppose this model works around this size of business, if we were five times bigger maybe we wouldn’t do it this way, we would say ‘we will buy your stuff in and you come work for us because that is our big engine now....We will worry about that when we get there....I think it is a manageable position now...If it were a 500 million pound business this story would probably be different.”

The mode of entry was also determined by the propensity for risk and the expectations of the shareholders. The motivation behind the company’s financial strategy has a lot to do with the internalization of fdi:

“it is important, probably a theme in any market, is how does it tie with your shareholder expectations.”

5.1.2 Company Two

Company Two has listings on both the South African and the London Stock Exchanges. The company has successfully raised €400 million with which it has been investing and will continue to invest in investment property around the globe. The company is new in the market and has started with acquisitions in Chile – two properties – Argentina, and more recently one in Boston.

Company Two sees investment property as a “fairly conservative asset class” which is underpinned by rental income – “contractual leases whose income you can predict with a degree of accuracy” – and which is seen as less volatile than traditional general equities.

Proposition 1: In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

Although Company Two is slightly different from the others in that it is a fledgling in the international property market it does have some substantial advantages.

They are piggybacking off their known parent company brand which has begun to establish itself in the European market: *“our brand is now known in the UK space and if we wanted to internationalise our business the obvious choice was to capitalize on the infrastructure our parent company had already set up....one thing where maybe (Company 2) can do well, is leveraging on these relationships...”* One of their team members is also *“very well networked in London”*

“In terms of skill off shore we are fluent in property but not fluent in global property” as a result Company One decided that a joint venture would be the best option for international expansion. What the initiative enabled Company Two

to do was plug into international expertise and experience, through their joint venture partner who has *“an international presence...Central Europe, Eastern Europe, West Coast America, East Coast America...exceptionally strong on structuring deals in exotic locations.”*

Company Two has *“a fairly unique global proposition....what we wanted to create as our niche and our key differentiator of our product. We wanted to invest into the higher yielding 5 to 25 million Euro properties, as opposed to the lower yielding trophy assets, crown jewel institutional assets, that generally traded much lower yields and that all institutions are chasing.”*

In addition Company Two has bought into their own team a group of international property specialists:

“We have intentionally recruited what I believe is a fairly international team, we have an Indian, an Englishman, a German, an Australian, a New Zealander, a South African..... So we are a fairly diverse company; that is a big bonus. Between us I think we speak about six languages that is also a bonus for international business....we have money so we can employ people, there will be a lot of good people being let off at Goldman Sachs, at Merrill Lynch....good people at affordable salaries”

They have a youngish internal team with two wizen executives on the investment committee. *“Some grey hairs.....proper real estate experience”.*

In reference to being alert to opportunities in all markets:

“You need to be bright eyed, bushy tailed, you need to be nimble.....keep your ear to the ground, and in a market that is shifting....we are starting to see some serious opportunities come to the fore....if you want to play internationally, you have to be better than if you play just locally.... I think you have to be more disciplined.”

In a market where valuations are dropping and company executives are sitting on their hands it is a unique position to be flush with cash: *“we have got the cash...cash is king.....brings up opportunities”*

In addition Company Two has a good economist in their team in the form of the CEO who has a good eye for markets. This is crucial for trend and demand spotting.

Proposition 2: Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analysis to include the greater strategic vision of the firm in order to achieve strategic momentum.

Company Two refers to engaging in markets where the knowledge is:

“By process of elimination, don’t go where you have got no expertise”

“whilst (we have) some African expertise, our joint venture partners have none,”

The macroeconomic fundamentals of a target destination were given: *“First and foremost we give some serious consideration to the macro economic environment as well as the political stability of that country... particularly at some of the things that property is associated to, like the interest rate environment...currency volatility; inflation; GDP growth numbers - is it a growing economy; and political stability.”*

With reference to efficient financial and legal systems: “whether it is a friendly place to invest, that it is not too onerous for foreign investors to invest into, that it is not prohibitive in terms of legal and tax features of investing into property.”

The fundamentals of the investment property market itself are also important: *“further to that we will look at the property market itself, how is it priced relative to other similar markets, emerging markets, developing economies...vacancy rates...supply.....Growing middle class...is there opportunity of perhaps international or institutional interest increasing in that environment, because obviously we are always thinking about our exit.”* They are searching for countries which are about to become attractive and they want to be there early to benefit from the upside.

In addition *“I don’t think desk top analysis will get you very far in real estate, I think you literally have to go there and have people on the ground. But again it depends a little bit on whether you want to be an investor, or a developer, a trader.”* For example: *“we would like to think that US institutional investors have neglected Latin America, and that it is a matter of time before they move into the Latin American space.”* Company Two looks at *“trends in terms of investments”* as they *“like some momentum in terms of new money coming to markets.”*

“I think you have to therefore look at different markets internationally, take advantage of the different cycles, and probably spread yourself over the market so that you can go in and out in different markets at the same time.”

Home base advantage does not appear to be as much of an advantage any more as previously stable markets have been hard hit in recent times as a result of the sub-prime issue: *“England is a very volatile market again.....I think in particular in real estate there is a very big point for geographic diversification.”* It depends on your *“Appetite for risk”* and how far you are willing to travel for those opportunities: *“Chile is on the other side of world.”*

The cost of funding in relation to the market is key in terms of providing the company with the right internal rate of return (IRR). The yield versus the cost of funding needs to be positive to balance out any market risk along with international acquisition costs. They are looking for markets that provide them

with positive cash flows. *“I have never seen such positive cash flows in any property economy as what we have seen in Chile.”*

Proposition 3: The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.

Company Two decided that joint venturing was the smart way to begin in the international market: *“it had the benefit of speed that with a joint venture you can generally get the skill on board and hit the road running in a shorter space of time than recruiting a team and integrating that team, setting up infrastructure, and then embarking on international property investment initiatives.”*

Company Two’s joint venture partner had all the right attributes in terms of the same mindset, investment horizon and cultural fit: *“Culturally the businesses were quite aligned, the people thought the same, they had the same sense of humour, we enjoyed their company, we thought alike, had similar ambitions, and further to that, we were looking to set up a fairly unique proposition, global proposition, to offer to our clients.....tick in the box in terms of us joint venturing.”*

Each investment may have different structures in terms of special purpose vehicles which can be set up specific to each investment: *“real estate is very much about efficient tax structures. You can ruin all your returns if you have a*

structure that doesn't work...have to make a sensitivity analysis as to which vehicle is the best for the different tax structures in market." There are "enormous complexities surrounding some of these acquisitions.....we set up Special Purpose Vehicles that are domiciled in the entity, in the country that we are acquiring."

With reference to Company Two's outward expansion:

"We don't joint venture, we already have got our joint venture.....which is limited exclusively to the management company.....to bring someone else into a joint venture doesn't make economic sense, because you end up doing 80% of the work and get 20% of the reward...we are not joint venturing on any of the property acquisitions to date. "It is a global special opportunities fund" through which they can acquire targets outright and manage from a distance: "we are not in the business of property administration or getting into cumbersome managing properties...prefer single tenanted properties...AA rated....investment properties with contractual leases...not management intensive....fairly new or have been recently refurbished." Properties that are "good enough for our fund manager or one of our executives to go and see every three or four months, check that the tenants are happy and secure, kick the tyres of the property and fly out."

The motivation or the raison d'être was seen as one of the most important considerations for an MNPC before embarking in fdi: *"The most important thing is try to understand who you want to be....decide in advance if you want to be a*

developer, an investor, a trader. ...If you want to have an international strategy I think that is the first thing you have to do before you make a decision as to how you enter the market.”

Explaining the different entry modes with respect to different investment intentions: acquisition based for “geographic diversification”; the trader – “has to be very much on the ground”; and the developers – “need a platform” within the countries within which you operate.”

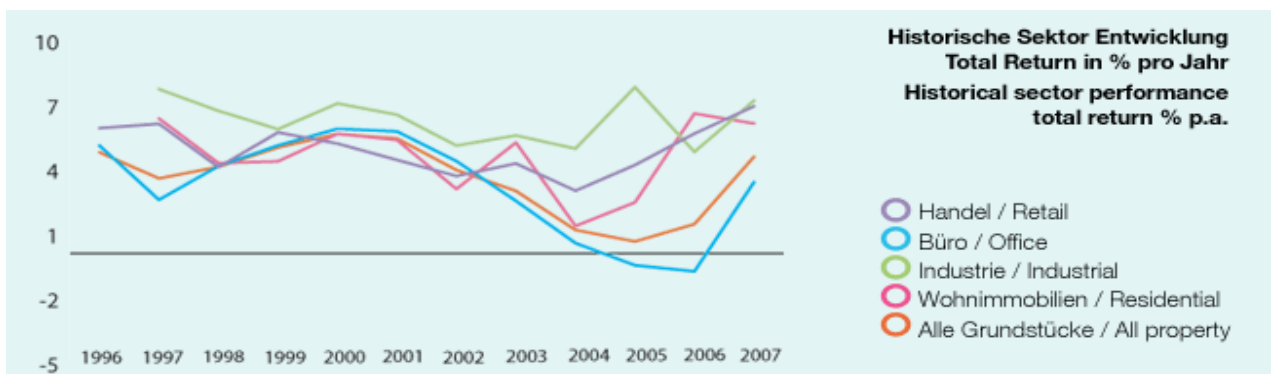
“If you want an international strategy I think that the first thing that you have to do before a decision as to how to enter the market.....most important thing is to understand who you want to be.”

5.2. Germany

According to the Jones Lang LaSalle report Germany was the major story with respect to global real estate in 2006 (Jones Lang LaSalle, 2006). According to the report this was due mainly to a combination of eager sellers; “aggressive cross-border investors, positive yield spreads and a recovering economy” lead to total transactions of US\$62 billion. This amounted to a growth of over 140% in “constant currency terms” (Jones Lang LaSalle, 2006). Further, the German market in 2006 accounted for 20% of European volumes (2006).

The good news continued for Germany in 2007 according to the IPD index in figure 3. According to the index the total property return for all property was 4.5% in 2007. This accounted for a jump of 3.2% from the previous year (IPD, 2007).

Figure 3 IPD German Property Index



(IPD, 2007)

5.2.1 Company Three

Company 3 is a German investment property fund management group with over €3 billion of property investments under management. These investments are spread across the globe and include investments in Western Europe, Central Eastern Europe and the United States.

Proposition 1: In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

Company Three formed an alliance with the *“best developed real estate network across Europe...present in most of the European countries”* which gave them the *“opportunity to act in the countries like a local player and not like a foreign player....So with (our partner) we have had a very good entry into several European markets because they at this time had a property portfolio of something in the region of about 16 or 17 billion Euro in Italy, in France, in Spain and in most of the central European countries...we had several very long lasting and personal relationships, let’s say the key players in the market – relationships of more than 20 years in some instances....you certainly need knowledge of those markets”*

Company Three had good economic foresight: *“(our) focus was really that the yields at this time were still within the 2 digit area and we were optimistic that the shift would happen and there would be cession between central and western European yields.”*

They remained disciplined: *“you have to do your homework...have to do very careful due diligence.”*

Referring to the skills necessary for internationalisation: *“You need a combination of skills.... because cross border investment needs a lot of knowledge about structuring of these investments... how you channel the money there... tax systems... And further, you need to know these markets. You need people within your organization that are skilled to invest in these markets and know them and have knowledge.”*

Proposition 2: Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analysis to include the greater strategic vision of the firm in order to achieve strategic momentum.

Company Three are looking for countries that will provide them with *“steady, predictable income.....and risk diversification”* to align with their risk profile.

Traditionally German real estate portfolios were *“very local.....not only in Germany....but even “very close to their headquarters.”* As the market developed German MNPCs began moving outwards in order to *“have the geophication”*. They *“didn’t care too much if they invested in France or Italy or Spain; they just wanted the diversification...“there wasn’t a differentiation between the several countries, as long as you would have some given facts that there was a secure legal system, a tax system in place, but most important a legal system that you have clear rights of ownership.”*

In terms of geographic distance:

“We started to think which countries to go to next, and most of our competitors made the decision to go to Asia, which is tough because of the distance, the culture and if you don’t have a network there it is very tough to get the right transactions....without your local network you are always in a very bad position and normally it takes a very long time from when you play your first contact in the new market and when you do your first transaction and enter the market.”

The decision as to where to expand abroad depends on the company’s motivation and propensity for risk: *“Most of the times it depends a little on the motivation.... if you go for the diversification.... would look at very comparable countries in terms of their legal systems, their maturity of economy and their real estate market, professionalized real estate market.”* *“Take Germany for example, you would look at the European Union members, the old ones and the super mature market, the professional markets like the UK, the US.....If you go for higher returns you might look at other countries that have maybe more macro-economic risk or real estate market risks, but where you can achieve higher returns....my personal perspective.... look for countries that are basically in a conversion process towards being these mature countries.”*

There are certain aspects of analysing a market that are taken as given: *“I don’t have to mention all the other aspects you have to check beforehand, which is the*

tax system, the legal system, the political environment. This is what you have to check in every country... You have to diversify political risk.... buy good quality with good tenants and good locations in a good macro-economic environment, let's say in cities where you have growth..... then I think there are some really good opportunities out there.”

“But the most important thing always is to make sure you can perform there, and you have to perform from day one, let's say from your very first investment till you sell your last investment... you should not approach too many markets at the same time.”

Timing was considered an important factor: *“consider the real estate cycle but this of course is self explanatory, why go to a country – it is if you think you can earn money there either because of its capital appreciation or its rental growth.... I think for good quality product it is not a bad time to invest..... So always invest in a certain time of the cycle and I think it is not a bad time to start a fund right now.... One of the main decisions driving us to central Europe..... before most of the central European countries joined the European Union..... our focus was really that the yields at this time were still within the 2 digit area and we were optimistic that the shift would happen and there would be cession between central and western European yields.”*

Above average returns outside the host country: *“Investments in real estate abroad in very stable other countries has consistently over-performed German returns....traditionally the US returns when they started, were always higher than the returns in Germany, so what they thought is okay we take a higher risk and also get a higher return... Today this has changed.....not only going abroad because of high returns.... now it is much more the diversification which is the driver of the decision.”*

Proposition 3: The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.

Relationships, access, knowledge and complexity are drivers of the internalisation process: *“If you go to a new country and you have to build yourself there, it would take at least three years, even longer, to find the right partner and the relationship with the new partner to really make sure that you do take on the right transactions, that you have access to the market....make sure you have first class access to the market....in the early days.... we only did core investments.... class A tenants... typically something you can do alone, without a partner.....It is easy to understand, or relatively easy to understand..... you just have to make sure you can reach a certain diversification.....you don’t necessarily need a partner, as long as you are in a developed country where you can get good property management services.”*

Different markets may have different risk profiles and these would require different entry modes: *“For our central European fund for example we had another risk profile so we could also do developments..... we only did in a ... structure because we are not a developer... we usually bought 75 or 80% and the remainder was with the developer... always were looking for a substantial equity commitment from the developer... to motivate the developer to do a good job there.”*

Not only the country risk profile but the type of investment gives rise to the internalisation decision: *“The way you approach a country is also dependant on the type of investment you want to do. So the less risk the investment has, the more you would probably invest by yourself. If you are a bit higher on the risk schedule then you would maybe like to have a partner.....in emerging markets which are not that developed then you would probably also like to have somebody else in the same boat as you.”*

It also *“depends once again on what kind of asset you are buying....a fully leased property...you can do it on your own..... If you go into anything like development, value-add stuff, you should have a local partner to joint venture with.....And once again the less mature the markets are the better it is to have a partner....So if the investment itself has some hair on it then you need a local partner.”*

The use of special purpose vehicles (SPVs) is also an important part of Company Three's internalisation process: *"we use sometimes German vehicles because we know them" but "differs from country to country" depending on tax transparency, regulation and the source of capital.*

5.3. South Africa

According to Investec Property, (August, 2008), the "fundamentals" of the South African property market are still solid in all sectors. This strong position is due to record low vacancy rates across these sectors. As always the greatest risk in a sector with high occupancy rates is the propensity to overdevelop. However, according to Investec Property (2008) the risk of this occurring is slight due to the overall development slowdown in South Africa (2008) which has been as a result of problems with obtaining planning permission, electricity shortages which have led to lack of supply, and the ever increasing cost of building raw materials as a result of inflation (2008). All of this has led to rental revisions being negotiated at around 10% as apposed to the 8% and 9% of the past. At the same time however operating costs have risen from 6.5% to approximately 9% (Investec Property, 2008).

The forecast for the future is that both income and capital growth is expected to be very positive in both the industrial and the office sectors of the property market (Investec Property, 2008). The retail sector however is expected to lag

these sectors as a result of a slowdown in consumer spending across the board (2008). This will have the reverse effect on retail rental escalations which may lead to downward revisions on leases.

Property economist Professor Francois Viruly believes that as long as the “amazingly low” – 3% to 4% - vacancy rates remain below the natural vacancy rates – 6% to 7% - of the market then values will continue to rise (Investec Property Forum, 2008). He does however feel that the South African market is akin to a cartoon character that has stepped off the side of a cliff and is waiting, suspended, ready to fall, as a result of the global sub-prime crisis. Those that have entered the market unaware of the problems are most at risk while the savvy investors will “climb slowly down” and pick up the opportunities (2008) at the bottom of the market.

At the same time, other investment property markets around the world have been hit hard by the sub-prime crises, creating a “correction” (FM, 2008) in the UK market. According to Jeremy Anagnos, director of CB Richard Ellis (Financial Mail, 2008, p.12): “The knock-on effect of the credit crisis has been dramatic, yet the decline in pricing has really been a return to what values should have been before credit became so cheap”. Iain Fife (2008, p.12) believes that these drops in prices have led to great opportunities for South African companies to purchase fantastic “high yielding long-term assets in hard currencies like pounds, euros and yen.

5.3.1 Company Four

Company Four is a private company which has traditionally focussed on retail food franchises. Property has always played a major part of their business and they understand its importance in terms of leverage. As a result of their affiliation to property over the many years that they have been in business, the owners have moved towards development property and have engaged with various partners in South Africa in successful investment property ventures. As a result of their inherent understanding of the importance of investment property and their lack of long term faith in the building trade in South Africa, Company Four has been embarking in investment property forays into the American market with the intention of building up an investment property base in that country.

Proposition 1: In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

First and foremost Company Four has a large degree of *“leverage.....high degree of liquidity....Sitting on excess “cash”*. They are aware that there is a significant advantage to having excess cash in a market that is severely depressed: *“it took us a while to build up enough capital to say ‘okay, let’s split our base”*

They “*understand the intrinsic value of it (Property).....Understand the way property behaves.....Know how to time a market.*” They have a high degree of experience and know how in investment and development property with respect to how to add value to a property: “*maximising and changing the characters of that property and adding value to it*”

They have property assets offshore which they use as leverage: “*not here but offshore*”

The Company Four executive have travelled extensively in search of opportunities and as a result they remain continually open to new opportunities: When you have “*travelled, you see opportunities, you have got a bit of liquidity....we are there (the United States) about six or seven times a year...we have friends there who understand the market who we can trust*”. The head of one of the largest property divisions in the world is joining their consortium: “*he is joining us for the first time.....he just happens to understand the market.*”

Their understanding of the market stems from years of previous experience in the retail food franchise space in the United States of America. They were smart about their entry: “*We said we are going to learn how they are doing it and go and pay goodwill and run somebody else’s brand.....then when we are confident enough we will start dabbling in what we think we may have a competitive advantage on...I think we are more humble*” than many other South African companies....*we are under no illusion.*” Illustration of this fact is that they are very

aware of guarding against the extremely litigious and competitive environment that makes up the United States business environment: *“Beware of the common language...America has an extreme culture”*

Company Four has a track record of business success which has given them the confidence to continue in investment property: *“owning property and developing property perhaps is the only business where absentee owners are insured of success.....if you have a long term view”*. They allude to the fact that if they don't get an offer they don't mind because they still have the underlying tangible asset which is the property: *“If we don't get an offer we don't get an offer; it doesn't matter, we don't need it...we haven't lost, even if we gear ourselves we haven't lost”*

There are different types of leverage and in the current market where valuations are at a low, and most companies are geared to the hilt, then cash can be a great lever to attract potential opportunities: *“I think times are harder now but if you understand the way property behaves I think as long as you have got liquidity, I think you could be in a plum situation at the moment.....there have to be deals in the market at the moment.”*

Company Four has a strong base and a fair propensity for risk, along with a good understanding of their key capabilities. This enables them to correctly assess what is and is not achievable without losing focus: *“It is the quantum of funds*

involved.....if it is something we can afford to, without hindering our thoughts and operations, we will do it.”

Proposition 2: Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analysis to include the greater strategic vision of the firm in order to achieve strategic momentum.

Company Four made mention of the “*usual*” checklist when considering an international location: “*law and order....I have recourse to law...the title deeds are mine....strong financial institutions....Stable*” (both economically and politically).

Atlanta in the United States was seen as a region that has been “*neglected*” in terms of investment property and as a result Company Four saw a region where they felt they could “*add value*”. Being able to spot trends and being first into a market of this nature can have significant advantages.

Company Four were looking for a place to “*hedge their bets*” with the additional liquidity they were sitting on. They allude to this being a push factor rather than a pull factor because they are living in an unstable environment – South Africa: “*if we were in a different environment...London or....Switzerland...perhaps.....we*

wouldn't have even ventured into the States...I don't necessarily think we (South Africa) have the longevity that you would achieve in Europe and the States."

In addition they already have property in Cyprus which *"has just been converted to a Europe-based currency and at the moment is enough exposure for us (in Europe)."*

Proposition 3: The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.

Company Four entered the United States *"with partners...a consortium...Whatever we do we need people, people we can trust"*.

In terms of partnerships and joint ventures the *"consortium"* will take on anything: *"Anything that we can manage and understand or that one of us can manage...It depends on the cost...whether we can actually see potential to us adding value to it or not. It is not one person making the decision, and it seems to have worked quite well so far"*. Their comfort level is higher within the partnership which allows them the confidence to take on projects that they otherwise wouldn't have considered in a foreign market.

In other words the consortium or joint venture provides the capital, the knowledge and the shared risk. Once this structure is in place further investments in the

States can take any form depending on the costs and structure of the deals: *“that shopping centre that we bought will be valuable in thirty years time...we are still saying ‘we can afford it’ and we don’t really worry too much about the risk”* because the risk is shared in the consortium which has liquidity and knowledge.

In much the same way that they tested the market for many years in their retail food franchises ventures, the same process is being adopted to the investment property market. They are using the leverage and experience of the consortium to gain knowledge and mitigate their risk in the market. Once experience and momentum have been garnered the opportunities to use the leverage – capital – and experience to grow the in United States in their own right will be significant: *“In the StatesIf you want to do it well you have got to be laser-focussed – like everything.....I would certainly love to build strip malls like we have strip malls here....until I am confident we can pull it off, I would never spend that kind of money to do a mall like that; I would do a mall but conventionally.”*

5.3.2 Company Five

Company Five is a South African listed property company with just under R10 billion worth of assets under management. As a part of its international expansion, the company has taken a significant stake in a London based property company, listed on London’s alternative AIM exchange.

Proposition 1: In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

Leverage plays an important part of the MNPC's investment property strategy: *"I think critical mass comes into play...we are part of a bigger stable.....we have an asset manager who comes with a lot of experience....so I think we have got the tools and skills to look elsewhere....the decision to go overseas can only be made once you feel that your competence goes beyond SA."* They are sitting with cash at present which provides them with great opportunities in the current market: *"we don't have to gear as high, so we can look at opportunities that the guy who is gearing at 90% can't look at."*

Referring to the internal skills necessary to compete internationally and to the advantage of being a South African MNPC: South Africa: *"our title and ownership... is very sophisticated and first world.....most of our sector is very much in the first world domain... you have got to develop an expertise; it is obviously much easier to develop an expertise in your local environment than elsewhere....So one develops a core competence and without having the right levels of skills you know one can't venture outside of these borders..... I think that we (Company Five) have it."*

With respect to the *“UK we found that between our knowledge of the European or particularly the UK market and the jockey who we are backing, we think that we are ready....built up the competencies that made us feel comfortable.”* Having done business internationally and having worked for multinational companies in the past, along with “purchasing” knowledge through their share in the UK company provides them with the capability of “internationalism” itself.

Proposition 2: Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analysis to include the greater strategic vision of the firm in order to achieve strategic momentum.

Company Five referred to the notion of “centrifugal force” when internationalizing: *“once one has exhausted the local environment then one should widen to kind of neighbouring countries; I would imagine this is what Europeans would do, and this is what they would do in the US – from one state you would go to the next state and you widen your net that way.”* But *“we have the constraint of being wary of Africa, not for any other reason but that Africa is somewhat of an enigma to us.”* A number of companies have *“tried to attempt to put together an Africa fund, but it is a hell of a lot more difficult than putting together a fund in Europe or US.”*

Referring to the decision to go abroad: *“Firstly, the decision to go overseas can only be made once you feel that your competence goes beyond SA. So one of the reasons why we haven’t gone into the US yet is because we are not as familiar with the US as we are with the UK and Europe.”*

Company Five referred to the skills within the target location being attractive: *“Our decision to go to the UK was very much based on the management team of the company through which we saw our entrance into that market....we have been involved...we have a much better understanding of the market there.”*

Generally speaking *“the UK and Europe to a greater or lesser extent is attractive because of its low risk nature.....they take an extremely long period.....they sign 50 year leases, like we sign 5 year leases...it has a lot to do with perspective...you can plan 10/15/20 years....The whole of Europe is very stable, they haven’t fought a war there for quite some time.”*

In other words Company Five is looking for destinations with low risk, in developed countries where the fundamentals are right, where they have long term leases perhaps, where you have some knowledge and *“Probably where you know there are skilled people.”*

It is also not too far away like South America which is *“too far”*.

The attractiveness and complexity of investment property is explained in relation to target locations: *“It is not as easy as just deciding where you are going to go and going there.....you have the complication of currency, etc....in Europe we are fortunate....a natural hedge.... as the rand weakens our distribution value, the income that comes back into Company Five, is higher, but our value of our investment is lower.”* The reverse also holds true making this an attractive long term investment for a listed property entity, with high income potential on one side of the swing, and high valuations on the other.

Referring to the South African market being saturated: *“I think the challenge we all face is limited local stock.... So we run out of stock to purchase and that is another reason why one looks overseas, you can pick up good value assets that are solid in a stable environment, which spins off a decent return, gives us a bit of risk diversification, geographical diversification, so it is one of the objectives I guess.”*

The motivation and propensity for risk is an important consideration before embarking in fdi: *“First of all I think would be the destination, the environment; we don’t have an appetite for high risk, lots of instability. So it would have to be a more established, traditional destination. Secondly and very, very critical is management. We would generally partner, we wouldn’t shop without having local partners....Generally we like to find prime nodes....with quality assets.”*

Proposition 3: The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.

With reference to the mode of entry: *“finding the right partners in those areas... taking on someone who understands... the market....they understand it well and can impart that knowledge to us.”*

Regulation in the South African market with respect to listed entities is the driver of the internalisation decision: *“The fact is that it is very difficult for us to do anything other than take a stake in a listed company because of our exchange control regulations.....it is very difficult for us to invest in direct property.... we still have the situation where in order to get funds off shore we have to go via asset swap.”*

Fortunately the investment in the UK has a *“natural Rand hedge, so obviously as the rand weakens our distribution value, the income that comes back into Company Five, is higher, but our value of our investment is lower.”* As previously mentioned the reverse is also true.

If there were no restrictions in place: *“We would generally partner, we wouldn’t shop without having local partners....you need local, you need guys that are not only at the coalface there, you need people who have experience in that market.”*

If they had the necessary expertise and experience without restriction they would *“buy a management company; hire up with people who (they) believe in and trust, with a good track record; and invest in quality assets”*.

The similarities and differences between the companies responses to the questions posed are discussed in the following chapter. Particular attention is paid to the propositions and whether or not they are supported in the research. The use of the eclectic paradigm within the context of the research is also discussed in terms of its usefulness as a framework within this context.

CHAPTER 6: DISCUSSION OF RESULTS

The findings from the previous chapter have been grouped together according to the propositions formulated from the interview questions. The table – Figure 4 - provides a framework for discussion about the different companies' approaches to the internationalisation process.

From the table the similarities and differences between each of the companies' responses will be discussed in light of each of the propositions. Whether or not each proposition holds true within the context will be addressed in light of the theory base detailed in the literature review.

Further to the focus on the knowledge gleaned from the interview process and the case comparisons, whether or not the eclectic paradigm is a suitable framework to apply within the context of the MNPC's internationalisation process, is addressed.

The overview of the results is provided overleaf in Figure 4 which provides a snapshot comparison of the company responses.

Figure 4 Comparison of case results

Proposition	Company One (UK)	Company Two (UK)	Company Three (Germany)	Company Four (SA)	Company Five (SA)
1. In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.	Strong base; Cash flush; Target country knowledge; Ability to spot economic trends; Receptive to opportunity; Reputation as good partners; Lean central team; Focussed on doing the basics right; Regional profile; Structure matches strategy	Established brand; Strong network; International presence; Strong at deal structuring; Unique global differentiator; International team; International business experience; Alert to opportunities; Cash flush; Good economist	Developed real estate network; Economic foresight; Business discipline; International business skills; Deal structuring; Knowledge of the market; Partners have liquidity; Skilled international businesspeople in the organisation	Strong base; High degree of liquidity; International business experience; Leverage off offshore assets; Open to opportunities; Spend time in target market; Track record of success; Good trend spotters	Leverage opportunities' Critical mass; Cash flush; International experience; Strong home country market with good fundamentals; Strong UK and European property knowledge; Strong purchasing knowledge
2. Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analyses to include the greater strategic vision of the firm in order to maintain strategic momentum.	Emerging markets with growth potential where investment property demand is high; First mover advantage; Good partnership opportunities; The propensity for risk - motivation for expansion; Countries with minimal political and economic risk, and strong legal and institutional structures; Cultural similarities;	Macro-economic and political stability; Positive interest rate environment; Growing economy; Efficient financial and legal systems; Solid local market fundamentals; Get in early into markets – Prime Mover opportunities; Risk propensity and motivation leads to market entry decisions; Geographic diversification; Cost of funding in relation to the market should be positive	Steady, predictable income, for risk diversification in line with their risk profile; Secure economic and political system; A strong local network; Positive tax system; Cities that have growth potential; Timing the cycle correctly – Prime Mover opportunities; Higher than average returns compared to the host country; Ability to diversify the host company portfolio	Recourse to law; Title ownership security; Stable economic and political environment; Neglected regions with potential – First Mover; Local home market environment instability creates a push to a more stable environment	Wary of Africa; Know the UK and European market; Good management teams – skilled people; Low risk nature of the market – very stable; Developed markets with strong fundamentals to suit their risk profile; Saturated home market; Need risk and geographical diversification; Prime markets with quality assets that are not too far from home
3. The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.	Prefer to deal with partners in country; Core to their strategy; JV's or partnerships; Regardless of their own knowledge they feel a partner always brings something to the party; Plays to their low risk profile – a partner with "skin in the game" gives them security	Joint venturing in the holding structure; Different structures for different opportunities; Mainly acquire outright and manage from a distance for investment purposes; The decision to invest, trade or develop will determine the complexity of the deal and the structure of the entry mode	Relationships, access, knowledge and complexity drive the internalisation process; Different markets have different risk profiles and require different entry modes; The same for type of investment; Also depends on the asset; Differs per country – tax transparency, regulation and source of capital	Partnerships; Depends on the cost; Targets where there is potential to add value, but share the risk, gather the learning, then make moves on their own; Leverage off partners in country	Find the right partners that understand the market; Learn from the partnership; Exchange control regulations; Asset swaps; Wouldn't shop without a partner; Need people with experience.

6.1 Discussion of findings relating to Proposition One

Proposition 1: In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.

At this point it is worth recalling that Dunning (2000) put forward that the greater the competitive advantages of the investing firm in relation to other firms, particularly the target country firms, the greater the opportunity for the firm to increase or continue its fdi activities.

In light of this statement it would be apt to break down proposition one to give it further meaning. The statement suggests that those firms that are successful within their respective home markets and have the capabilities to perform in their own markets, should have all the necessary skills to engage in foreign activities in investment property on a competitive level with firms beyond their borders. In addition there are core capabilities which each of these MNPCs need in their arsenal in order to compete on a global level.

Although financial data was not readily available for all the companies within the sample – which the author feels is an important option for any future research - the firms that were engaged with in this study have enjoyed successful track records thus far in their ventures abroad. As a result it is no coincidence that they share a number of core capabilities or firm specific advantages.

All the company's are cash flush which is a significant advantage in a market that is going through a severe downturn as a result of the sub-prime crisis. It is no coincidence that where most companies globally are strapped for cash because they have geared themselves too heavily and not been able to read the market, that these five successful MNPCs find themselves sitting with cash. Each of the companies' lists the fact that they are able to spot market trends and rely on their economic forecasts to help them make market entry positions is a strong competitive advantage. Examples of comments from two of the companies have been used as examples:

"But you saw a change rapidly"" So in front of our eyes we could just see it becoming one big market place..." (Company One)

"in a market that is shifting....we are starting to see some serious opportunities come to the fore." (Company Two)

Another similarity shared by all the MNPCs is their propensity to be open to opportunities within the market. This stems from the fact that they are not only willing to do deals and have the wherewithal – liquidity – but that they are well networked within the international communities within which they operate.

Examples of this are provided to illustrate the point:

“we had several very long lasting and personal relationships, let’s say the key players in the market – relationships of more than 20 years in some instances....you certainly need knowledge of those markets” (Company Three) and *“we are there (the United States) about six or seven times a year...we have friends there who understand the market who we can trust”* (Company Four)

Each of the companies has a strong base from which they have launched their international expansion plans, and from which they have leveraged opportunities further a field:

“It is the quantum of funds involved.....if it is something we can afford to, without hindering our thoughts and operations, we will do it.” (Company Four)

“I think critical mass comes into play....the decision to go overseas can only be made once you feel that your competence goes beyond SA.” (Company Five)

Also evident in all five companies is what Dunning (1995) refers to as “alliance capitalism”. Each one of these firms is expanding beyond its borders to enhance its current asset base and to protect its current base by diversifying risk across a number of geographic and political regions. As a result they have developed the ability to do business internationally into a core capability. This is what Dunning refers to as “multinationality” being an asset in its own right within successful multinationals. Dunning (2000, p.173) goes on to state that “Strategic asset

seeking (SAS) fdi is dependent on intellectual capital being located in more than one country, and that it is economically preferable for firms to acquire or create these assets outside, rather than within, their home countries”.

Evidence of the importance of having multinational expertise is apparent in all five companies. Two excerpts from the cases are drawn as examples:

“Having people focused on those countries and getting country-knowledge and ideally finding a local partner is...always the most important thing.” (Company One); and *“an international presence, Central Europe, Eastern Europe, West Coast America, East Coast America.....exceptionally strong on structuring deals in exotic locations.”* (Company Two)

Essentially the idea put forward by Dunning, backed up by the fact that each of the companies alluded to it, is that MNPCs need skills and competencies beyond those that make them successful in their home markets. Having the skills to participate in investment property is sufficient perhaps to engage on a local level, but certainly not on a global level.

Following on from the point made above, logic would have it that proposition one holds true. Successful multinational property companies engaged in fdi beyond their own borders need to develop a specific set of international business skills and capabilities before they consider internationalising. The skills which they

develop will provide them with proportionate advantage when competing on the international stage.

6.2 Discussion of findings relating to Proposition Two

Proposition 2: Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analyses to include the greater strategic vision of the firm in order to maintain strategic momentum.

Dunning (2000) feels that among the more important location based assets, is the capacity firms in target locations have to do business with international firms. This includes the macro-economic environment as well as the political environment of target firms, along with strong legal and financial institutions. Add to this the ability of firms to do international business with multinational firms. These factors were common to each of the MNPCs and are clearly portrayed using elements of each from the following excerpts from the interviews:

“finding a local partner is...always the most important thing, to find someone in the country that you can work with and trust and basically trust with your money; or that puts money in next to you for the deal.” (Company One)

“First and foremost we give some serious consideration to the macro economic environment as well the political stability of that country... particularly at some of

the things that property is associated with, like the interest rate environment...currency volatility; inflation; GDP growth numbers, is it a growing economy; and political stability.” (Company Two)

“if you go for the diversification.... would look at very comparable countries in terms of their legal systems, their maturity of economy and their real estate market, professionalized real estate market.” (Company Three)

“law and order....I have recourse to law...the title deeds are mine....strong financial institutions....Stable” (both economically and politically). (Company Four)

“Probably where you know there are skilled people.” (Company Five)

Timing is also seen to play a role, but the driver of the decision revolves around the target asset’s ability to add value to the acquiring firms “strategic trajectories” (Dunning, 2000). Certainly each of the companies interviewed referred to markets which they saw as having upside potential and that offered them good quality assets. This would provide them with the necessary strategic momentum needed to deliver on an international stage:

“I think you have to therefore look at different markets internationally, take advantage of the different cycles, and probably spread yourself over the market

so that you can go in and out in different markets at the same time.” (Company Two)

“my personal perspective.... look for countries that are basically in a conversion process towards being these mature countries.” (Company Three)

The exerts relating to the two previous points certainly give weight to the idea that the proposition has some merit in terms of MNPCs considering the same country specific criteria when considering a target country for foreign direct investment. The aspects to consider given by property expert, Angelique de Rauville (2008) were all among the factors for consideration, by each of the companies, when considering a target location. These are revisited below as a reminder:

- **Countries with steady GDP growth** with growing, sustainable economies, with no history of negative growth, and inflation stability;
- **Political Stability** providing investor confidence;
- The **opportunity to use leverage** to buy into the market. Incomes derived from rental returns must outweigh the cost of funding or gearing;
- **“Undiscovered Economies”** with cheaper properties with great yields relative to the host country yields. In these environments greater positive cash flows are possible until new entrants enter the market and the law of supply and demand takes hold and makes the market more competitive;

- **Developed, sophisticated financial services sectors** are of increasing importance with respect to tax efficient mechanisms and business friendly regulatory environments; and
- **The cultural and management style** of the countries into which the MNPC is looking to invest into is equally important as conflicting styles and cultures can be extremely complex to manage.

However a closer look provides further insight and weight to the strength of the proposition. The strategic momentum which each of the firms is trying to achieve is not common to each of the companies. According to Dunning (2000) the different variables which explain why locations are attractive vary according to the motivation of each firm, the industry they participate in and the status of the home firm base.

The similarities between the companies can be seen in the factors which were considered for each market – the fundamentals. The differences however lie in the individual company’s motivations for internationalisation. For example Company One considered the target location fit with the parameters they set for return on investment:

“We just looked basically at our return on our investment. We set our parameters and we always benchmark these deals in those parameters and it either fits or doesn’t fit.”

Company Two sums up the notions very well in the following statement:

“Take Germany for example, you would look at the European Union members, the old ones and the super mature market, the professional markets like the UK, the US.....If you go for higher returns you might look at other countries that have maybe more macro-economic risk or real estate market risks, but where you can achieve higher returns.....my personal perspective.... look for countries that are basically in a conversion process towards being these mature countries.”

Each firm has a different propensity for risk. As a result the questions they ask about the different target markets relate to their specific propensity for risk and the type of strategic asset they wish to acquire, in line with the company capabilities and motivation for expansion.

At first glance, the factors for consideration when MNPCs make their location decisions appear to be common across the MNPCs interviewed. However the impact of motivation on MNPC target market decisions is vital to the process. The motivation for cross border fdi – risk diversification, geographic diversification, strategic asset seeking – along with the firms propensity for risk provides the more precise reason for target location decisions.

Many of the location decision factors are common to multinational property companies with reference to macroeconomic, political and investment property fundamentals of target markets. However the final decision rests in the

motivation behind the individual MNPCs which overlays the market fundamentals making the decision more relevant to each firm. Strategic asset seeking firms need to look beyond the basic – fundamental - target location decisions to incorporate their strategic purpose and whether or not the location adds to or subtracts from the firm's strategic momentum. As a result proposition two holds true.

6.3 Discussion of findings relating to Proposition Three

Proposition 3: The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.

The third sub-paradigm highlights the importance of market entry options in a competitive environment fraught with uncertainties (Klein and Wöcke, 2007). The decision is taken once the firm has ascertained that it has the necessary firm specific advantages to compete across international borders, and is confident that it has targeted the correct country with respect to aligning it with the company's internal motivation. The decision that the firm now needs to make is whether or not their country activities are performed by themselves, by local companies that buy the rights to perform the activities, or through an acquisition mechanism (Dunning, 2000).

How firms internalise their foreign market is also known as the entry mechanism of a foreign firm (Slangen and Hennart, 2007) with the premium associated with takeover value ordinarily being higher for cross-border deals. This goes to the tacit and explicit components of deals with the more tacit deals commanding the premiums. Following on from this thought Slangen and Hennart suggest that the more explicit the target the more likely the foreign firm would be to engage in greenfields – wholly owned entry mechanisms. This is the foundation of proposition three which purports that the more complex the deal the more likely the MNPC is to form partnerships and joint ventures to mitigate the risk of entering into fdi which is more complex, and, by association, more costly.

There is evidence from the interviews of the complexity of the deal and the target location being an influencing factor:

“The way you approach a country is also dependant on the type of investment you want to do. So the less risk the investment has, the more you would probably invest by yourself. If you are a bit higher on the risk schedule then you would maybe like to have a partner.....in emerging markets which are not that developed then you would probably also like to have somebody else in the same boat as you.” (Company One)

“....in the early days.... we only did core investments.... class A tenants... typically something you can do alone, without a partner.....It is easy to understand, or relatively easy to understand..... you just have to make sure you

can reach a certain diversification.....you don't necessarily need a partner, as long as you are in a developed country where you can get good property management services.” (Company Three)

The type of investment property itself that the MNPC focuses on has different complexities which play a part in the internalisation decision. Company Two provides a good explanation of this: For strategic assets which are investment driven then acquisitions are preferable. The “trader has to be very much on the ground”, while developers “need a platform within the countries within which they operate”. Company Three refers to it thus: the more “hair on the deal” the greater the propensity to partner.

The proposition that the more tacit the nature of the deal and the complexity of the market, the greater the propensity to partner or joint venture, appears to hold true.

However, it is important to be wary of looking for the “correct” answer when conducting research of this nature. The proposition again only provides half the answer. Before the target market and nature of the deal can be considered the motivation for international expansion as well as the risk propensity of the MNPC needs to be ascertained. An MNPC with low propensity for risk will in all likelihood take on a partner or engage in joint ventures regardless of the

complexity of the market. The corollary would also hold true that the greater the appetite for risk the more prone to acquisition the MNPC might be.

Company One for example prefers to deal with partners in country. They like to have some other party in the deal with “skin in the game”. They allude to the fact that most of “our stuff is some form of joint venture or partnership” and that “it is important, probably a theme in any market, is how does it tie with your shareholder expectations”.

On the other hand the company with higher potential for risk focussing on investment opportunities approaches the internalisation issue from a completely different angle. Company Two mitigates their risk by joint venturing up front in the holding company, thereafter they prefer to proceed through acquisition because of their high propensity for risk as a result of their focus on high returns:

“We don’t joint venture, we already have got our joint venture.....which is limited exclusively to the management company.....to bring someone else into a joint venture doesn’t make economic sense, because you end up doing 80% of the work and get 20% of the reward...we are not joint venturing on any of the property acquisitions to date...It is a global special opportunities fund that can acquire outright and manage from a distance”.

Proposition three appears to be only half true. Before deciphering the complexities of the target market and the “hairiness” of the investment, the

MNPC needs to decide something about itself as an entity - “what it stands for”. In other words it is not only the tacit or explicit nature of the target that lends weight to the internalisation decision. The firm’s motivation for internationalisation and propensity for risk is highly important when making the internalisation decision. In fact it may indeed be the overarching factor. With this thought in mind it would be fair to say that proposition three is only partially upheld given that the MNPC’s risk propensity and motivation for internationalisation outranks the target location complexities when it comes to internalisation.

It is proposed that a new proposition be put forward for further study:

The tacit or explicit nature of a target does play an important role, however the overarching internalisation decision of multinational property companies engaged in fdi, is based on the company’s risk profile along with the firm’s motivation for internationalisation.

6.4 The eclectic paradigm in the investment property context

Dunning puts forward that the eclectic paradigm is a “simple, yet profound construct” (Dunning, 2000, p.163) made up of three interrelated sub-paradigms - ownership (O), location (L) and internalisation (I) - sub-paradigms respectively. Over the years the eclectic paradigm has evolved to incorporate the more dynamic nature of competition and strategies modern firms engage in.

Each of the sub-paradigms was incorporated into the research and propositions specific to MNPCs engaged in fdi were formulated as a basis for the research. Each of the three sub-paradigms is interconnected and flows logically from one to the next. Ownership precedes location, which in turn precedes internalisation. The link in the chain appears to be strategic motivation – the common thread across all the sub-paradigms. Applying each of the sub-paradigms through the use of propositions enabled a closer study of the eclectic paradigm within this context. Using the eclectic paradigm led to greater insights into the internationalisation of MNPCs and the factors impacting their fdi decisions. Each of the paradigms proved useful within the context and the common thread linking them together came to light. As a result the eclectic paradigm proved to be a solid lens through which to understand the internationalisation decisions applicable within the context of MNPCs engaged in fdi into investment property.

A snapshot of the outcomes of each of the propositions as a result of the research is provided in figure 5, below, along with brief suggestions for future research.

Figure 5 Proposition Outcomes

Proposition	Outcome	Future research thoughts
1. In order to gain true competitive advantage multinational property companies need to develop international capabilities beyond the core firm specific capabilities that gain them market entry.	Supported	As a result of proposition one being supported further research might include time series data which reflects the performance of firms in relation to their specific set of multinational business capabilities.
2. Strategic asset seeking multinational property companies need to extend their location decision making processes beyond country analyses to include the greater strategic vision of the firm in order to maintain strategic momentum.	Supported	As a result of proposition two being supported further research might include time series data to ascertain any correlations between strategy, location and the financial performance of multinational property firms.
3. The explicit or tacit nature of the targets of fdi in investment property firms will provide the foundation upon which firms will base their foreign market entry decision.	Partially Supported	<p>As a result of proposition three only being partially supported, an extension of the proposition is put forward. This reads as follows:</p> <p>The tacit or explicit nature of a target does play an important role, however the overarching internalisation decision of multinational property companies engaged in fdi, is based on the company's risk profile along with the firm's motivation for internationalisation.</p> <p>Future research might involve focussing on firms (MNPCs) with different strategic focuses and how these strategies impact on the firm's internalisation decisions.</p>

CHAPTER 7: CONCLUSION

The research report has met its objective of understanding some of the intricacies of the decision making processes that multinational property companies engage in when making their foreign direct investment decisions. Two of the three propositions were supported, with the third propositions being partially supported and expanded upon to give it more weight. In addition additional areas for future study and approaches to future research have come to light. Thoughts about the first two propositions, the updated third proposition, and additional areas for future study are presented below.

Proposition one purports that the real ownership advantages of MNEs lie in their ability to do business across international borders, over and above their ability to understand local investment property markets. This does not suggest that the fundamentals of investment property be forgotten. It is more to the point that real competitive advantage in the internationalisation space lies in the competencies surrounding “internationalisation” itself (Dunning, 2000). As a result of proposition one being supported further research might include time series data which reflects the performance of firms in relation to their specific set of multinational business capabilities.

The second proposition suggests that strategic asset seeking firms need to focus on their strategic purpose before making location decisions. As a result future studies might focus on the different types of strategic moves MNPCs and indeed multinational companies (MNCs) the world over, make and how these moves influence the analysis of the fundamentals of the target location, and the final location decision. In other words how true is proposition two for MNCs in other sectors, and would the distinct types of MNC activity – market seeking, resource seeking, efficiency seeking, and strategic asset seeking – lead to different outcomes.

In a nutshell as a result of proposition two being supported further research might include time series data to ascertain any correlations between strategy, location and the financial performance of multinational property firms.

The third proposition was partially upheld as a result of the overarching decision being directly related to the motivation and propensity for risk of the MNPC and not as a direct result of the market or target assets' complexity. As a result the following proposition is recommended for future use:

The tacit or explicit nature of a target does play an important role, however the overarching internalisation decision of multinational property companies engaged in fdi, is based on the company's risk profile along with the firm's motivation for internationalisation.

Future research might involve focussing on firms (MNPCs) with different strategic focuses and how these strategies impact on the firm's internalisation decisions.

The use of the eclectic paradigm as a framework for studying investment property and the process of internationalisation has provided valuable insight into the decision making process of MNPCs. With the appropriate amount of time future studies might include a greater number of cases, along with time series data, to compare both successful and unsuccessful MNPCs and how strategic decisions regarding ownership, location and internalisation affect financial performance.

What MNPCs may take from this study is the idea that understanding international and international markets is fundamental to managing a global business. Knowing what these international business capabilities are, whether they are built in, or need to be bought, is a vital first step in the internationalisation process. Once the firm has established that these core competencies exist, the motivation for internationalisation and the propensity for risk should be clarified. This should provide a strategic blueprint for targeting locations and making internalisation decisions based on aligning the company vision with its capabilities, *raison d'être* and risk profile. In the complex and dynamic modern business arena informed decisions are difficult to make.

Understanding and applying the thinking put forward in the three propositions might make the task a little easier for MNPCs.

In the light of market forces at play in current world markets, making informed internationalisation decisions has become more difficult. The recent, and ongoing, sub-prime crisis has shaken international markets, eroded trillions of dollars of value from stock markets the world over, and has made previously stable, established economies look less than attractive. In the ten days leading up to the 20th of September, 2008, the world's largest insurer – AIG – with assets of \$1 trillion (The Economist, 2008) has had to be “rescued” by the United States government. Add to this two of the world's largest banks and two of the largest American mortgage houses, worth \$1.5 trillion and \$1.8 trillion respectively, being nationalised or rescued (2008). The knock on effects of these events on the global stage has been swift and dramatic. Where this leaves the multinational wanting to expand their fdi activities is uncertain. One of the pillars of the eclectic paradigm – location – is being thoroughly tested. Previously stable, low risk target markets are no longer providing the same security in the foreseeable future.

In addition the very nature of globalisation may change. Desai's (2001, p.29) thinking that globalisation is a combination of ideology and modern market forces is very apt. He sees it (globalisation) as “ideology plus technology plus deregulated capital”. He sees this as a self organising system in the true

organistic sense as apposed to the mechanistic approach of government intervention. If world markets continue to be gripped by the contagion of sub-prime and governments continue to bale out ailing firms, the world economy might revert to being mechanistic in nature as apposed to the free market organistic approach. Wolf's (2005) warning, mentioned earlier in this paper, is the notion that as technology increases so to do governments opportunities to impose greater controls over their physical markets.

What this all means for the multinational property company is that location decisions become all the more complex. Aligning company strategy with markets that previously delivered to the promise, based on historical track record, may no longer apply. The opportunity to study the eclectic paradigm and how it stands up – as a theory - to the market forces that play themselves out during this period of financial turmoil may prove of immeasurable value. This is particularly true of investment property companies who base much of their technical investment decisions on the strength of financial institutions and the ability to garner returns in excess of their cost of funding. Given the fact that the sub-prime crisis is rooted in the faulty provision of credit, the promise of stricter regulation of banks and financial institutions in the future may have a dramatic impact on the leveragability of property and the very fundamentals of investment property globally. Studying the strategic moves of MNPCs leading up to and beyond the crisis may provide valuable information as to how best to negotiate through future crises and develop strategies for the future.

In closing, the research has met its objectives of understanding the intricacies of the internationalisation of multinational property companies investing into investment property. The use of the eclectic paradigm within the context of investment property has proven to be most effective, providing clearer insight, ideas for future research, and possible propositions to assist MNPCs to map their future forays into international markets. Further potential exists to use the eclectic paradigm to study internationalisation in a global market which might be in a new “phase” of globalisation (Desai, 2001), created by the disruption caused by the sub-prime crisis. A disruption which might lead to market corrections that change the way global markets operate.

REFERENCES

Anagnos, J. (2008) *The Property Handbook: Chapter 2: Global Property*, Financial Mail (July).

Axinn, C.N. (2002) Limits of internationalization theories in an unlimited world, *International Marketing Review*, Vol. 19 No. 5

Bain, J.S. (1956) *Barriers to new competition*. Harvard University Press.

Bonoma, T. (1985) Case Research in Marketing: Opportunities, Problems, and a Process, *Journal of Marketing Research*, Vol.12, p. 199-208

Buckley, P.J. and Casson, C. (1976) *The Future of the Multinational Enterprise*, Macmillan: London.

Canton, J. (2006). Cultures in Collision: The Future of Globalization, *The Extreme Future*. New York: Dutton pp 183-207

Cheng, Y.M. (2006) Determinants of FDI Mode Choice: Acquisition, Brownfield, and Greenfield Entry in Foreign Markets, *Canadian Journal of Administrative Sciences*, September

Chetty, S. (1996) The Case Study Method for Research in Small-and-medium-sized Firms, *International Small Business Journal*, Vol. 15, No.1, p. 173-185

Chin, H., Topintzi, E. and Hobbs, P. (2007) Global real estate investment and performance 2006 and 2007, *RREEF research paper*, RREEF, London

Chin, H., Topintzi, E., Hobbs, P., Mansour, A. and Tan, Y.K. (2007) Global real estate securities: the emergence of a discrete asset class, *RREEF research paper*, RREEF, London

Clark, E. and Lund, A. (2000) Globalization of a commercial property market: the case of Copenhagen, *Geoforum* Vol. 31 p. 467-475 Elsevier Science Ltd.

de Rauville, A.N. (2008), Exploratory informal interview about commercial property and internationalisation, Johannesburg, South Africa. Interviewed on 6/04/08.

Desai, Prof Lord M (2001). *Globalization: Neither Ideology nor Utopia*. London School of Economics. Available from <http://old.lse.ac.uk/collections/globalDimensions/research/globalizationNeitherIdeologyNorUtopia/default.htm> accessed 4/12/07

Dunning, J.H. (1995). Reappraising the eclectic paradigm in the age of alliance capitalism. *Journal of International Business Studies*, Vol. 26 pp. 461-491.

Dunning, J.H., (1998). Location and multinational enterprise: a neglected factor. *Journal of International Business Studies*, Vol. 29 (1), pp. 45-46.

Dunning, J.H., (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review* Vol. 9, p. 163-190, Elsevier Science Ltd.

Dunning, J.H., (2003). Some antecedents of internalization theory. *Journal of International Business Studies* Vol. 34, p.108-117

Dunning, J.H. (2006) Towards a new paradigm of development: Implications for the determinants of international business. *Transnational Companies* 15(I), p.173-227

Eichholtz, P.M.A., (1996) Does international diversification work better for real estate than for stocks and bonds? *Financial Analysts Journal* Jan-Feb p.56-62

Eichholtz, P., Koedijk, K. and Schweitzer, M. (2001) Global property investment and the costs of international diversification *Journal of International Money and Finance* Vol. 20, p. 349-366

Eisenhardt, K.M. (1989) Building Theories from Case Study Research, *Academy of Management Review*, Vol. 14, No.4, p. 532-550

Fife, I. (2008) *The Property Handbook: Chapter 2: Global Property*, Financial Mail (July).

Gable, G.G. (1994) Integrating Case Study and Survey Research Methods: An Example In Information Systems, *European Journal of Information Systems*, Vol. 3, No. 2, p. 112-126

Glückler, J. (2005) A relational assessment of international market entry in management consulting, *Department of Economic and Social Geography*, University of Frankfurt, Germany

Gray, J. (2002). The True Limits of Globalization *Ethical Perspectives*, 9(4) p. 191-199

Hedges, A. (1985) Group Interviewing, *Applied Qualitative Research*, Gower, Aldershot

Henderson, D. (1999). *The MAI Affair, A Story and its Lessons*, London: Royal Institute of International Affairs

Hill, CW.L. (2007). *International Business: Competing in the Global Marketplace*, McGraw-Hill, United States of America *Seventh Edition*

Hudson-Wilson, S., Gordon, J.N., Fabozzi, F.J., Anson, M.J.P. and Gilberto, S.M. (2005) Why real estate: and how? Where? And When? *Journal of Portfolio Management*, Vol. 32 pp. 12-22

Investec Property, 2008 Property Forum: *Making sense of the madness* Investec Head Office, Grayston Drive, August

Investment Property Database UK Monthly Property Index accessed from International Property Databank on the 21st of September, 2008 at:
<http://www.ipd.com/OurProducts/Indices/UnitedKingdom/UKMonthly/tabid/921/Default.aspx>

Investment Property Forum, (2007) Impulse Trend, August Accessed on the 21st of September, 2008 at:
http://www.ipd.com/Portals/1/downloads/products_services/IPD%20Impulse%20-%20Trend%20-%20Risk%20August%202007.pdf

Investment Property Forum, (2007) *Understanding Commercial Property Investment: A Guide for Financial Advisors*. Available from

<http://www.bpf.org.uk/topics/document/23052/understanding-commercial-property-investment-a-guide-for-financial-advisers-2007-edition> (accessed 17/05/08)

IPD UK Monthly Property Index accessed from International Property Databank on the 21st of September, 2008 at:

<http://www.ipd.com/OurProducts/Indices/UnitedKingdom/UKMonthly/tabid/921/Default.aspx>

IPD German Property Index accessed on the 23rd of September, 2008 at the following address:

<http://www.ipd.com/OurProducts/Indices/Germany/Germanpropertyindex/tabid/433/Default.aspx> .

Klein, S. & Wöcke, A. (2007) Emerging global contenders: The South African experience. *Journal of International Management* doi: 10.1016/j.intman.2007.05.002

Kolk, A. & Pinkse, J. (2005). Business Responses to Climate Change: Identifying Emergent Strategies, *California Management Review*, Vol. 47(3) p6-20.

Jones Lang LaSalle, (2006), Accessed at Overseas Property Mall on the 12th of September, 2008 at:

<http://www.overseaspropertymall.com/regions/african-property/south-african-property/surge-in-global-real-estate-investment/>

Jones Lang LaSalle Report accessed on the 12th of September, 2008 at:
www.joneslanglasalle.co.id/en-GB/news/2007/Global_capital_flows.htm

McGuire, L. (1997) Case Studies: Story Telling Or Scientific Research Method?
Case Study Methods, Monash University, Melbourne

Pehrsson, A. (2006) Strategy antecedents of modes of entry into foreign markets,
Journal of Business Research, Vol. 61 pp132-140

Perry, C. (2001) Case Research in Marketing, *The Marketing Review*, Westburn
Publishers

Porter, M.E. (1980) *Competitive strategy* New York: Free Press.

Porter, M.E. (1985) *Competitive advantage* New York: Free Press.

Porter, M.E. and Reinhardt, F.L. (2007). A Strategic Approach to Climate *Harvard
Business Review*, October pp 22-26

Rees, William E (2002/3). Is Humanity Fatally Successful? *Journal of Business Administration and Policy Analysis*, 30-31 p 67-69

Robson, C. (1993) *Real World Research: a Resource for Social Scientists and Practitioners-researchers*, Oxford, Blackwell

Romano, C. (1989) Research Strategies For Small Business: A Case Study, *International Small Business Journal*, Vol. 7, No. 4, p.35-43

Rowley, J. (2002) Using Case Studies in Research, *Management Research News*, Vol. 25, No. 1

Rugman, A.M. & Verbeke, A. (2003), Extending the theory of the multinational enterprise: internalization and strategic management perspectives. *Journal of International Business Studies* Vol. 34, 125-137

Slangen, A. & Hennart, J.F., (2007) Greenfield or acquisition entry: A review of the empirical foreign establishment mode literature, *Journal of International Management*, Vol.13 pp. 403 - 429

Stake, R.E. (1994) Case Studies, *Handbook of Qualitative Research*, Newbury Park, Sage

Stoian, C., Filippaios, F. (2008) Dunning's eclectic paradigm: A holistic, yet context specific framework for analysing the determinants of outward FDI.

International Business Review, doi: 10.1016/j.ibusrev.2007.12.005

The Economist, (2008) What Next, 20th of September, United States

Topintzi, E., Chin, H., and Hobbs, P. (2008) Moving towards a global real estate index, *Journal of Property Investment & Finance*, Vol. 26, No.4

The Economist (2007). Rich Man, Poor Man (pp 11-12) and In the Shadow of Prosperity (pp 30-32) 20 January.

Viruly, F. (2008) Property Forum: *Making sense of the madness*, Investec Head Office, August.

Wöcke, A., Brendixen, M. & Rijamampianina, R., (2007) Building flexibility into multi-national human resource strategy: a study of four South African multi-national enterprises, *International Journal of Human Resource Management* 18:5 May 2007 pp. 829-844

Wolf, M. (2005). What Liberal Globalization Means, *Why Globalization Works* London: Penguin

Yin, R.K. (1994) Case Study Research – Design and Methods, *Applied Social Research Methods Series*, Vol. 5, 2nd edn., Newbury Park, Sage

Zikmund, W.G. (2003). *Business Research Methods*, United States of America
7th Edition

ADDENDUM 1

OPEN ENDED INTERVIEW QUESTIONS

Interview Question 1
What has been the historical attraction to investment property?
Interview Question 2
What capabilities do you consider to be essential in order for your firm to expand beyond your local borders, and why?
Interview Question 3
What criteria do you consider when selecting a foreign location, and why?
Interview Question 4
What types of modes of entry into foreign countries do you prefer – acquisitions, partnerships, agencies or a combination of these? What criteria do you use to decide on the entry mechanism?
Interview Question 5
Is there anything you would like to add in terms of strategic decisions when it comes to investing in investment property abroad?