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The impact of expansion into Africa on the financial performance of emerging market multinationals listed on the JSE

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ABSTRACT

The internationalisation performance relationship is a critical aspect of international business literature. However the focus has primarily been on multinationals from developed markets whilst multinationals from emerging markets have been largely ignored. The last decade has seen emerging market multinationals expanding at a rapid pace to effectively compete with its global rivals. This study is set within the emerging market context of Africa as it investigates the impact on financial performance of South African companies expanding into the continent. Longitudinal analysis over the period 2010 to 2014 analysed the effects of expansion on average net profit margin, average ROE, average share price and average market capitalisation. This study compared financial measures of 30 JSE listed companies that have expanded into Africa against 30 JSE listed companies that have no presence in Africa and also tested for the effect of degree of internationalisation, firm age and operations in multiple countries on performance.

It was found that companies that expanded into Africa exhibited a lower average net profit margin and a higher average ROE when compared to their counterparts that had no presence on the continent. There was also evidence of an increase in average share price and average market capitalisation over the period which reflects the positive benefits of internationalisation. Whilst there was a significant positive correlation between average share price and operations in multiple countries there was no correlation between the degree of internationalisation and firm age on any of the financial performance measures. The research also indicates that the subject is very complex and more research is required.

KEYWORDS

Emerging market multinational, Africa, financial performance. internationalisation, JSE

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.

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1. CHAPTER 1 - INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

Over the last decade there has been a significant increase in foreign direct investment ("FDI") into Africa due to the improvement in the continent's economic prospects. The World Investment Report (2014) found that FDI flows into developing countries reached $778 billion in 2013, of which $57 billion related to inflows into Africa. The main investor from a regional perspective was South Africa ("SA") that almost doubled its FDI to $5, 6 billion during 2013. EY's attractiveness survey Africa (2013) indicated that as the fifth largest investor in Africa over the past decade, South African headquartered companies advocate economic growth on the continent. This is further evidenced by a compounded growth rate of 57% in South African originated FDI projects into the rest of Africa since 2007 (BDLive, 2014). These factors highlight that the African continent has become the favoured business hub for SA.

Satta, Parola & Persico & (2014) state that governments of emerging markets are encouraging their businesses to go global by providing them with forms of government support. In February 2014 then Finance minister Pravin Gordhan announced the introduction of a simplified tax and foreign exchange framework for companies trading on the African continent (BDLive, 2014). It is felt that this stance by government of offering fiscal incentives is encouraging SA's companies to expand their operations into Africa.

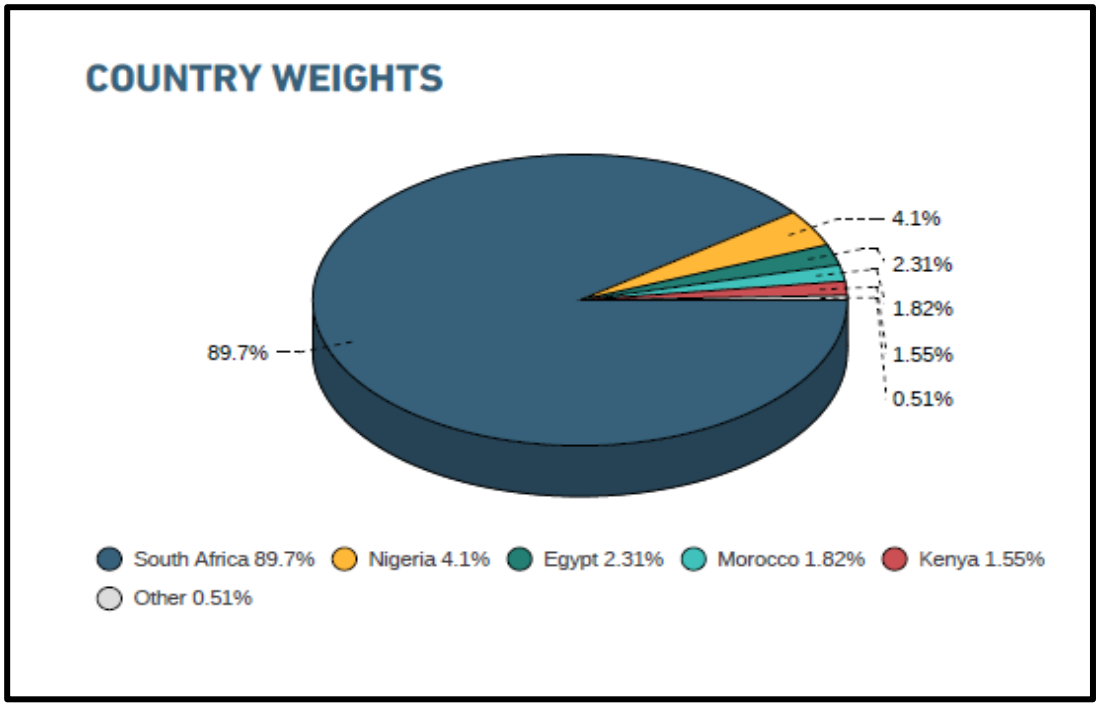
Additionally one of the key objectives of SA's membership in BRICS (Brazil, Russia, India, China and South Africa) is to fund infrastructure development and industrialisation in Africa (Vickers, 2013). As part of SA's commitment to its BRICS membership, its companies have expanded into Africa not only to capitalise on the current opportunities but also foster inclusive growth on the continent. The World Investment Report (2014) states that well known South African investors (such as Anglo Gold Ashanti, Aspen Pharmacare, Bidvest Group, MTN Group, Naspers, Pick'n'Pay and Shoprite) are upgrading their cross-border operations first in

neighbouring countries and then across the whole continent. Furthermore the 2014 the Boston Consulting Group ("BCG") Global Challengers list includes four South African companies in the top 100 companies, from rapidly developing economies that are both growing and globalising quickly. These companies are Aspen Pharmacare, Bidvest Group, MTN Group and Sasol who on average grew revenues by 18% and can be found in as many as 18 countries.

Emerging markets ("EM") are defined as countries engaged in a rapid pace of economic development and have government policies favouring economic liberalisation. SA meets this definition of an emerging market (Luo & Tung, 2007). This is further supported by Grant Thornton's Emerging Markets Opportunity index: high growth economies (2012), where SA was placed 14th of 27 largest emerging economies in terms of potential for business investment. Multinationals ("MNE's") emanating from emerging markets experienced growth through embarking on an aggressive international expansion strategy (Luo & Tung, 2007). By virtue of being the largest economy in Africa at least 80% of SA's companies are considering potential investment opportunities on the continent (Grant Thornton's Emerging Markets Opportunity index: high growth economies, 2012).

The Morgan Stanley Capital International ("MSCI") Emerging Frontier Markets Africa Index (2015) includes large and midcap companies. SA and Nigeria comprise close to 94% of the MSCI Emerging Frontier Markets Africa Index (2015) with weightings of 89.7% and 4.1% respectively as depicted in **Figure 1** below. Based on the weightings, SA represents the largest emerging market county in this index.

Figure 1: MSCI Emerging Frontier Markets Africa Index (2015) country weightings



As stated there are various motivations for SA's MNE's listed on the Johannesburg Securities Exchange ("JSE") to invest as well as expand its operations into the continent. There is substantial amount of information relating to the question of how to make money in Africa without actually quantifying how many companies have actually done so. Therefore this research will attempt to answer whether MNE's listed on the JSE that expanded into Africa, have reported a positive impact on its financial performance.

1.2 Motivation for the research

Africa is undergoing a change in its socio- economic and macroeconomic landscape which includes a burgeoning middle class, increase in mobile phone usage, stable political environment and most notably improvements in the ease of doing business

(EY's attractiveness survey Africa, 2013). All these factors contribute to the reason why companies with established business in Africa should be prospering. Hence the purpose of the research is to determine if expansion into Africa by listed South African companies has resulted in a positive impact in its financial performance over a sustained period (five years).

Governments of EM MNE's can takes steps to reduce red tape, minimize corruption and ensure greater international benefits for local firms (Elango, 2006). President Jacob Zuma has emphasised at various forums and most recently at the World Economic Forum that SA and the African continent are real investment destinations and are open for business (BDLive, June 2015). This demonstrates that SA's government is resolute on its position of trade liberalisation for both the country and the continent. Daniel, Naidoo & Naidu (2003) state that SA's investment into Africa started from the early 1900's through to exponential expansion following the end of apartheid.

1.3 Theoretical and business need for the study

The number of firms from emerging markets that pursue a foreign market strategy have been continuously increasing (Elango, 2006). Luo & Rui (2009) states that while perspectives shed more light on why EM MNEs go global, there is limited insight into the success of these companies when investing and operating overseas.

International business theory has delved extensively into the impact of internationalisation on financial performance for listed companies from predominantly developed countries. However there is no theoretical rational that supports a generalisable multi-nationality performance relationship (Kirca et al., 2011) despite several empirical studies being undertaken on the nature of this relationship.

Studies that have been conducted on the multinationality performance relationship for EM MNE's has also yielded mixed results. Banalieva & Sarathy (2011) in their

study on performance of EM MNE's proposed a framework that was dependant on the nature of the industry and the degree of trade liberalisation. Their study also suggested that by extending the study to include an increased number of countries and firms one would be able to ascertain if their findings could be generally applied to all companies that are internationalising. Hence the research would provide useful insights into the applicability of their framework to SA's listed companies expanding abroad specifically into Africa.

From a business perspective it would be useful to ascertain if companies benefit from their investment into Africa in the form positive financial performance. In addition would the financial benefit outweigh the costs associated with an increase in the firm's operational risk due to having a presence on the continent. Operational risks are increased as a result of the varying political landscape in host countries, currency fluctuations and managerial mistakes attributed to the liability of foreignness (Elango, 2006), which are all factors characteristic of doing business in Africa.

The author's research has shown that there is limited information available from both an accounting-based and market based perspective for SA MNE's investing into Africa. No published information could be found on sectors that have successfully entered the African market and have seen a significant proportion of their earnings being attributable to sources outside of SA.

1.4 The scope of the study

The scope of the study will include companies listed on the JSE that have expanded its operations into Africa and have disclosed Africa (excluding SA) as a separately reportable segment since 2010. These companies cover all of the significant industries including financial services, mining, telecommunications, retail and property sectors over the period 2010 to 2014 (five years).

In this research report, it will be investigated whether the internationalisation of a firms Africa operations has any impact on net profit margin, share price, return on equity ("ROE") and market capitalisation. These popular measures will be used to analyse the financial performance effects of SA's MNE's expansion into Africa.

1.5 Research aim and objectives

The aim of the research is to determine whether expansion into Africa impacts the financial performance of companies listed on the JSE over time.

The objectives of the research are as follows:

- To determine if operations in Africa impact the average net profit margin and average ROE of South African companies that have expanded into Africa over time when compared to South African companies that have not expanded its operations into Africa;
- To determine if operations in Africa impact the share price and market capitalisation of South African companies over time;
- To determine the impact of the degree of internationalisation and firm effects on the financial performance of South African companies that have expanded into Africa.

2. CHAPTER 2 - LITERATURE REVIEW

2.1 Introduction

A significant number of companies expand and operate in foreign markets around the world however this trend was characteristic of primarily developed market ("DM") MNE's (Elango, 2006). Hence the internationalisation of companies into foreign markets, motivation for expanding and choice of location has been core to international business research for years but focussing on DM MNE's. The last decade has experienced the advent of EM MNE's who have expanded internationally at a rapid pace and it is predicated that EM MNE's will continue this trend in an attempt to be on par with their global rivals (Aybar & Ficici, 2009).

The literature review discusses the most recent research on EM MNE's, the key motivations for expanding its operations, rate of internationalisation and the relationship between financial performance and expansion. Buerki, Nandialath, Mohan & Lizardi (2014) states that almost every MNE acknowledges the importance of being present in emerging economies however not every emerging market presents the same opportunities. In this regard the literature review deliberated on why other emerging markets presented opportunities for MNE's that also originate from a developing economy and why countries in Africa present the right country market for international market selection.

Banalieva & Sarathy (2011) state that there is a need to "delve deeper into the empirically inconsistent results" on how internationalisation together with the extent of reliance which firms place on its foreign markets affects the EM MNE's financial performance. The literature discusses the key measures of financial performance including revenue, share price, ROE and market capitalisation and provides the context of establishing an understanding of the internationalisation financial performance relationship. The literature review will conclude by identifying gaps in the body of knowledge which will developed into hypotheses to be researched.

2.2 Motivations for international expansion

2.2.1 The reasons for EM MNE's expanding internationally

EM MNE's are facing an unprecedented competitive environment which requires that they become more ambidextrous in the quest to survive and compete against global rivals (Luo & Rui, 2009). This would imply that for EM MNE's ambidexterity encompasses pursuing international expansion which ensures long term growth and competiveness whilst still focussing on its local market and customers.

Luo & Tung (2007) presented the springboard perspective that describes international expansion as reactionary response used by EM MNE's to catch up with global rivals hence allowing them to compete more effectively. Some of the other reasons cited by Aybar & Ficici (2009), Burnete (2013), Luo & Tung (2007) and Satta et al., (2014) for international expansion by EM MNE's include but not limited to:

- reducing firms exposure to its domestic market conditions and constraints;
- exploit competitive advantage in other emerging and developing countries;
- institutional support from government which include fiscal incentives;
- accumulating technology and marketing strength;
- increased rivalry from domestic competitors and rapid expansion by foreign MNE's into their local markets.

The eclectic paradigm proposed by Dunning (1988) formed part of the early international business literature describing MNE motivations for international expansion. MNE's will make investments in host countries if the following motivations exist:

- **Market seeking** – MNE's are in search of new or larger markets;
- **Efficiency seeking** – MNE's are trying to improve efficiency and reduce costs as the host country may have lower productions costs;
- **Resource seeking** - The host country may have abundant natural resources that MNE's want to control or the availability of natural labour;
- **Strategic asset seeking** – The host country may possess strategic assets like technology and management expertise that could be used by the MNE to strengthen assets and capabilities.

The Dunning's typology was primarily developed during an era when the more advanced nations were open to FDI and anti-capitalist nations were unreceptive to it (Moghaddam, Sethi, Weber & Wu, 2014). Their study reviewed 1,532 international mergers and acquisitions ("M&A's") undertaken by DM MNE's and EM MNE's during the period 2009 to 2012. It was found that whilst Dunning's typology was applicable to DM MNE's, EM MNE's have substantially varied strategic motives for wanting to expand its operations internationally (Moghaddam et al., 2014). International M&A's undertaken by South African companies formed part of this study. Key motivations for SA companies expanding its operations were end-customer market seeking, global value consolidation seeking and knowledge seeking (Moghaddam et al., 2014).

2.2.2 International expansion by EM MNE's into other emerging markets

EM MNE's uses its competitive advantages as an enabler to expand into either similar or more advanced markets (Luo & Tung, 2007). Additionally EM MNE's competitive strength lies in their knowledge of conducting business within an emerging market context which they are able to duplicate in other emerging markets (Boscor, Bratucu & Baltescu, 2013 and Contractor, 2013).

Luo & Rui (2009) state that EM MNE's are better positioned than DM MNE's to operate in institutionally difficult environments abroad. Despite these markets being more burdensome due to the countries institutional voids EM MNE's tend to be successful (Buerki et al., 2014). This is due to their experience in handling external uncertainties, operating in a less stable economy and competency in building relationships with regulatory agencies in order to make industry standards more conducive to their investment goals.

All these factors influence EM MNE's ability to outperform other MNE's in less developed nations specifically when the country is ranked low in regulatory effectiveness and high on corruption (Contractor, 2013). Contractor (2013) further states that owing to its own background, EM MNE's are nimble and resilient when dealing with challenges and are determined to opt for different and sometimes unconventional answers to its problems.

Buerki et al., (2014) identified market potential as one of the key determinants as to whether a firm will chose to move into a new international market. Market size, growth and the degree of trade liberalisation of a country are key determinants to the inflow of FDI. EY's attractiveness survey Africa (2013), highlighted that based on International Monetary Fund ("IMF") data, during the period 2000 to 2010, six of the 10 fastest growing economies in the world were in Africa.

Furthermore the IMF has forecasted that 11 of the 20 fastest growing economies through to 2017 will be African. The World Bank has also forecasted that a third of the regions in Sub Saharan Africa ("SSA") will be growing at a rate of 6% or above. All of these factors demonstrate that Africa is experiencing robust and sustained growth. Accordingly market potential and the attractiveness of the emerging market as in the case of Africa are important criteria in international market selection (Buerki et al., 2014).

Other reasons cited as to why EM MNE's potentially internationalise into other emerging and developing markets, which would be applicable specifically to Africa include:

- One of the fundamental propositions of internationalisation theory is that MNE's would choose **cost effective foreign locations** for the expansion activities (Kirca et al., 2011). Poverty remains prominent on the continent as at least 30 of least developed countries in the world are African (Vickers, 2013). Therefore due to the unequal levels of development between Africa its historic and current trading partners commercial engagements are essentially on unequal terms (Vickers, 2013). Africa's need for investment therefore makes it a cost effective location for expansion.

- Countries **open to higher trade liberalisation** will experience greater volumes of trades, capital flows, FDI and increased integration into world markets (Banalieva & Sarathy, 2011). The increase of outward FDI by emerging economies is due to government support of higher trade liberalisation and more lenient stance on offshore investment (Luo & Tung, 2007). The establishment and implementation of a Tripartite Free Trade Area for 26 countries on the African continent will encourage FDI and investment into sectors including agriculture and manufacturing (Vickers, 2013).

- **Weak laws or poor government** and a greater tolerance for ambiguity can lead to rewarding opportunities and success for firms (Contractor, 2013). Africa has been historically characterised for its institutional voids, poor corporate governance and political instability (EY's attractiveness survey Africa, 2013). Although these factors tarnish Africa's reputation and impede shareholder confidence it does however present opportunities for EM MNE's to be profitable given that they possess the right relational competence in order to obtain the host country's institutional support. Furthermore developing and maintaining healthy local partnerships in country provides a basis for overcoming the liability of foreignness.

- Lu & Beamish (2004) state that a **host country with unique resource endowments** and favourable locational advantages can persuade companies to set up a local branch in order to gain from these benefits. Africa's natural resources are critical to the livelihood of its economy and

represents significant development opportunities. Rising powers specifically BRICS nations want to access these resources that can be used to contribute towards its economic growth (Vickers, 2013).

2.2.3 Motivations for regional expansion by MNE's

Elango & Wieland (2014) proposed that firms faced lower costs related to the liability of foreignness, operations and coordination when they conduct business regionally. The authors found that regional effects represents a significant portion of variation in firm performance and has a substantial influence on the success of a firm's internationalisation strategy. This was evidenced by 49% (64 of 130) of the largest DM MNE's operations are regionally focussed with a significant percentage of revenue being generated in their home triad regions.

This is however contrary to the foreign expansion patterns of EM MNE's that pursue an inter-regional diversification strategy instead on focussing of culturally close countries (Satta et al., 2014 and Boscor et al., 2013). Luo & Tung (2007), state the EM MNE's have a lower dependence on ethnic ties and rapidly enter markets of greater psychic distance in order to leapfrog from their late entrant position. Contractor (2013) is also of the view that EM MNE's in their initial stages of expansion would tend to operate in a more diverse number of countries.

2.3 Performance effects of international expansion for EM MNE's

There is a considerable amount of research on the internationalisation motivations of EM MNE's, the type of strategic linkages into foreign markets and the success or failure thereof. However there remains significant debate on the exact manner in

which international expansion impacts firm performance for MNE's from emerging markets (Elango, 2006). Hence literature relating as to whether international expansion of MNE's will affect financial performance was reviewed by the author.

2.3.1 The impact of international expansion on financial performance of EM MNE's

Luo & Tung (2007), state that a key determinant to EM MNE's success is the reliance that they place on the financial performance in their home country. Furthermore in order to remain profitable these firms have to ensure that they continue to focus on sales generated by their home base. However this refutes the claim that a key driver of international expansion by EM MNE's is that they want to reduce its dependence on the domestic market (Boscor et al., 2013). Additionally a higher degree of trade liberalisation leads to greater integration of the world markets hence firms will face increased competitive pressures at home as more international companies will enter the country (Banalieva & Sarathy, 2011). Due to SA's governments stance on trade liberalisation SA companies' encounter increased competition at home and should experience a gradual increase in revenue from operations outside of the country.

Luo & Rui (2009) further state that although EM MNE's require short term profitability as a prerequisite to survival they focus on developing competencies in order to sustain long term growth. This is supported Kuo, Ning, Strange & Wang (2014), that state that in order to successfully undertake foreign investment it is imperative that firms exhibit firm specific competitive advantages. This could be exploited in their domestic market and also be used to generate sufficient revenue to cover the costs of operating in international markets. Hence revenue generation and market share in the EM MNE's home country remains a key determinant of the firm's profitability especially in the short term where it may be required to absorb losses attributed to global expansion.

Elango & Pattnaik (2011) have found that for EM MNE's foreign revenue contribution to total revenue was relatively minor as these firms are positioned to operate within niche markets or as suppliers to the host country. A foreign sales ratio is a popular measure of the degree of internationalisation as it highlights the extent to which a firm places reliance on the revenue generated by its foreign operations (Elango, 2006). Yang & Driffield (2012) and Contractor, Kumar, & Kundu (2007) also identified is the ratio of foreign sales to total sales ("FSTS") as the most common approach to measuring the degree of multinationality in the internationalisation performance literature.

In order to derive the FSTS ratio the financial information set out in the company's geographical segment reports would be used. Companies are required as per IFRS 8 to separately disclose the income statement and balance sheet for each reportable segment (International Financial Reporting Standards, issued November 2006). As per the standard a reportable segment that is separately disclosed contributes 10% or more of the companies' combined assets or revenue from both external customers and intersegment sales. Based on this information one is able to determine if earnings attributable to foreign sources makes up a significant or insignificant proportion of the company's revenue.

An investigation into the average growth in foreign assets and foreign sales by the top five EM MNE's (from Hong Kong, Mexico Malaysia, and Republic Of Korea) in comparison to the top five DM MNE's (from United States ("US"), United Kingdom ("UK") and Japan), during the period 2006 to 2011 was conducted by Burnete (2013). It was found that although EM MNE's had a greater increase in foreign assets its foreign sales dropped. DM MNE's experienced an average increase of 40% in foreign sales whilst for EM MNE's foreign sales dropped by 19% during the same period. Although no specific reasons are cited for EM MNE's being less successful in generating sales it could potentially be the lack of understanding of the various factors impacting the market in which they operate.

2.3.2 Internationalisation performance relationship

Although not specific to EM MNE's there have various studies have investigated whether international expansion of MNE's will affect financial performance. These studies have produced varied results including the U-shaped, inverted U-shaped, S-shaped and both positive and negative linear relationships (Hutzschenreuter & Horstkotte, 2013). The performance relationships are as follows:

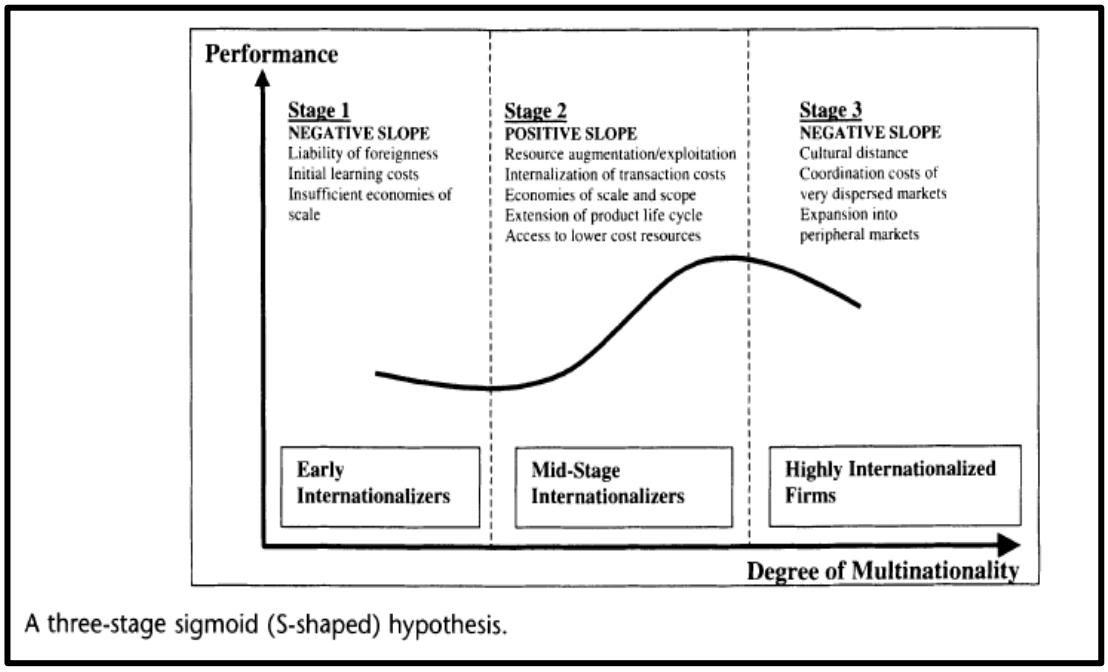
- **U-shaped relationship**: performance will initially decline which is attributed to the disadvantages related to foreignness at early stages of internationalisation before positive returns are realised.

- **Inverted U-shaped relationship**: further international expansion contributes to a positive increase in financial performance up to a certain level. Further expansion beyond this threshold will be detrimental to firm's performance thereby resulting in a negative slope. Negative returns are a result of escalating co-ordination costs at high levels of internationalisation.

- **S-shaped relationship**: this encompasses both the U-shaped and inverted U-shape curves highlighting that the degree of internationalisation has a positive impact on performance only over a certain range.

The 3-stage or S-shaped theory of international expansion (Contractor, 2007) is the most appropriate model depicting the impact of international expansion on financial performance as a firm increase its geographic footprint. **Figure 2** below depicts the S-shaped theory:

Figure 2: A three-stage S-Shaped curve



A three-stage sigmoid (S-shaped) hypothesis.

- **Stage 1 – Early internationalisation**: Factors including liability of foreignness, learning costs, local adaptability costs and set up costs all initially impact the financial performance of the firm. The liability of foreignness is understood to be additional costs incurred by MNE's due to being in an unfamiliar environment with different cultural, political, economic and social dimensions (Zaheer, 1995). The incremental cost of international expansion exceeds incremental revenues resulting in a negative impact on financial performance.

- **Stage 2 – Later internationalisation**: At this stage (also dependent on the amount of time spent in stage 1) the incremental revenues attributable to international expansion will exceed incremental costs. This is due to the experience gained from every additional international expansion. At this stage firms would continue incurring learning costs, local adaptability costs and legitimacy costs however the benefits would exceed these costs.

- **Stage 3 – Excessive internationalisation**: The model states that international expansion on profitability is positive up until a certain point and will then again lead to a reduction in profits. Contractor (2007) states that the returns from expansion diminishes after the first 40 to 60 countries as these nations could be regarded as outliers and represent less promising markets. Linked to increased expansion are the increased managerial costs, information costs and global co-ordination costs which all will inadvertently have an adverse effect on financial performance.

The 3-stage model of international expansion encompasses the U-shaped curve and inverted U-shaped curve that were derived from previous studies on the internationalisation performance relationship. A point of clarity regarding stage 3 of the model was whether countries in emerging markets were viewed as the less promising markets. If this is the case then in light of the rapid pace of economic growth in emerging markets, would firms still experience a negative effect on performance as depicted in Stage 3. Furthermore the model attributes culturally different markets to have a negative impact on performance in stages 1 and 3. Upon initial internationalisation (stage 1) firms are unfamiliar with foreign markets and in stage 3 after excessive internationalisation firms enter more culturally distant markets.

2.3.3 Liability of foreignness and impact on performance

Early internationalisers have incurred significant costs associated to learning about its new markets and establishing legitimacy abroad (Contractor, Kundu & Hsu, 2003). Additionally the incremental costs related to information and governance costs in culturally distant markets outweigh the benefits thereby having a negative impact on performance (Contractor, 2007).

International expansion undertaken by MNE's introduces a degree of complexity and added governance, cultural and geographic distances could negatively influence the financial results of the firm (Hutzschenreuter, Kleindienst & Lange, 2014). In contrast Contractor (2007) found that whilst internationalisation does not always improve performance in the short term there was a premise that a firm will earn positive returns beyond a certain level of expansion.

Additionally, Hutzschenreuter & Horstkotte (2013) found that the extensive international experience of top management team ("TMT") could potentially alleviate the negative effects of added cultural distance on firm profitability. This finding emanated from a study conducted on 80 German firms that expanded during the period 1985- 2007. Notwithstanding the limitations of this study which include the definition of a TMT, a valuable insight derived is that experiences of a TMT could potentially play a role in determining the firm's profitability when expanding into culturally diverse markets (Hutzschenreuter & Horstkotte, 2013). In contrast Contractor (2013) found that the TMT's of EM MNE's demonstrated greater humility, servant leadership and open mindedness instead of experience which therefore contributed to its improved organizational performance.

2.4 The impact of international expansion on the share price of EM MNE's

Assuming that international expansion by EM MNE's are successful and all other factors remain static the expectation would be an improvement in the firms share price post internationalisation. There are empirical studies regarding the effect of share price post the announcement of mergers and acquisitions ("M&As") by EM MNE's into both developed and emerging market economies.

Interestingly upon initial announcement of cross border M&A's by 58 EM MNE's from various developing countries it was found that equity markets react negatively (Aybar & Ficici, 2009). Ordinarily cross border expansion through acquisitions would be viewed by investors as creating value but the study revealed that for more than half

of the transactions undertaken, acquisitions destroyed value (Aybar & Ficici, 2009). This is supported by Burnete (2013), that states empirical studies highlight that M& As do not generally succeed in increasing either the firms share price or its efficacy Whilst Ning et al., (2014) in their study based on M&A announcements of 137 Chinese MNE's found on average a positive stock price reaction. A key insight drawn from these studies was that share prices does not react rationally and can be influenced by varying factors hence studies yielded mixed results.

Luo & Rui's (2009) ambidexterity perspective towards EM MNE's states that shareholders of these companies are less focussed on short term returns from international expansion whilst the opposite holds true for shareholders of DM MNE's. As set out in section 2.2.1, EM MNE's compromise on short terms gains and instead pursues long term growth and sustainability. Hence the share price would be lower when EM MNE's initially embark on expansion and would undergo a gradual improvement once the firm has established itself within the market.

Luo & Tung (2007) supports this view as once dominant players have established a local presence and secured a dominant market share they would achieve sustained high returns. This is further corroborated by Contractor (2013) that reported that over the period 2002 to 2012, BCG Global 100 challengers from emerging markets displayed a shareholder return that was seven times and five times higher than that of S&P 500 and DM industry counterparts respectively. Additionally, Contractor et al., (2003) in their review of prior studies on multinationality and performance state that an improvement in the share price over the long run could be attributed from excessive internationalisation undertaken by companies.

The operating conditions specifically in Africa, including institutional relationships, weak corporate governance and political instability are some of the factors that would influence shareholder confidence and ultimately the share price (Luo & Tung, 2007). Aybar & Ficici (2009) state that by internalising host country market imperfections firms can derive higher returns from cross border investments which could therefore reflect in an increased valuation for the firm. Factors including scepticism on realisation of potential synergies of the FDI project and management's

proficiency in effectively coordinating the activities of targeted acquisition may result in a reduced share price of the acquiring firm (Ning et al., 2014). Hutzschenreuter et al., (2014), supports this view as their research found that added governance rather than cultural or geographical distance has the largest negative effect on MNE performance and ultimately the share price.

An early study of 1,644 DM MNE's found that the firms share prices will not necessarily increase because the firm provides indirect portfolio diversification for shareholders (Morck & Yeung, 1991). Furthermore it was found that when US MNE's made acquisitions in countries that they were not previously present their shareholders benefitted. Despite the potential of benefitting from an enhanced share price this study concluded that investors do not value MNE's as a means of diversifying their portfolio internationally (Morck & Yeung, 1991).

Based on these studies differing inferences may be drawn on impact of internationalisation on share price which includes share prices that react positively, negatively or in some instances the results are inconclusive. EM MNE's will however continue to seek value creation opportunities by expanding internationally despite the challenges that may these jeopardise potential gains in the firm value (Aybar & Ficici, 2009).

2.5 The impact of internationalisation on the ROE and market capitalisation of EM MNE's

Yang & Driffield (2012), state that the most common indicators to measure firm performance was ROE return on assets ("ROA") and market capitalisation/ Tobin's Q. ROE/ROA was a popular accounting measure and indicates the firms short term performance whilst market capitalisation/ Tobin's Q relates to long term performance and provides valuable information on how the market views the business.

Based on a meta-analysis of more than 50 papers on MNE performance relationships, Yang & Driffield (2012) found that for non US firms the returns from international diversification are higher when compared to US firms. Interestingly it was noted that non US firms show a U-shaped multinationality performance relationship. This implies that these firms incur initial losses preceding any positive returns that will be earned.

Kirca et al., (2011) through their meta-analysis of 120 independent samples reported that multinationality for both DM MNE's and EM MNE's has a positive effect on ROE, ROA and Tobin's Q. These findings corroborates results from earlier studies by Morck & Yeung (1991) and Contractor et al., (2003) that identified the degree of multinationality of a firm was positively correlated to the market value as measured by ROE, ROA and Tobin's Q. However it has also been found that if a firm's long term strategy was internationalisation this would adversely impact ROA and ROE which measure performance within the medium term (Contractor et al., 2003).

Whilst the study by Contractor et al., (2007), of 269 Indian emerging market firms found that the impact on ROE and ROA from international expansion varied depending on nature of the firm i.e. manufacturing or service firm. Manufacturing firms with high FSTS ratio had poor ROA's and no significant difference was found on ROE for high and low FSTS manufacturing firms. Service firms with high FSTS has significantly higher ROA's and ROE's compared to the low FSTS service firms. It is felt that similarly to share price, literature on the internationalisation performance relationship as it's relates to ROE/ROA and Tobin's Q yields varied results.

2.6 The rate of international expansion by EM MNE's

Although traditional international business theory purports that MNE's undertake progressive and gradual steps towards geographic expansion, studies on EM MNE's demonstrate that these firms are expanding rapidly and are not following a predetermined path towards internationalisation (Satta et al., 2014). Despite this

being a high risk strategy, rapid expansion is vital for firms to remain relevant and effectively compete with rivals that have already established themselves within the market.

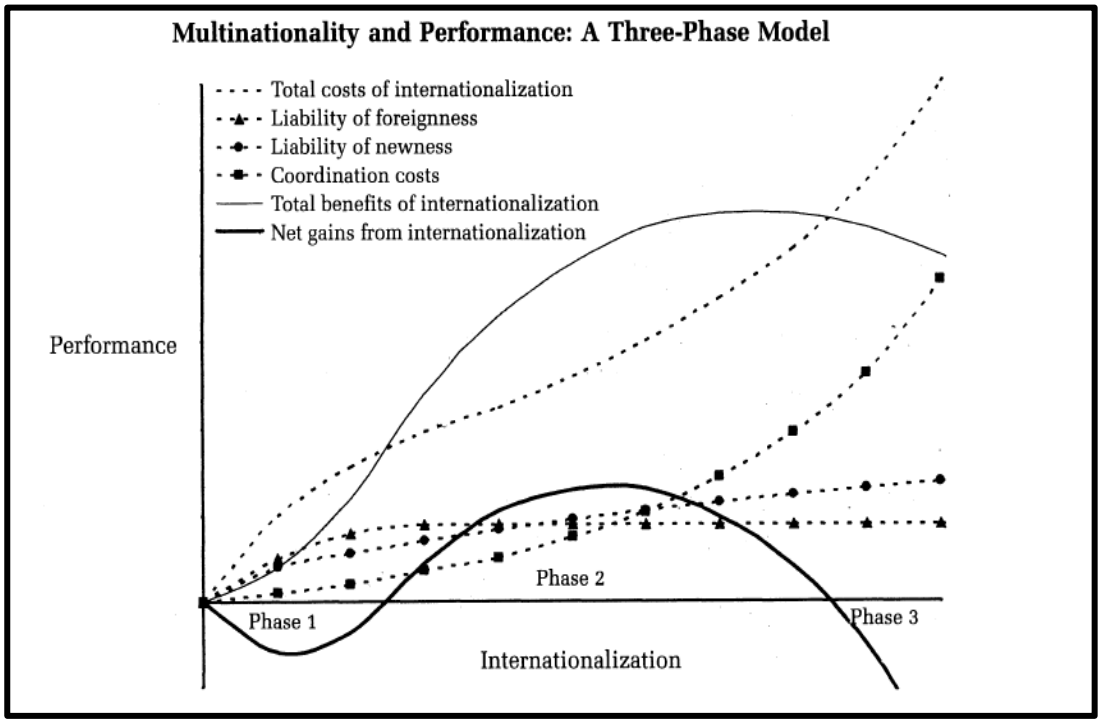
The springboard perspective delivered by Luo & Tung (2007), describes the aggressive expansion through the acquisition and buying of critical assets at a rapid pace by EM MNE's. Contractor (2013), states that FDI through foreign acquisition and purchasing of foreign company assets has been the preeminent strategy for EM MNE's. This expansion strategy allows EM MNE's to springboard into the global scene and compete with rival firms.

In order to pursue a rapid growth trajectory, EM MNE's have to ensure that they hold sufficient financial resources which is generated in their home country. This is supported by Buerki et al., (2014) who found that a firm's available financial resources was a slightly more important criteria in determining on whether to enter an emerging markets as compared to entering a developed market.

Luo & Tung (2007) state that many EM MNE's are national champions in their respective industries at home and could be classified as world-stage aspirants. According to Boscor et al., (2013) a firm's cross border investment is dependent on both attaining a strong competitive position within their home market and generating a sufficient amount of additional capital. Contractor (2013) aptly stated that it was the EM MNE's with a competitive advantage in their home markets that are able to transfer these competencies into the markets of its weaker neighbours.

Figure 3 below depicts the rate of internationalisation and the impact on performance. As detailed in section 2.3.3 above there are various costs associated with initial expansion including liability of foreignness's and co-ordination costs. These costs coupled with a lack of experience in a foreign market results in the negative net gains. As firms international operations become more extensive the governance and co-ordination escalate and both the benefits of internationalisation and performance declines.

Figure 3: Multinationality and performance: A Three-Phase model



Daniel, Naidoo & Naidu (2003) state that South African corporates undertook exponential expansion following the end of apartheid by means of direct investment through joint ventures, mergers and acquisitions. However there is no evidence regarding the pace at which corporate expansion took place. Despite literature highlighting the rapid rate of expansion by EM MNE's, these firms are nowhere close to reaching phase three of excessive internationalisation (Banalieva & Sarathy, 2011).

2.7 Conclusion

The literature review above highlights that studies measuring the impact of international expansion on financial performance of MNE's has yielded varied results. Studies on EM MNE's provide insight into the emergence and rapid expansion of these firms, however there is no conclusive testing regarding the effect on financial performance.

As per above, all measures including impact on net profit margin, share price, ROE and market capitalisation the firms degree of internationalisation into Africa and firm effects will be used in the research. Given that SA's MNE's have expanded into Africa at different times, performance measures during the period 2010 to 2014 will be analysed. Hence the sample selection will be focussed on companies that have established operations in Africa prior to 2010. Following this logic the hypothesis are detailed below.

3. CHAPTER 3: RESEARCH HYPOTHESES

Hypothesis 1:

The null hypothesis states that the average net profit margin of SA MNE's that have not expanded into Africa (NPM_{nex}) is less than or equal to the average net profit margin of SA MNE's that have expanded into Africa (NPM_{ex}). The alternative hypothesis states that the average net profit margin of SA MNE's that have not expanded into Africa (NPM_{nex}) is greater than the average net profit margin of SA MNE's that have expanded into Africa (NPM_{ex}).

H0: $NPM_{nex} - NPM_{ex} \leq 0$
HA: $NPM_{nex} - NPM_{ex} > 0$

Hypothesis 2:

The null hypothesis states that the average ROE of SA MNE's that have not expanded into Africa (ROE_{nex}) is less than or equal to the average ROE of SA MNE's that have expanded into Africa (ROE_{ex}). The alternative hypothesis states that the average ROE of SA MNE's that have not expanded into Africa (ROE_{nex}) is greater than the average ROE of SA MNE's that have expanded into Africa (ROE_{ex}).

H0: $ROE_{nex} - ROE_{ex} \leq 0$
HA: $ROE_{nex} - ROE_{ex} > 0$

Hypothesis 3:

The null hypothesis states that average share price (SP) of SA MNE's does not increase over the longer term up to five years, post expansion into Africa. The alternative hypothesis states that average share price (SP) of SA MNE's does increase over the longer term up to five years, post expansion into Africa.

H0: $SP \leq 0$
HA: $SP > 0$

Hypothesis 4:

The null hypothesis states that average market capitalisation (MKT_{cap}) of SA MNE's does not increase over the longer term up to five years, post expansion into Africa. The alternative hypothesis states that average market capitalisation (MKT_{cap}) of SA MNE's does increase over the longer term up to five years, post expansion into Africa.

H0: $MKT_{cap} \leq 0$
HA: $MKT_{cap} > 0$

Hypothesis 5 a:

The null hypothesis states that there is no correlation between financial performance and the average DOI of companies that have expanded into Africa. The alternative hypothesis states that there is correlation between financial performance and the average DOI of companies that have expanded into Africa.

$H5_a0$: $r = 0$
$H5_aA$: $r <> 0$

Hypothesis 5 b:

The null hypothesis states that there is no correlation between financial performance and firm age of companies that have expanded into Africa. The alternative hypothesis states that there is correlation between financial performance and firm age of companies that have expanded into Africa.

$H5_b0$: r = 0
$H5_bA$: r < > 0

Hypothesis 5 c:

The null hypothesis states that there is no correlation between the financial performance and having a presence in multiple countries for companies that have expanded into Africa. The alternative hypothesis states that there is correlation between the financial performance and having a presence in multiple countries for companies that have expanded into Africa.

$H5_c0$: r = 0
$H5_cA$: r < > 0

4. CHAPTER 4 – RESEARCH METHODOLOGY

4.1 Research design and approach

The aim of the research was to determine whether expansion into Africa by JSE listed companies' positively impacted financial performance over a period of time. The deduction approach was used as it involved the testing of theoretical propositions by using a research strategy specially designed for the purpose of its testing (Saunders & Lewis, 2012). Notwithstanding the theoretical developments in internationalisation performance research, these efforts have contributed to the ambiguity in the literature as mentioned in chapter 2. This is due to scholars typically employing multiple theoretical perspectives to support a particular model they advocate in order to investigate the value of multinationality on performance (Kirca et al., 2011).

Saunders & Lewis (2012), state that a descriptive study involves the collection of measurable quantifiable data which will produce a valid representation of variables relevant to the hypothesis. Therefore the method that will be followed will be the analysis of secondary data defined by Saunders & Lewis (2012) as data used for a research project that were originally collected for some other purpose. Secondary data from companies listed on the JSE Index including total revenue, segmental revenue, net profit (loss) for the year, share price, ROE and market capitalisation was collected. The data collected included companies that have expanded its operations into Africa and have disclosed Africa (excluding SA) as a separately reportable segment since 2010 and companies that have not expanded its operations into Africa.

4.2 Unit of analysis

Saunders and Lewis (2012), states that a unit of data is a predetermined piece of data. The unit of analysis will be JSE listed companies that have both expanded and not expanded into Africa.

There are five data points for the time series analysis from 2010 to 2014 in terms of companies listed on the JSE Index. Each data point has an average of the thirty companies selected in terms of the data collection and analysis process. In total there are 300 data points (five years multiplied by 60 companies) that was utilised to construct the time series analysis.

4.3 Population

A population is defined as the complete set of group members (Saunders & Lewis, 2012). The population is therefore all publicly listed companies in SA. Saunders & Lewis (2012) further state that a sampling frame is a complete list of all members of the total population. Hence for the purposes of the research this would be an inventory of all companies listed on the main board of the JSE. A constituency list was obtained from IG Markets and compared to companies listed on main board of the JSE as disclosed on its website. At the time of the research there were 352 companies listed on the JSE's Main board.

The population of companies comprising the JSE's main board were representative of all major sectors including resources, financials and industrials that had reported Africa (excluding SA) as a separately reportable segment were selected. By selecting companies from the various industry sectors there was no bias as a result of a specific industry being more profitable or competitive in comparison to the others (Abdo & Fisher, 2007).

4.4 Sampling method

Companies that comprise the ALSI were selected as the sample, which is subset of the population described above. The reason for selecting the ALSI Index is the high coverage obtained by using these companies as they make up 98,39% of the JSE's main board based on market capitalisation

Purposive sampling was undertaken as the companies selected would have to meet the criteria detailed below in order to help answer the research hypothesis and fulfil the objectives (Saunders & Lewis 2012). Although the sample initially includes all companies comprising the ALSI index not all these companies would have expanded their operations into Africa or expansion is currently in its infancy stage. Following the end of apartheid in 1994, SA's economy was more open to trade and investment. As it takes for some time government policies to take effect, the observation window for each firm will then be five years, 2010 to 2014. Multiple studies on firm expansion chose the time frame of five years as the time horizon (Contractor et al., (2007), Elango (2006), Hutzschenreuter & Horstkotte (2013)).Companies compromising the ALSI index that met the following criteria were selected:

Hypothesis 1 - 5

- The company expanded its operations into the rest of Africa prior to 2010;
- All firms for which complete information on foreign sales, total sales, net profit (loss) for the year, year of incorporation, share price (average and closing), ordinary shareholders equity and number of shares in issue at the end of the period were entered into the analysis (Contractor et al., 2007);
- The company discloses in its Annual Financial Statements ("AFS"), Africa (outside SA) as a separately reportable segment. Banalieva & Sarathy (2011) states that research has shown widely held firms disclose more financial statement and segment information which are key for operationalising the primary variable of internationalisation.

Hypothesis 1

- The population of relevance was all companies included on the JSE ALSI Index. As at the financial year end 2014 these companies had absolutely no presence in Africa except for SA.

4.5 Data collection

The hypotheses will be tested using cross sectional time-series data (Hutzschenreuter & Horstkotte, 2013) based on both the expansion of SA listed companies into Africa and companies that have not expanded. Saunders and Lewis (2012) state that time series is a set of data recorded over time, usually at regular intervals. The time series data includes total revenue, segmental revenue, net profit (loss), share price, ROE and market capitalisation and was published at minimum once during the year. The study will focus on the more recent timeframe of 2010 to 2014, as the impact on financial performance as a result of the 2008 global financial crisis would have been reduced and firms would have again initiated and internationalisation strategy. (Banalieva & Sarathy, 2011).

The data required for the research involved the collection of secondary data. The data of for the companies selected was collected from the following sources for the five year period from 2010 to 2014:

- Company AFS was obtained from the company's website and McFAS financial database. This information was used primarily to analyse the accounting based measures including net profit margin, ROE and segmental revenues post expansion into Africa;

- The company's market related data was obtained from the McGregor's BFANet database and the McFAS financial database where data was available. The data obtained was used to analyse the market capitalisation and share prices for the selected companies;

- Once the data was obtained the geographical segment reports as disclosed in the AFS was reviewed to determine if Africa was a separately reportable segment for each company since 2010. Conversely for companies with no presence in Africa the a review of the AFS and geographical segment reports was undertaken to confirm that the companies were not operating in any country (excluding SA) on the continent during the period 2010 to 2014;

- Companies that did not disclose Africa as a separate segment since 2010 were excluded from the sample. Additionally for the second sample companies that expanded into Africa during the period under review were also excluded. A final sample of 60 companies in total were selected which represents 45, 6% of the market capitalisation of the JSE. Refer to **Appendix A** for list of companies that was selected as part of the sample.

4.6 Data analysis

The analysis of data followed a number of steps for each of the hypothesis tested as detailed below. All variables including control variables were calculated as average values over the respective period unless specified otherwise (Hutzschenreuter & Horstkotte, 2013).

Financial variables

- **Net profit margin** – The first financial measure used was the net profit margin. This was calculated using the net profit (loss) for the year divided by total revenue that was obtained from the McFAS database and thereafter translated to an average return for the period under review. Net profit is of significant interest to managers and investors and is highly related to ROE and ROA.

- **ROE** – This measure was calculated by dividing the net profit (loss) for the year by ordinary shareholders equity at the end of the year using the data obtained from the McFAS database and cross checking the results to the companies AFS. This was translated to an average return for the period under review. ROE has been widely used in many previous studies to represent the relationship between internationalisation and performance.

- **Share price** - Annual average share price was used as a market measure. Using the average share prices obtained from the McFAS database for period 2010 to 2014, the average share price return for the five year period was derived for each of the sample companies selected. This was then translated into an average return for the period under review.

- **Market capitalisation** – The market capitalisation of each stock was calculated by multiplying the share price at the last trading day of the financial year end by the number of shares in issue at the end of the period. Data was obtained from the McFAS database and cross checked to the McGregor's BFANet database. This was translated to an average return for the period under review.

Control variables

- **Degree of internationalisation** - Studies by Hutzschenreuter & Horstkotte, (2013), Lu & Beamish (2004) and Elango (2006) used and made reference to previous studies were the foreign sales ratio was utilised as an indication of the degree of internationalisation (DOI). This ratio was calculated as follows:

$$\text{DOI} = \frac{Africa\ Foreign\ revenue}{Total\ Revenue}$$

- **Firm Age** - The firm specific variable of firm age was normally assumed to have a positive impact on performance due to the learning curve effect (Ning et al., 2014). Firm age was measured by the company's number of years of operation since inception (Contractor et al., 2007).

- **Multiple countries** - Contractor et al., (2003) states that studies measured multinationality in terms of the number of overseas plants, and found a significant positive relationship to performance. In addition this paper states that multinational corporations are defined as having 20% of sales outside the home country and direct investment in at least six countries. Multiple countries was measured as the number of countries that each company had established a subsidiary or acquired an entity per year in the selected time frame of 2010 to 2014 (Satta et al., 2014).

Method

Hypothesis 1 and 2

Independent sample *t*-tests were conducted to compare the two groups in terms of performance represented by the financial measures of average net profit margin and average ROE. This type of test studies the link between performance and multinationality and investigates whether or not MNE's outperform their domestic rivals (Contractor et al., 2003).Hence this test was conducted in order to understand

whether there were differences between the two groups i.e. companies that have expanded into Africa and those that have not. The test was performed over the 5 year study period comparing average net profit margin and average ROE.

Hypothesis 3 and 4

An ANOVA with repeated measures was used to compare the average share price and average market capitalisation for companies that expanded into Africa for each year over the five year period. This test was undertaken in order to determine whether increased internationalisation had an impact on average share price and average market capitalisation as time progresses.

Hypothesis 5

Saunders and Lewis (2012), state that correlation is used to test the strength between two variables and the probability of this occurring by chance. The aim was to analyse the statistical correlation between the financial measures and each of the three control variables that could potentially influence these measures (Siminica, Circiumaru & Simion, 2012).

Contractor et al., (2003) pointed out that autocorrelated errors are frequently encountered, when dealing with time-series analysis, because of correlations among variables over time. As the dataset compromised of observations of multiple firms at different points in time there is a presence of autocorrelation in pooled time series data (Lu & Beamish, 2004). Therefore to minimise these errors an autocorrelation test for randomness was performed (Contractor et al., 2003 & Hutzschenreuter & Horstkotte, 2013).

Banalieva & Sarathy (2011) stated that following prior research recommendations the degree of internationalisation was lagged by one year with respect to performance as their effects on performance are unlikely to be immediate to facilitate the direction of causality with minimum observations loss due to the lags. SPSS Statistical software was utilised to automatically calculate the lags.

The results of the testing are detailed in Chapter 5 of this report.

4.7 Research limitations

The research had the following limitations:

- The study focused on companies that are listed on the JSE and that have expanded into Africa. Therefore it is not be representative of unlisted companies or companies that are listed on other stock exchanges that may have also expanded its operations into Africa. Hutzschenreuter et al., (2014) stated that generalizability of findings may be limited due to the nature of the sample being made up of large publically owned MNE's;

- The selected sample may suffer from the "survivor bias" as it does not comprise of companies that may have exited the African market prior to 2010 (Satta et al., 2014). In addition in relation to the latecomer status of firms undertaking international expansion the study ignores JSE listed companies that may have extended its operations into Africa post 2010;

- This research analysed the expansion into Africa that was undertaken by the companies compromising the ALSI Index and that reported Africa as a separately disclosable segment since 2010. Hence the sample was not representative of all listed companies that have expanded into Africa;

- The selected sample excluded large import and export companies listed on the JSE as their business model is not regarded as undertaking FDI. Listed companies that were involved in minority joint ventures in Africa were also excluded, because they do not effectively control these operations (Luo & Tung, 2007);

- Companies that disclosed Africa operations as a separate reportable segment was selected. A reportable segment that is separately disclosed contributes 10% or more of the companies' combined assets or revenue from both external customers and intersegment sales. Furthermore companies were excluded if the Africa revenue and earnings was combined with revenue from SA or combined with countries from other geographies.

5. CHAPTER 5 – RESULTS

5.1 Overview

This chapter details the results derived from the data analysis that was set out in chapter 4 and assesses if the data supports or disproves the research hypotheses that was proposed in chapter 3. The results of the analysis are noted per hypothesis below.

5.2 Hypotheses 1 and 2

From the descriptive statistics detailed in **Table 1** below, there were 30 companies that have expanded its operations into Africa and 30 companies that have not expanded into Africa. The average net profit margin was higher for companies that have not expanded (mean = 0.2357 and std dev = ± 0.2235) than companies that have expanded (mean = 0.1040 and std dev ±0.0710). This was due to the higher mean average net profit margin.

The average ROE was higher for companies that have expanded its operations into Africa (mean = 0.2324 and std dev = ± 0.1553) than companies that have not expanded into Africa (mean = 0.1186 and std dev ±0.3213). This was due to the higher mean average ROE of companies in Africa.

Table 1: Descriptive Statistics for Average net profit margin and average ROE

Descriptive Statistics					
	Location	N	Mean	Std. Deviation	Std. Error Mean
Average_Net_Profit_Margin	Africa	30	.1039828675	.07098417912	.01295987871
	Not in Africa	30	.2356553536	.22352965182	.04081074419
Average_ROE	Africa	30	.2323806036	.15526483969	.02834735170
	Not in Africa	30	.1186288216	.32126169933	.05865409320

Table 2 below depicts the results of the independent samples *t*-test that was conducted to determine if there was a significant difference in average net profit margin and average ROE for both companies that have expanded and not expanded into Africa.

Table 2: Independent samples t- test for average net profit margin and average ROE

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Average_Net_Profit_Margin	Equal variances assumed	12.109	.001	-3.075	58	.003	-.13167248619	.04281909968	-.21738422668	-.04596074570
	Equal variances not assumed			-3.075	34.790	.004	-.13167248619	.04281909968	-.21861863124	-.04472634114
Average_ROE	Equal variances assumed	.950	.334	1.746	58	.086	.11375178206	.06514503048	-.01665016446	.24415372859
	Equal variances not assumed			1.746	41.847	.088	.11375178206	.06514503048	-.01773049756	.24523406168

Average Net Profit Margin

An independent samples *t*-test was conducted to determine whether there was a significant difference in the average net profit margin over the period 2010 to 2014 of those businesses within Africa as compared to those Not in Africa. The sig. value

was 0.001 which is less than the p-value of 0.05 hence implying that the assumption of homogeneity of variance has not been met nor are equal variances assumed. The result was however statistically significant, t (58) = -3, 075, p = .004, indicating that Africa average net profit margin for the period under review (M = 0.1040 SD = 0.710) and average net profit margin for the period under review for companies not in Africa (M = 0.2357, SD = 0.2235) were statistically different from one another.

Specifically, the average net profit margin in for the period was higher in businesses Not in Africa than those within Africa.

Average ROE

An independent samples *t*-test was conducted to determine whether there was a significant difference in the average ROE over the period 2010 to 2014 of those businesses within Africa as compared to those Not in Africa. The sig. value was 0.334 which is more than the p-value of 0.05 hence implying that the assumption of homogeneity of variance has been met and equal variances are assumed. The result was not statistically significant, t (58) = 1.746, p = .086, indicating that Africa average ROE for the period under review (M = 0.2324 SD = 0.1553) and average net profit margin for the period under review for companies not in Africa (M = 0.1186, SD = 0.3213) were not statistically different from one another.

5.3 Hypothesis 3

A one-way repeated measures ANOVA was conducted to determine whether there were significant differences between one or more of the average share prices from 2010 to 2014. The Mauchly's test of sphericity as detailed in **Table 3** below was statistically significant x2 = 223.26, p < .001, indicating a violation of the sphericity assumption.

Table 3: Mauchly's test of Sphericity for average share price

Mauchly's Test of Sphericity							
					Epsilon		
Within Subjects Effect	Mauchly's W	Approx. Chi-Square	df	Sig.	Greenhouse-Geisser	Huynh-Feldt	Lower-bound
factor1	.000	223.261	9	.000	.321	.330	.250

With the Epsilon value below .75 (i.e., .321), a Greenhouse-Geisser adjustment as used to assess the within-subjects effects as depicted in **Table 4** below.

Table 4: Test of Within-Subjects Effects for average share price

Tests of Within-Subjects Effects							
Source		Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
factor1	Sphericity Assumed	912559595.027	4	228139898.757	5.959	.000	.170
	Greenhouse-Geisser	912559595.027	1.284	710497127.788	5.959	.013	.170
	Huynh-Feldt	912559595.027	1.318	692330715.471	5.959	.013	.170
	Lower-bound	912559595.027	1.000	912559595.027	5.959	.021	.170

With this adjustment, the one-way repeated measures ANOVA was statistically significant, F (1.284, 37.247) = 5.959, p = .013.

Table 5 below details the descriptive statistics related to the average share price of companies that have expanded into Africa.

Table 5: Descriptive Statistics for average share price

Descriptive Statistics			
	Mean	**Std. Deviation**	**N**
Share_2010	9715.96666667	13225.380853608	30
Share_2011	10829.00000000	11982.810711670	30
Share_2012	11621.96666667	10589.249878950	30
Share_2013	13973.96666667	11827.052920823	30
Share_2014	16616.46666667	18213.746541694	30

Table 6 reflects the results of the pairwise comparison for average share price over the period 2010 to 2014.

Table 6: Pairwise comparisons for average share price

Pairwise Comparisons						
(I) factor1	(J) factor1	Mean Difference (I-J)	Std. Error	Sig.[b]	95% Confidence Interval for Difference[b]	
					Lower Bound	Upper Bound
1	2	-1113.033*	518.569	.040	-2173.626	-52.440
	3	-1906.000	1091.319	.091	-4137.997	325.997
	4	-4258.000*	1746.926	.021	-7830.865	-685.135
	5	-6900.500*	2688.225	.016	-12398.538	-1402.462
2	1	1113.033*	518.569	.040	52.440	2173.626
	3	-792.967	625.081	.215	-2071.400	485.467
	4	-3144.967*	1272.774	.020	-5748.083	-541.851
	5	-5787.467*	2286.559	.017	-10464.004	-1110.929
3	1	1906.000	1091.319	.091	-325.997	4137.997
	2	792.967	625.081	.215	-485.467	2071.400
	4	-2352.000*	748.514	.004	-3882.882	-821.118
	5	-4994.500*	1993.254	.018	-9071.163	-917.837
4	1	4258.000*	1746.926	.021	685.135	7830.865
	2	3144.967*	1272.774	.020	541.851	5748.083
	3	2352.000*	748.514	.004	821.118	3882.882
	5	-2642.500	1419.410	.073	-5545.519	260.519
5	1	6900.500*	2688.225	.016	1402.462	12398.538
	2	5787.467*	2286.559	.017	1110.929	10464.004
	3	4994.500*	1993.254	.018	917.837	9071.163
	4	2642.500	1419.410	.073	-260.519	5545.519

Based on estimated marginal means

*. The mean difference is significant at the ,05 level.

b. Adjustment for multiple comparisons: Least Significant Difference (equivalent to no adjustments).

Specifically, share price 2011 (M = 10829.00, SD = 11982.81) was higher than share price 2010 (M = 9715.97, SD = 13225.38), p = .040, share price 2013 (M = 13973.97, SD = 11827.05) was higher than share price 2010 (M = 9715.97, SD = 13225.38), p = .021, share price 2014 (M = 16616.47, SD = 18213.75) was higher than share price 2010 (M = 9715.97, SD = 13225.38), p = .016.

Share price 2011 (M = 10829.00, SD = 11982.81) was lower than share price 2013 (M = 13973.97, SD = 11827.05), p = .020, and lower than share price 2014 (M = 16616.47, SD = 18213.75), p = .017.

In addition, share price 2012 (M = 11621.97, SD = 10589.25) was lower than share price 2013 (M = 13973.97, SD = 11827.05), p = .004, and lower than share price 2014 (M = 16616.47, SD = 18213.75), p = .018. The remaining post-hoc comparisons were not statistically significant (p > .05).

5.4 Hypothesis 4

A one-way repeated measures ANOVA was conducted to determine whether there were significant differences between one or more of the average market capitalisations from 2010 to 2014. The Mauchly's test of sphericity as detailed in **Table 7** was statistically significant x2 = 244.50, p < .001, indicating a violation of the sphericity assumption.

Table 7: Mauchly's test of Sphericity for average market capitalisation

Mauchly's Test of Sphericity							
					Epsilon		
Within Subjects Effect	Mauchly's W	Approx. Chi-Square	df	Sig.	Greenhouse-Geisser	Huynh-Feldt	Lower-bound
factor1	.000	244.502	9	.000	.296	.301	.250

With the Epsilon value below .75 (i.e., .296), a Greenhouse-Geisser adjustment as used to assess the within-subjects effects as depicted in **Table 8** below.

Table 8: Test of Within-Subjects Effects for average market capitalisation

Tests of Within-Subjects Effects						
Source		Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
factor1	Sphericity Assumed	57977205582.249	4	14494301395.562	5.065	.001	.149
	Greenhouse-Geisser	57977205582.249	1.183	48999048513.915	5.065	.026	.149
	Huynh-Feldt	57977205582.249	1.204	48145849617.958	5.065	.025	.149
	Lower-bound	57977205582.249	1.000	57977205582.249	5.065	.032	.149

With this adjustment, the one-way repeated measures ANOVA was statistically significant, F (1.183, 34.314) = 5.065, p = .026.

Table 9 below details the descriptive statistics related to the average market capitalisation of companies that have expanded into Africa.

Table 9: Descriptive Statistics for average market capitalisation

Descriptive Statistics			
	Mean	Std. Deviation	N
Market_2010	55512.89636967	79993.966210584	30
Market_2011	60208.17604100	87001.700566508	30
Market_2012	73087.79156100	109886.118495519	30
Market_2013	89666.34234367	157040.205100244	30
Market_2014	108847.28775933	185521.073609026	30

Table 10 reflects the results of the pairwise comparison for average market capitalisation over the period 2010 to 2014.

Table 10: Pairwise comparisons for average market capitalisation

Pairwise Comparisons						
					95% Confidence Interval for Difference[b]	
(I) factor1	(J) factor1	Mean Difference (I-J)	Std. Error	Sig.[b]	Lower Bound	Upper Bound
1	2	-4695.280	2539.327	.075	-9888.786	498.226
	3	-17574.895*	7428.975	.025	-32768.855	-2380.936
	4	-34153.446*	16432.203	.047	-67761.074	-545.817
	5	-53334.391*	22227.650	.023	-98795.040	-7873.743
2	1	4695.280	2539.327	.075	-498.226	9888.786
	3	-12879.616*	5152.690	.018	-23418.049	-2341.182
	4	-29458.166*	14312.248	.049	-58730.000	-186.333
	5	-48639.112*	20151.136	.022	-89852.813	-7425.411
3	1	17574.895*	7428.975	.025	2380.936	32768.855
	2	12879.616*	5152.690	.018	2341.182	23418.049
	4	-16578.551	9543.704	.093	-36097.616	2940.515
	5	-35759.496*	16174.660	.035	-68840.391	-2678.601
4	1	34153.446*	16432.203	.047	545.817	67761.074
	2	29458.166*	14312.248	.049	186.333	58730.000
	3	16578.551	9543.704	.093	-2940.515	36097.616
	5	-19180.945	9588.014	.055	-38790.635	428.745
5	1	53334.391*	22227.650	.023	7873.743	98795.040
	2	48639.112*	20151.136	.022	7425.411	89852.813
	3	35759.496*	16174.660	.035	2678.601	68840.391
	4	19180.945	9588.014	.055	-428.745	38790.635
Based on estimated marginal means						
*. The mean difference is significant at the ,05 level.						
b. Adjustment for multiple comparisons: Least Significant Difference (equivalent to no adjustments).						

Specifically, market capitalisation of 2012 (M = 73087.79, SD = 109886.12) was higher than market capitalisation 2010 (M = 55512.90, SD = 79993.97), p = .025, market capitalisation 2013 (M = 89666.34, SD = 157040.21) was higher than market capitalisation 2010 (M = 55512.90, SD = 79993.97), p = .047, market capitalisation 2014 (M = 108847.29, SD = 185521.07) was higher than market capitalisation 2010 (M = 55512.90, SD = 79993.97), p = .023.

Market capitalisation 2011 (M =60208.18, SD = 87001.70) was lower than market capitalisation 2012 (M = 73087.79, SD = 109886.12), p = .018, lower than market capitalisation 2013 (M = 89666.34, SD = 157040.21), p = .049 and lower than market capitalisation 2014 (M = 108847.29, SD = 185521.07), p = .022.

In addition, market capitalisation 2012 (M = 73087.79, SD = 109886.12) was lower than market capitalisation 2014 (M = 108847.29, SD = 185521.07), p = .035. The remaining post-hoc comparisons were not statistically significant (p > .05).

5.5 Hypothesis 5

From the descriptive statistics detailed in **Table 11** below, there were 30 companies that have expanded its operations into Africa. The mean of the average share price for the period was 12551.47 (std dev = ± 12240.09) whilst the mean of the average market capitalisation was 77464.50 (std dev ± 121388.71). Average net profit margin and average ROE for the period of review have been discussed above under Section 5.2. The mean of the average DOI for the period of companies in Africa was 0.1416 (std dev = ± 0.1389).

Table 11: Descriptive Statistics for financial measures and DOI

Descriptive Statistics			
	Mean	Std. Deviation	N
Average_Net_Profit_Margin	.1039828675	.07098417912	30
Average_ROE	.2323806036	.15526483969	30
Average_Share	12551.47333333	12240.087309186	30
Average_Market	77464.49881493	121388.712644398	30
Average_DOI	.14159461	.136882572	30

The firm age was measured using the number of years the company has been in operation since inception. The ages of the sampled 30 companies was categorised as per **Table 12** below:

Table 12: Age categories of the companies that have expanded into Africa

0 to 5 years	6 to 10 years	11 to 20 years	21 to 50 years	≥ 51 years
1	0	5	9	15

Presence in multiple countries in Africa (excluding SA) was measured by the number of countries that each company has established a subsidiary or acquired an entity for the period under review. The number of countries in which companies that expanded into Africa operates was categorised as per **Table 13** below:

Table 13: Presence in multiple countries categories for companies that expanded into Africa

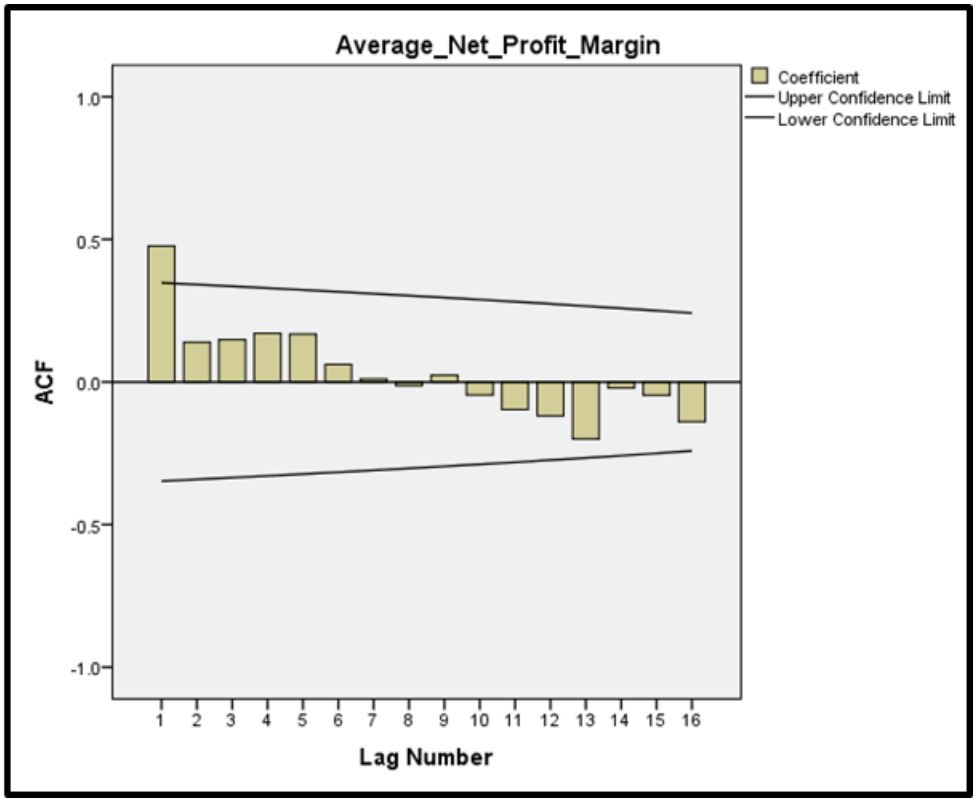
1 country	2 to 5 countries	6 to 10 countries	≥ 11 countries
2	7	9	12

Autocorrelation average net profit margin

The results of the test as depicted in **Figure 4** below indicate that the autocorrelations were statistically significant at the 95% confidence level. In terms of autocorrelations, Granger and Hughes (1968) suggested that large peaks are quite probable when small samples as used, with small samples considered below 50. As the sample size was only 30 and as the violation was relatively minor and no adjustments were performed.

In terms of the lags, 16 lags were automatically selected by the SPSS Statistical software from the sample of companies listed on the JSE Index. The 16 lags that were automatically selected were in excess of the number of lags commonly requested in practice, which represents no more than 25% of the number of observations.

Figure 4: Autocorrelation test for average net profit margin of companies that expanded into Africa



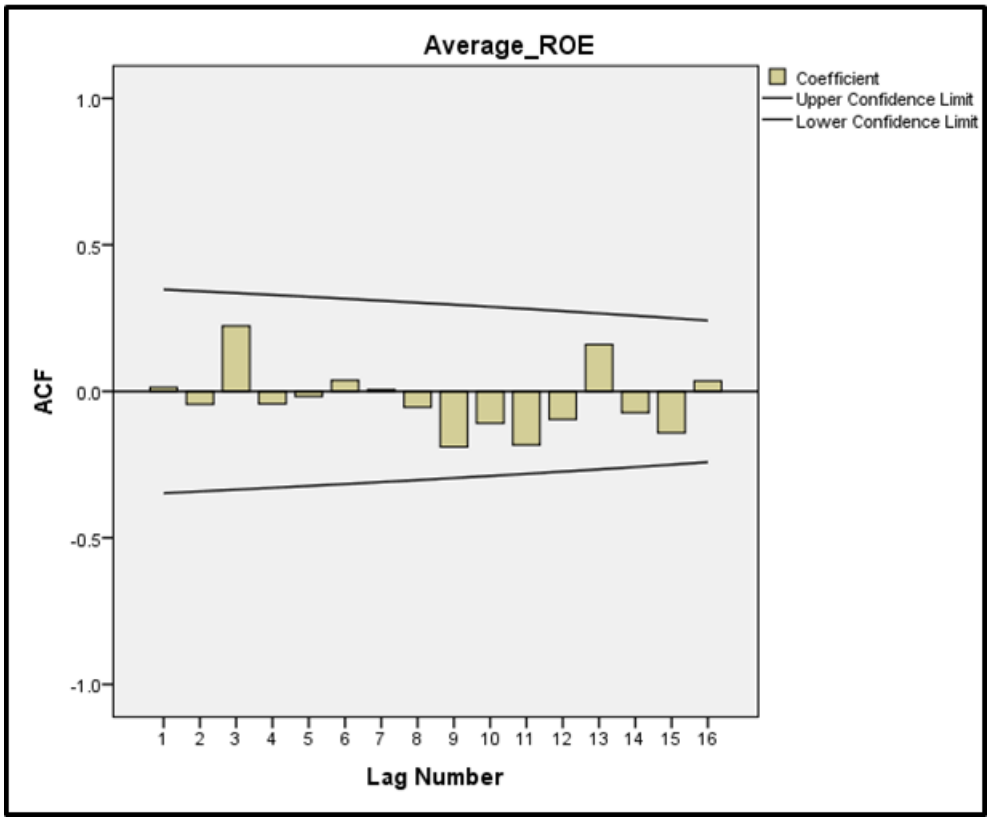
In accordance with the research design explained in Chapter 4, the average net profit for the selected sample of 30 companies from 2010 to 2014 were tested utilising the differenced tests.

Autocorrelation average ROE

In accordance with the research design described Chapter 4, the average ROE for the selected sample of 30 companies from 2010 to 2014 was tested for randomness using the autocorrelation test. The results of the test appear in **Figure 5** below. The results of the test indicate that the autocorrelations are within the confidence level of 95% and as such the results indicate that the data is random and that the data points are not time sensitive. As a result of this test and the outcome noted above, no differenced tests were performed on the data as the data has been tested and the tests confirm that the data is random.

In terms of the lags, 16 lags were automatically selected by the SPSS Statistical software from the sample of companies listed on the JSE Index. The 16 lags that were automatically selected were in excess of the number of lags commonly requested in practice, which represents no more than 25% of the number of observations.

Figure 5: Autocorrelation test for average ROE of companies that expanded into Africa



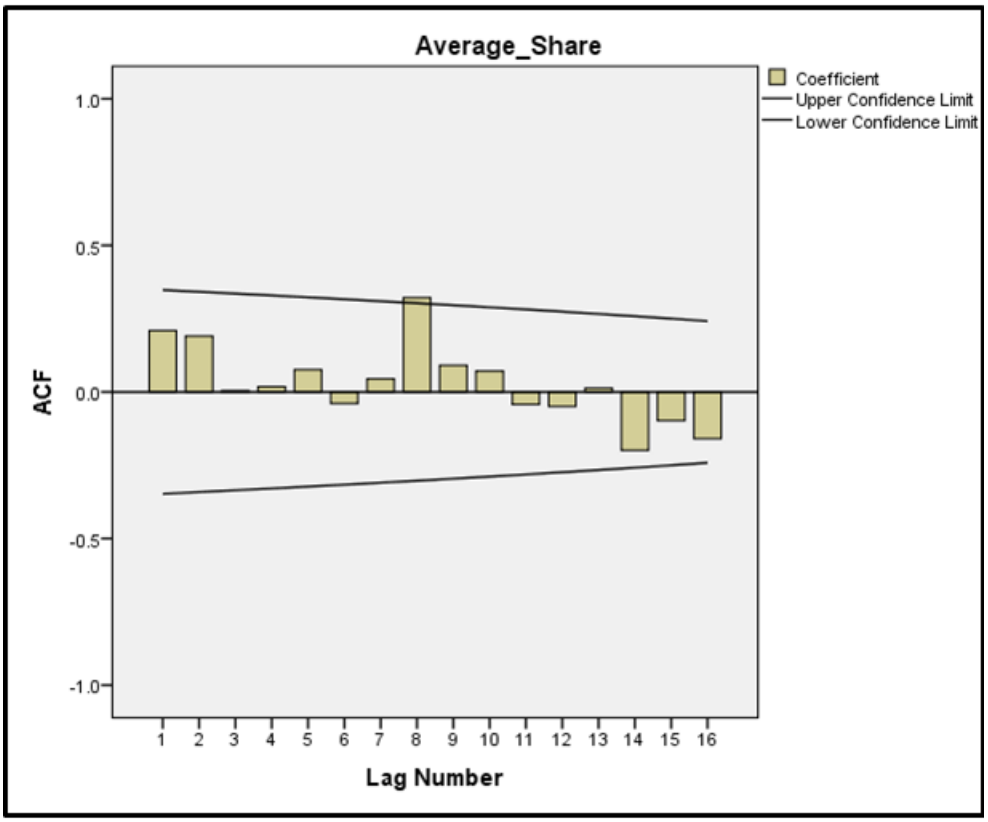
Autocorrelation average Share Price

In terms of the analysis and results of the differenced tests, the results of the test indicate that the autocorrelations are within the confidence level of 95% except for lag 8 that is outside the confidence level limit. The results of the test appear in **Figure 6** below. Albright et al. (2006) stated that "the first few lags are the most important and intuitively if there is any relationship between successive observations, it is likely to be between nearby observations. As a result of this; autocorrelations at larger lags can often be ignored as a random "blip" unless there is some obvious reason for its occurrence". No obvious reason for this occurrence was identified.

In terms of the analysis and results, due to the fact that the first two lags do not breach the 95% confidence level, it can be concluded that the differenced time series is a random series. The results indicate that the data is random and that the data points are not time sensitive.

In terms of the lags, 16 lags were automatically selected by the SPSS Statistical software from the sample of companies listed on the JSE Index. The 16 lags that were automatically selected were in excess of the number of lags commonly requested in practice, which represents no more than 25% of the number of observations.

Figure 6: Autocorrelation test for average share price of companies that expanded into Africa



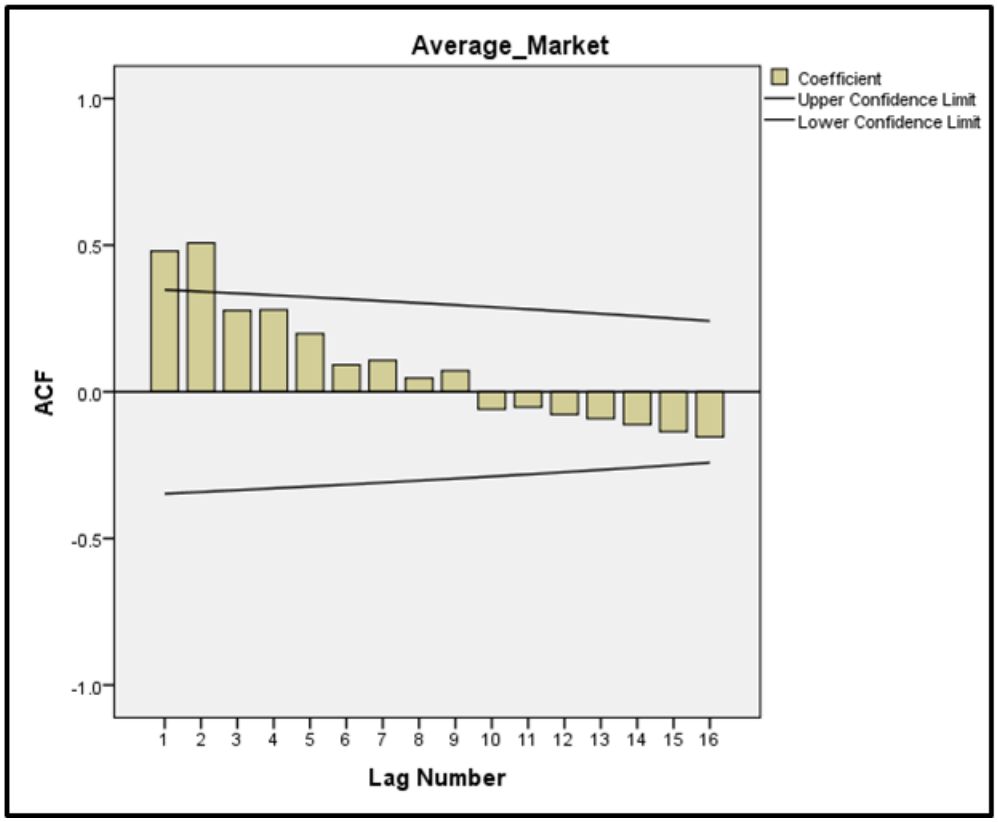
Autocorrelation average Market Capitalisation

The results of the test indicate that the autocorrelations were statistically significant at the 95% confidence level. This is indicated by the bar in lag 1 and 2 breaching the 95% confidence level in **Figure 7** below. In terms of autocorrelations, Granger and Hughes (1968) suggest that large peaks are quite probable when small samples are used, with small samples considered below 50. As the sample size was only 30 and as the violation was relatively minor no adjustments were performed.

In terms of the lags, 16 lags were automatically selected by the SPSS Statistical software from the sample of companies listed on the JSE Index. The 16 lags that were automatically selected were in excess of the number of lags commonly requested in practice, which represents no more than 25% of the number of observations.

In accordance with the research design explained in Chapter 4, the average net profit for the selected sample of 30 companies from 2010 to 2014 were tested utilising the differenced tests.

Figure 7: Autocorrelation test for average share price of companies that expanded into Africa



Pearson correlation

A Pearson correlation was performed to determine the relationship between any of the following two variables: average net profit margin, average ROE, average share price, average market capitalisation and DOI for companies that have expanded into Africa. The results of the test are detailed in **Table 14** below.

The relationship between the average share price (average across 5 years) and average ROE was negatively and statistically significant, r = -.375, p = .041, indicating that higher share price values are associated with lower ROE levels.

The relationship between average market capitalisation and average net profit margin was positively and statistically significant, r = .372, p = .043. Additionally the relationship between market capitalisation and average share price was positively and statistically significant, r = .531, p = .003.

Table 14: Pearson Correlation - DOI

		Average_Net_Profit_Margin	Average_ROE	Average_Share	Average_Market	Average_DOI
Average_Net_Profit_Margin	Pearson Correlation	1	.103	-.044	.372*	.067
	Sig. (2-tailed)		.589	.817	.043	.726
	N	30	30	30	30	30
Average_ROE	Pearson Correlation	.103	1	-.375*	-.196	-.066
	Sig. (2-tailed)	.589		.041	.300	.728
	N	30	30	30	30	30
Average_Share	Pearson Correlation	-.044	-.375*	1	.531**	-.065
	Sig. (2-tailed)	.817	.041		.003	.732
	N	30	30	30	30	30
Average_Market	Pearson Correlation	.372*	-.196	.531**	1	.157
	Sig. (2-tailed)	.043	.300	.003		.408
	N	30	30	30	30	30
Average_DOI	Pearson Correlation	.067	-.066	-.065	.157	1
	Sig. (2-tailed)	.726	.728	.732	.408	
	N	30	30	30	30	30

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

**. Correlation is significant at the 0.01 level (2-tailed).

Spearman's correlation

The variables of firm age and multiple countries represent categorical data hence a Spearman's correlation was performed to determine the relationship between these and each of the other variables for companies that have expanded into Africa. The results of the test are detailed in **Table 15** below.

The relationship between multiple countries and average share price was positively and statistically significant, r = .367, p = .046. Additionally the relationship between multiple countries and firm age was positively and statistically significant, r = .386, p = .035.

Table 15: Spearman's Correlation – Firm age and multiple countries

			Average_Net_Profit_Margin	Average_ROE	Average_Share	Average_Market	Average_DOI	Firm_Age	Multiple_Countries
Spearman's rho	Average_Net_Profit_Margin	Correlation Coefficient	1.000	.105	.120	.479**	.264	.322	.117
		Sig. (2-tailed)	.	.582	.526	.007	.159	.083	.537
		N	30	30	30	30	30	30	30
	Average_ROE	Correlation Coefficient	.105	1.000	-.264	-.121	-.129	.023	.106
		Sig. (2-tailed)	.582	.	.159	.523	.496	.906	.576
		N	30	30	30	30	30	30	30
	Average_Share	Correlation Coefficient	.120	-.264	1.000	.617**	.133	.139	.367*
		Sig. (2-tailed)	.526	.159	.	.000	.484	.463	.046
		N	30	30	30	30	30	30	30
	Average_Market	Correlation Coefficient	.479**	-.121	.617**	1.000	.108	-.082	.303
		Sig. (2-tailed)	.007	.523	.000	.	.569	.666	.104
		N	30	30	30	30	30	30	30
	Average_DOI	Correlation Coefficient	.264	-.129	.133	.108	1.000	.131	.155
		Sig. (2-tailed)	.159	.496	.484	.569	.	.492	.414
		N	30	30	30	30	30	30	30
	Firm_Age	Correlation Coefficient	.322	.023	.139	-.082	.131	1.000	.386*
		Sig. (2-tailed)	.083	.906	.463	.666	.492	.	.035
		N	30	30	30	30	30	30	30
	Multiple_Countries	Correlation Coefficient	.117	.106	.367*	.303	.155	.386*	1.000
		Sig. (2-tailed)	.537	.576	.046	.104	.414	.035	.
		N	30	30	30	30	30	30	30

**. Correlation is significant at the 0.01 level (2-tailed).

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

6. CHAPTER 6 – DISCUSSION OF RESULTS

6.1 Overview

The results of the research are discussed in terms of both the research hypotheses proposed in chapter 3 and within the context of the literature that was reviewed in chapter 2. In instances where the findings contradict or support the existing literature this will be highlighted in this chapter. Over the period of the review there were varied results regarding the impact of internationalisation on financial performance measures of South African companies that have expanded into Africa. Notwithstanding that several of the multinationality performance studies were conducted in different developed and emerging markets, these results is congruent with the findings emanating from this research in respect of expansion into Africa. This chapter follows the same construct as Chapter 5 as the results are arranged according to each of the research hypotheses.

6.2 Hypothesis 1

Based on the results of the independent samples *t*-test it is unlikely that the average net profit margin of two groups means are equal, therefore the null hypothesis was rejected. Companies that have not expanded into Africa showed a higher mean average net profit margin (23, 57%) in comparison to companies that expanded its operations into Africa (10, 40%) over the period 2010 to 2014.

In line with the 3-stage or S-shaped theory of international expansion (Contractor, 2007), the results highlight that companies expanding into Africa could potentially be in stage 1 i.e. U-shaped relationship. This implies that incremental costs of international expansion exceed the incremental revenues resulting in a negative impact on financial performance as evidenced by a lower net profit margin. Previous empirical research studies on the internationalisation performance relationship have indicated that companies would first experience a negative impact on financial performance as a result of costs associated with insufficient economies of scale,

learning costs and liability of foreignness. .Notwithstanding that the continent would represent a culturally close market for SA's companies, these firms would still have to incur governance costs which are attributed to the institutional voids and poor corporate governance characteristic of Africa (EY's attractiveness survey Africa, 2013).

A further insight derived from these results is that companies that have expanded are in fact dependent on their home market which generates sufficient revenue to cover the costs related to operating in a foreign market (Ning et al., 2014). Despite showing a lower average net profit margin, this margin remains positive which can be credited to domestic revenue still making up a significant portion of companies total revenue.

6.3 Hypothesis 2

Based on the results of the independent samples *t*-test it is likely that the average ROE of two groups' means are less or equal. Therefore the results failed to reject the null hypothesis. Companies that have not expanded into Africa presented a lower mean average ROE (11, 86%) in comparison to companies that expanded its operations into Africa (23, 24 %) over the period 2010 to 2014. As highlighted in previous studies, ROE is the most common financial measure used to represent the relationship between internationalisation and performance.

These results therefore support the existing the literature by Kirca et al., (2011), Morck & Yeung (1991) and Contractor et al., (2003) who found that multinationality has a positive effect on ROE. ROE is a measure of net profit over shareholders' equity and as highlighted in section 6.2 the average net profit margin for these companies was lower due to increased costs associated with expansion. Notwithstanding the lower net profit margin companies could potentially be experiencing increased sales volumes, an increase in asset utilisation or transferring non-productive assets to new operations which are factors that would positively

impact ROE. Kirca et al., (2011), found that mutinationality is related to performance as market imperfections provide companies the opportunity to enhance the return from its assets through cross border use.

6.4 Hypothesis 3

Based on the results of the one-way repeated measures ANOVA it was noted that a significant difference between the average share prices during the period exists. The null hypothesis was rejected as the significance value was p = 0.013* which is less than 0.05* (95% confidence interval) and therefore significant.

Table 16 below depicts were significant differences (p < 0.05*) between one or more of the average share price over the period 2010 to 2014.

Table 16: Significant differences between one or more average share price

	2010	2011	2012	2013	2014
2010		x		x	x
2011				x	x
2012				x	x
2013					
2014					

The average share price in 2011 was higher than the average share price 2010 whilst the average share price in 2013 and 2014 were higher than the average share price during the period 2010 to 2012. Although results highlight an increase in share

price during the period there is no consistent pattern thereby confirming that share prices does not respond rationally and can be influenced by varying factors. Luo & Tung (2007) and Aybar & Ficici (2009) both found that EM MNE's investing in countries with market imperfections, political instability or poor corporate governance would earn above normal returns as reflected in its higher share price.

In contrast other studies on the impact of expansion by EM MNE's on share price has found that expansion could potentially destroy shareholder value specifically over the short term. As the results generally depict higher average share prices as time progresses, one could conclude that for the sampled companies that investors perceive expansion into Africa as a value creating strategy.

6.5 Hypothesis 4

Based on the results of the one-way repeated measures ANOVA it was noted that a significant difference between the average market capitalisations during the period exists. The null hypothesis was rejected as the significance value was p = 0.026* which is less than 0.05* (95% confidence interval) and therefore significant.

Table 17 below depicts were significant differences (p < 0.05*) between one or more of the average market capitalisation over the period 2010 to 2014.

Table 17: Significant differences between one or more average market capitalisation

	2010	2011	2012	2013	2014
2010			x	x	x
2011			x	x	x
2012					x
2013					
2014					

The average market capitalisation in years 2012, 2013 and 2014 were higher the average market capitalisation in both years 2010 and 2011. Furthermore the average market capitalisation in 2014 was also higher than the average market capitalisation in 2012.

Market capitalisation is a long term performance measure which provides valuable insight into how the market views these companies and is derived from the market value of the company's outstanding shares. Hence this financial measure is directly linked to the share price. As discussed in Section 6.4, for the companies sampled there has been a gradual increase in share price over the period under review which is also reflected by a corresponding increase in market capitalisation. These results contribute to the existing literature that have found that mutinationality is positively correlated to the market value of a firm (Morck & Yeung (1991) and Contractor et al., (2003)), as measured by Tobin's Q which is a measure that is similar to market capitalisation.

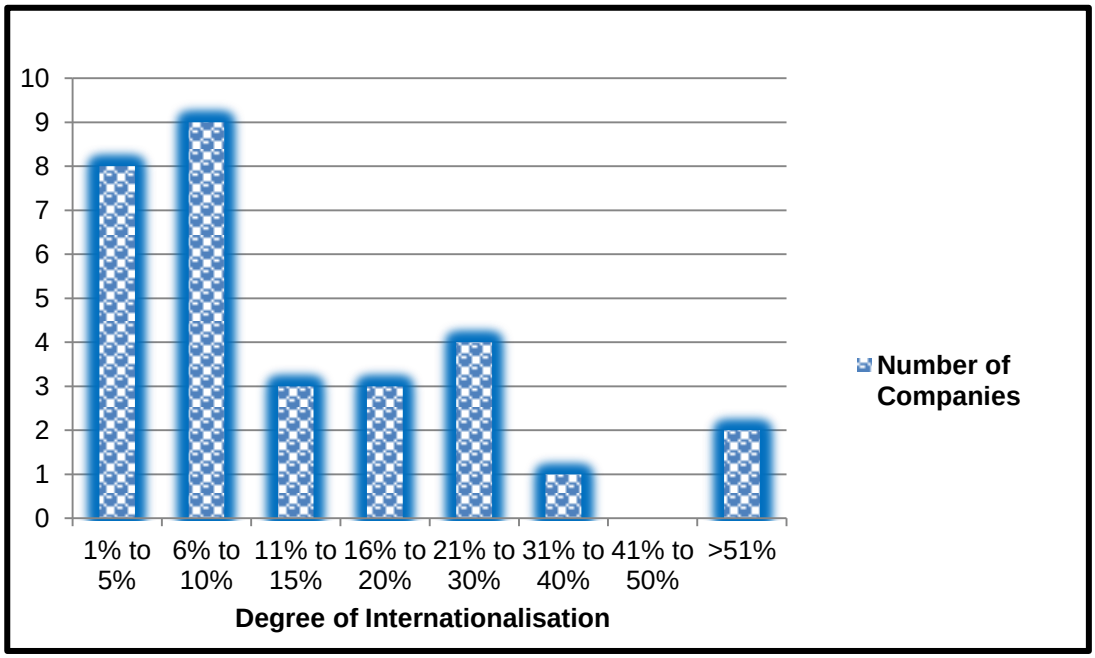
6.6 Hypothesis 5

Similar to previous studies the control variables including DOI, firm age and multiple countries were used to test whether there is a relationship between these variables and financial performance.

Hypothesis 5a

The results of the Pearson correlation revealed that there is no relationship between DOI and any of the financial performance measures. Therefore the results failed to reject the null hypothesis. An important point of consideration for the sampled companies is that 57% (17 of 30) of these firms have a DOI of 10% or less implying that less than 10% of revenue is derived from Africa. **Figure 8** below depicts the DOI (calculated Africa foreign revenue/ total revenue) for 30 firms that have expanded into Africa.

Figure 8: Degree of internationalisation for companies that have expanded into Africa



Banalieva & Sarathy (2011) in their study of EM MNE's in the electronics industry found a positive or inverted U-shaped relationship implying that geographic expansion leads to positive financial performance. However the positive result was further enhanced by the higher levels of trade liberalisation in these firms home country. In contrast Elango's (2006) study of EM MNE's in the manufacturing sector found evidence to support a U-shaped relationship implying an initial decline in financial performance with increasing internationalisation. This was supported by the study by Contractor et al., (2007) that found a U-Shaped relationship between internationalisation and performance however noted that service firms gained positively from expansion sooner than manufacturing firms.

As discussed in chapter 2 and highlighted above the current literature provides disparate results on the exact nature of the internationalisation performance relationship. As per results detailed in section 6.2, one could infer that based on the lower average net profit margin of companies that have expanded into Africa that these companies could still be in the very early stages of internationalisation. 57% of these firms still derive 10% or less revenue from Africa as at 2014, hence the benefits from internationalisation (positive or negative) is yet to be established.

A further insight from the results is that two of the companies sampled have a DOI ratio of greater than 51% which may indicate excessive internationalisation. Elango (2006) state that firms face declining returns to performance when exposure in foreign markets exceeds the ratio of 51%. Banalieva & Sarathy (2011) also advise that managers should be aware that there is a threshold of internationalisation beyond which performance can decline. Hence for these two companies increased co-ordination, managerial and operational costs associated with increased expansion would eventually result in a negative impact on performance.

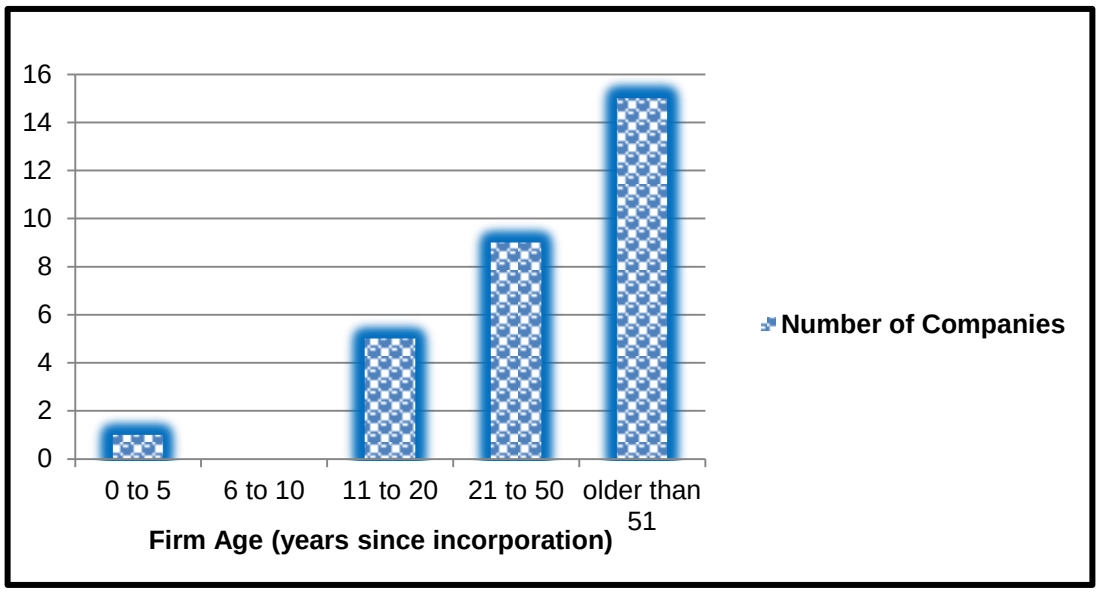
Hypothesis 5b

The results of the Spearman correlation revealed that there is no relationship between the firm age and any of the financial performance measures. Therefore the results failed to reject the null hypothesis.

Based on a meta-analysis of over 111 studies of the mulinationality performance relationship, Kirca et al., (2011) found evidence to support that age is one of the variables that may have performance related effects. However this finding was equivocal as this relationship was established using serval iterations of multivariate model estimations. Ning et al., (2014) also cited firm age to normally be assumed to impact performance, however their research found no association between these two variables. Furthermore Contractor et al., (2007), also tested the effect of age on the measures of ROE and ROA and the results were inconsistent.

Figure 9 below depicts the age categories of the sampled 30 firms that have expanded into Africa.

Figure 9: Age of companies that have expanded into Africa



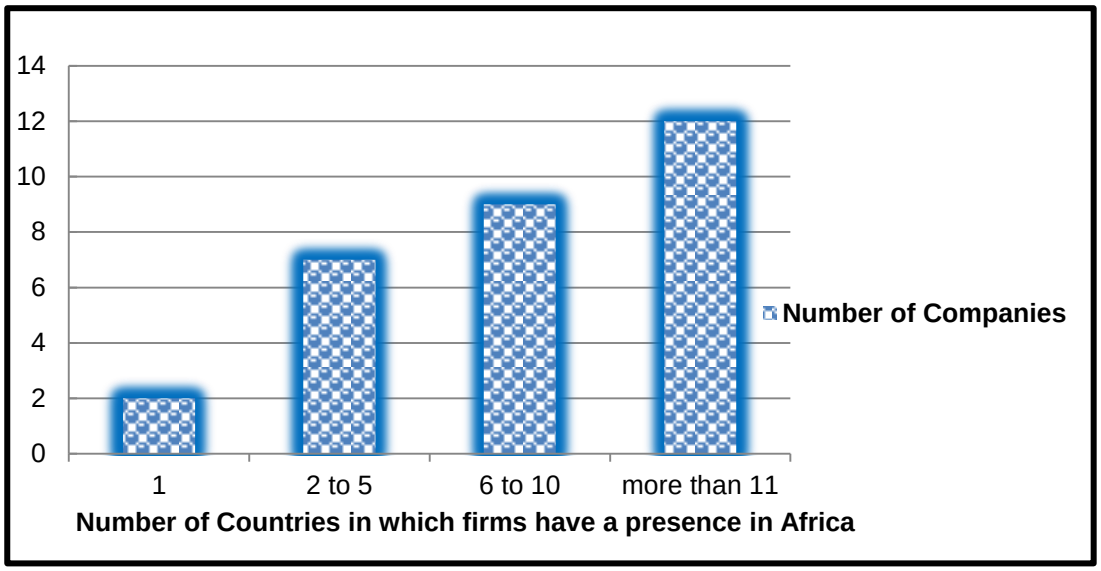
Despite 50% (15 of 30) of the firms that have expanded into Africa having been in operation for more than 51 years one can conclude that the firm age does not impact financial performance. This finding supports previous research studies.

Hypothesis 5c

The results of the Spearman correlation revealed that there is a positive and significant relationship between multiple countries and one of the financial measures namely average share price. Therefore the results rejected the null hypothesis. The literature does not provide any clear conclusions on the relationship between the presence in multiple countries and any specific financial performance measures but does mention that a significant positive relationship between these variables was found in earlier studies (Contractor et al., 2003). Share price reaction is largely driven by investor sentiment which is based on whether investors view internationalisation as creating value.

Figure 10 below depicts the number of countries in which the 30 companies that expanded into Africa have a presence in. At least 70% (21 of 30) of the companies that have expanded into Africa have a presence in six or more countries.

Figure 10: Number of countries in which companies that expanded into Africa operates



The sampled companies expanding into Africa have either established a new branch/ office/store or acquired existing businesses in order to obtain entry into the market. Ning et al., (2014), states that when a company embarks on a new area of investment or (fully or partially) acquires a firm within the host country this would result in an increase in the share price. Furthermore Ning et al., (2014) also states that the investors could also have a sceptical view on acquisitions due to concerns around potential synergies, congruence of FDI with firm strategy and management's ability to successfully implement the project. Thereby this could result in a negative impact on share price.

In accordance with section 6.4 above for the sampled SA companies expanding into Africa, there was an increase in average share price over the period. Hence a reasonable assumption would be that SA investors view FDI positively as it allows the firm to diversify risks due to the varied market returns in different geographical locations. This holds true specifically for Africa that is home to many of the fastest growing economies according to the IMF. This finding does add to the literature in that establishing a presence in multiple countries does positively impact share price.

7. CHAPTER 7 – CONCLUSION

7.1 Principal findings

The results of this research extend the scope of the internationalisation performance literature as it relates to the potential of the African continent as a favoured emerging market for MNE's to expand. Although previous studies on this topic have yielded varying results this is congruent with the three stage theory of international expansion due to the results being reflective of the different stages of multinationality. (Contractor et al., 2007). Accordingly findings emanating from this research support this notion that there is a distinct complexity in the relationship between expansion and performance.

The research focussed on four specific financial ratios namely net profit margin, ROE, share price and market capitalisation which reflect both accounting and market measures. Evidence from this research suggests that SA companies incur high learning and governance costs associated with expansion. This is reflected in a lower average net profit margin in comparison to their counterparts that do not have a presence in Africa. However this negative impact on financial performance is partially mitigated by revenue generated in its home market which remains a key determinant to the firm's profitability.

A key contextual factor for this study is that the African continent has experienced positive and sustained economic growth over the last decade (EY's attractiveness survey Africa, 2013) which could potentially impact the financial performance of firms operating in these markets. SA companies expanding into Africa exhibited higher ROE's in comparison to SA companies that had no presence on the continent and also experienced an increase in share price and market capitalisation over the period. Kirca et al., (2011) stated that multinationality is related to performance because market imperfections allow firms to benefit substantially from cross border use of their assets. Furthermore these findings support previous studies that state that investors take a favourable view of acquisitions made by companies where there is a potential for high growth opportunities similar to the prospects in African market.

Contrary to previous studies the findings from this research did not establish a relationship between the degree of internationalisation and any of the financial performance measures. This does not mean the negative effects of Stage 1 were absent or invalid rather that companies were able to shorten or mitigate the negative threshold effects of early internationalisation better, in comparison to MNE's from other countries (Contractor et al., 2007). This reasoning can potentially hold true for SA MNE's that have expanded into Africa.

The study also controlled for firm age and found no evidence to support the view that performance would improve with firms that have been in operation for significant period of time. This finding was corroborated by Kirca et al., (2011) and Ning et al., (2014) that found equivocal or no relationships between these two variables.

With regards to the findings concerning the effects of having a presence in multiple countries there was a positive relationship with the average share price. This indicates that investor's view management's expansion strategy as creating value for the firm. Additionally 40% of the companies sampled have a presence in 11 or more countries in Africa which supports Luo & Tung's (2007) springboard perspective that the rapid pace of expansion by EM MNE's is a reactionary response to catch up with global rivals in order to compete more effectively. There was no relationship with other variables specifically net profit margin which supports the study by Yang & Driffield (2012) that found that although firms have a wider set of countries in which to invest the incremental gains from expanding into one more country is reduced.

7.2 Implications for management

EM MNE's specifically South African companies have been late to internationalise and therefore potentially more aggressive in its approach to expansion in order to catch up with its global competitors. Firm performance is expected to improve as a result of expansion and SA companies possess the competitive strength lies in their knowledge of conducting business within an emerging market context which they are able to duplicate in other emerging markets.

Despite being better positioned to operate in Africa, SA companies will still suffer from the liability of foreignness associated with expanding into culturally distant markets. Hence management need to take cognisance of the fact that it is not so much the degree of internationalisation as the pattern of internationalisation including the entry mode choice, scale of entry, speed of expansion and co-ordination of activities that matters to firm performance (Kirca et al., 2011). Furthermore as evidenced by the lower net profit margins, managers of the expanding firms should realise that significant and prolonged operational costs related to growing from domestic to international markets will be incurred which will result in a negative impact on performance. However continued focus on their home markets will allow these companies to generate sufficient revenue to cover the costs of operating in international markets.

Although most of SA's firms are in the early stages of internationalisation managers should be aware that after a particular internationalisation threshold, performance declines with increasing expansion (Elango, 2006). There are two companies that have expanded into Africa that have a foreign sales ratio greater than 51%. Managers should plan to combine increasing internationalisation with technological positioning, global brand access and channel access in foreign markets (Banalieva & Sarathy, 2011).

7.3 Limitations of the research

The research had the following limitations:

- The study focused on companies that are listed on the JSE and that have expanded into Africa. Therefore it is not be representative of unlisted companies or companies that are listed on other stock exchanges that may have also expanded its operations into Africa. Hutzschenreuter et al., (2014) stated that generalizability of findings may be limited due to the nature of the sample being made up of large publically owned MNE's;

- The selected sample may suffer from the "survivor bias" as it does not comprise of companies that may have exited the African market prior to 2010 (Satta et al., 2014). In addition in relation to the latecomer status of firms undertaking international expansion the study ignores JSE listed companies that may have extended its operations into Africa post 2010;

- This research analysed the expansion into Africa that was undertaken by the companies compromising the ALSI Index and that reported Africa as a separately disclosable segment since 2010. Hence the sample was not representative of all listed companies that have expanded into Africa;

- The selected sample excluded large import and export companies listed on the JSE as their business model is not regarded as undertaking FDI. Listed companies that were involved in minority joint ventures in Africa were also excluded, because they do not effectively control these operations (Luo & Tung, 2007);

- Companies that disclosed Africa operations as a separate reportable segment was selected. A reportable segment that is separately disclosed contributes 10% or more of the companies' combined assets or revenue from both external customers and intersegment sales. Furthermore companies were excluded if the Africa revenue and earnings was combined with revenue from SA or combined with countries from other geographies.

7.4 Suggestions for future research

- A recommendation for future research would be to assess the impact of industry or country characteristics on the internationalisation performance relationship for SA's companies.

- A time series analysis using other emerging market countries in Africa could be conducted.

- A study on the impact of trade liberalisation of the SA on the financial performance JSE listed companies.

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APPENDICES

Appendix A: Sample of companies selected

JSE LISTED COMPANIES THAT EXPANDED INTO AFRICA
1. SABMiller plc
2. Naspers Ltd.
3. MTN Group Ltd.
4. FirstRand Ltd.
5. Standard Bank Group Ltd.
6. Vodacom Group Ltd.
7. Aspen Pharmacare Holdings Ltd.
8. Nedbank Group Ltd.
9. Shoprite Holdings Ltd.
10. Anglo American Platinum Ltd.
11. Mr Price Group Ltd.
12. Tiger Brands Ltd.
13. Truworths International Ltd.
14. Imperial Holdings Ltd.
15. Massmart Holdings Ltd.
16. Pick n Pay Stores Ltd.
17. Nampak Ltd.
18. Tongaat Hulett Ltd.
19. PPC Ltd.
20. Sun International Ltd.
21. Pioneer Food Group Ltd.
22. Oceana Group Ltd.
23. AVI Ltd.
24. Super Group Ltd.
25. Cashbuild Ltd.
26. Mpact Ltd.
27. Impala Platinum Holdings Ltd.
28. Omnia Holdings Ltd.
29. Illovo Sugar Ltd.
30. Lewis Group Ltd.
JSE LISTED COMPANIES WITH NO PRESENCE IN AFRICA
1. Compagnie Financière Richemont SA
2. Discovery Ltd.
3. Growthpoint Properties Ltd.
4. Netcare Ltd.
5. Capitec Bank Holdings Ltd.
6. PSG Group Ltd.
7. MMI Holdings Ltd.

8. Telkom SA SOC Ltd.
9. Kumba Iron Ore Ltd.
10. Exxaro Resources Ltd.
11. EOH Holdings Ltd.
12. African Rainbow Minerals Ltd.
13. JSE Ltd.
14. Curro Holdings Ltd.
15. Net 1 UEPS Technologies Inc.
16. Vukile Property Fund Ltd.
17. Assore Ltd.
18. Trencor Ltd.
19. Metair Investments Ltd.
20. Peregrine Holdings Ltd.
21. Royal Bafokeng Platinum Ltd.
22. Blue Label Telecoms Ltd.
23. Clientèle Ltd.
24. ADvTECH Ltd.
25. Redefine Properties Ltd.
26. Transaction Capital Ltd.
27. Octodec Investments Ltd.
28. Fortress Income Fund Ltd.
29. Gold Fields Ltd.
30. ArcelorMittal South Africa Ltd.

Appendix B: Ethical Clearance Letter

Gordon Institute of Business Science
University of Pretoria

Dear Miss Prashantha Chetty

Protocol Number: **Temp2015-00977**

Title: **The impact of expansion into Africa on the financial performance of emerging market multinationals listed on the JSE**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

GIBS Ethics Administrator