



GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

The relationship between strategic management practices (SMPs) and the financial performance of multinational corporations (MNCs) in emerging markets

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

10 November 2010

Abstract

Emerging markets (EMs) contribute significantly year-on-year to global gross domestic product (GDP) and continue to offer developed countries huge opportunities such as raw materials and readily available markets for various goods and services produced in developed economies. However, multinational corporations (MNCs) from developed markets operating in emerging countries continue to develop inappropriate perceptions and assumptions influenced by Western imperialist and arrogant attitudes, which carry a very short-term view on the future of developing countries, despite extracting multibillion-dollar profits from these regions.

The objectives of the research study were to establish the relationship between strategic management practices (SMPs) and the financial performance of MNCs in emerging markets, by testing, validating the viability and applicability of the SMPs framework and by evaluating SMPs' financial contribution to the bottom-line of MNCs.

The research study found that for MNCs with comprehensively adopted and implemented the SMPs framework their financial performance continues to improve year on year, depicting a positive relationship between SMPs and overall financial performance of MNCs with business interests in emerging markets. The study, however, concludes that the MNC executives' wrong assumptions about emerging countries results in the crafting of strategies within business models that fail to fit in emerging markets.

Keywords:

Strategic management practices (SMPs)

Emerging markets (EMs)

Bottom of the pyramid (BoP)

Portfolio of competences (PoC)

Return on Investment (ROI)

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 at any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Petsmaster Chinembiri

Signature

Date

Acknowledgements

Two years has passed while I have been working on my MBA and it would be remiss to close this report without mentioning my appreciation and sincere gratitude to the following wonderful people who contributed their support in different ways towards my studies:

- ALMIGHTY GOD who gave me wisdom and competence to complete my MBA;
- Agnes, my wife, who stood by me throughout showing true love, care, support and prayer;
- My beautiful daughters, Tessie, Claire, Natasha and Megan, for understanding that I had to use most of my free time for my studies, all in aid of their improved future;
- My supervisor Dr Raj Raina for his wisdom, guidance, insight and encouragement in my studies;
- My mum and all family members who supported and encouraged me over the past two years;
- Edward Nyalungu – a special thanks to this man for his support and understanding of the time I needed to complete this degree. God bless you;
- All my GIBS lecturers for giving me knowledge that will empower me for the rest of my life; and
- Information Centre Team for all your diligent support – you are such a ‘hub’ for GIBS. Please keep up the brilliant work!

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CHAPTER ONE: INTRODUCTION

1.1 Purpose of the study

Prahalad and Lieberthal (2003) claim that the flattening of demand in developed markets forced multinational corporations (MNCs) to seek alternative markets that offered potential future business growth. On the other hand, Meyer and Thu Tran (2006) suggest that the large number of potential customers observed in emerging economies raises expectations of unprecedented demand for Western consumer goods and services, but that MNCs fail to understand that emerging economies are unique and very different from their developed home markets. MNCs encounter business environments in emerging markets (EMs) that are not only different from those of their home countries but that also vary greatly from one emerging country to another (Meyer *et al.*, 2006).

Emerging markets offer sustainable business prospects and opportunities, but the challenge for the MNCs lies in formulating, designing and executing appropriate strategic management practices that are compatible with the socio-economic and cultural conditions of these local markets (Meyer *et al.*, 2006). Therefore, the purpose of the research study is to investigate the relationship between strategic management practices (SMPs) and the corresponding success or failure of MNCs in emerging markets. The framework for the study is based on Raina's (2010) working paper on guiding principles for crafting winning strategies in emerging markets. The strategic management practices adopted by MNCs in deploying

investment strategies in emerging markets have lacked key fundamental principles on innovation, culture, technology and competence factors, becoming obstacles for most MNCs' survival in developing economies (London & Hart, 2004a).

Gaining an understanding of, and insight into, strategic planning, formulation, design and execution assists in critically evaluating the underlying conditions and assumptions that are unique and specific to each emerging market segment. This, in turn, enables senior management to formulate appropriate SMPs that are relevant and customised to successfully compete for new business in potential emerging markets.

Raina (2010) argues that the main cause of MNC failure in formulating and developing competitive strategies for emerging markets lies in the design, execution and adoption of strategic management practices that are based on inappropriate and incorrect assumptions. Top MNC executives are required to change their current approach on both the formulation, and deployment, of strategies towards potential emerging markets. The failure experienced by a number of MNCs in attracting substantial business growth in targeted emerging markets reflects the need for greater understanding of the specific underlying conditions of different emerging markets – vital for crafting and deploying competitive strategic management practices.

The research also undertakes an investigative study into the reasons that MNCs tend to cling to Western management styles, rather than adapting to the cultures and conditions they encounter in emerging markets.

1.2 The context of the research study

Lings (2010) reports in The Mail and Guardian business pages that perceived economic growth in emerging markets will stretch to six percent by the end of the 2010 financial period, compared to the expected economic growth of the North American/European zone of between one and three percent for the same period. These sentiments were stated after realising that there is significant growth potential in developing economies in comparison to developed markets. Lings' (2010) report encourages and urges MNCs to factor such fundamental developmental changes into their investing strategies by appropriately shifting their focus to emerging markets. The Mail and Guardian business report singled out emerging markets such as Brazil, significant parts of Africa, India, China and southern Asia in which to witness projected consolidated economic growth of above five percent by the end of 2010.

London *et al.* (2004a) cite that with developed markets becoming saturated, MNCs are being forced to shift their investment focus to emerging economies such as China, India, Africa and Brazil as these are key destinations for potential future market growth. The authors further claim that strategies deployed by MNCs to extend their investment interests in emerging markets are formulated to target

the elite group situated at the top of the economic pyramid, thereby excluding the market population at the bottom of the pyramid (BoP), although they are the largest and fastest-growing segment of the world's population (London *et al.*, 2004a). This scenario signifies untapped opportunities that continue to exist due to the persistent misalignment of MNC investment strategies in relation to the underlying conditions and unique characteristics experienced in different and specific emerging markets.

Khanna, Palepu and Sinha (2005) state that it has been tougher for MNCs over the past decade to identify international investment strategies that fit into targeted developing economies and that win anticipated new business, because these companies tend to rely on their traditional investment strategies designed specifically to grow business in developed economies. Unfortunately, these traditional investment strategies are found to be incompatible with conditions encountered in developing economies, resulting in many international companies failing to establish and spread their business footprint in potential emerging markets (Khanna *et al.*, 2005).

Khanna *et al.* (2005) believe that the major challenge faced by MNCs in their quest to structure adaptable strategies suited to winning business in emerging markets, emanates from the executive management's lack of understanding of dealing with the so-called institutional void that is common in developing economies. The institutional void is a typical challenge faced by emerging

markets, referring to the absence of specialised intermediaries and regulatory systems, as well as poor contract enforcement mechanisms.

Most strategist researchers argue that 20 years ago, when large Western companies prepared to move into emerging markets, they went for quick gains – adopting the narrow and arrogant perspective of taking developing economies for granted. MNCs tend to perceive emerging markets such as China and India as easy targets, with consumers who are hungry and ready to accept modern goods and services from Western countries, regardless of their underlying socio-economic and cultural conditions (Prahalad *et al.*, 2003).

Gaining insight into, and a better understanding of, how MNCs formulate, develop and apply investment strategies in emerging markets will prepare senior executives to accurately diagnose the underlying weaknesses of these strategies and will allow them to avoid repeating the same strategic errors in relation to emerging markets (London *et al.*, 2004a). The research study endeavours to identify the drivers of successful MNCs from emerging markets, such as MTN and Tata Motors, which now compete robustly with MNCs from developed countries. Thorough reconciliation of the two scenarios will eventually create a platform that will assist MNCs to better understand typical emerging markets; and will enable them to engage and develop the right framework of thinking and the mindset required to design and execute appropriate and relevant SMPs. Deployed MNCs SMPs should be adaptable to the developing economies' supply

chain which constitute operations, marketing and a distribution network (Prahalad *et al.*, 2003).

1.3 Problem statement

The research objective is to investigate the relationship between SMPs and the corresponding success or failure of MNCs in emerging markets. The study seeks to establish why several MNCs face strategic challenges when investing in emerging markets, and also why some of the MNCs and their investment strategies have failed to win a sustainable market share in potential emerging markets compared with their successful experiences in developed economies. Understanding the key underlying conditions and assumptions that exist in emerging markets will unlock misconceptions which are major distracters to MNC senior management when formulating SMPs to be deployed in emerging markets (Hart and Prahalad, 2002b). These underlying conditions emphasise the need for an in-depth understanding of local market intricacies which directly influence the planning, formulation, design and execution of sound investment strategies capable of creating sustainable business growth in various targeted emerging economies (Khanna *et al.*, 2005).

Research studies over the years have gathered empirical evidence to establish whether MNCs have the ability to survive and grow in emerging markets, when facing challenges such as institutional voids. The question addressed by this study is why several MNCs continue to struggle to structure and develop

successful investment strategies that dominate and competitively achieve sustainable business growth and financial performance in developing countries. Such failure could indicate that MNCs are not necessarily sufficiently strategically adaptable when it comes to formulating strategies for emerging markets (Khanna *et al.*, 2005).

From the early 1990s, great business opportunities have presented in emerging markets compared with the slow-down experienced in developed economies. The previously untapped markets of the developing countries have been hungry for the various products and services offered by MNCs (Khanna *et al.*, 2005). However, some Western companies moved into these emerging markets with strategies that replicated their Western business models; these lack sensitivity to the nuances of local cultural and social differences. As a result many of these MNCs have failed in their quest to win over new markets, and many will continue to struggle to compete with emerging giants such as the Tata Group (Dawar and Frost, 1999).

1.4 Research motivation and the importance of the study

The study was motivated by a comprehensive framework developed by Raina (2010) in his working paper on eight guiding principles for crafting winning strategies in emerging markets. The working paper raises critical theories and principles that are vital in the formulation of investment strategies suitable for adoption by MNCs when investing in developing countries. This research study

goes a step further in interrogating and testing the validity and applicability of Raina's proposed SMP framework, in order to demonstrate the need by MNCs to rethink and re-architect their SMPs to enable senior executives to develop competitive and appropriate investment strategies that are specific to the targeted emerging markets. It is envisaged that the study will stimulate debate on why there is a need for multinational companies to formulate various investment strategies which are different from those for developed economies, but unique to the socio-economic conditions of emerging economies. The study will challenge academics, strategists and MNC senior executives to rethink and re-engineer existing SMPs and to incorporate fundamental global strategy changes that will allow MNCs to effectively compete in different emerging markets, thereby accelerating gains in business growth and financial performances.

The other motivating factor behind the research was the desire to gain a direct understanding of the current MNC SMPs, from both MNCs senior executives from developed economies and those from emerging markets, and to gain insight into their experiences and the challenges they faced regarding the key drivers of developing new business in emerging markets.

1.5 Research relevance

Knowledge acquired from this study will better prepare and equip current and future MNC executives to be competent in designing and executing global SMPs that take into account the unique characteristics and underlying conditions of

targeted emerging market segments. Such knowledge will enable senior executives to derive high value from efficiencies on deployed strategies in developing countries and will help grow competitive business in these emerging markets.

1.6 Research scope and limitations of the study

Meyer *et al.* (2006) proclaimed that MNCs are expanding their global reach through strategies that carry their products and brands to new and diverse markets in emerging economies. The scope of the research will be limited to a study which aims to investigate how MNCs can tailor their strategies to best fit with the local context of the developing countries they are targeting. This will envisage covering a thorough study on the relationship between SMPs and the financial performances of MNCs with operations in emerging markets.

Raina (2010) identifies eight principles that can be used by MNCs as tools to develop new strategies which incorporate the socio-economic, political and cultural needs of developing economies. The scope of the study will be limited to an investigation to establish the relationship between SMPs and the financial performance of MNCs in emerging markets. The defined scope will be investigated in conjunction with in-depth testing and validation procedures to verify the relevance and applicability of the framework for use by MNCs to attract business opportunities in emerging markets. The research study will concurrently evaluate the financial contribution of each of the five selected SMPs from Raina's

(2010) SMP framework. Five hypotheses will be formulated from the five identified SMPs. This will create a formal research structure using empirical study evidence to test, prove the validity of the research hypotheses and SMP framework, in terms of financial value or return on investment (ROI) created for business in an emerging market context.

The following five SMPs are scoped in the study to establish whether they have a direct influence on the financial performance of MNCs operating in emerging markets. These are:

1. Immersion for market intimacy;
2. Positioning to dominate the main segments;
3. Building new competences;
4. Empowering emerging market CEOs; and
5. Building an inclusive culture.

The following are some of the inherent limitations associated with the nature of this study, namely:

- The questionnaire is the only instrument used to collect fieldwork data, and to test and validate the SMP framework;
- Accessing senior managers, executives, directors and CEOs always remains a serious challenge considering their hectic business schedules. This level of top management tends not to prioritise academic surveys;

- There will be time constraints in following-up on outstanding questionnaires, which might affect the quality of the overall concluding results; and
- Although the study population consists of global MNCs, it will be logistically almost impossible to access all MNCs with operations in emerging markets and thus results will not be fully representative.

1.7 Conclusion

Senior executives of MNCs should not assume that they can continue developing their business in emerging markets using the same methods they used in their own developed economies. Every emerging market segment offers unique underlying assumptions and conditions which demand specific customised SMPs to develop and win sustainable business in these markets (Khanna & Palepu, 2006). Therefore, this study aims to investigate thoroughly the relationship between SMPs and the financial performances of MNCs in emerging markets, and attempts to improve upon the design, process and execution of strategies meant for different emerging markets.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter theoretically investigates and reviews various relevant literature and debates on the reasons why MNCs face challenges in improving their financial performances, as they roll out their SMPs in emerging markets. The review on MNC performance patterns was centred on similar work and studies done by other researchers, with further critical analysis being done on the evaluation of relevant literature in order to establish the basis of the relationship between SMPs and the financial performance of MNCs in emerging markets. The historical evolution of strategy management was scrutinised in an attempt to understand and identify the changes surrounding strategy formulation and design, execution and the continuous strategic renewal that is used to align MNC business strategies with environments, within the context of investing in emerging economies.

2.1.1 Strategy definition

Different scholars and researchers in the field of strategy came up with a variety of debates and research activities which resulted in a wide array of strategy definitions, some of which are outlined below:

- Strategy is a rational decision-making process by which an organisation's resources are matched against potential opportunities that might arise from a targeted competitive environment (Andrews, 1971).
- Aldrich (2007) argued that in developing strategy there are critical factors that need to be fully considered in order for the strategy to be successful, and one of these critical factors is the environment. Aldrich (2007) went on to suggest that environment plays a critical and influential role as a deterministic force on the strategy-making processes in an organisation. Strategies that are developed without, or with little, consideration of environmental factors have very little chance of guiding companies to achieve their set goals and objectives because of the dynamics, uncertainties and regular changes associated with, and unique to, specific different environments.
- Contrary to Aldrich's (2007) argument, some proponents of the resource-based view felt that environment should not be elevated to being the major factor that determines the way strategy is formulated. Rather, they regard organisational resources as playing a pivotal role in influencing the direction of strategy. Therefore, company resources would form the foundation of how company strategy is designed and executed. Resources improve a company's competences, creativity and competitiveness regardless of environmental uncertainties, meaning that a well-resourced organisation with relevant competences and adequate resources has a greater chance of competing successfully in tough environments (Feurer & Chaharbaghi, 1997).

- Strategy is the primary tool and means of reaching the focal objective set. Therefore, it is not possible to craft a strategy without having a concrete objective in mind. Hence, strategy becomes the centre and an integral part of the ends-means hierarchy in satisfying the set goals and objectives (Thorelli, 1977).
- Johnson, Scholes, and Whittington (2008) cited that strategy can be defined as the means, direction and scope of a company that guides it to successfully achieve set goals and objectives over a long-term period. However, for the strategy to avoid encountering challenges and complications at implementation stage, it should have a high matching probability with available resources to its changing environment, markets and customers in order to satisfy stakeholder expectations.
- Chandler Jr (1962) defined strategy as the determination of the basic goals and objectives of an enterprise, the adoption of courses of action and the allocation of the adequate resources necessary for carrying out set and agreed goals.

Regardless of different approaches to the interpretation and definition of strategy, researchers have derived strategic frameworks which share some similarities and re-enforce important strategic elements necessary to position organisations to maximise their overall performances (Feurer *et al.*, 1997). Organisations that comprehensively adopt available strategic tools and frameworks to formulate their strategies are more likely to continuously improve their core business operations

and competences, compared with their competitors operating in the same environment (Feurer *et al.*, 1997).

Arguments from different scholars and researchers on business strategy differ widely, but should not be regarded as mutually exclusive; rather, they should be seen to be mutually supportive of the strategic planning, formulation, design and execution, the renewal and maintenance of strategy, and in keeping it relevant to set stakeholder goals (Feurer *et al.*, 1997).

2.1.2 Strategic thinking

Strategic thinking has been a key phenomenon that has developed from strategic formulation and planning processes necessitated by the weaknesses observed in adopting strategy as one of the key top-management tools. From its origination, strategic planning was introduced at corporate level and backed by a smaller team of assigned planning staff, whose mandate was to source and analyse relevant information perceived to be useful as input to the strategy formulation (Bonn & Christodoulou, 1996).

Unfortunately, such structure types tended to be bureaucratic in nature with staff introducing methodologies, procedures and standards on how to develop and formulate strategies, which in turn became an end to the planning process. The major flaws of the structure and short-circuiting in strategic thinking processes were that it totally excluded important and critical internal stakeholders, such as

line managers and key operational employees at business units and functional levels who then disassociated themselves from the adopted strategic business plans (Wilson, 1994).

In order to improve strategic planning processes, it became necessary to move the prime responsibility for strategy development to the executives and business unit managers who would ultimately be in charge and own the strategy implementation processes. Therefore, one of the major steps in the process was to create a sense of ownership at an earlier stage, resulting in managers being accountable to, and responsible for, the agreed strategies. It was important to involve all internal stakeholders in the strategic planning stage in such a way as to nurture the level of ownership and accountability at implementation stage (Eisenhardt, 1989a). The practical side of redefining strategic thinking was successfully illustrated by Jack Welch at General Electric (GE), when he stripped away the huge overlay of planning volumes experienced in GE and came up with a new approach that involved greater emphasis on strategic thinking and that focused executive dialogue on the critical issues facing the whole business (Wilson, 1998)

2.1.3 Strategy evolution

Feurer, Chaharbaghi and Wargin (1995) argued that many strategic concepts that form the basis and foundation of today's conceptualisation of strategy development were introduced for the first time during the first half of the 20th

century. Prominent scholars and writers include Frederick Taylor, whose management material on efficiency, rapid growth of forecasting and measurement techniques was introduced to the management arena in the 1930s. Taylor went further in stimulating management thinking when he introduced expanded management theories on topical issues, such as the development of organisational structures and the transformation from production to demand-driven organisations – concepts debated in top management circles after the Second World War (Feurer *et al.*, 1997).

However, the first person to transform management literature directly into strategy was Newman. Newman's research on management produced relevant and highly important information regarding the nature and importance of strategy (Newman, 1951). Newman's work on strategy was taken to advanced and improved levels by management researchers and scholars such as Andrews and Christiansen. These two authors expanded on Newman's (1951) work by emphasising the importance of strategic planning through demonstrating the need for senior management to match business opportunities with organisational resources, thus illustrating how critical strategic planning was to any business leader (Feurer *et al.*, 1995)

Wilson (1998) demonstrated continuous strategic refinements that resulted in the introduction of managerial planning tools such as the SWOT analysis, portfolio techniques and what-if analysis. The introduction of such strategic management

instruments has gone a long way to stimulate, challenge and improve on the quality of strategic planning and formulation, through the timeous and accurate gathering of industrial, economic and environmental information is considered a key input to strategic development process (Feurer *et al.*, 1997).

2.1.4 Strategy planning

Since the inception of strategic planning in the early 1970s, the processes behind dynamic and robust strategic planning operations have evolved drastically and resolved most of the strategic design flaws that existed in original strategic management theories (Wilson, 1994). The most important change experienced through the evolution of the strategic planning process was the shift from planning responsibilities being a staff function to them rather falling under the direct responsibility of line managers. Further decentralisation of the planning functions was extended to individual business units, a step that largely increased focus on changing trends in the market and on competitive and technological environments (Feurer *et al.*, 1995). However, the strategic planning process cycle remained confined to the key components that unified the three company levels involved in strategic planning, formulation, design and execution: namely corporate, business units and functions (Wilson, 1994).

Wilson (1994) argued that strategic planning had suffered from serious design flaws that had almost destroyed its effectiveness as one of the main executive management tools. However, continuous research around the topic of strategic

planning and its effectiveness brought some clarity to the issue, and resulted in a re-think on corporate success in the light of:

- The continuing globalisation of markets and competition;
- Economic and industry restructuring;
- The growing strategic importance of technology;
- Heightened uncertainty in the political and economic environment; and
- Time compression resulting from an acceleration of change.

Porter (1987) stimulated the debate and highlighted the importance of strategic thinking as a critical part of refining strategic planning processes. Porter (1987) went further to declare that strategic planning had never been given due consideration by companies in contributing towards strategic thinking. He claimed companies had failed to clearly define the roles and functions of planners who were initially given the responsibility of driving strategic planning processes by gathering, collating and analysing information, that was later fed to senior management for the making and finalising of company strategy. Therefore, instead of abandoning strategic planning it is argued that strategic thinking needs to be rethought and repositioned in the whole strategy formulation process, and further review and reconsideration of the applied planning techniques relied on by organisations, is needed (Heracleous, 1998).

Strategic researchers have provided empirical evidence that highlights the positive benefits of using strategic planning tools. For example, scenario planning

has been acknowledged to be an effective planning technique that has helped many companies to become more resilient in dealing with the inevitable challenges brought about by environmental uncertainties (Wilson, 1994).

Wilson (1994) argued that the search for effective strategic planning could be viewed from two perspectives that are different but interdependent, namely:

- Consideration into the search for strategic ideas which have the potential to shape company vision, create a sense of commitment and drive the company to implement and achieve the overall goals in line with the set strategy; and
- Striking a balance between the roles of the executives and the planning staff in order to create an innovative environment that effectively generates quality strategic ideas to be pursued throughout a successful implementation.

Positive changes have been evolving in the way strategies are initiated. From the 1980s major shifts in strategic planning started to be observed, moving towards an increased emphasis on business externalities and shifting the overall responsibilities of planning to the portfolio of the senior executives of companies (Wilson, 1998). These changes in strategic approach addressed the planning flaws and criticisms that had earlier jeopardised strategic planning, with claims that such planning was narrowly focused on the manipulation of internal financial data and that the whole planning exercise was driven by staff (planners), with very little involvement from top management.

The late 1980s witnessed a redefining and spread of strategic planning roles to executives, managers and staff which in turn generated innovative strategic ideas to address business environmental changes influenced by global competitiveness, new technology, economic uncertainties and swift changes in government regulations (Heracleous, 1998). Changes in internal locus of responsibilities were necessitated by failures and lack of strategy implementation, resulting in strategic planning responsibility being shifted from planners (staff) to line managers, and from corporate levels to business unit levels, with the objective of involving employees from planning to execution, and ultimately allowing them to own the process (Wilson, 1994).

Strategic planning has transformed greatly from a largely staff-driven exercise that relies heavily on analytical methodologies and laborious documentation, into an important strategic management tool (Bonn *et al.*, 1996). The planning process has finally developed into an executive-driven activity involving a combination of both hard (quantitative) and soft (judgmental) tools and approaches that refine the execution of the adopted strategies (Wilson, 1994).

Feurer *et al.* (1997) acknowledged that the pioneering work on strategy development processes done by Andrews and Christiansen in the 1960s created a sound foundation on which other researchers and the captains of industries could build, in their quest to establish relevant strategies that could guide organisations in achieving set core business objectives. Strategic planning

involves following a specific process in order to come up with a comprehensive strategy. There is no single defined planning framework or approach, but the following examples of key steps illustrate the procedures that can enable top management to conclusively develop realistic, viable and practical strategies.

Suggestive steps are:

- Data collection;
- Data analysis;
- Strategy formulation;
- Strategy design and development;
- Strategy evaluation;
- Selection and strategy execution; and
- Strategy renewal and, continuous strategy alignment between business needs and external environments.

The main purpose for adopting the correct planning approach is to ensure that the company develops a strategy that will fairly match the organisation's capabilities and the available opportunities that exist within a competitive environment (Porter, 1980). Various strategic management tools are applied to ensure the quality of the planning, and one such tool that is widely accepted in the strategic environment is the SWOT (strength, weaknesses, opportunities and threats) analysis. Michael Porter came up with the idea to lower volatility-planning risks due to environmental uncertainty from fast-changing conditions (Feurer *et al.*, 1997). Porter (2006) enhanced the strategic planning process by introducing

additional tools, such as the industry analysis in the form of the ‘five forces’ framework. The five forces model illustrated that business does not survive in isolation, rather demanding strategic planning, formulation, design and execution which incorporates factors that potentially exist in both internal and external environments (Porter, 1987).

The industry analysis introduced by Porter in terms of the five forces is a framework for the collection of the strategic planning data in any potential targeted industry market. The five forces model allows for insight into the structures within competing environments, in turn helping companies determine the attractiveness of a given industry and subsequently formulating appropriate strategies that are based on the position of the company’s capabilities (Porter, 2006). Market and industry information derived through this model determines the strategic targets and business goals, following a thorough assessment of the organisational structure (Feurer *et al.*, 1997). Evaluation of the competitiveness of the industry assists management to formulate and implement relevant strategies that improve on the company’s competitiveness. During the strategic planning process and leading into the strategy formulation and execution, management should be aware that the competitive advantage of the company is made up of a combination of factors – all of which contribute to making an organisation more successful than its competitors in the same industry market, precisely because its differentiators cannot easily be replicated by others (D’Aveni, 2007).

2.1.5 Strategy formulation and execution process

There is great consensus between researchers and strategists that organisations will not succeed in sustaining competitive advantage if they rigidly adhere to a single strategic approach when investing in different global regions (Hamel & Prahalad, 2010). Successful organisations have adjusted their dynamic styles of operation to deal timeously with uncertain changes and volatile environmental factors. Some strategist practitioners have successfully gathered empirical evidence that supports the idea that for an organisation to achieve superior results, it has to select its strategy from a wide range of strategy capabilities thereby preventing a parochial strategic design that could impact negatively at strategy execution (Hout, Porter & Rudden, 1982).

In order to win new markets in developing economies, various MNCs deploy strategies that force significant numbers of local companies to lose their home advantage in the market share, although a few local companies do fight back for survival (Khanna *et al.*, 2006). Globalisation is perceived by some local senior executives as an opportunity to rethink and redesign their business strategies in order to compete head-on with some of the MNCs from the West (Prahalad *et al.*, 2003). Many of the local companies also exploit new opportunities such as access to technology and a revamping of their competences towards improving their competitive edge.

The appropriate execution of reformed competing strategies by local companies has led to the birth of emerging giants and world-class companies that are now global players. These companies are found in almost all emerging markets, for example, South Africa's SABMiller, the Philippines's Jollibee Foods, China's Huawei Technologies and India's Infosys, the Tata Group and Wipro (Khanna *et al.*, 2006). The emergence of such competitive companies demonstrates that investment strategies are dynamic living things to which senior executives need to pay continuous attention (Jaffe, Nebenzahl & Schorr, 2005).

Mintzberg (1994) argued that for sound formulation of strategies, strategists should abandon the role of being planners and rather become catalysts for strategic ideas or knowledge-generators to formulate creative and innovative strategies that successfully balance organisational and environmental requirements. This approach calls for strategists and researchers to evolve from their narrow strategy formulations to a strategic thinking process that creates an environment where formulated strategies are based on a wider internal stakeholder consultation (Schendel & Hofer, 1979). Such cross-sectional internal consultation in formulating organisational strategies creates a sustainable environment where the final adopted company strategy will take a bottom-up approach (Feurer *et al.*, 1995). Strategies based on the bottom-up approach are perceived to be more successful because the planning process creates a platform with strategic input coming from the three business layers, developing a sense of

ownership from all concerned employees and resulting in a clear sense of accountability and responsibility at strategy execution level (Pearce & II Jr, 1997).

On the other hand, Ansoff (1991) established that the majority of strategists have adopted the usage and understanding of classical strategic planning which again limits the scope of formulation of relevant strategies. Furthermore, his research serves to remind strategy researchers and strategists who are regarded as industry practitioners to shift from the classical strategic approach towards a more dynamic and global understanding of strategic issues. This dynamic and deeper understanding of strategic issues should be nurtured throughout the strategy formulation cycle up to the strategy execution stage (Allio, 2005). It implies that strategy formulation can no longer easily be separated from the strategy execution, because of the environmental and economic changes that demand quick decision-making in order to exploit potential opportunities in any competitive environment (Sokol, 1993).

Bhide (1994) indicated that the strategic formulation should be done speedily, which means gathering, collecting and analysing the planning information from the right sources, so as to improve the authenticity, integrity and accuracy of the information to be applied in the strategic formulation. This approach relies heavily on extensive analysis of the input information, which can be disastrous considering that by the time an opportunity is investigated exhaustively, that same opportunity might not be in existence due to competing forces from other industry

players operating in the same market space (Thompson, Strickland & Gamble, 2001). Bhide (1994) recommended that it is prudent for strategists to adopt an entrepreneurial approach towards an organisation, regardless of its size, in considering some of these strategic formulation and execution guidelines:

- Screening opportunities quickly and crafting strategies that will successfully tap into winning such targeted opportunities, and at the same time eliminating perceived opportunities that fall outside the organisation's resource competences and technological capabilities;
- Timely idea generation and analysis, focusing on a few viable and important ideas; and
- Limiting the level of investigation during the planning process by engaging relevant internal stakeholders who have broader business and market knowledge.

Henderson (1989) claimed it was critical for strategists to acknowledge and be aware during the strategy formulation process that the superior performances achieved by some organisations do not necessarily originate from tried and tested strategies which have been successful in other markets in the past. Successful organisational strategies call for great creativity, new concepts, thinking outside the box, balanced internal competences and innovation particularly at the strategy formulation and execution stages (Martinsons, 1993). Stacey (1993) argues that an effective strategy-formulation approach would demand the involvement of a broader number of employees from all three levels of the organisation, including

the corporate, business and functional units. The employees involved should demonstrate a wider and deeper strategic knowledge base, which should then be backed up with stronger systems thinking applied throughout the strategic development up to execution stage (Ulrich & Ulrich, 1997).

Feurer *et al.* (1997) indicated that for organisations to achieve the recommended and much preferred dynamic strategy development approach, the strategy should be treated and pitched as individual responsibilities within relevant organisational structures instead of focusing on centralised functions. The dynamic strategy formulation and execution introduced the benefits of strategic ownership at an individual level, creating an atmosphere where strategic quality knowledge applied in the strategy formulation reduced the level of conflicts and the implementation period of the final strategy (Hamel, 1996). Strategy formulation, design and execution processes should be structured to create a dynamic environment that generates potential advantages such as:

- Business operations and processes will take cognisance of the value system, due to the adequate distribution of ownership of strategy formulation and execution experienced throughout the organisational structures. The dynamic approach encourages organisations to formulate strategies that focus on the long term. Most organisations operate using the classical approach, which formulates strategies meant to improve the position of their customers and stakeholders only, whereas the dynamic approach takes value systems to a level that considers the interests of other stakeholders, such as the employees

and society at large (Feurer *et al.*, 1995). Strategies designed and formulated with dynamic elements position organisations to prosper in building sustainable new businesses in any competitive environment (Lei, Hitt & Bettis, 1996).

- For strategy formulation and execution to be successful, the internal organisational environment should offer a high degree of stability, while on the other hand offering greater flexibility in responding to observed economic and environmental changes (Feurer & Chaharbaghi, 1995c).
- Strategy formulation and implementation should be treated as processes that offer continuous learning in order to improve the quality and success of adopted, tried and tested strategies (Feurer & Chaharbaghi, 1995b).
- The speed at which strategic change can be realised depends greatly on the speed followed in the formulation of relationships, and how well strategies and the rest of the functions and activities are aligned throughout the organisation (Feurer, Chaharbaghi, Wargin, & Weber, 1995).

Ansoff (1991) agreed with Feuerer *et al.* (1997) that the adoption of dynamic approaches in strategy formulation and execution, positions organisations to apply a fully structured SMP framework which equips companies to achieve and realise some of the following strategic gains:

- Clarity in goal setting;
- Adequate and efficient goal communication;

- Comprehensive dissemination and application of strategic knowledge by both internal and external stakeholders;
- Creation of a conducive environment to win commitment in transferring strategy ownership from formulation to execution;
- Creation of an optimal strategic knowledge management foundation that can be used as a reference point for similar future investment in business ventures;
- Determination and introduction of performance measures aligned with the company's value system, goals and objectives; and
- Robust and sound strategic alignment to:
 - Conflict management between business units and the rest of the business entities.
 - Reduction of strategy overlaps and any redundant efforts at strategy formulation and execution.
 - Creation of a highly strategic focus for the organisation, resulting in the attainment of strategic goals.

According to Feurer *et al.* (1995), continuous instability in the external business environment is forcing strategists to shift from the directional way of formulating strategies. Furthermore, Feurer *et al.* (1995) acknowledged that it is no longer relevant for companies to continue adopting a uni-directional or step-by-step approach to strategy development that involves adhering to procedural steps on formally set strategy development processes, such as data collection, strategic

options, evaluation, selection and implementation of an adopted strategy. The step-by-step process has been overtaken by fast-changing environmental events in the market, resulting in the need for top management to adopt a dynamic approach in which strategy formulation and implementation are executed simultaneously. This renders the final strategy relevant in relation to the high level of uncertainty that exists in the competitive environment (Yip, 2001); and calls for an ongoing and continuous process of close analysis of the competitive environment, and for the timely adjustment and renewal of company strategy to keep abreast of any relevant changes that might be influenced by the environment (Eisenhardt, 2008).

The competitive environment in both developed and developing markets is always changing, resulting in unpredictability and high levels of uncertainty (Eisenhardt, 1989b). These changes highlight the importance of having a dynamic strategy development (Feurer *et al.*, 1995a). The introduction of a dynamic strategy development has challenged existing strategy formulation structures in companies worldwide, where central planning units are known to drive strategy development processes in organisations. Perceived advantages of the dynamic approach are that it creates an environment where all internal stakeholders are fully involved, resulting in a dispersal of the ownership of strategy formulation processes that enforces commitment and accountability at implementation level. The dynamic strategy-formulation approach is acknowledged as being a method that facilitates the establishment of an overall strategic direction for the business,

while maintaining a strong level of flexibility to ensure swift reactions in balancing internal processes with external competitive environments (Hamel & Valikangas, 2003).

Feurer *et al.* (1995) cited that high levels of communication and coordination within the organisation are further benefits resulting from organisations adapting to dynamic strategy development. An organisation that was observed to have successfully adopted the dynamic strategy formulation is Hewlett-Packard (HP). According to Feurer *et al.* (1995), HP achieved constant growth in unstable competitive environments by ensuring that its business strategy remained sensitive to external uncertainties and major changes. The business operated from a dynamic strategy-formulation platform that linked and combined the business units' individual strategies to the organisation's overall strategy, harmonising and accommodating processes in response to major external environmental changes. HP structured its business culture on quality in order to improve on customer satisfaction, resulting in high levels of employee participation; it is thus regarded as a typical success story that supports the adoption of the dynamic approach in strategy design, execution and renewal (Eisenhardt, 1989a). The successful implementation of the dynamic approach to strategy formulation required an internal environment that was well supported by a sound management structure and that motivated employees towards achieving the overall business goals (Hamel, 1996).

2.2 MNCs and SMPs in emerging markets

2.2.1 MNC strategies in emerging markets

Prahalad *et al.* (2003) suggested that when Western organisations began to invest in emerging markets about 15 to 20 years ago, they did not have the right attitude to treat developing economies seriously as they did when they invested in their home countries. Such an approach forced Western companies to take a parochial and arrogant view of perceiving emerging markets as markets that are hungry for Western products. Prahalad *et al.* (2003) referred to MNC investment strategies as an imperialist mindset resulting from the dumping of modern Western products onto developing countries, with high expectation of achieving competitive profits. MNCs saw emerging markets with large populations, such as China and India, as simple targets with hungry consumers ready to purchase any newly introduced foreign goods and services (Khanna *et al.*, 1997). It is this type of strategic distortion, presented by Western companies towards emerging markets, that shows an attitude of seeing emerging countries and its populations as markets that are desperate to consume, particularly with regards to foreign-made goods. This type of attitude, displayed by MNC top executives, is branded by Prahalad *et al.* (2003) as corporate imperialism because these companies invested in emerging markets for the purpose of looting wealth from developing countries, with no intention of long-term upliftment in the standard of living for the local communities in emerging economies.

Did the MNCs that first moved into emerging countries have a clear strategy on how to develop local markets to sustain the level of future business growth they anticipated? Unfortunately Western companies had wrong assumptions and perspectives of the conditions that existed in emerging markets, and this resulted in MNC failures from the onset which negatively impacted on their operations, marketing and distribution networks (Winzell & Holst, 2000). MNC strategies, when coming into emerging countries, were narrowly based on gaining access to a large market and worked under the assumption that the goods and services that were once successful in developed economies would be successful in the emerging economies (Prahalad *et al.*, 2003).

Khanna *et al.* (2005) concluded that the search for growth by MNCs has resulted in the scramble for existing emerging markets that can be identified as a consumer base of hundreds of millions of emerging country populations. The debate by Khanna *et al.* (2005) further stated that the search for growth by Western companies was met with uncertainty and difficulties in understanding and identifying the so-called potential markets. One of the challenges faced by MNC SMPs was an inappropriate immersion for markets applied to emerging markets, as the foreign investors attempted to service a market that was opaque to them (Khanna *et al.*, 2005). The imperialist mindset and attitude of MNCs was portrayed through various rigid assumptions; these resulted in the deployment of incorrect strategies in correct markets, meaning a huge failure to penetrate the masses situated at the BoP of the emerging market (London *et al.*, 2004a).

London *et al.* (2004a) went on to argue that the most attractive factor that led MNCs to take emerging countries for granted was the presence of such huge emerging market populations. MNCs perceived developing countries as guaranteed markets and this they understood to mean quick compensation for any lost market shares in their home countries. The majority of Western companies saw emerging markets as an opportunity to create an extension to their operations in developed countries, where quick gains in incremental sales would rescue their dwindling established markets in developed countries (Kolodko, 2003). London *et al.* (2004a) claimed that the desperation of the MNCs in investing in emerging markets was influenced by shareholder pressure on depleted established markets, where there was little opportunity for new business development. The negative effects of such desperation were that top MNC management failed to design and executed related strategies that conformed to local socio-economic, cultural and political factors unique to developing countries. Khanna *et al.* (1997) suggested that one of the downfalls of the MNCs was the adoption of the inappropriate assumption that all emerging economies have the same underlying conditions. Such wrong assumptions resulted in Western companies deploying the same strategic template used successfully in developed economies, by plugging in the same unchanged strategies in potential market segments without any form of local customisation (Prahalad *et al.*, 2003).

It was further argued by Prahalad *et al.* (2003) that the other assumption which prevented top MNC management from applying critical thinking at the point of

designing and executing their investment strategies was the belief that emerging markets were opportunistic new markets for old MNC products and services. This means that most of the MNCs did not see any other form of opportunity that could be offered or gained from in emerging markets (Thorpe & Prakash-Mani, 2003). Little did top MNC management realise that strategies to invest in emerging markets should tap into sustainable opportunities, such as creating sources of technical and managerial talent and competences that could be developed in these market to directly support their global operations (Prahalad *et al.*, 2003).

By virtue of being an underdeveloped and readily available market population, emerging markets became an attractive stopover market for MNCs to generate super profits against minimum capital investment by usage of old technologies and resource competences that were redundant in developing countries. The attractive potential market size offered by the emerging markets is illustrated below in Table 1, showing the comparative market size between emerging markets verses that of the United States (Prahalad *et al.*, 2003).

Table 1: Market Size: Emerging markets versus United States

Product	China	India	Brazil	United States
Televisions (million units)	13.6	5.2	7.8	23.0
Detergent (kilograms per person in million tons)	2.4 3.5	2.7 2.3	7.3 1.1	14.4 3.9
Shampoo (\$ billions)	1.0	0.8	1.0	1.5
Pharmaceuticals (\$ billions)	5.0	2.8	8.0	60.6
Automotive (million units)	1.6	0.7	2.1	15.5
Power (megawatt capacity)	236 542	81 736	59 950	810 964

Source: *The End of Corporate Imperialism* by Prahalad *et al.* (2003).

The table above demonstrates that there is a huge market opportunity in emerging markets compared to a flattening demand in developed markets. Emerging economies like China, India and Brazil can be treated as one of the new consumer-base markets which consist of hundreds of millions of people that have been starved of a wide variety of product choices for many years; there is thus great appetite amongst the emerging middle class and the BoP class to spend on better-quality goods in order to improve their standard of living (Prahalad *et al.*, 2003). The snapshot demonstrated by Table 1 above shows the level of sustainable potential new business opportunities offered by the emerging markets. But accessing such a vast market of potential consumers demands that

MNC top executives rethink and redesign their investment strategies before committing resources in these economies (London *et al.*, 2004a).

Prahalad *et al.* (2006), London *et al.* (2004a) and the debate of other prominent researchers was converted into a more revolutionised and pragmatic approach by Raina (2010), in his working paper that introduces a framework on SMPs principles.

Raina (2010) argued that even today's MNCs are deploying inappropriate strategies in pursuit of new business in emerging markets. Raina (2010) further argued that most of the strategic shortcomings articulated by the prominent strategic gurus could be effectively addressed by deploying his proposed SMP framework; here, eight interrelated yet fundamental principles guide MNCs towards success when investing in any potential emerging market. The reality of persistently mixed success and failure of MNCs in emerging markets became a motivating factor for embarking on this research study. The SMP framework has been a subject of this study, which is to involve global senior MNC management in testing the validity of the interdependent principles and in establishing the relationship between strategic management practices and the financial performances of MNCs in emerging markets. Raina's (2010) working paper emphasises that for top MNC management to achieve sustainable success in emerging markets, calls for an immediate rethink and re-draught of their strategic design and execution, which is a complete paradigm shift when looking at emerging markets.

On the other hand, it took MNCs years to continue forecasting on wrong assumptions of emerging countries as hungry nations that would accept any products from the West. It was and still is factually correct that the large populations of emerging markets are under serviced, but doing business in emerging markets means one has to be part of the market in grasping actual realities regarding customer needs; MNCs must design relevant strategies intended for specific market segments (Ansoff, 1987).

The failure of MNCs to dominate the emerging markets they have targeted has resulted in local companies developing more vibrant locally based strategies, which have often succeeded in gaining market control from the MNCs. There are, however, a few examples of MNCs successfully adopting certain key elements of the SMP framework in developing new business in their home countries and successfully spreading this to other potential emerging countries. A case in point is MTN South African Telecommunication Company established in 1994, the year SA got its independence from the apartheid government. MTN saw the gap that had existed in the market due to industry players market inefficiencies. MTN began as a buoyant market force, through a serious management focus on building new internal competences and a direct investment in state of the art technology to effectively support its forecasted operational growth. Building new competences and the immersion of market intimacy are some of the principles adapted from the strategic management framework by MTN. MTN and Bharti, an Indian telecommunication company, positioned themselves by successfully

penetrating difficult markets such as Nigeria and the Middle East; this was achieved by senior executives who had through an in-depth understanding of the type of market intricacies and who built inclusive cultures that made it easy for consumers to accept their offerings (Khanna *et al.*, 2006).

The poor showing by MNCs in emerging markets does not mean that their investment in emerging markets has been disastrous. However, there have been some success stories coming from a few prominent MNCs who realised the need to consider a rethink of the persistent rollout of the imperialist strategy in developing economies (Kolodko, 2003). McDonalds is a case in point that was forced to adapt its menu to local tastes in order to win and attract different consumers in different markets. Cleanliness and ambience were some of the global standards that were customised in response to specific emerging market requirements (Khanna *et al.*, 2006). Coca Cola battled to penetrate in specific market segments in India because of the notion of pursuing a worldwide branding image while ignoring the uniqueness of the local cultural values. Significant improvement on gaining new market share was felt only when Coke restructured and the design of its marketing strategies was repositioned using local Indian cricket players, who are highly respected in that society (Raina, 2010). Such experience calls for drastic changes in the mindsets of MNC senior executives who need to appreciate the uniqueness of specific conditions and assumptions that vary from one emerging market to another.

2.2.2 MNC strategic assumptions in emerging markets

MNC senior management has huge misconceptions and wrong assumptions when formulating and designing investment strategies for emerging markets (Prahalad *et al.*, 2003). Management lacks appreciation of unique underlying conditions and other related factors, such as socio-economic, cultural and consumer expectations which negatively affect the rate of winning sustainable new business in potential emerging markets (London *et al.*, 2004b). Western cultural and business behaviors can result in the following MNC assumptions:

- *Goods and services* – MNCs make the assumption that by introducing goods and services that were successful in the past, particularly in developed economies, the same commodities would be well received by the emerging market population. Through ignorance, MNC executives treat emerging markets as virgin markets with desperate consumers hungry to buy anything new that comes from developed countries. They perceive emerging markets as easy targets with huge market opportunities which do not warrant any proper strategic planning, formulation and prior market knowledge or in-depth understanding of the market (Prahalad *et al.*, 2003). The large number of potential customers in emerging markets raises MNC expectations of unprecedented demand for consumer goods, and so they redeploy Western business strategies that failed to attract new business (Meyer *et al.*, 2006).
- *Target market segments* – one of the greatest opportunities offered by emerging markets is the availability of large populations in different emerging countries, spread in the pyramid format with the majority of the

population residing at the BoP (Prahalad, 2004). MNC entrance strategies in emerging markets are unstructured, narrowly focused and target the supply of their products at a small market segment situated at the top of the population pyramid. The targeted segment is an elite society that can be categorised as relatively affluent buyers with a high resemblance to prototypical Western consumers (Prahalad *et al.*, 2003). The assumption made was that targeted market segments that are perceived to be familiar with Western products and services would opt for those commodities instead of local ones. The strategic approach of MNCs is to limit their access to the top market population of the pyramid and so misses great opportunities for penetrating BoP market populations (London *et al.*, 2004b).

- Lack of immersion for market intimacy – MNCs that invest in emerging markets fail to acknowledge the need to invest in time by deploying senior executives to investigate and study the underlying conditions in relation to consumer and other key stakeholder expectations. The final investment strategies deployed in various emerging markets ignores the fundamental issue of top management understanding market intricacies, prior to commitment of resources towards new business development (Meyer *et al.*, 2006).
- The perception that poverty in developing countries is a major driving force for consumers to unilaterally accept products and services that come from developed markets, distorts the design of final strategies deployed in

emerging markets. This perception creates inappropriate assumptions resulting in MNCs treating emerging markets as dumping places for Western products that were once successful in their markets (Khanna *et al.*, 1997).

- Western business models that succeed in developed economies are rolled out in emerging economies as an extension of their operations in developed economies. MNCs fail to achieve the success they have expected because of strategy misfits whereby inappropriate SMPs are deployed in the correct markets (Hoskisson *et al.*, 2000).
- There are high tendencies from MNCs to bluntly impose Western styles and practices in developing countries, by anticipating an increase in volume of business on the assumption that Western strategies have been tried and tested successfully in developed economies. The MNC mentality of not treating emerging economies as business counterparts, and rather adopting master and servant relationships, has brought disastrous results to the majority of MNCs that had good intentions of investing in emerging markets (Karnani, 2006).
- Corporate offices are regarded as the sole locus of innovation in the design of emerging market products, services and processes (Hart *et al.*, 2002a). Emerging market product features and attributes are developed in isolation of the market's underlying socio-economic conditions, cultural values and consumer expectations (Prahalad *et al.*, 2003).

2.3 SMP framework

2.3.1 Framework of guiding principles for SMPs

Raina (2010) concluded his working paper by giving a comprehensive account of the eight interrelated guiding principles that form key pillars of sound SMPs for MNC successes in emerging markets. A literature review was conducted to analyse and evaluate each of the five selected and scoped SMP principles, thereby assessing their relevance, applicability and the reasons why MNCs should adopt the framework when investing in emerging markets. Due to time constraints and the width of the original research scope, it was prudent to conduct a thorough literature review of the five selected SMPs focusing on: financial performance, testing and validation of the framework and MNC benefits when they fully adopt the framework.

The SMP framework is based on unique practical and global experiences, in the sense that it incorporates strict strategic and operational guidelines on how to effectively deal with underlying assumptions, conditions and the critical portfolio of competences ideal in guaranteeing MNC success in emerging markets (Raina, 2010).

2.3.2 SMP guiding principles for emerging markets

The SMP framework has eight interrelated principles that are key pillars in the framework, guiding the strategic design, execution and renewal of MNCs

strategies, so these may be relevant and aligned to emerging market environments as well as corporate objectives. Therefore, the following five SMPs scoped for the research study are discussed in detail below:

2.3.2.1 Immersion for market intimacy

Treacy and Wiersema (1993) claim that there are three paths that enable an organisation to be a reputable market leader:

- An in-depth understanding of current and future consumer needs and effective ways to fulfill existing demand, while continuously redefining value for specific targeted customers in respected potential markets;
- Companies should build powerful and cohesive business systems that can deliver more value-add, thereby exceeding their consumer expectations – this should be achieved beyond the technical competences of any competitors; and
- Successful satisfaction of the above two factors in understanding customer needs and setting up tailored supply and delivery mechanisms, that will continue to raise customer expectations beyond the reach of existing and future competition.

For companies to create a stronger market position and to be leaders in any market environment, they have to allow their senior executives to invest adequate amount of time in closely interacting with customers and getting to understand what consumer gaps and needs are in terms of products and basic services

(Cusumano, Mylonadis & Rosenbloom 1992). Market leaders in customer satisfaction should demonstrate the competences and capabilities to change what customers' value, and to introduce creative and innovative means on how to effectively deliver much-needed customer value while boosting the overall level of value customers continue to expect (Treacy *et al.*, 1995).

Arthur (1996) stated that years ago, customers reviewed and judged value benefits derived from products or services strictly on the then critical factors, namely quality and price; but there has been a huge shift in consumer demand in term of value. Such a shift has resulted in the knowledge of today and informed customers, irrespective of their market location, that is, developed or developing economies. Consumers have an expanded perceived concept and understanding of expected value, which now includes after-sales service, convenience of purchase, product or service dependability and cultural fit (Treacy *et al.*, 1993).

The importance of companies acquiring greater insight on customer intimacy in any potential market enables businesses to break the narrow view of customer value. It is the art and technique of appropriately building adequate customer insight which is the first priority for any business. It is then in a position to build relevant and competent resources, focused on delivering superior customer value, in line with three value disciplines – operational excellence, customer intimacy and product leadership (Treacy *et al.*, 1993). Treacy *et al.* (1993) further identifies the three value disciplines that are pertinent for any company to make

significant inroads in securing a viable and sustainable market share, compared to its competitors.

One of the three value disciplines is customer intimacy, which Treacy *et al.* (1993) rates second. However, the researcher of this study places it first because it plays an important role in triggering what business has to deliver to its targeted customers. Furthermore, the researcher decided to pitch customer intimacy, which is enshrined under immersion for markets, at first position based on influences of the SMPs that rate it the number one guiding principle in the SMP framework. Customer intimacy was recognised as the first value discipline to be incorporated in the MNCs strategies to improve the chances of penetrating new markets, when considering the stiff competition from other industry players.

Therefore Treacy *et al.* (1993) define customer intimacy as referring to specific market segmentation and the gathering of customer information, and other market intricacies that assist in designing consumer needs that offer to match the demands of a niche markets. Organisations that excel in customer intimacy would have intensified their groundwork on understanding and building firsthand customer knowledge in relation to customer needs, which facilitate operational flexibility in meeting consumer requirements (Stern, 1997). An appropriate understanding of customer intimacy at the correct management levels assists in the allocation of adequate and complete resources in responding timely to customer needs; this can consist of customisation requests on specific products

or services, to meeting *ad hoc* customer requests. Past experiences have demonstrated that appropriately conducted customer intimacy can bring greater flexibility in meeting consumer needs through product customisations. The free-flow of new ideas from consumers to company representatives assists in tapping into new opportunities, and further improves on the supply and distribution networks that specifically suit targeted customers (Potgieter & Roodt, 2007).

Stern (1997) established that immersion for market intimacy should be a responsibility shouldered by all company employees that get in direct contact with customers. Furthermore, Stern (1997) argues that the senior executives are expected to be deeply involved in the initial market surfing groundwork, by engaging in direct interaction with consumers in targeted potential market segments and collecting relevant customer information on their product and service needs. Senior management has a duty to correctly identify gaps in consumer requirements and any potential expectations that will satisfy daily customer needs (Treacy *et al.*, (1995).

It is perceived that for an organisation to supply and deliver the right products and services to match customer requirements, management has to execute an in-depth market study and understand types of product attributes and the features expected to add value to potential and existing customers. Time and period spent by senior managers in the understanding of the potential market requirements creates the correct platform for any organisation to introduce products and

services that will conform to consumer expectations, resulting in business growth and improved ROI (Arthur, 1996).

Stern (1997), further expressed that to continue with a positive impact on immersion for markets an organisation should design a strategy that will enable employees to manage customer relationships at all operational levels. Such a strategy can only be achieved only when executives introduce employee in-house training programs to convey strong messages, awareness and develop organisational culture on the importance of customer intimacy. The type of such a marketing strategy would be to continuously build support on initiatives championed by company executives during the establishment of new markets. Consumer needs are so dynamic and developing employees to professionally spend time with customers creates an environment that enables consumers to continuously and timely communicate any possible changes on their requirements as well as expectations that will be timely directed to employees.

Home Depot demonstrated a unique example on market immersion. Home Depot was acknowledged as a company that successfully developed and implemented a sound customer relationship strategy. It managed to train its clerks dealing directly with customer service, and identified that they should spend whatever time is required in servicing a customer to help them to identify products that would resolve specific household challenges and assist in improving customers' home environments (Stern, 1997). Factors that made such immersion for markets and customer intimacy strategies successful are the appreciation and rethink by

the executives on the importance of continuously interacting with their targeted market segments which gave the business advantageous information that assisted in the organisations providing products and services which were beyond customer expectations. It is important for organisations to complement the effort achieved by executives on immersion for market intimacy through developing an organisational culture that has a deeper sense of building relationships that give customer comfort to relay their needs, requirements, proposals and expectations (Stern, 1997).

Cuganesan (2005) suggested that it has become imperative for organisations to understand and know their customers and their living conditions in order to design and develop appropriate survival and penetration strategies that win business in different specific markets either in developed or emerging markets. Creation of customers needs awareness has become increasingly important in the light of organisations developing capabilities and competences to design, supply and deliver products or services lifestyles that meet and perform beyond customer expectations (Potgieter & Roodt, 2007). It is because of this background and previous researches that stimulated senior executives of various companies to strategically redesign their thinking in adopting relevant reforms on the practices that promote more on customer orientation. The mushrooming of strategies that are biased towards customer relationships managed to push organisations to set up their internal operations to embrace customer intimacy as new strategies that

will position companies to be market leaders in any potential targeted market (Treacy *et al.*, 1995).

The re-crafting of anticipatory customer strategies are meant to assist senior management to positively project and mitigate the lack of insights and disruptive changes taking place from the consumers side where customers products and services preferences abruptly shift due to unique influences not known by organisations (Smith & Colgate, 2007). Unpredictable shifts in customer product and service preferences can only be effectively managed and controlled by organisations through re-architect of strategies to deal with immersion for market intimacy.

Mass-market strategies have lost their relevance in managing organisations' customer relationships, resulting in better revised approaches that have led to the development of individualised customer managers; this has improved companies' understanding of the underlying conditions and product value direction of their customers. According to Cuganesan (2005), Zebuff (1996) declared that mass-market are no longer appropriate approaches to be followed considering the differentiated and information saturation experienced in different market places. The advent of the immersion for market concept has made mass-markets approaches obsolete because organisations produce or provide services in-line with specific needs of their individual customers. Immersion for market placed a focus by management on customised approaches that specifically meet the

needs of individual customers through full incorporation of individual customers needs during product- and service-design stages (Osarenkhoe, 2008). The main objective of immersion for market intimacy is to create an environment that assist companies to understand specific needs of their individual customers and position organisations to deliver unique and personalised experiences than competitors (Stern, 1997).

Treacy *et al.* (1993) observed that successful organisations strategising on immersion for markets intimacy are companies that have demonstrated the following characteristics and practices:

- Always focus beyond customer's needs for products or services by considering their broader underlying problems and how they can better achieve success, potentially changing the way the customer addresses problems and conducts business competitively;
- Team force offers personalised services and customised products and services that meet unique customer needs;
- Adopt strategies that build long term relationship-oriented approaches rather than transaction-specific to its customers; and
- Continuously develop procedures for building deep knowledge of customers, their operations and context within which they operate.

Khanna *et al.* (2006) concluded that several emerging market companies have managed to become significant global players by exploiting their understanding

and knowledge of local product markets and accurately anticipating local consumer needs and expectations. Emerging companies have kept the MNCs at bay through implementation of strategies that drives an in-depth understanding and adapting to factors and characteristics of the local customers and business ecosystems in their domestic markets (Ghemawat, 2007).

2.3.2.2 Position to dominate the main segments

Ross (1986) stated that organisations strive to exploit every minor lead opportunity down the learning processes in the learning curve that improves and strengthened into dominance of targeted specific market positions. The industrial rivals in existing and new potential markets remain at odds in creating strategic advantages that enhances their competitive positions in dominating future market segments. Companies established that there are various strategies that can be implemented in order to improve chances of occupying the first spot in suppressing competitors while dominating market position. Some of the suggested investment strategies that enhance market positioning are:

- Capacity building;
- Product differentiation or introduction of specific new products;
- Research and development;
- Learning by doing (in-process learning); and
- Customer intimacy.

Advancement in specialisation in some of these factors can be treated as key weapons in improving rivals' competitive position for market dominance (Stalk Jr, 1993). It is imperative to note that it's not necessarily an advantage for companies to exploit the first-mover strategy as an advantage that is likely to dominate their markets. Strategies that improve an organisation to dominate in a targeted market segment demanded re-launch of new and revised customised strategies reflecting a shift from the historical Western style of doing business in developed economies (Ross, 1986).

Abernathy (1978) stated that the most preferred strategic approach with a potential to improve a company dominance in a targeted market could be rolled out either by introducing specific products which contains customised product attributes and features for different specific segment markets, or by always taking a lead against its rivals in the introduction of creative and innovative products or services offered to satisfy identified consumer value needs at economic prices.

On the other hand, Porter (1980) argued that if a company fails to achieve consistently improved or increased market share that implies the organisation's experience curve will be inherently less profitable and less dominant compared to its competitors. If a company finds itself in such a difficult position of failing to effectively compete in that industry, senior executives should be encouraged to shift or move its business to other markets where it can compete for its dominance.

Bower and Christensen (1995) concluded that one of the pronounced and most consistent trends in the failure of leading organisations in maintaining its top spot in dominating the industry is inappropriate strategies implemented towards either technologies or market changes. A typical pattern of failure for companies to maintain top position in various markets can be illustrated by technology and computer industries (Markides, 1997). In the computer industry IBM managed to dominate the mainframe market for a numbers of years but failed to align its business strategies to specific expected future requirements of its existing and potential customers. IBM missed the opportunity to identify and anticipate revolutionary needs by industry customers which witnessed a huge customer requirements shift from the mainframe towards the emergence of minicomputers, a product of technological innovative changes which were much simpler and user friendly compared to the mainframe products (Bower *et al.*, 1995).

The fast changes in the life span of technology products due to continuous and frequent changes in customer needs surprised several technological companies that happened to have an opportunity to secure the top spot in market dominance in the industry. According to Bower *et al.* (1995) Digital Equipment (DE) dominated the minicomputer market with the introduction of highly innovated products such as VAX architecture and related technical products. Unfortunately Digital Equipment narrowed its product perspective with limited incorporation of what customers want as preferences that improve and simplify on their day-to-day needs and technological usage (Bower *et al.*, 1995). DE completely missed to

focus its business growth and marketing strategies to cover the lucrative market segment on personal computers that gave huge profitable opportunities to its competitors. The DE case demonstrates that for any company to improve its position to dominate the industry, it demands flexibility in re-formulating its business strategy allowing regular external updates incorporating direct input from customers, a lead that reflect on which direction customers needs are heading to (Bower *et al.*, 1995).

Apple Computers dominated in the world of personal computers and went further to identify and establish a niche on the expected customer needs on user-friendly portable computers. However, it took Apple Computers about five years to launch and introduce its portable computers to the market a period too long in giving its competitors great opportunities to disposition it from the top spot position of dominance in the personal and portable computers market (Bower *et al.*, 1995).

Bower *et al.* (1995) cited that companies that successfully dominate the markets are the ones that stay close to their existing and potential customers because most senior executives assume that they are in control of the market over-looking the power and influence of their customers which wield extraordinary force in directing company investments. Various studies have established that before organisations decide to develop and launch a product, build a plant, consider suitable technology or design mode/channels of distribution, management should examine and consult with customer preferences. Bower *et al.* (1995) felt this

might lead into getting precise answers to some of usual key questions, which are:

- Are customers in need of the intended product?
- What is the market size readily available to consume the new product?
- How viable and profitable is the investment?

It is expected that the more astute and diligent senior executives interrogate its customer environment in finding relevant answers to the types of such market and customer intimacy that will assist in providing complete solutions to their investments carrying more chances of success (Boehe, 2007). In this context strategies are implemented in alignment with customer specific needs. The power of deep understanding unique customer requirements resulted in empowering company management to take the responsibility of introducing products or services that strengthened its innovative characteristics and position to dominate targeted industrial market (Stewart, 1995). A case in point is the trends in the technology field where most well managed and led organisations are regularly ahead of their competitors in their industries in developing, launching and commercialising new innovative technical products that directly addresses and satisfy specific future generation needs and value expectations of their potential and retained loyal customers (Bower *et al.*, 1995).

Hout *et al.* (1982) demonstrated different key strategies that can be adopted by companies to enhance their dominance in any market position against industry

competitors. The illustration was done through a comprehensive evaluation and analysis of practical examples on how three different companies on different industries succeeded to achieve and maintain the top global dominance in their respective industries, these were Caterpillar, Ericsson and Honda (Hout *et al.*, 1982). These three companies reflected some critical commonalities that were perceived to be critical and need to be seriously considered if any organisation has a goal to secure top spot in being a market leader on its industry. The following characteristics were strongly observed and pronounced by different experiences of the three companies which reflected that:

- Competition is a global phenomenon that requires top management to have an in-depth understanding of customer value needs and future expectations being incorporated into product attributes and features before launch.
- Top management should formulate business strategies on an integrated worldwide basis. Strategies finally deployed should be unique and typical to satisfy different and specific targeted markets in acknowledging that particular markets in different countries will be faced with different underlying conditions and socioeconomic and cultural factors.
- Innovation – each organisation had to develop strategic innovation that will effectively influence the changes of the competitive rules in each specific and particular industry. The three organisation strategies were designed and executed in a manner that shows the importance of innovation in driving holistic business initiatives in leading specific industry markets. Strategies of these companies were kept relevant and renewed to the external environment

leveraging on innovation to guide and support the development of integrated global systems while demanding a stronger market position to roll it out as their new products (Hout *et al.*, 1982).

Hout *et al.* (1982) observed that Caterpillar Tractor Company succeeded to convert large-scale construction equipment into a renowned global business operation that eventually achieved number one spot as world leader in the heavy duty construction industry despite enormous competitive forces from the Japanese companies such as Komatsu. After a thorough and comprehensive understanding of targeted customer requirements, and the underlying conditions and assumptions of the regional and global markets appropriate strategies were formulated and correctly implemented to achieve positive results (Hamel, Doz & Prahalad, 1989). Caterpillar managed to structure its global network of sales in different countries that derived huge advantages that emanated from the designing of product lines that were standard in using universal components. The strategy further had top management's commitment to heavily invest in selected few large scale and state-of-the-art component manufacturing plant facilities meant to meet global demand (Porter, 1980). Therefore its global strategy managed to yield competitive advantages in production and operation cost and effectiveness compared to its global competitors. The success achieved in aligning the company strategy against the requirements of different and various global customer needs resulted in Caterpillar committing resources and competences that built and support flexible automated manufacturing systems

created an environment of full exploitation of the economies of scale from its worldwide sales volumes (Hout et al., 1982). Appropriate exploitation of the economies of scale created barriers to competitors, which saw Caterpillar effectively dominating the market as the industry global leader.

Management of Honda achieved global market dominance in the motorcycle industries due to the rethink and re-architect of the business strategy which incorporated some of the SMPs to achieve the following characteristics at execution level (Dawar & Frost, 1999):

- It appropriately converted and built into the final products market preferences that differentiate Honda's motorbikes from those of European and American competitors. Honda's global strategy was to retain existing customers and invests more in trying to understand potential new customers in trying to win them through supply products that meet their value expectations. Targeted new customers were effectively accessed through customised advertising, promotions and tradeshows whose objectives were to convince the potential consumers that Honda's motor bikes offers the outstanding benefits such as affordability, simplicity and reliability. The company did not deploy mode of distribution network to its customers but consumer needs and related socio-economic factors influenced final design and implemented distribution channels, established wider dealership scattered worldwide closely supported by retail stores (Dawar *et al.*, 1999). The distribution network extended various benefits to the end user consumers such as generous warranty for any bought

motor bikes, giving consumers peace of mind in case of major breakdown, comprehensive and easily accessible support services and fast spare parts availability. The formulation and implementation of this strategy mirrored specific the needs of the consumers, which were acquired by Honda's top management before designing and launching the final products. This approach enhances the importance of effectively aligning customer requirements with the company strategy resulting in positioning the organisation to excel ahead of its competitors in leading and dominating the market (Hout *et al.*, 1982). Hamel *et al.* (1994) argued that the painful upheavals experienced by many companies in recent years demonstrated the weaknesses of industry leaders' slow pace in dealing with industrial changes which determine whether a company can retain its market dominance position or not. Success in continuous improvement of market share and competences to push breaking into new potential markets can be achieved by senior managers' ability to working with first hand industry and market information. Timely accessing to such strategic information improves senior managers' competences to keep up with accelerated pace of industrial changes determined as critical input in re-evaluating, re-designing and re-adjusting company strategy to retain competitive top spot position in the industry (Hamel *et al.*, 1994).

2.3.2.3 Build new competences

One of the strategic reasons why emerging companies establish joint partnerships with organisations from developed economies is mainly to acquire

new competences that will assist in supporting business growth and technology advancement. Immelt, Govindarajan & Trimble, (2009) established that MNCs that succeeded to grow sustainable business in the emerging markets had adequately invested in building relevant portfolio of competences to even developed markets with competitive high quality products. Prahalad *et al.* (1994) sighted that future top executives' performance will be judged on their astuteness and ability to timely identify, cultivate and building new competences that are relevant in propping up the organisation to out-perform its competitors in dominating either developed or emerging markets. Leadership should demonstrate abilities to exploit in timely acceleration of building new competences to close any identified shortfall in order to remain industry competitive and take advantage of future opportunities (Porter, 2006).

Khanna *et al.* 1997) identified that NEC managed to successfully compete in diversified businesses ranging from semiconductors to consumer electronics in both developed and developing economies based on top executives aligned strategic approach which ensured that as the business invested in different markets its operations were closely supported by relevant new competences. Khanna *et al.* (1997) argued that NEC was a classic example that demonstrated effective usage of its core competences to excel in accomplishing what the majority of the companies attempted and failed to do. As NEC spread its business wings from developed markets to emerging economies senior management tactfully continued to evaluate and assess required portfolio of competences in

advance focusing on specific emerging markets prior approval and commitment of investment resources.

NEC management build new business which were guided by applied strategies which competed on the strength of forecasted and replenished new core competences in growing and inventing new markets where the company exploited successfully the imperfections and uniqueness of established specific developing markets. The company delivered beyond its customer's expectation because of adequate strategic alignment to maintain new competences that directly supported specific product development to distribution network. The majority of NEC customers were delighted with the value derived from products that performed over and above what they anticipated (Prahalad *et al.*, 2006). Building relevant portfolio of competences is strategically considered to be the mantra of MNC executives as they rollout strategic management practices in developing economies (Khanna *et al.*, 2005).

Strategies adopted by NEC in building new competences to strengthen its operations in invented new emerging markets concurred with the principle of building new competences highlighted in Raina (2010) working paper. Raina (2010) concluded that MNCs with an interest in expanding their business operations to emerging markets must look beyond their existing portfolio of competences, inherited from developed economies. Success for any organisation in developing markets depends on management's ability to diligently identify,

define and respectively build comprehensive portfolio of competences that addresses any anticipated shortcomings and exploit underlying conditions and unique imperfections that are peculiar to specific potential emerging markets (Raina, 2010).

Building of new relevant competences should be influenced by the outcome of the internal competence assessments conducted by the organisation in order to appropriately utilise its investments on existing and future needed technological advancements. Further advantages on establishing a good balance on business operations required competences would be the efficient allocation and utilisation of company resources in out-pacing competitors in new business development (Stalk *et al.*, 1992). 3M and Honda are typical examples of MNCs that designed and formulated their strategies to incorporate and ranked required competences as high priority for the survival of their businesses. Due to such maturity of 3M and Honda strategic processes toward building of new competences resulted in both organisations winning races for global brand dominance achieved through the creation of a wide variety of products generated from in-built diverse and relevant portfolio of competences which direct support towards respective specific operations in different invested markets (Mintzberg, Pascale, Goold & Rumelt, 1996). It is the establishment of committees which constituted top managers to continuously oversee the development of core products and core competences per specific markets that enabled these companies to build strong and reputable brands, win customer loyalty and accessed efficient distribution networks for all

divisions of the global subsidiaries (Prahalad *et al.*, 2006). GTE senior executives had to rethink and re-architect their global investment strategies after several failures of business ventures due to their narrow mentality of replicating strategies deployed successfully in other parts of different markets. GTE management had to reposition the whole business to align to the underlying conditions and unique characteristics of specific and different markets when it shifted its focus towards investments in emerging markets (Arnold & Quelch, 1998). Relevant and appropriate competences were built in response to specific earmarked products and available technologies that directly supported telecommunications services in emerging markets.

It is therefore important for top management to remain aware of consciously that competences are critical to the success of any organisation in meeting set business objectives. Competences are enhanced as senior managers create an environment and structures that ensure adequate communications and sharing of new competences at implementation level for the whole business, but not directed to strategic business-unit-mentality silos. For business stability particularly in emerging markets where MNCs face huge shortfall on available skills and competences it is recommended for the executives to safe guard the nurturing and close protection of developed portfolio of competences because companies are at risk of losing their established knowledge and expertise. Right levels of competences ought to be maintained for the business to continue improving its market competitiveness position in out-pacing its main rivals, hence the right

balance of portfolio of competences at any point in time should be treated and acknowledged as the glue that binds existing businesses and keep business operations in sync (Khanna *et al.*, 2006).

2.3.2.4 Empower emerging market Chief Executive Officers (CEOs)

There have been negative impressions in strategic management particularly in the leading emerging markets such as Brazil, Russia, India and China (BRIC) that what drives the acceleration of their economic growth is the abundance of local population estimated at two billion which act as the source of readily available market and low labour cost. This has been the Western mindset that has influenced decisions taken in appointing local candidates as token appointments for CEO positions, to lead MNC operations in emerging countries. Western viewpoints still regarded business expansions in emerging markets as a direct extension of developed market operations, whereby appointed CEOs are required to carry out corporate office instructions with highly limited authority to make any significant operational changes that boost local performance (Prahalad *et al.*, 2003). The lack of empowerment towards emerging markets CEOs has been clouded by a belief that these market resources irrespective of whatever level are considered as a cheaper form of labour, hence major decisions came from the head office (Fernández-Aráoz, 2007b). Several researchers observed that the same attitude given to CEOs of local origins is directed to expatriates CEOs assigned to head MNCs emerging market operations. The issue of control has obsessed Western MNCs resulting in direct suppression of emerging countries

talent and leadership agility that appreciated and understood the local market intricacies, socioeconomic and cultural factors that could unlock the rate of MNCs subsidiaries in developing economies (Immelt *et al.*, 2009).

Question 20 of the questionnaire reads, “Did the company appoint the CEO/head of the emerging market who had deep knowledge about the EM?” This question has been very pertinent in an effort to investigate realities of the types of strategies deployed in different specific emerging markets. Fernández-Arároz (2007a) acknowledged that though MNC senior executives have an understanding pertaining to changes and upheavals of the global dynamics and competitiveness the majority of these executives remain ignorant about specific factors and characteristics that appropriately positions deployed strategies to fruition. On the other hand, past researchers have shown that MNC executives were unaware that huge investments in communication technologies existed in India that became the most economic and valuable in compared to the developed parts of the economies if one considers the intellectual capital readily available. This is a unique situation unknown to the MNC executives that operate and control its emerging country operations from corporate offices stationed in developed countries (Ghemawat, 2007).

In relation to Question 20 above, in many instances it was noticeable that apart from deployed expatriates from developed countries, there was a strong contingent of locally talented CEOs who were knowledgeable and had a deep

understanding of the conditions and assumptions of the developing countries. However, such talented CEOs were never given latitude to maneuver their initiatives in developing business due to lack of empowerment from head office (Immelt *et al.*, 2009). Western imperialist mentality adapted by MNC executives limited the level of power and authority that could be empowered to CEOs in emerging markets to an extent that despite how knowledgeable the CEOs are about conditions and underlying assumptions on potential targeted emerging markets local CEOs had no authority to design and improve products attributes and features in the way they understood their local customer needs (Kolodko, 2003). Instead corporate offices gave direction of the nature, type and attributes that goes into the products based on their perceptions which were always incorrect contrasting with the reality on the ground (Fernández-Aráoz, 2007a).

Stewart (1995) concludes that MNCs have missed great opportunities to derive great benefits from empowering their subsidiaries operating in developing economies. Stewart (1995) envisaged that by granting subsidiary CEOs authority and freedom to lead their country operations the best way they understood their customers and the surrounding conditions that required corporate office executives to provide their subsidiaries with more space for initiative and promoting strong sense of ownership among the subsidiary leadership. Stewart (1995) further claimed that to achieve proper empowerment while creating a sense of ownership head office executives must adopt a new thinking that will lead to a complete overall of the existing strategies of controlling their world-wide

subsidiaries. Expected head office executive reforms should shift from attitude of high concentration of subsidiaries control and create practices and environment that promote self-management with clear lines of accountability in the relationship with the foreign operations in conformance with MNCs global strategy. Empowering of their foreign subsidiaries has the potential to improve on competitiveness advantages while yielding on great dividends in high innovation, productivity and flexibility at the working team level within country operations in relationship with other subsidiaries in different emerging economies (Stewart, 1995).

Stewart (1995) argued that for the MNC executives to create flourishing empowering strategies for their subsidiaries both head office and subsidiary leaders should demonstrate commitment to self-management as a change in organisational culture. Stewart (1995) concluded that commitment to self-management will be a mandate that promotes the empowerment of the subsidiary CEOs of MNCs. Empowering of subsidiaries should not be seen by corporate executives as a conflict with the initiatives to build a coherent world-wide business operation teams that support and complement each other in sustaining growth of the global operations in the proper context in respective to each region.

The breaking of barriers influenced by Western mentality through lack of trust, and the desire to control based on assumptions that Western leadership is superior compared with other nationalities, promotes pockets of excellence

among different subsidiaries that could be benchmarked to spread best practices customised to suit specific foreign operations (Stewart, 1995). The local guidance by respective empowered CEOs would be vital tapping into the latent potential of their work teams cascaded downwards within the official structures of the subsidiaries to promote a culture of self-management, empowerment and continuous learning. Self-management and empowerment are leadership characteristics that achieve improvements in responsiveness to customers, create gains in productivity and innovation meant to deliver products that go beyond customers' expectation per specific subsidiary market operation (Thompson *et al.*, 2001).

Prahalad *et al.* (2003) established that it is the responsibility of the corporate office senior executives to ensure that CEOs in emerging markets are empowered through exposing them to strategic development in critical competences required to grow the business in identified potential markets. Core competences are critical resources that can be applied as an effective empowering tool for CEO subsidiaries that assist in the conformance of the subsidiary operations to corporate strategic requirements and meet customers' expectations (Prahalad *et al.*, 2006).

According to Hamel *et al.* (2010) most of the MNCs business operations would not survive if they remain stuck in their old model mentality of conducting business in isolation of global realities. Hamel *et al.* (2010) went on to argue that

today's managers (CEOs) are faced with the challenge of thinking in terms of radical innovation that does not require direct control and corporate office influences. Hamel *et al.* (2010) school of thought is to close the era where head office executives treat MNC subsidiary CEOs as a direct extension of corporate administration. Subsidiary CEOs should be empowered and mandated to use their imagination, as it has strong relevance to their local market customer needs in order to effectively compete with other local industry players (London *et al.*, 2004a).

2.3.2.5 Building an inclusive culture

Bird and Stevens (2003) observed that due to the emergence of globalisation where the world business community shares in common issues such as geographic locations, socioeconomic class, religion and native languages should be harmonised by business leaders creating an environment that brings a common bond which becomes the centre of diversity in sharing same set of values, attitudes, norms and behaviors. Leadership plays a critical role to ensure that an inclusive culture that accommodates and take into consideration the multiple cultures that employees bring with them to an organisation. It is important for the executives to appreciate the negative impact caused by failure to create an environment that respects and accepts the diversity brought into an organization, as they recruit different people of different cultures at different organisational levels (Bird *et al.*, 2003). MNC executives can achieve long-term benefits,

particularly if they design and implement global cultural strategies that incorporate tolerance and inclusivity among their core values (Beechler & Baltzley, 2008).

Pless and Maak (2004) acknowledged that in the process of globalisation many companies have counted and recognised potential benefits that lie on building comprehensive multicultural workforce and went beyond creating more of inclusive working environments that prepares each employee to deliver their best effort at work. Pless *et al.* (2004) quoted Cox, 2001 who claimed that the process of developing and building an inclusive cultural environment has not been easy resulting in some organisation being disappointed in their failure to reach set transformation targets to amicably house diverse employees who could operate efficiently with respect from their peers and integrity of what they do.

MNC senior executives and business leaders in general need to understand the implications and the meaning of an inclusive culture that cannot be ignored in this day and age due to globalisation. Professional employees treat the world as a global village which means employees are free to seek employment in different countries they never thought of before. Decisions of seeking employment anywhere in the world have broken a number of barriers such as cultural, association, religion and socioeconomic (Pless *et al.*, 2004). Therefore, it is critical for MNC senior executives as they move to invest in emerging markets that they should formulate and develop strategies that incorporate sound management of diversity issues. Diversity should be acknowledged at an

executive level, that it refers essentially to the cultural norms and values, correct reflection of work conditions meant to create a genuine and true inclusive work environment where employees (people) from diverse backgrounds feels respected and recognised for their effort and team contribution (Pless *et al.*, 2004).

Pless *et al.* (2004) recognised and recommended that there are processes that could be applied in the development of building of a conducive environment which promote speedy building of an inclusive diversity of culture which can essential achieved in these 4 phases;

- Raising awareness on the importance and relevance of an inclusive culture to the organisation. This should include strategic building and understanding of all employees and continuous encouragement of reflection by the executives towards different groups of employees with an objective to establish a formidable team.
- The executives should formulate and develop a company strategic vision on cultural inclusivity that becomes a critical guiding processing step in the final course taken by the business as a direction on how to deal effectively and decisively when handling internal cultural diversity.
- The old way of dealing with culture diversity should be a wake-up call that should force management to re-think on better approaches that bring long term harmony in pursuing set strategic business objectives. The final models adapted by the executives should create an internal environment that ensures

that every employee's rights are respected and protected. On the other hand all employees contribution should be acknowledge without bias or favour, resulting in building trust between employees and management.

- The last stage is a strategic one referring to the design, formulation and implementation of an approved action plan indicating clear steps to be carried towards dealing with internal cultural diversity issues in association with official milestones that are used to review progress.

Radović Marković (2008) reflected that the issue of cultural diversity is an important business issue that cannot be swept under the carpet due to fundamental changes taking place in the globalisation process. Huge executive commitments should be put in place supported with adequate resources to ensure that strategies and models on changing people attitudes, perceptions and assumptions cultural matters are improved. The challenge faced in developing and building an inclusive diversity culture lies in the strength and moral foundation (Pless *et al.*, 2004).

Global employee teams constitute different people who come from different backgrounds expected to work in coherent and cooperatively in comfortable environments which promotes sharing of knowledge, experiences and coaching in a mutual trust. Pless *et al.* (2004) went further to quote Calton and Kurland (1996) who concluded that one of the factors that encourages employees to accept and accommodate the diversity of culture of other employees, will be reciprocal

recognition based on mutual trust; a key principle that bonds together employees of diverse cultures.

Radović Marković (2008) defined the organisational culture as values constituting the following factors and characteristics that assist in building an inclusive culture:

- The leadership style practised by the management on day to day basis when dealing with people issues;
- The language and symbols used when management and employees interact in teams while executing their assignments. The important practices that bind employees together such as respect and trust are some of the symbols treated as pillars of building an inclusive culture for diverse people in an organisation, and
- The procedures and routines reflect and guide how management deals with the cultural issues in preparatory to accommodate different people from different background and cultures who have the required expertise and competence to pursue their professions within the organisation.

Radović Marković (2008) went further to argue that in the context of globalization, an organisational culture should be perceived as a specific collection of different values and norms that are commonly shared and practised by the people within. It defines the principles of professional interaction among employees and the key external stakeholders. The evolution of cultural matters in a global sphere has completely made the geographic borders irrelevant and obsolete which means

people live in an era where business is conducted without boundary limitations. Companies that successfully developed and built working environment where cultural diversity is no longer an issues can sustain their competitive advantages in their respective industries in winning business in global regions (Radović Marković, 2008).

In building the ideal type of culture that fits well in a competitive global environment, global managers should thrive to motivate their employees and instill a sense of belonging from defined shared values (Pless *et al.*, 2004). It is the responsibility of global leaders to offer the diverse of their employees' work that is meaningful, challenging and interesting to prevent employees paying attention to minor distracters that come in the form of cultural differences (Radović Marković, 2008).

Researchers concurred that companies that are high performer which command their market and industry dominance successfully developed an inclusive culture where employees and the rest of the teams avoided an inward looking instead focuses on what's outside the company. Outside focus positions management and its employees to strategically spent time understanding their customers and the communities which enable the company to supply and deliver value add products or services because of the symbiotic relationship developed through close ties between employees and targeted customers and the communities (Radović Marković, 2008). The accountability on harmonising cultural differences

within global organisation starts and rest with the CEOs and company executives who should prepare and evolves the rest of the management structures within their companies as one of the major steps for building a strong and sustainable global leadership platform (Radović Marković, 2008).

The expected quality of management in diversified companies constitutes broader skills and competences to achieve adequate utilisation of the diverse of staff resources towards achieving set strategic goals. It is the quality of management that significantly contributes to the success and failure of the business due to leadership style that directly and fully engages all employees and stakeholders (Ansoff, 1987). Organisational culture has a direct impacted on leaders' management style but it is expected from the leaders to influence cultural direction of the organisation that will be adopted by the rest of employees. Top management has strategic influence to determine and set the tone that influences organisational inclusive culture for the employees (Pless *et al.*, 2004).

2.4 Conclusion

It was prudent to critically execute a thorough literature review of five of the eight interrelated SMPs in order to appropriately reconcile with the collected data results on the five selected and tested guiding principles. The final outcome of MNC executives' experiences and insights on doing business in emerging markets, gathered through the survey and literature review, assist in concluding whether the SMP framework would be relevant as one of the senior management

tools in successfully designing, processing and executing customised SMPs for specific emerging market segments and the framework's impact on MNC financial performances. There is great convergence by strategic gurus such as Prahalad (2004), Porter (2002) and other prominent researchers on strategy as to 'how' to build successful business models that win new business in emerging markets; these business models should be differentiated from the MNCs' adapted Western strategic investment strategies.

The literature theory review reflected that it was imperative and pertinent to execute an in-depth research study on the relationship between SMPs and the financial performance of MNCs in emerging markets, and the relevance of the SMP framework to improve MNCs success when developing businesses in emerging markets., The study findings will provide great insights to both current and future MNCs senior executives on strategic ways of building successful businesses in emerging markets. It is expected that the research study would identify future areas of research that would further enhance MNCs' strategy design and execution processes to access key market segments situated at the BoP in different emerging economies.

CHAPTER THREE: RESEARCH HYPOTHESES

3.1 Introduction

Based on the literature review in Chapter 2, research hypotheses were derived from the theoretically reviewed guiding principles that are empirically testable propositions of the relationship between two variables. Derived hypotheses will be tested and examined to establish the relationship between the SMP of MNCs and financial performance achieved when investing in emerging markets.

3.2 Null Hypotheses

H_{01} : MNCs do not practice immersion for market intimacy to achieve improved financial performance in emerging markets.

H_{02} : MNCs do not dominate main segments to achieve improved financial performance in emerging markets.

H_{03} : MNCs do not build new competences to achieve improved financial performance in emerging markets.

H_{04} : MNCs do not empower emerging market CEOs to achieve improved financial performance.

H_{05} : MNCs do not build an inclusive culture to achieve improved financial performance in emerging markets.

3.3 Alternative/Research hypotheses

H_{A1}: MNCs practice immersion for market intimacy to achieve improved financial performance in emerging markets.

H_{A2}: MNCs dominate main segments to achieve improved financial performance in emerging markets.

H_{A3}: MNCs build new competences to achieve improved financial performance in emerging markets.

H_{A4}: MNCs empower emerging market CEOs to achieve improved financial performance.

H_{A5}: MNCs build an inclusive culture to achieve improved financial performance in emerging markets.

The formulated research methodology in Chapter 4 was used to test and examine the above derived hypotheses, where each was either accepted or rejected based on the statistical findings presented and discussed in Chapters 5 and 6.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction

The purpose of this research study was to explore the relationship between SMPs and financial performance of MNCs in emerging markets. This section of the study report provides specific details of applied in-depth approach and methodology in data gathering, assumptions applied, population definition, unit of analysis, sampling and sample size. The section, furthermore, include details of the instruments used in data collection, data analysis methods and techniques, and study limitations perceived to be research weaknesses or gaps which may be classified as potential future research areas.

4.2 Research methodology

The study adopted a quantitative research approach where relevant MNC data was collected using a specially designed online questionnaire. The design and structure of the questionnaire allowed the research to isolate the underlying assumptions, challenges and perceptions applied by MNC executives when developing and deploying SMPs in emerging markets.

Furthermore the study used the descriptive approach, which critically reviews the secondary data from relevant available literature and previous research studies done on similar research topics. The descriptive study enabled the researcher and other academic readers to understand perceptions and attitudes of

companies from developed economies towards their agenda on wealth extraction in emerging countries. The study method gives readers of the research report a deep conceptual understanding of whether MNC strategies are developed to create sustainable business relationships with emerging countries. The overall design of the research methodology is meant to take a critical view in understanding the impact of assumptions used in the formulation and deployment of MNC strategies, when investing in emerging markets. The descriptive approach will be relevant when describing the characteristics of the targeted population (Zikmund, 2003).

The major observed error of the questionnaire research method was the non-response error also classified as a non-response bias, whereby targeted people who receive the survey deliberately fail to complete and return the questionnaire (Zikmund, 2003).

4.3 Rationale for the selected research method

The research method adopted in the study was found to be the most viable, practical and cost-effective in that it can be used to collect relevant data from a population sample that is globally scattered. The logistics on data gathering in the study were found to be feasible through usage of the questionnaire, which was completed via a self-administered web-based survey (Zikmund, 2003).

4.4 Research design

Zikmund (2003) stated that the research design is an overall plan that specifies methodology, procedures and other necessary steps to be applied during data collection and analytical review of key research information. It has been recommended by several researchers that the best research method to support the descriptive study is the questionnaire. Therefore, this study adopted a questionnaire survey that was circulated to a practically defined sample size drawn from a specific identified population of global MNCs, with business operations in emerging markets. The finally distributed questionnaire was designed as self-administered survey that was circulated via e-mail to a selected sample, constituting MNC senior managers, executives, directors and chief executive officers (CEOs) at both corporate/head offices and country cost-centre operations. The structure of the questionnaire was guided by five hypotheses which made the design of questionnaire statements and questions more specific and as practical as possible; this allowed the gathering of SMP factual input and the firsthand realities experienced when MNCs design, execute and renew strategies in their emerging market operations. It drew respondents who were precise and specific when contributing their insights and experiences to the survey. Each principle question was designed to drill down on the realities of the executives' execution of SMPs in potential emerging markets. It was important in the questionnaire's design that it gather critical strategy-developing input from senior executives, as they are directly involved in the formulation, restructuring

and approval of the final strategies intended to attract new business in emerging economies.

The idea to incorporate the questionnaire into an e-mail link for online distribution created the following benefits for the research study:

- Efficiency in the distribution of the questionnaire;
- Timely delivery of completed questionnaires from respondents, that is, a faster turnaround time;
- Well designed and structured web-administered questionnaire surveys consume very little of the respondents' time, considering that the research sample targets MNC senior managers who are committed to and busy with strategic issues;
- A self-administered questionnaire brings an element of flexibility, which allows respondents to be auto reminded to later complete any partially initiated survey; and
- The overall process tapped into the technological advantages of electronic facilitation of regional and global data collection, without any necessity to generate paper.

4.5 Assumptions

- The assumption applied in the study was that it would be possible for MNCs to formulate and develop relevant investment strategies

incorporating the socio-economic, cultural and political requirements of different emerging markets in order to win new sustainable business.

- Failure of some MNCs to win business in developing economies was based on the lack of change in mindset by MNC executives, who thought that redeploying investment strategies that succeeded in developed economies would attract business growth and success in emerging markets (Prahalad *et al.*, 2003).
- It was assumed that the failure of MNCs in emerging markets created an environment that promoted the mushrooming of successful emerging MNCs with roots originated in developing economies; these successfully competed with MNCs from developed economies for new business opportunities in emerging markets.
- Each segment of the emerging market is unique in its underlying conditions and dynamics, such that it was assumed one has to understand the intricacies of the targeted market(s) in order to successfully deploy relevant investment strategies.
- If MNC SMPs fully adhere to the five tested and validated principles/propositions selected from the SMP framework, the assumption is that deployed MNC strategies would succeed in winning sustainable business in emerging markets – hence, the SMP framework and its eight interrelated principles will be valid.

4.6 Unit of analysis, population and sample

4.6.1 Definition of unit of analysis

It is expected that whenever defining a problem, one has to clearly determine the unit of analysis (Zikmund, 2003). The unit of analysis is the central point and major entity on which the research study will be focusing. Therefore strategic senior managers working for global (developed and emerging economies) MNCs would be the proposed unit of analysis in this study, where investigations were done to establish the relationship between SMPs and financial performance of MNCs operating in emerging markets, and the validity of the SMP framework. Relevant recommendations were proposed based on the statistical output of the responses of MNC senior executive.

4.6.2 Population

The research study focused on MNCs with origins in developed and emerging countries, who invested in other markets. The universe relevant to the study was strategic senior management of MNCs, operating in both developed and developing economies. Strategic senior management in this context constitutes the executive managers of the parent company who are directly involved in decision-making to establish subsidiary entities in emerging markets, inclusive of the executive leadership of subsidiaries that fall under the category of the developing economy.

MNC senior managers in developed and developing economies were the best target population representation because they are directly involved in strategic decision-making and executions on whether to invest in preferred emerging markets or to sustain investments already held in developing economies. The selected population is involved in the core formulation and development of the type of investment strategies that are deployed in emerging markets, and these managers have authority and business knowledge to accurately articulate assumptions, perceptions, challenges and other factors considered necessary when investing in emerging markets.

The population of relevance from which the sample was drawn for data gathering consisted of:

- senior managers;
- executives;
- directors; and
- chief executive officers (CEOs).

The sample included senior managers operating from corporate offices and those deployed to establish and head up subsidiary operations in developing economies.

4.6.3 Sample and sampling method

Proposed sample size was set at 40 to be drawn from the entire population that constitutes global MNCs with interests and business operations in emerging

countries. Developed and developing economies constituted 100 percent of the global population from where the targeted sample was drawn. Sampling method used targeted all individuals that fall within the defined sampling category, with elements making up the population (Zikmund, 2003). The final sample size was conservative because of the logistic challenges experienced in accessing the selected sample of senior management. It would however be impossible to include all MNCs as part of the sample, considering that the proposed sample size had factored the risk element that emanated from response errors and non-responses.

Random and pre-determined sampling methods were applied during the selection of the targeted respondents (Zikmund, 2003). Pre-determined sampling technique automatically classifies all MNC senior managers, executives, directors and CEOs to fall within the defined parameters of the research sample specifications.

The researcher conducted a pilot to pre-test the questionnaire, with ten potential respondents from the MNC environment and four people outside the targeted population group (that is, academics and statisticians) before distribution of the final questionnaire. The objective of the pre-testing phase was to establish the clarity and acceptability of the design and structure of the questionnaire, while incorporating any review input from the pilot phase. Furthermore, the researcher used the data from the pre-test phase to evaluate whether it would be possible to statistically analyse and derive key inferences in the format expected. This

procedure was done in close liaison with the research supervisor and statistician to ensure that the final survey conformed to the required quality standards.

4.7 Sampling technique

A random sample of MNCs was selected from all emerging market regions, where the sampling technique gave every unit in the population an equal and known chance of being selected (Zikmund, 2003). Based on the nature of the target population, it was found that the random sampling technique would be the most ideal option available to give the intended results from the survey targeted at senior executives of MNCs (Zikmund, 2003). The questionnaire was distributed widely with the anticipation of a poor level of responses. There was a great deal of networking with potential and influential people, who encouraged their counterparts to respond and circulate the survey to as many executives as possible that fell within the context of the study. One of the key sampling techniques targeted access to MNC executives whose mandate was to develop new business in emerging countries. The questionnaire was directed at senior management operating from corporate offices and those heading up country operations treated as cost centres by their head offices.

4.8 Research instrument and data collection

Data was collected via an online instrument that drives self-administered online surveys through a subscribed internet service, known as SurveyMonkey. Zikmund (2003) cited that surveys have been in use for the past 50 years and have been

revolutionised to a level that survey research techniques and standards have become fairly scientific and accurate. According to Zikmund (2003), it is expected that benefits can be derived from the usage of such instruments in that the survey provides quick, inexpensive, efficient and accurate means of data gathering, and efficiently assesses information in order to draw inferences about the population under investigation.

The design of the questionnaire was meant to ensure that only the targeted population sample would have competences to respond to the critically structured questions. This was done deliberately knowing that the questionnaire was the only key data collection instrument. Senior executives had to apply their mind before responding to the whole questionnaire, particularly questions 7 to 10 that demanded specifics on involvement in developing new business in emerging countries. Therefore the way the questionnaire was designed meant it was not suitable for general administrative employees, but for executives who still needed to apply their strategic thinking cap in sharing their SMP insights and experiences.

The online internet survey created a conducive environment for respondent confidentiality, as they completed the questionnaire with zero elements on bias in comparison to an interview process.

4.9 Procedure for data collection and data instrument design

The data for the research was entirely of a quantitative nature and the main tool that assisted in the gathering of the required data was the self-administered online questionnaire/survey, which was distributed to a selected sample by conforming to the designed sampling technique (Zikmund, 2003). Data collection roll-out spread to MNC senior managers and executives as classified under section 4.6.2. Therefore, it was important that the questionnaire was designed and structured in a precise, concise and simplified professional manner, in order not to fail extracting realities on SMPs deployed by MNCs in emerging economies (Zikmund, 2003).

On the other hand, it was pertinent to avoid at all cost any possible element of ambiguity in the questions finally incorporated into the questionnaire, a technique meant to reduce unnecessary noise regarding the data to be analysed (Zikmund, 2003). Zikmund (2003) indicated that a survey is as good as the questions it asks, which means the researcher designed a professional questionnaire made up of questions written in understandable English, and further simplified and grouped in their respective classifications not to lose any of the respondents. Zikmund (2003) went further to state that there are only two important criteria a questionnaire should satisfy in order to achieve the researcher's objective – namely, relevance and accuracy. The final distributed questionnaire was designed to collect only relevant and pertinent data related to MNC SMP matters experienced in developing countries in relationship to SMPs principles.

The survey was deliberately kept to a minimum length, with 26 short statements and questions focused on specific product and strategic matters. The objective was to increase the response rate and at the same time lower the error of non-response (Zikmund, 2003).

It was only at the point where all key survey pre-test contributions were incorporated into the questionnaire, that the researcher received a quality approval from the research supervisor. The same supervisor was scheduled to moderate and advise on the release and distribution of the final survey to the targeted population sample. Independent quality review carried during the survey pre-test was treated as the key quality checkpoint and as a final quality assurance, which then resulted in the distribution of the survey via the online service called SurveyMonkey.

The internet service provided functionalities meant to closely monitor response progress on the completion of each questionnaire. In some instances, respondents received auto-reminders to complete the pending survey. A courtesy reminder process conducted in a friendly and voluntary way minimised the risk of non-response error, due to the possibility of annoyance (Zikmund, 2003). The questionnaire was accompanied by a confidentiality and voluntary notification to assure respondents that their names and company details would not be needed during data collection or at the point of publishing the research report.

For the final distributed questionnaire can be seen at Appendix 1. Five-point Likert rating scale was predominantly used for the questionnaire/survey, with the scale ranging from strongly disagree (rated 1) to strongly agree (rated 5) as the measurement of determined variables per respective survey question/statement. Likert-type scales generally are applied in research surveys and known to ask respondents to indicate their level of satisfaction and agreement with a given statement (DeVellis, 2003; Netemeyer, Beaden and Sharma, 2003). The five-point Likert scale is useful when respondents show their attitudes by reviewing the extent of their agreement with constructed statements that range from highly negative to highly positive (Zikmund, 2003). The design of questionnaire had to fit into global standard industry classification as it was meant to target global respondents and avoid at all cost any industry mix-up during assessments and completion of the online survey (Clarke, 1989).

4.10 Data analysis and interpretation

Zikmund (2003) described the process of data analysis as the transformation of raw data into information that is easier to understand and interpret, and finally assists in decision-making when dealing with specific and identified problems. All completed and returned questionnaires were downloaded into a spreadsheet direct from SurveyMonkey, and thereafter underwent an evaluation and coding process. The process involved data review, as well as checking and adjustment for data omissions and consistency (Zikmund, 2003). It was observed during the evaluation and coding process that some respondents completely failed to

attempt certain key statements/questions, resulting in several gaps. However, to ensure that there was consistency while minimising any distortions in collecting primary data, all gaps which resembled missing fields were treated as blanks during the data analysis.

Data analysis adapted after successful collection and review of primary data took the format of basic data technique for the descriptive statistics and frequency tables. The tool used to execute the statistical analysis of the fieldwork data was SPSS 18. SPSS 18 is a widely used statistical package with broader statistical functionalities to perform in-depth statistical data mining, leading to accurate and reliable conclusive inferences based on the primary data. Furthermore, test and analysis adopted non- parametric statistical testing methods because the total number of responses were 45, but effectively rounded down to 36 due to data cleansing and coding. This was in comparison to parametric testing, which initially planned for an estimated projection of total responses within the region of 30 and below.

The final inferences resulted in the establishment and identification of SMPs that are individually and jointly contributing to the financial performance of MNCs in emerging market operations. At the conclusion of the study, the research identified the relevance of the framework and benefits derived by MNCs in adopting the SMP framework for their emerging market operations.

4.11 Limitations of the study

The process engaged in conducting this research was not a simple and straightforward procedure, because the study was faced with certain challenges and limitations that went beyond the control of the researcher but created a potential environment for future research studies:

- The sample size was not sufficiently representative to warrant a conclusive and convincing strategic position on the relationship between SMPs and the financial performance of MNCs in emerging markets.
- There are eight interrelated principles that make up the SMP framework, but the research methodology was designed to test and conclude based on five selected principles perceived to be key pillars of the SMP framework. This approach was adapted in order to circumvent experienced time constraints.
- The survey required input from MNC senior executives but the majority failed to respond to the distributed questionnaire. Hence there was anticipation of a low rate of responses considering the limited time available to run the survey. The response rate could have been better if there was adequate time to persistently circulate reminders to senior management, thereby encouraging them to respond. However, due to the tight and hectic schedules for senior management on strategic matters, it was found that responding to an academic survey was not a priority for them.
- Access to directors and senior managers had great dependence on their Personal Assistants (PAs). There was therefore an element of risk in that PAs

could fail to forward the emailed questionnaire link to the intended senior executives.

CHAPTER FIVE: RESULTS

5.1 Introduction

This chapter presents the results as collected from the field. A brief overview of each part of the presented summary results will be provided followed by an in-depth evaluation and discussion in Chapter 6. A total of 45 responses were received from various MNC senior managers operating in different parts of the world. A total of 150 online questionnaires were distributed to potential respondents, with an estimated response forecast of about 30 to 35, due to the low anticipated response rate from executives. It was prudent to cleanse the data before statistical analysis. Some missing fields were observed that distorted the final results of the study. Therefore, a value analysis of the missing data was done, resulting in actual usable data from the 36 respondents. Effectively 36 fully completed questionnaires constituted an actual response rate of 24 percent for this research study, which was positive compared to other previous surveys.

The design of the questionnaire meant that managers who were not directly involved in strategic issues were not likely to be able to complete it. It was observed in the missing field values on nine rejected surveys that those who attempted to complete it failed to address, for example, questions 5, 7 and 26, which demanded specifics and precise new products and services that had been launched over the past 10 years. These details were required for the purpose of

finding out the actual financial results achieved by those who led operations in emerging markets.

5.2 Descriptive statistics

Table 2 below shows the total response by industry type and this sample includes the nine responses that were rejected due to missing data. Table 2 contains an industry type 'other', which refers to some of the options provided by the respondents because their industry type was not part of the options included as part of the questionnaire answer selection list. Industries that fall under 'other' in Table 2 are automotive, ICT, healthcare, pharmaceuticals, petrochemicals, food, transport, hotels and casinos, consulting and agriculture.

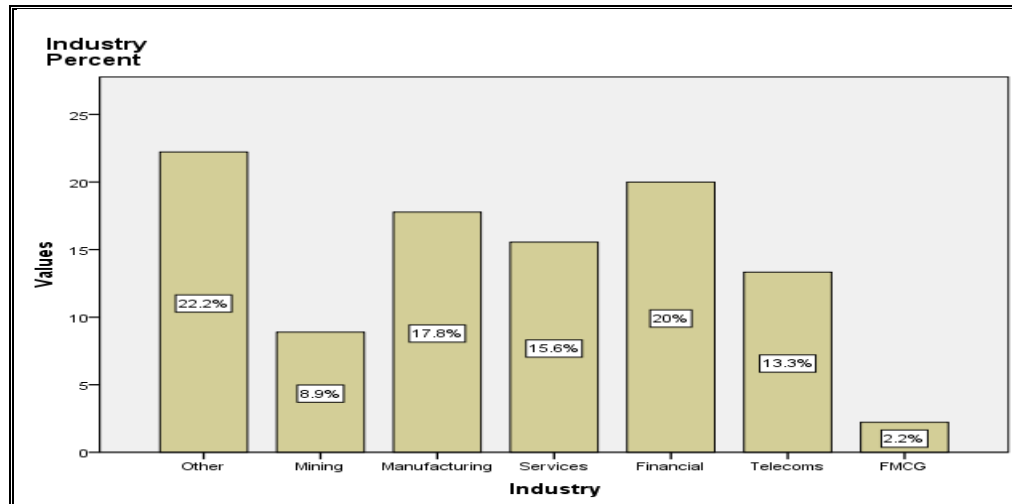
Table 2: Industry type pattern responses

Industry Type	Frequency	Percent	Valid Percent	Cumulative Percent
Other	10	22.2	22.2	22.2
Mining	4	8.9	8.9	31.1
Manufacturing	8	17.8	17.8	48.9
Services	7	15.6	15.6	64.4
Financial	9	20.0	20.0	84.4
Telecoms	6	13.3	13.3	97.8
FMCG	1	2.2	2.2	100.0
Total	45	100.0	100.0	

Figure 1 below illustrates the percentage distribution per industrial sector in the manner the questionnaire was responded to. Based on the design and structure of the questionnaire, the researcher was confident that the 36 completed questionnaires had been submitted by MNC top management that is directly involved in strategic initiatives to grow their businesses in competitive emerging

markets. Hence, the research scope was achieved by getting hands-on and firsthand data from experienced senior executives who are responsible for strategy design, processes and execution in emerging market context.

Figure 1: Industry type percentage responses



It is shown in Figure 1, above, that the highest survey responses came from category 'other', which represents a 22.2 percent response rate followed by the financial sector, which constitutes 20 percent of the total responses.

The pie chart shown in Figure 2 below is illustrative of the respondents' range of hands-on experience in strategic matters for emerging market businesses. According to Figure 2, 43.8 percent of total responses came from top management with between one to three years of fieldwork experience; these executives were operating within the role of being directly mandated to drive and develop emerging market business growth. Top management with five years and above fieldwork experience in developing business ventures in emerging markets

represented 21.9 percent of the total respondents. These statistics give a fair balance of experienced fieldwork senior executives in order to provide reliable questionnaire responses to test and validate the research study objectives.

Figure 2: Respondents with EMs fieldwork experiences

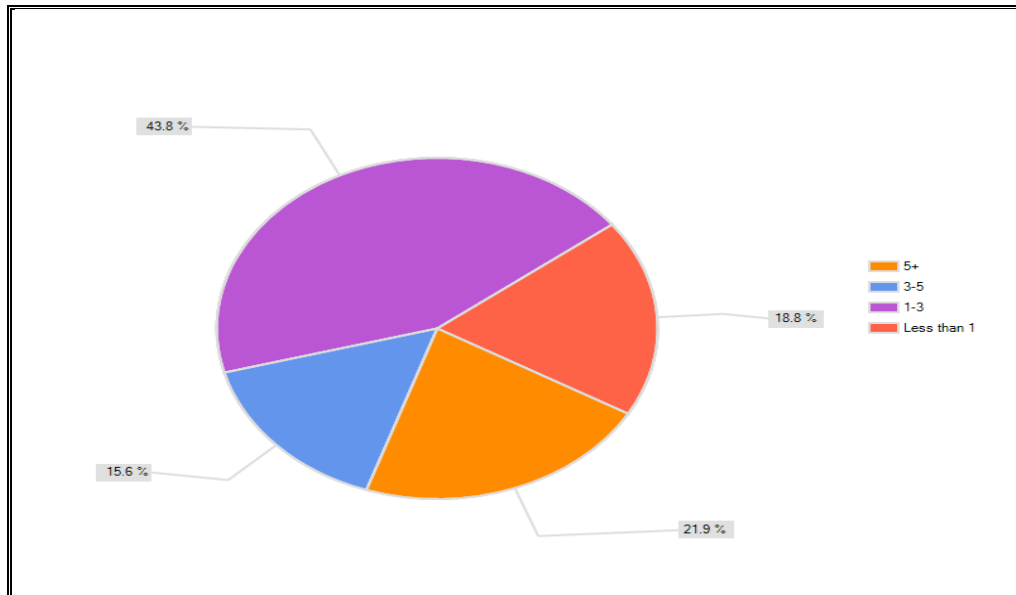


Table 3 below gives an overview of respondents' emerging county representation, where their MNCs have been operating over the past 10 years. 37.5 percent of respondents came from senior management whose operations are in Africa. Russian and Indian responses constituted 12.5 percent, while Brazil and China had 11.6 percent representation respectively. The key emerging markets, namely Brazil, Russia, India, China (BRIC) and Africa had a significant response rate representation to ensure a sound and meaningful conclusion of the research study.

Table 3: Emerging market response pattern

Emerging markets	Responses		Percent of Cases
	N	Percent	
Africa	42	37.5%	93.3%
Middle East	16	14.3%	35.6%
Brazil	13	11.6%	28.9%
Russia	14	12.5%	31.1%
China	13	11.6%	28.9%
India	14	12.5%	31.1%
Total	112	100.0%	248.9%

Figure 3: Emerging Market Frequencies Response Percentage

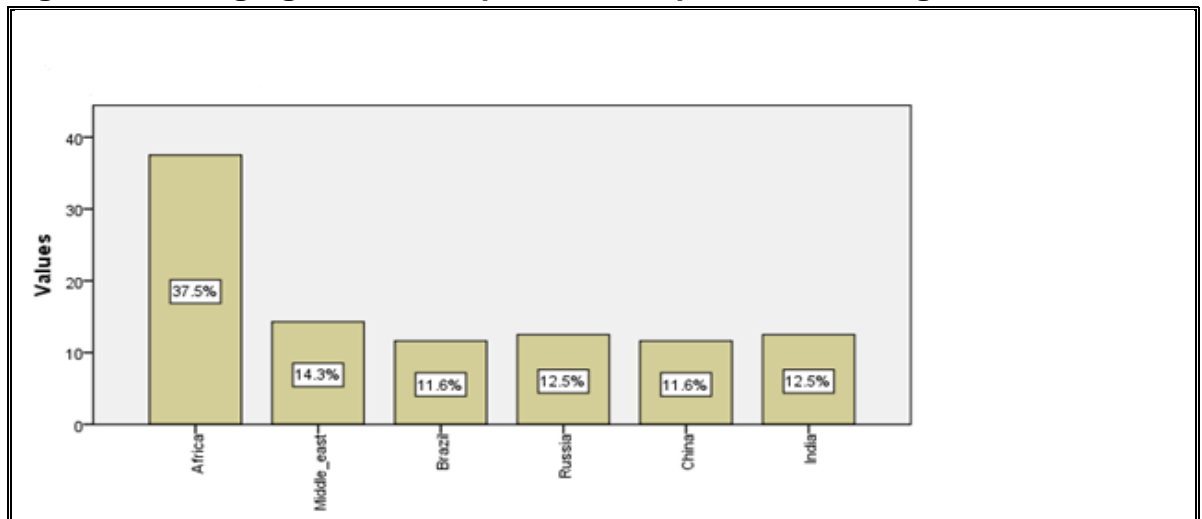


Figure 3 shows a graphical representation of Table 3, with emerging markets that had completed the survey. The results show a good and reasonable spread of the major emerging market regions that voluntarily participated and provided insights and experiences on doing business in emerging markets.

It is of paramount importance to note the wide representation of developed countries with operations in emerging markets. This is illustrated by their corporate office representation (refer to Table 4), which is globally spread from

small developing countries to developed nations such as France, the United Kingdom and Japan. This again strengthened the case for evidence on the fact that gathered responses are a fair representation of realities on how MNCs are pursuing business investments in emerging markets.

Table 4: Corporate/head office of MNCs with operations in EMs

	Country	Frequency	Percent	Valid Percent
Valid	France	4	8.9	8.9
	Germany	1	2.2	2.2
	Japan	1	2.2	2.2
	Middle East	1	2.2	2.2
	South Africa	20	44.4	44.4
	Sweden	1	2.2	2.2
	Switzerland	2	4.4	4.4
	UAE	1	2.2	2.2
	Uganda	1	2.2	2.2
	UK	6	13.3	13.3
	US	6	13.3	13.3
	Zimbabwe	1	2.2	2.2
	Total	45	100.0	100.0

According to Table 4 above, South Africa is depicted as representing 44.4 percent of different MNC corporate offices whose operations are in various emerging countries, including South Africa. With this 44.4 percent, South Africa has emerged as the most attractive country in which MNCs can relocate their head offices, in order to spearhead business investments in other potential emerging markets.

5.3 Statistical results for the five SMPs

An analysis was done to evaluate the response rate per question, particularly in assessing questions relating to the guiding principles for SMPs. The guiding principles for SMPs fall into the core focus of the research study, whose objective

is to test and validate the effectiveness and efficiency of the implementation and practical side of the framework, in relation to the financial performance of MNC operations in emerging markets.

Table 5: The Five SMPs in Descriptive Statistics

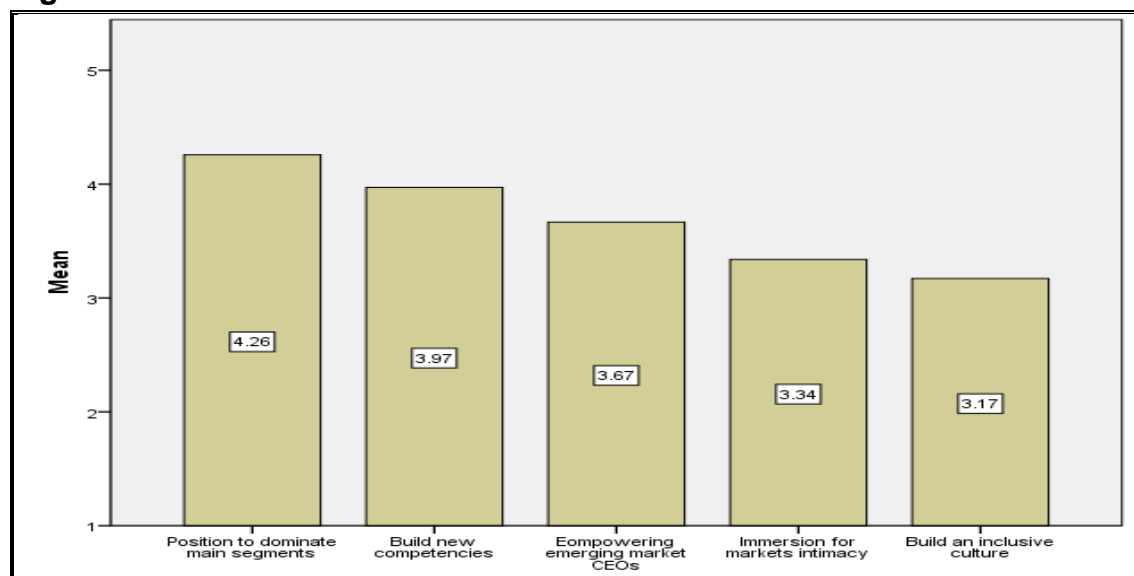
Five SMPs	N	Minimum	Maximum	Mean	Std. Deviation
Immersion for market intimacy	36	2.00	5.00	3.3704	.83010
Positioning to dominate the main segments	37	3.00	5.00	4.1982	.54126
Building new competences	37	2.00	5.00	3.9369	.84195
Empowering emerging market CEOs	37	2.00	5.00	3.6126	.92801
Building an inclusive culture	37	1.00	5.00	3.1081	1.01548
Valid N (listwise)	35				

The actual number of responses per question pertaining to each SMP ranged from a minimum of 36 to a maximum of 37. This pattern demonstrates that the key components of the questionnaire, when testing and validating the framework, were responded to. The minimum and maximum factor analysis in Table 5 against each empirically testable SMP were derived from the five-point Likert scale rating, which ranges from strongly disagree (1) to strongly agree (5). According to descriptive statistics in Table 5, the SMP 'positioning to dominate the main segments' got the highest mean rating of 4.2 compared to the rest of the principles. This means that most respondents are practicing this principle or are in favour of immediately practicing the same principle in order to improve the financial performance of their business. On the other hand, the SMP of 'building an inclusive culture' had the lowest mean of 3.1 and a standard deviation of 1.015, signifying that few respondents are not yet perceiving the principle as a

critical component that has the impetus to drive the financial results of their operations in emerging markets.

Figure 4 shows a mean diagrammatic illustration of the MNC respondents' current practices regarding strategy design and execution for developing business in emerging markets. It is clear from Figure 4 that MNC top managers predominately push for an immediate agenda to dominate potential markets whenever they invest in emerging markets, while the SMP of building an inclusive culture did not seem to be a priority for MNC senior executives.

Figure 4: Mean for the five SMPs



The next section evaluates in summary the core questions that extract practical and firsthand fieldwork information on the framework of the guiding principles for the five tested SMPs in emerging markets.

Maximum, minimum, factor analysis, mean and standard deviations per core questions in all the descriptive statistics assisted in a deeper evaluation and analysis of respondents level of agreement with declarative questions and statements (Netemeyer *et al.*, (2003).

5.4 Results pertaining to SMP specific survey questions

Question 11 represents the first core question (refer Appendix 1) requesting specific fieldwork information on SMPs. The first SMP examined was immersion for market intimacy whereby top managers were expected to provide their practices, fieldwork experiences and insights when executing immersion of identified opportunities in emerging markets. Table 5 reflects that 44.4 percent of the respondents acknowledged that their organisations deploy more than six senior staff in emerging countries, who are directly engaged in performing hands-on investigations and understanding the underlying conditions and assumptions of emerging markets prior to the investment approval. 16.7 percent of MNC respondents confirm that a minimum number of senior staff is assigned to investigate new and potential markets in emerging economies.

Table 6: Senior staff involvement in new emerging markets

<i>How many senior staff were deployed by your company in the specific emerging market to collect information and become familiar with the market prior to investment approval?</i>		
Answer Options	Response Percent	Response Count
6+ senior staff	44.4%	16
5-6 senior staff	5.6%	2
3-4 senior staff	33.3%	12
1-2 senior staff	16.7%	6
0 senior staff	0.0%	0
	<i>answered question</i>	36
	<i>skipped question</i>	9

It is important to note that all of the MNC respondents (Table 6) agreed and appreciated that immersion for markets is being treated seriously at strategic level, through direct involvement of senior executives in developing new business opportunities in emerging markets.

The pertinent follow-up question (12) requested that respondents quantify the amount of person-months invested by senior staff in emerging markets, regarding the investigation of market viability, and understanding and collecting relevant market information. Table 7 shows that 28.1 percent represent a fly-by-night business survey conducted by senior staff, who assess potential emerging market opportunities briefly and return to corporate offices by the following morning. Finalisation of emerging market investment decisions are done without considering realities and market context on the ground, but in most instances only by relying on secondary market researchers. On the other hand, 34.4 percent of the total responses indicated that according to Table 7 below, senior executives invest more than 25 person-months on understudying markets intricacies and consumer requirements prior to any investment approval. The remainder of the

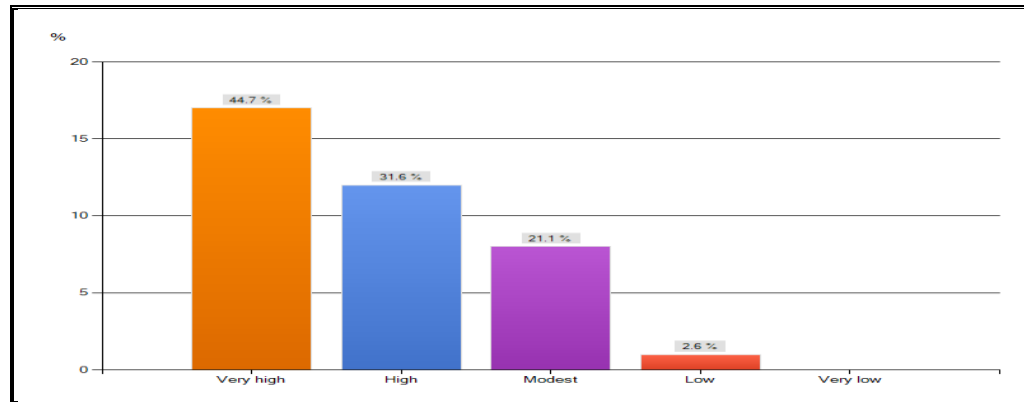
response range represents good practices by MNC top management when assessing the viability of potential markets in emerging economies.

Table 7: Top management person-months

Person-months		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	>5 but <10	9	20.0	28.1	28.1
	>10 but <15	5	11.1	15.6	43.8
	>15 but <20	3	6.7	9.4	53.1
	>20 but <25	4	8.9	12.5	65.6
	>25	11	24.4	34.4	100.0
	Total	32	71.1	100.0	
Missing	System	13	28.9		
Total		45	100.0		

Figure 5 (below) shows a maximum of 44.7 percentage of senior executives whose strategy is to engage with local industry players as part of the ‘immersion for market intimacy strategy, hence acquiring a complete knowledge of the potential market intricacies used as input to finalise investment strategies for emerging markets. Figure 5 shows clearly that a percentage as low as 2.6 constitutes senior executives who disregard the importance of local industry players when considering investment in envisaged new potential emerging markets.

Figure 5: Senior staff strategies of local industry competitors



It is evident from Figure 6 (below) that the majority of MNC respondents have similar strategies of being significant players, by dominating the main potential market segments that exist in emerging markets. 10.6 percent of MNC executives were neutral, in other words, they did not classify whether one of their business goals is to be a significant and dominating industry player when pursuing new business opportunities in emerging markets. Furthermore, Figure 6 shows 2.6 percent of MNC senior management who disagree with the business motive of dominating new main market segments in emerging markets. These executives enjoy doing business in emerging markets without activating competition forces from other key industry players.

Figure 6: Strategy to dominate new main segments

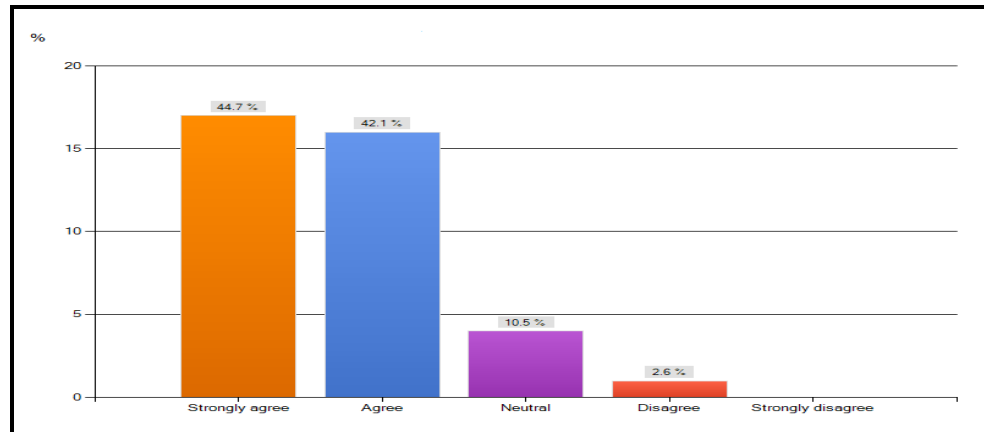


Table 8 shows descriptive statistics of 56.8 percent for MNC senior managers who acknowledge through online surveys that their organisations have moved into emerging market investments with clearly identified specific products and services; unique features suitable and customised for emerging market offerings. The descriptive statistics shown in Table 8 confirm that only 2.7 percent of MNC executives disagree with the notion adopted by the majority of senior management, of investing in research and development (R&D) in formulating and clearly identifying specific product and service features that clearly suit local consumers.

Table 8: Strategy to dominate new markets

Rating		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	2.2	2.7	2.7
	Neutral	4	8.9	10.8	13.5
	Agree	21	46.7	56.8	70.3
	Strongly agree	11	24.4	29.7	100.0
	Total	37	82.2	100.0	
Missing	System	8	17.8		
Total		45	100.0		

Figure 7 shows the actual response from MNC senior managers, with a combined majority response rate of 74 percent (agree and strongly agree), in considering a customised pricing structure for emerging markets as one of the key elements to win significant business when investing here. 26percent of the executives could not take a firm position in pronouncing their current or intended pricing strategy in emerging markets. Statistically, the majority of total responses were skewed in support of introducing designed pricing structures that incorporated critical market fundamentals unique to the specific and differing emerging market segments, in order to attract business growth.

Figure 7: Pricing strategy for emerging market products

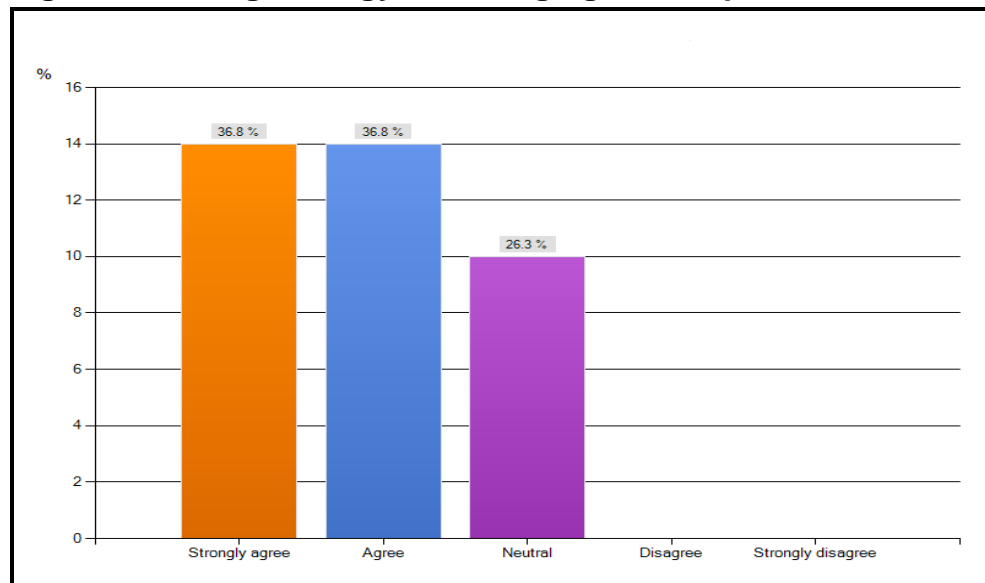


Table 9, 10 and 11 statistically confirm that MNC top executives concur when it comes to the required competences that will improve their business competitiveness and success in emerging markets (EMs), with no response rating on strongly disagree. However, a significant number of respondents (29.7

percent – disagree plus neutral) – indicated as shown in Table 11 – do not think that their organisations are doing enough to allocate adequate resources towards the building of new required and critical competences to attract market share.

Table 9: Investigations of new competences for EMs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	8.9	10.8	10.8
	Neutral	2	4.4	5.4	16.2
	Agree	19	42.2	51.4	67.6
	Strongly agree	12	26.7	32.4	100.0
	Total	37	82.2	100.0	
Missing	System	8	17.8		
Total		45	100.0		

Table 10: Identifying new competences needed in EMs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	6.7	8.3	8.3
	Neutral	5	11.1	13.9	22.2
	Agree	18	40.0	50.0	72.2
	Strongly agree	10	22.2	27.8	100.0
	Total	36	80.0	100.0	
Missing	System	9	20.0		
Total		45	100.0		

Table 11: Building new competences for EMs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	15.6	18.9	18.9
	Neutral	4	8.9	10.8	29.7
	Agree	16	35.6	43.2	73.0
	Strongly agree	10	22.2	27.0	100.0
	Total	37	82.2	100.0	
Missing	System	8	17.8		
Total		45	100.0		

It is evident from Figure 8 that significant numbers of MNCs have confidence that appointed emerging market CEOs have a reasonable knowledge of the local

markets they will be in-charge of. This information puts 55.8 percent (combined agree and strongly agree ratings) of MNC executives as positively supporting the idea that the appointment of emerging market CEOs are based on the incumbents' knowledge and experience of emerging markets. However, it is important to take serious cognisance of the MNC top managers that strongly disagree (2.6 percent), disagree (18.4 percent) and are neutral (13.2 percent) with the remainder of the respondents, because their responses contributed a significant 34.2 percent of the total responses. A response rate of 34.2 percent warrants thorough investigation by senior management, because it contains some element of truth about MNC strategic practices on the ground.

Figure 8: CEOs for emerging markets

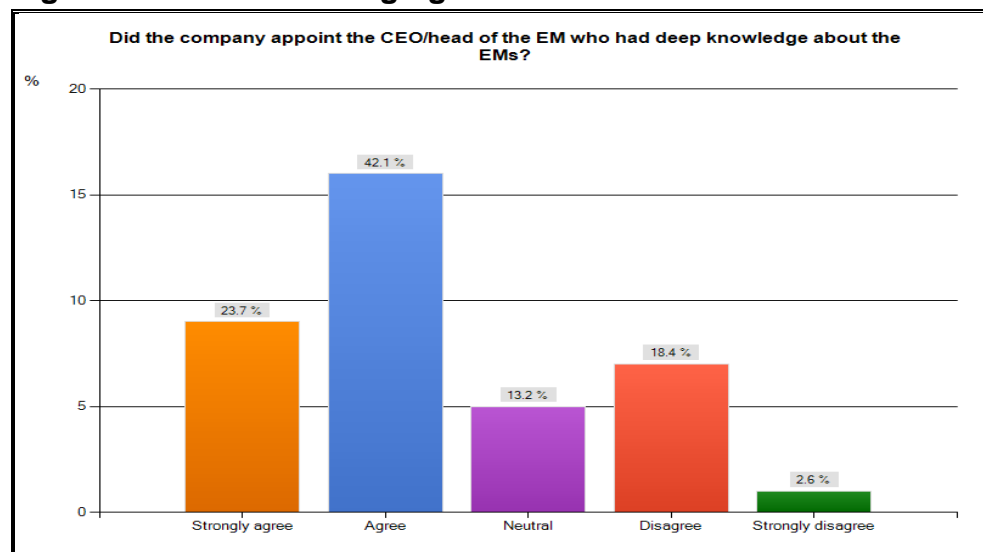
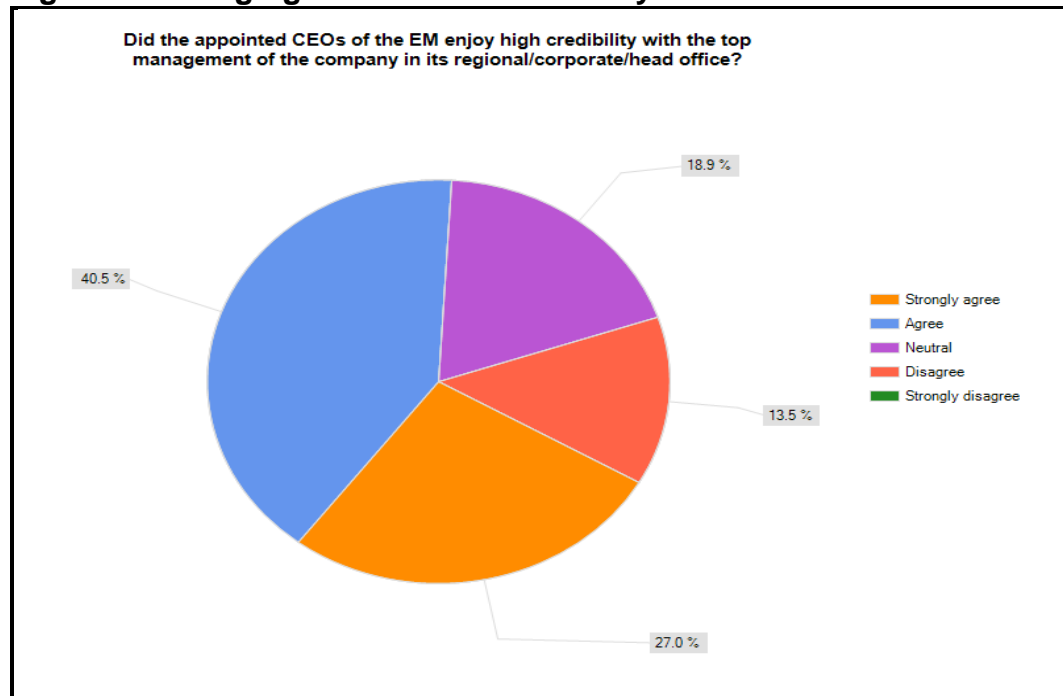


Figure 9 depicts a pie chart with actual MNC responses on their assessment of credibility granted when appointing emerging markets CEOs. A total of 40.5 percent (agree) and 18.9 percent (strongly agree) of the executives feel that

corporate offices respect the authority of empowered CEOs of emerging markets to independently run their operations, while being directly accountable to senior executives at head office. The pie chart further shows a significant 27 percent (strongly disagree) and 13.5 percent (disagree) that should be investigated to establish whether the majority of respondents were not biased towards head-office policies. Overall, MNC executives feel that emerging market CEOs' credibility and empowerment is not compromised, but actually enhanced when set financial targets are improved upon.

Figure 9: Emerging market CEO credibility



Below, frequency Table 12 reflect some elements of contradictory responses from the MNC senior managers, with 48.6 percent (including neutral ratings) believing that emerging market CEOs do not enjoy final authority in the formulation, design and execution of strategic matters in their assigned territory of responsibility. The

actual response rate of 51.4 percent, on the other hand, shows that corporate offices have no significance interference with emerging market CEOs regarding their assigned authority. It is clear from Table 12 that there is no significant majority response in favour of the question, which means that the empowerment of emerging market CEOs is still a strategic concern that has a negative impact on the overall financial performance of MNC subsidiary operations in emerging markets.

Table12: Emerging markets CEO authority

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	8.9	10.8	10.8
	Disagree	7	15.6	18.9	29.7
	Neutral	7	15.6	18.9	48.6
	Agree	12	26.7	32.4	81.1
	Strongly agree	7	15.6	18.9	100.0
	Total	37	82.2	100.0	
Missing	System	8	17.8		
Total		45	100.0		

One of the guiding principles of SMPs, which contributed to the SMP framework, is building an inclusive culture within MNCs country operations as an enhancement to smooth operations of their global businesses. MNC senior managers' responses, depicted in Tables 13, 14 and 15, show that culture is not being prioritised at a strategic level even though it affects the bottom line of emerging market business.

Table 13: Cultural assessments – head office vs EM operations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	6.7	8.3	8.3
	Disagree	10	22.2	27.8	36.1
	Neutral	9	20.0	25.0	61.1
	Agree	9	20.0	25.0	86.1
	Strongly agree	5	11.1	13.9	100.0
	Total	36	80.0	100.0	
Missing	System	9	20.0		
Total		45	100.0		

Table 13 shows a total negative response rate of 61.1 percent (8.3 percent – strongly disagree; 27.8 percent – disagree; and 25 percent – neutral) by MNC senior managers who feels that their organisations are not doing enough at strategic level to build a desired culture that accommodates both corporate and emerging market operations. The researcher has included the neutral responses as part of the negative ratings, because these could constitute senior managers who felt that they might be victimised if their opinions were accidentally known.

Table 14: Desired MNC cultural views

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	11.1	13.9	13.9
	Disagree	8	17.8	22.2	36.1
	Neutral	13	28.9	36.1	72.2
	Agree	7	15.6	19.4	91.7
	Strongly agree	3	6.7	8.3	100.0
	Total	36	80.0	100.0	
Missing	System	9	20.0		
Total		45	100.0		

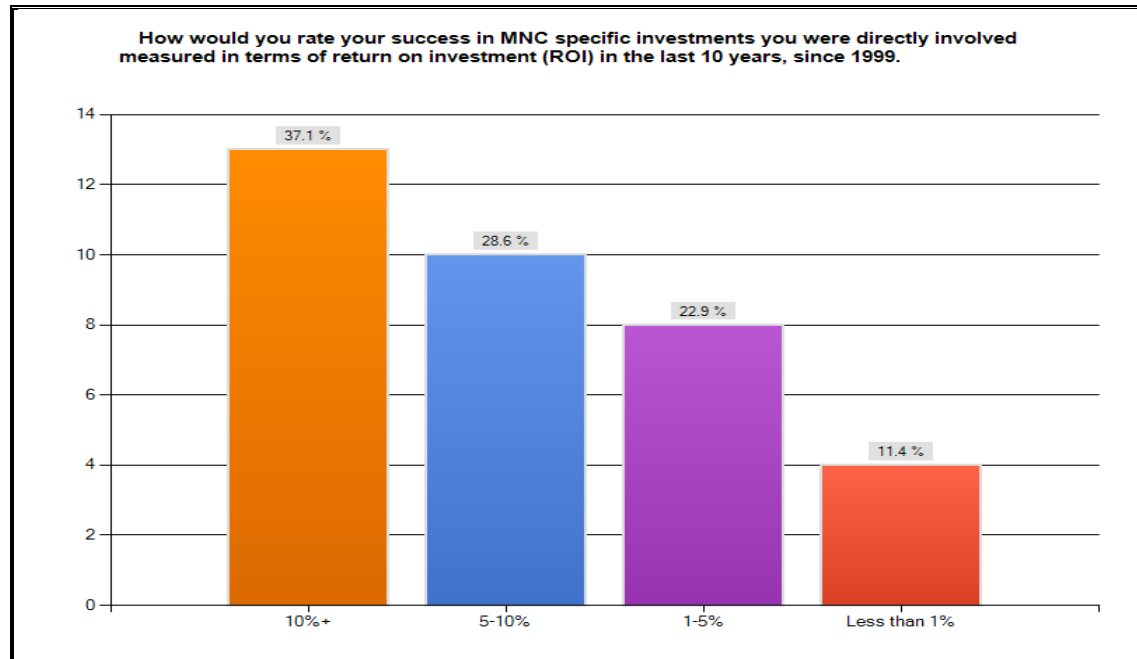
Table 15 reflects a significant opposing response rate of 48.6 percent (8.1 percent –strongly disagree; 13.5 percent – disagree; and 27 percent – neutral), which indicates that MNC senior executives are not investing adequate resources to build intended cultural harmonisation prior to the approval of emerging market investment decisions.

Table 15: MNC initiatives that harmonise business culture

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	6.7	8.1	8.1
	Disagree	5	11.1	13.5	21.6
	Neutral	10	22.2	27.0	48.6
	Agree	14	31.1	37.8	86.5
	Strongly agree	5	11.1	13.5	100.0
	Total	37	82.2	100.0	
Missing	System	8	17.8		
Total		45	100.0		

Figure 10 shows an overall positive response rate by MNC executives in confirming that by adhering to the five guiding principles for SMPs, their emerging market operations managed to achieve a significant return on investment (ROI) – ranging from one to five percent (22.9 percent response rate); five to ten percent (28.6 percent response rate) and more than 10 percent (37.1 percent response rate). Only 11.4 percent of the total responses received from senior managers indicated that their emerging market operations achieved financial performance of less than one percent in ROI. Figure 10 demonstrates the strong affirmation that adopting and implementing the framework of SMPs has a direct correlation to the financial performance of MNCs operating in emerging markets.

Figure 10: MNC Financial Performances – Return on Investment (ROI)



5.5 Analysis for Research Hypotheses

5.5.1 Results pertaining to Hypothesis 1

H₀₁: MNCs do not practice immersion for market intimacy to achieve improved financial performance in emerging markets.

H_A₁: MNCs practice immersion for market intimacy to achieve improved financial performance in emerging markets.

Figure 11 shows clearly that there is a positive relationship between management efforts directed towards immersion for market intimacy, and the

achieved ROI depicting the overall financial performance of MNCs in emerging market operations.

Figure 11: SMP 1: Immersion for market intimacy

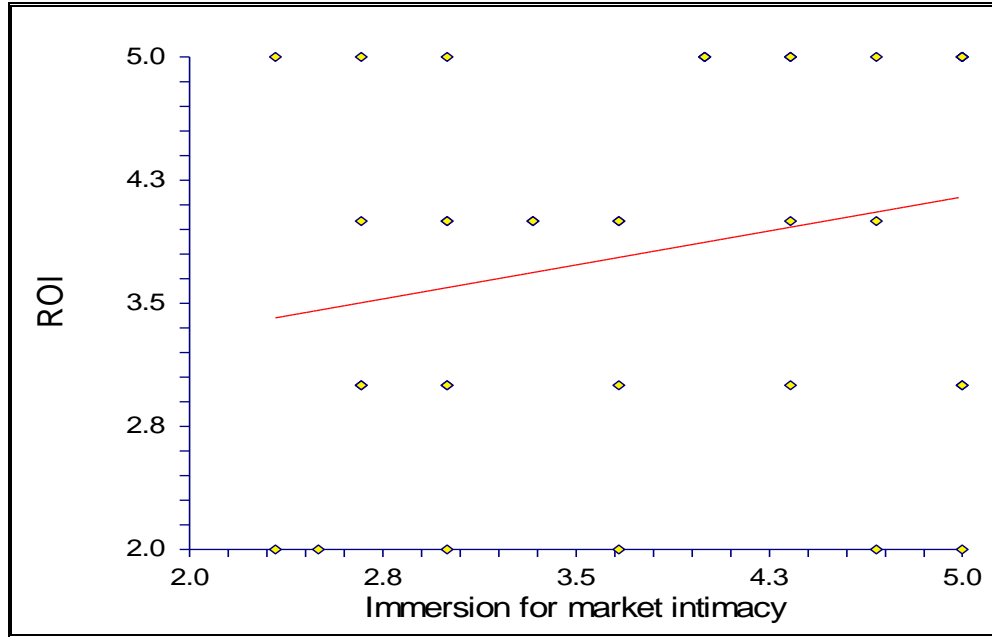


Table 16: Immersion for Market Intimacy Correlation

Parameter	Pearson Correlation Coefficient	R ²	Spearman Rank Correlation Coefficient
Estimated Value	0.2252	0.0507	0.2374
Lower 95 percent Confidence Limit	-0.1106		
Upper 95 percent Confidence Limit	0.5100		

Correlation of 0.23 and R² of 0.05 depict that there is a strong positive correlation between the SMP 1 and ROI though the strength of linear association is on the lower side. Correlation is achieved between -1 and +1 inclusive, and correlation close to +1 or -1 indicates a strong linear relationship

(Albright, Winston and Zappe, 2009). Statistically significant evidence in Table 16 supports the positive trend derived by a linear regression analysis of two variables, as illustrated in Figure 10, confirming the MNC executives' practical experience and insight gained on immersion for markets as a strategic business issue.

Descriptive statistics derived from the 36 respondents are shown below in Table 17.

Table 17: Descriptive Statistics

Variable	Count	Mean	Std Deviation	Minimum	Maximum
Return on Investment (ROI)	36	3.8056	1.1166	2.0000	5.0000
Immersion for market intimacy	36	3.7639	0.9106	2.3333	5.0000

It is important to note that the five-point Likert scale has huge influences in determining the minimum and maximum respondents' statistically descriptive factors. The mean levels in Table 17 indicate the level of respondents in favour of the alternative/research hypothesis. With a mean of 3.8 for ROI and 3.8 (3.76) for immersion for market intimacy against a maximum factor 5, reflects that respondents are practicing this principle and considering the principle as a key SMP element to influence positive financial performance.

Table 18: Immersion for market intimacy normality tests 1

Test Name	Test Value	Prob Level	Reject H0 At Alpha = 20%?
Shapiro Wilk	0.9365	0.039447	Yes
Anderson Darling	0.7987	0.038603	Yes
D'Agostino Skewness	-1.1637	0.244564	No
D'Agostino Kurtosis	-1.8591	0.063010	Yes
D'Agostino Omnibus	4.8104	0.090247	Yes

Table 19: Immersion for market intimacy normality tests 2

Test of assumptions	Test Value	Probability	Decision(.050)
Skewness Normality	-1.1385	0.254923	Cannot reject normality
Kurtosis Normality	0.7567	0.449242	Cannot reject normality
Omnibus Normality	1.8687	0.392844	Cannot reject normality
Correlation Coefficient	0.225191		

In an effort to verify the level of the relationship between ROI and immersion for market intimacy, further statistical analysis were done to test the normality of the distribution correlation of the two variables; this was achieved by applying five different normality testing methods (Table 18) which presented significant statistical evidence in support of the positive correlation. It is only the skewness test that identified concerns with the variability, but the statistical results of four other tests would treat skewness as an outlier. Table 19's statistical results concur with the normality test in Table 18, inclusive of the skewness test which concluded that it was not correct to reject normality in the distribution relationship and correlation of MNC responses.

Based on the above various analyses there is significant statistical evidence to support and confirm that the research hypothesis is correct. The MNC strategic focus on immersion for markets in emerging markets has a directly positive influence on achieving improved financial performance.

Therefore the null hypothesis can accurately be rejected.

The estimated model to calculate MNC ROI, based on the maturity of adopting the guiding principle for SMPs on immersion for markets, is therefore:

$$ROI_{p_1} = (2.7662) + (0.2761) * Immersion\ for\ markets\ (P1)$$

5.5.2 Results pertaining to Hypothesis 2

***H₀₂*: MNCs do not dominate main segments to achieve improved financial performance in emerging markets.**

***H_{A2}*: MNCs dominate main segments to achieve improved financial performance in emerging markets.**

The trend derived from the relationship between the guiding principle for SMPs on positioning to dominate the main segments and ROI is relatively positive, as illustrated in Figure 12 below. The relationship between the input responses from MNC senior managers regarding their strategic practices to dominate new

markets has a low statistical significance of driving financial results in new businesses setup in emerging markets. The correlation depicted in Figure 12 in comparison to Figure 11 clearly shows the level of movement and direction in trend on projected ROI, in relation to the two guiding principles for SMPs

However, the overall statistical results indicate that respondents' input had a positive correlation of 0.0737, compared to the Spearman rank correlation coefficient of 0.107, all against a positive R^2 of 0.0054, which supports the positive linear relationship between the two variables (refer to Table 20) and the viability of the research hypothesis.

Figure 12: SMP 2: Position to dominate the main segments

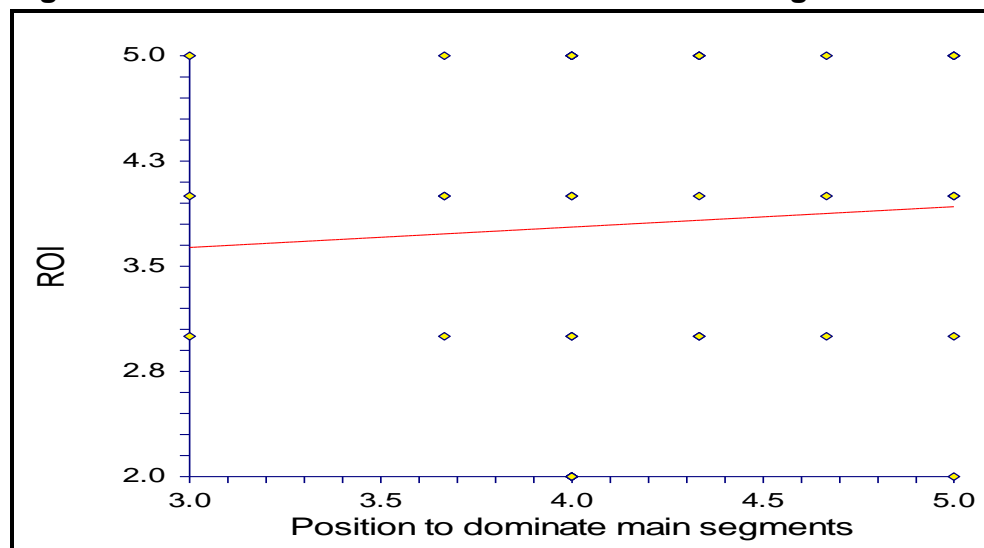


Table 20: Position to dominate the main segment correlation

Parameter	Pearson Correlation Coefficient	R ²	Spearman Rank Correlation Coefficient
Estimated Value	0.0737	0.0054	0.1072
Lower 95 percent Confidence Limit	-0.2581		
Upper 95 percent Confidence Limit	0.3881		

Pearson and Spearman are two different and independent methods used to measure correlation of variables. The results shown in Table 20 above indicate a weak positive correlation between the strategic positioning of MNCs to dominate the main segments in emerging markets, versus the final outcome on ROI. The result shown in Table 20 concurs with low distribution of association, illustrated by the graph in Figure 12. The low correlation indicates that although MNC respondents consider position to dominate the main market segments in emerging markets as a strategic tool, the response pattern reflects that the variable is not being practised as one of the key strategic elements understood to contribute positively towards their financial results.

Table 21: Descriptive statistics

Variable	Count	Mean	Std Dev	Standard Error	95 % LCL of Mean	95 % UCL of Mean
Return on Investment (ROI)	36	3.8056	1.1166	0.1861022	3.427748	4.183363
Position to dominate	36	4.1852	0.5659	9.432247	3.993701	4.37667
Difference	36	-0.379	1.214078	0.2023464	-0.7904146	3.115533

Table 22: Position to dominate the main segments normality

Test of assumptions	Value	Probability	Decision (.050)
Skewness Normality	-0.5396	0.589482	Cannot reject normality
Kurtosis Normality	-1.3884	0.165014	Cannot reject normality
Omnibus Normality	2.2188	0.329753	Cannot reject normality
Correlation Coefficient	0.073680		

Tables 21 and 22 restated the weak positive correlation between the two variables. Furthermore, Table 22 provides statistical evidence in support of the alternative hypothesis, resulting in the rejection of the null hypothesis.

The estimated model to measure position to dominate the main segment SMP financial contributions is:

$$ROI p_2 = (3.1971) + (0.14537) * \text{Position to dominate the main segments (P2)}$$

5.5.3 Results for Hypothesis 3

***H₀₃*: MNCs do not build new competences to achieve improved financial performance in emerging markets.**

***H_{A3}*: MNCs build new competences to achieve improved financial performance in emerging markets.**

Actual responses from MNC executives did not present convincing supporting evidence in favour of the guiding principle for SMPs 'building new

competences'. As shown in Figure13 below, it can be concluded that although MNC senior managers are appreciative of the importance of building new competences in driving business growth and financial gains, their strategies in emerging markets do not strongly pronounce the importance of this principle. Hence, MNC responses showed a low positive trend in relation to building new competences and ROI whose correlation is 0.0113 (Table 23).

However, with a positive correlation of 0.0113, this again becomes valuable statistical evidence in support of the research/alternative hypothesis; MNCs build new competences to achieve improved financial performance, as shown below (Figure 13) where ROI increases as SMP 3 increases.

Figure 13: SMP 3: Building new competences

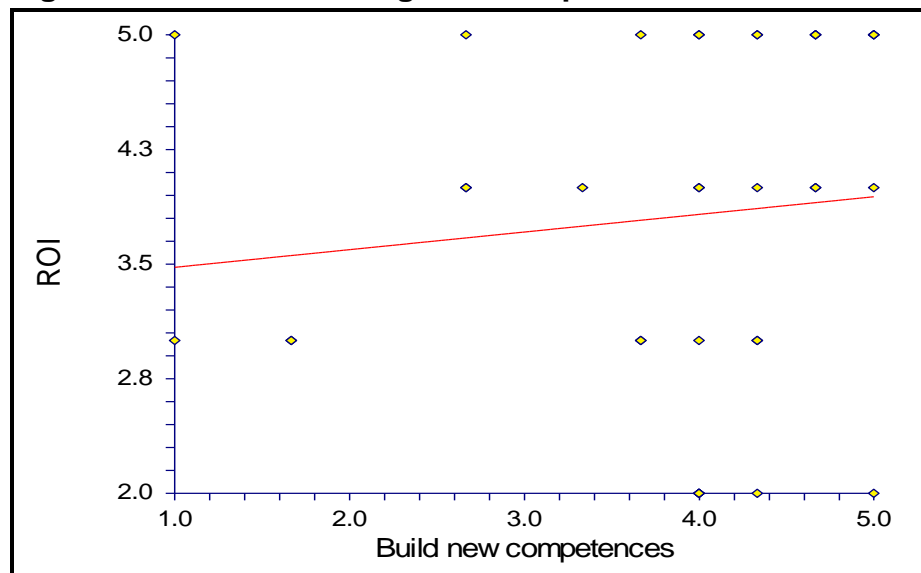


Table 23: Building new competencies correlation

Parameter	Pearson Correlation Coefficient	R ²	Spearman Rank Correlation Coefficient
Estimated Value	0.1130	0.0128	0.2207
Lower 95 percent Confidence Limit	-0.2212		
Upper 95 percent Confidence Limit	0.4208		

The descriptive statistic analyses were carried out with a 95 percent confidence level. Positive R² and standard errors in Table 23 and 24 respectively affirm the positive correlation between the strategic element of building new competences and business objectives that achieve improved financial performance.

Table 24: Building new competences – normality

Test of assumptions	Value	Probability	Decision(.050)
Skewness Normality	0.6644	0.506442	Cannot reject normality
Kurtosis Normality	0.7096	0.477952	Cannot reject normality
Omnibus Normality	0.9449	0.623459	Cannot reject normality
Correlation Coefficient	0.113047		

Table 24 provides statistical evidence to support the normality and positive relationship between the two variables. The positive correlation – regardless of how small it is – means that as MNC managers invest and allocate adequate resources towards building new competences, there will be a positive response in the form of increased revenue due to high productivity and efficiency. The

ROI trend will positively respond to efficiencies benefited from SMPs, resulting in improved financial performance for the business.

Therefore, the statistical evidence presented directly supports the research hypothesis and in turn rejects the null hypothesis.

The estimated model to measure building new competences for SMP financial contributions is:

$$ROI p_3 = (3.3632) + (0.11538) * \textit{Building new competences (P3)}$$

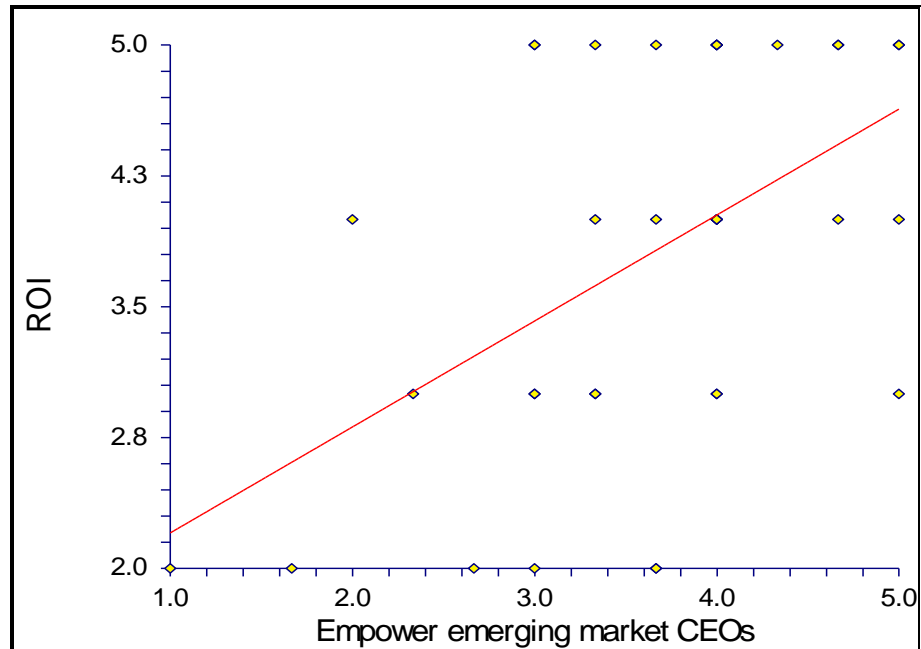
5.5.4 Results pertaining to Hypothesis 4

H₀: MNCs do not empower emerging market CEOs to achieve improved financial performance.

H_A: MNCs empower emerging market CEOs to achieve improved financial performance.

Figure 14 shows an interesting pattern of response input of MNC senior managers on whether empowering emerging market CEOs has a direct positive impact on revenue growth. For the 36 MNC respondents and regarding the five guiding principles for SMPs, it is clearly illustrated in the graph on Figure 14 below that significant response input demonstrated the strategic importance practised by MNC senior executives in empowering emerging market CEOs; they are required to be efficient in making timely decisions within the context of their country operations to increase annual revenue growth.

Figure 14: SMP 4: Empowering emerging market CEOs



There has been a direct strong positive relationship between the two variables, as shown above, as MNC executives continue to empower subsidiary CEOs to remain accountable when they make appropriate investment decisions with results that may directly increase profits. This positive and resounding relationship is demonstrated by the statistical correlations of 0.5115 and R^2 of 0.26, (refer to Table 25). The Pearson and Spearman correlations do not always differ significantly, demonstrating the reliability of the test in verifying the accuracy and the authenticity of the final correlation results. The normality test in Table 26 further supports Hypothesis 4 which is an additional piece of statistical research evidence.

Table 25: Empowering emerging market CEOs – correlation

Parameter	Pearson Correlation Coefficient	R ²	Spearman Rank Correlation Coefficient
Estimated Value	0.5115	0.2617	0.4859
Lower 95 percent Confidence Limit	0.2164		
Upper 95 percent Confidence Limit	0.7137		

Table 26: Empowering emerging market CEOs – Normality

Test of assumptions	Test Value	Probability	Decision (.050)
Skewness Normality	-0.2664	0.789931	Cannot reject normality
Kurtosis Normality	-0.3200	0.748991	Cannot reject normality
Omnibus Normality	0.1734	0.916975	Cannot reject normality
Correlation Coefficient	0.511521		

Therefore, the above statistically significant evidence supports the framework of guiding principles for SMPs and the research/alternative hypothesis that financial performance is dependent on the successful adoption and implementation of SMPs. In this research study, Figure 15 shows that as SMP 4 (empowering emerging market CEOs) continues to achieve results, it pulls with it the ROI factor resulting in improved financial performance.

The null hypothesis can in this case be rejected.

The estimated model to measure empowering emerging market CEOs' SMP financial contributions is:

$$ROI p_4 = (1.5961) + (0.6072) * \text{Empowering emerging market CEOs (P4)}$$

5.5.5 Results pertaining to Hypothesis 5

***H₀*: MNCs do not build an inclusive culture to achieve improved financial performance in emerging markets.**

***H_A*: MNCs build an inclusive culture to achieve improved financial performance in emerging markets.**

On visual inspection of Figure 15 below, one might conclude that the correlation between the strategic component of building an inclusive culture for new businesses in emerging markets and the level of revenue generated is negative. In a sense that is correct, because the derived correlation from the relationship between the two variables is negative (-) 0.012, as illustrated by the red graph in Figure 15 and the statistical analysis in Table 27. However, the critical question in analysing MNC senior management response input is whether the correlation of - 0.012 is significant enough to distort the respondents' views, practical experiences and insights gained when developing businesses in emerging markets. Statistical analysis in Table 27 and 28 portrays a different picture. Table 27 shows a positive R² of 0.0001, contradicting the weak negative

correlation that might refer to the possibility of respondents mixing some of the response categories during an online survey. On the other hand, the negative correlation depicted has no significant impact on the overall financial results if one considers a positive R^2 that might signal that the correlation is moving towards a positive 1. Therefore, based on the linear regression analysis, there is no significant evidence to accept the research hypothesis. However, this is a huge contradiction to the additional test analyses done – that is, the t-test and normality analyses.

Figure 15: SMP 5: Building an inclusive culture

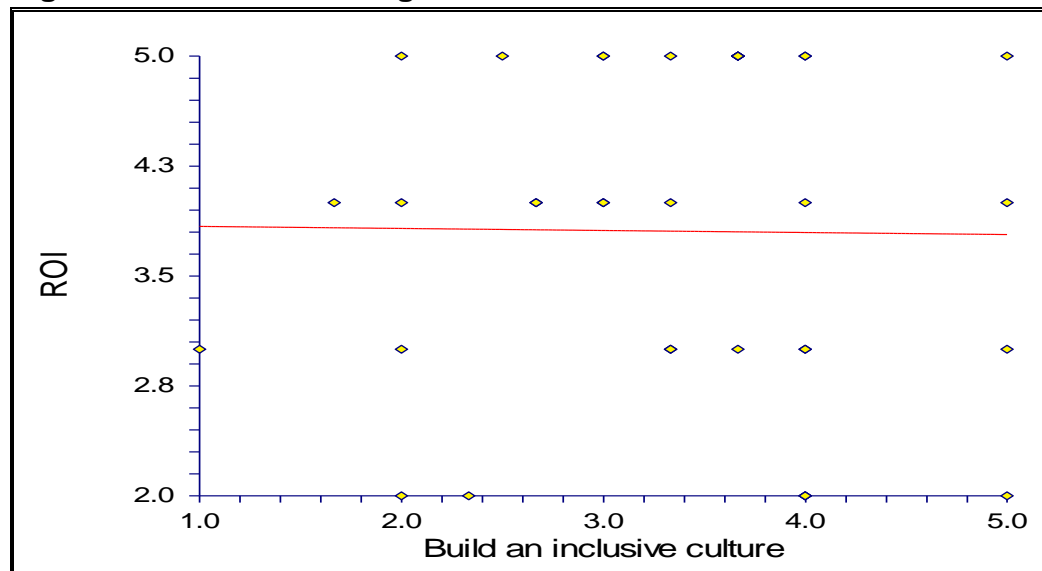


Table 27: Build an inclusive culture – correlation

Parameter	Pearson Correlation Coefficient	R^2	Spearman Rank Correlation Coefficient
Estimated Value	-0.0122	0.0001	-0.0569
Lower 95 percent Confidence Limit	0.3138		
Upper 95 percent Confidence Limit	-0.3353		

Tables 28 and 29 reflect further test on whether the alternative hypothesis can be rejected based on a weak negative correlation of -0.0122, considering the school of thought that says a correlation close to 0 indicates virtually no linear relationship (Albright *et al.*, 2009). The normality tests highlighted in Table 29 illustrate that although a negative correlation has been experienced from the MNC responses, the two variables still enjoy a slightly distorted linear distribution and so cannot reject normality which makes the alternative hypothesis valid.

On the other hand, it was pertinent to prove beyond doubt the implication of such a small, weak and negative correlation before either accepting or rejecting one of the hypotheses. This resulted in further tests on the respondents input by applying a t-test (Table 29) for the variable difference between the means. The results turned in favour of the research hypothesis, because the t-test of $C22 - C20 > 0$ at probability level 0.0345 rejected the null hypothesis at power alpha 5 percent. These provide further statistically significant evidence that supports the validity of Hypothesis 5. Therefore, despite the earlier contradiction on the statistical results, the research found adequate supporting evidence to accept Hypothesis 5, meaning the rejection of the null hypothesis.

Therefore, MNC senior manager responses depict that there is strategic influence on MNCs to focus on building an inclusive culture within their

subsidiaries, and that this eventually translates into improved financial performance.

Table 28: Building an inclusive culture – normality

Test of assumptions	Value	Probability	Decision (.050)
Skewness Normality	-1.4551	0.145653	Cannot reject normality
Kurtosis Normality	-0.6234	0.533009	Cannot reject normality
Omnibus Normality	2.5058	0.285668	Cannot reject normality
Correlation Coefficient	-0.012194		

Table 29: T-test for difference between mean for building an inclusive culture

Alternative Hypothesis	t-value	Probability Level	Reject H0 at .050	Power (Alpha = .05)	Power (Alpha = .01)
C22-C20<>0	1.8761	0.068998	No	0.446236	0.215455
C22-C20<0	1.8761	0.965501	No	0.000246	0.000018
C22-C20>0	1.8761	0.034499	Yes	0.577234	0.300713

C22 = ROI

C20 = Building an inclusive culture

The estimated model to measure empowering emerging market CEOs' SMP financial contributions is:

$$ROI_{p5} = (3.85198) + (-1.3878) * \text{Building an inclusive culture (P5)}$$

5.5.6 MNC financial performance in emerging markets

It was critical for the research study to be able to conclude the statistical analysis for the MNC executive responses by evaluating the financial impact

achieved by practising the adopted five guiding principles for SMPs. Therefore, it was prudent to perform a statistical analysis of the combined averages of the individual responses per guiding principle for SMP, assuming the weighted average is the same against actual collected financial results (ROI) on MNC operations. Figure 16 summaries the positive correlation of 0.03 derived from combined five SMPs against ROI. Figure 16 provides substantive evidence that each SMP contributes positively towards the overall financial results of MNC operations in emerging markets, directly supporting the five research hypotheses and giving complete validation to the framework of the guiding principles for SMPs.

Figure 16: Combined Five SMPs

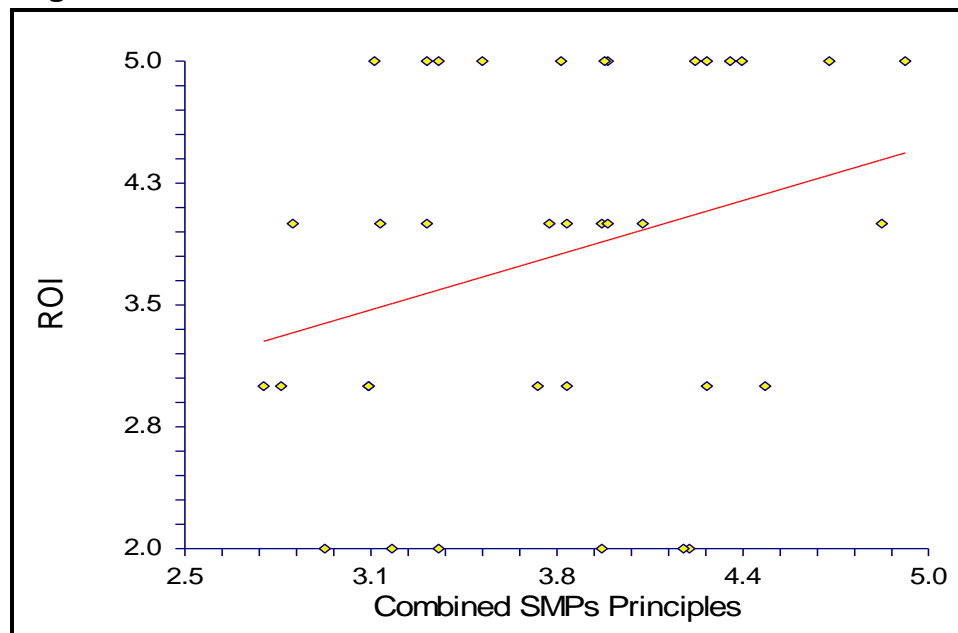


Table30: Combined Five SMPs – correlation

Parameter	Pearson Correlation Coefficient	R ²	Spearman Rank Correlation Coefficient
Estimated Value	0.2793	0.0780	0.3031
Lower 95 percent Confidence Limit	-0.0541		
Upper 95 percent Confidence Limit	0.5509		

Table 31: Descriptive statistics

Variable	Count	Mean	Std Dev	Standard Error	95 % LCL of Mean	95 % UCL of Mean
Return on Investment (ROI)	36	3.8056	1.1166	0.1861022	3.427748	4.183363
Five combined SMPs	36	3.750254	0.5799671	9.666117	3.554022	3.946487
Difference	36	5.530138	1.105214	0.1842023	-0.3186493	0.429252

Table 32: Combined Five SMPs – normality

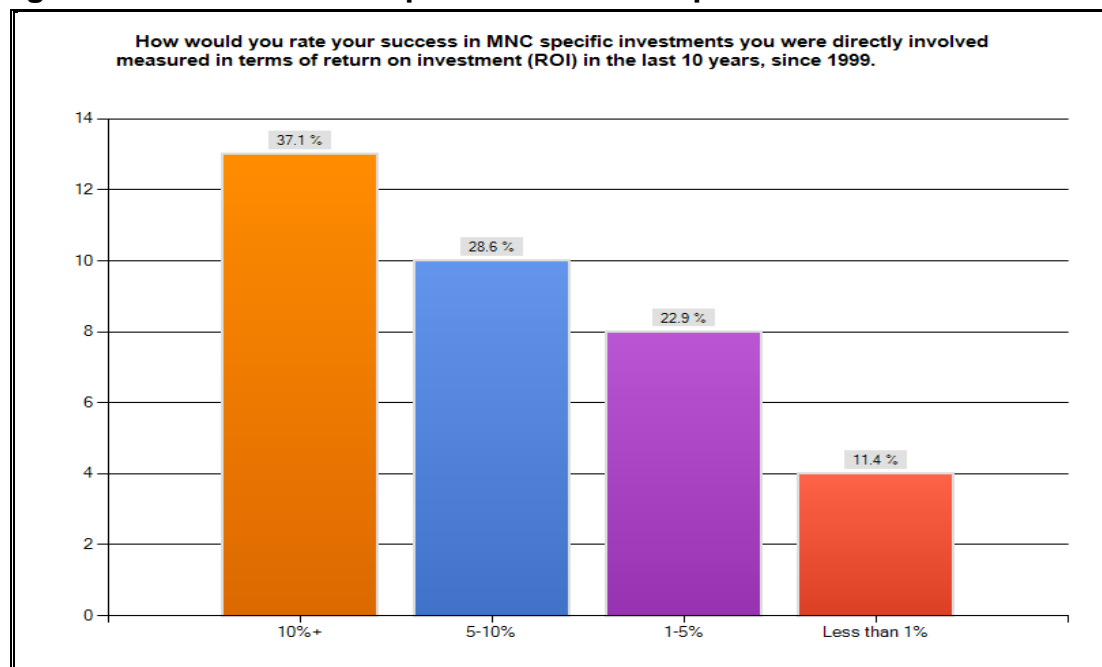
Test of assumptions	Value	Probability	Decision (.050)
Skewness Normality	-1.1196	0.262868	Cannot reject normality
Kurtosis Normality	-0.8320	0.405411	Cannot reject normality
Omnibus Normality	1.9458	0.377983	Cannot reject normality
Correlation Coefficient	0.279254		

The descriptive statistics (Table 31) and various normality tests (Table 32) presented above demonstrate a convincing scenario in validating the effectiveness of the framework of guiding principles for SMPs in achieving improved financial results for MNCs in emerging markets. The overall statistical outcome shows that the research/alternative hypotheses were proven to be

valid; this means MNCs' strategic drive in practising and adopting the framework of SMPs is to give significant improved financial results for the MNC country subsidiary operations.

Figure 16 provides more significant evidence as an illustration of the relationship between SMPs and the financial performance of MNCs in emerging markets. Figure 16 illustrates MNC executive actual survey responses on how they assess their financial performance after practising the five SMPs in emerging economies. It is clear and evident from the histogram chart below that only 11.4 percent of the total MNC respondents achieved less than a one percent ROI, when compared to 88.6 percent of the respondents whose organisation achieved from one percent and above on ROI.

Figure 17: Actual financial performance in response to the five SMPs



Therefore, the estimated financial model derived to measure financial performance and the contribution of each SMP to the MNC profits in emerging markets, is designed as:

$$\text{ROI} = \text{ROI}p_1 + \text{ROI}p_2 + \text{ROI}p_3 + \text{ROI}p_4 + \text{ROI}p_5$$

5.5.7 Summary

This chapter was dedicated to the presentation of the statistical findings and results that assisted in fully addressing the research study's hypotheses. The research had five hypotheses that were exhaustively discussed, tested and concluded with significant statistical and other supporting evidence.

There has been adequate and significant statistical evidence to test and validate that there is a positive financial impact that can be derived whenever MNCs practise and incorporate the SMP framework as part of their strategic tools for investing in emerging countries. In some instances, statistical results could have given a stronger relationship between the two variables had the response rate from the MNC executives improved.

However the results pertaining to the five hypotheses presented statistical results that were adequate to make conclusions on the validity and adoption of the SMP framework and the positive financial impact that can be derived when the framework is comprehensively adopted.

CHAPTER SIX: DISCUSSION OF RESULTS

6.1 Introduction

The main objective of the research was to establish the relationship between SMPs and financial performance of MNCs in emerging markets. In conjunction with that, the study is also meant to test, validate the relevance, practical usage and application of the framework for SMPs by MNCs in emerging markets in relation to SMP contributions towards MNC financial performance. All five hypotheses will be used to analyse and evaluate the research study objectives.

It is expected that the results of the study will provide new insight for MNC senior executives into effective ways to formulate and design strategies that lead to the achievement of profitable businesses in emerging markets.

Therefore, Chapter 6 presents an in-depth discussion of the results outlined in Chapter 5, where research testing and results for the five hypotheses were presented. The discussion of the results will be structured and presented for each set of hypotheses, with reference to the theory and literature review discussed in Chapter 2.

6.2 Hypothesis 1: Immersion for market intimacy

The study found that the MNC strategies employed by senior executives when investing in emerging markets did not fully prioritise immersion for market

intimacy as one of the key strategic points and practices that would generate improved revenue by penetrating into untapped and existing markets. Figure 4 in Section 5.3 confirmed the view obtained from analysing MNC executives' responses that when their business ventured into emerging markets, they considered immersion for market intimacy as the lowest priority with a mean rating of 3.34. These findings support the view of there being very little change at MNC corporate offices in rethinking and redesigning investment strategies for use in developing countries. This finding confirms Prahalad *et al.* (2006)'s argument that imperialist attitudes and behaviour forces the MNC senior executive to assume that emerging markets are an extension of developed countries, whereby business strategies that once succeeded in developed economies are perceived to deliver similar success stories.

It is evident from the research that MNCs that designed investment strategies to understand local market intricacies, conditions and underlying assumptions of the potential emerging markets have higher chances of increasing revenue (Perrot, 2010). This finding was significantly tested (refer Section 5.5.1) and analysed through a linear regression, and confirmed that there is a strong correlation between resources allocated to understanding and developing sound immersion for markets and financial performance of MNCs in emerging market operations. These results are in support of Hypothesis 1, which aims to prove that appropriate strategy execution for the immersion in markets directly assists MNCs to improve on medium- and long-term financial goals. This view is

supported by Potgieter *et al.* (2007) who suggested that companies that are pragmatic in designing investment strategies to understand customer intimacies and market conditions have a better chance of boosting their financial growth because investment resources will be deployed to service identified specific customer needs.

Although certain MNCs were found not to be committed yet to incorporating the 'immersion for markets' principle as part of their key strategic elements there is, however, statistical evidence that MNCs deploy investment resources to expand business interests based on inappropriate assumptions. This view was supported by Raina (2010) who argued that MNC approaches when investing in emerging markets are flawed due to the adoption of inappropriate SMPs, based on wrong assumptions. The positive correlation between immersion for markets and ROI could have been stronger had MNCs incorporated correct and appropriate assumptions in their strategies on emerging markets. According to Treacy *et al.* (1995), immersion for market intimacy should be incorporated into strategic design and prioritised at strategy execution level whenever MNCs decide to venture into new business opportunities in emerging markets. Building immersion for markets as part of the strategy design and execution would create an environment where MNCs would have a good base to continuously improve on their emerging market financial results.

However, the research elicited adequate findings in support of Hypothesis 1. It may be that senior executives who reside at corporate offices have gained some understanding from their past emerging market experiences that it might be costly to impose strategies from developed markets in developing countries, and also that this would be a misappropriation of resources (Khanna *et al.*, 1997). Hence, MNC top management are leveraging on an in-depth understanding of local market conditions and assumptions to redesign strategies that would maximise profits when investing in potential market segments in emerging economies. The correct insights into immersion for markets would assist MNCs to develop a broader and in-depth firsthand understanding of the key aspects of the emerging markets apart from their potential customers.

Therefore, based on significant research findings and relevant literature in support of Hypothesis 1, the null hypothesis has been rejected due to insufficient study evidence.

6.3 Hypothesis 2: Positioning to dominate the main segments

According to the research findings, there is a statistically significant positive correlation between the principle to dominate the main segments and financial performance in support of Hypothesis 2. The research found that the position to dominate the main market segments is one of the SMPs most emphasised in MNC investment strategies for emerging markets. This view is supported by

Thompson *et al.* (2001) who argue that MNCs should identify their areas of strength and competences when penetrating new markets, with the intention of dominating potential main market segments. The study found convincing evidence that when MNCs position themselves to dominate main market segments, their financial results increase due to market share dominance and associated profit margins.

Hypothesis 2 was furthermore supported by weighted analysis of the mean for the five SMPs which rated this principle as strategically the most practised in pursuit of financial growth in emerging markets. This SMP was rated number one in comparison to the other four SMPs within the framework, with highest mean score of 4.28 (refer to Section 5.3 Figure 4). The researcher agreed that substantive statistical evidence demonstrated by MNCs could signal the end of imperialist attitudes towards emerging markets, resulting in improved revenue growth in targeted emerging markets (Prahalad *et al.*, 2003). The study found adequate and concrete evidence from the respondents and statistical analysis supporting the positive net effects on financial performance of the MNCs as a result of directly planned market dominance; this enhances the state and acceptance of Hypothesis 2. The research findings supporting Hypothesis 2 were found to be complementary in providing study evidence in validating the viability and authenticity of the SMP framework for emerging markets. The strong positive correlation found between the two variables, that is, dominance of main market segments and ROI, affirms the purpose and objectives of why

MNCs should adopt the framework for SMPs. Appropriate adoption and implementation of the framework for SMPs supports Hypothesis 2 by developing an investment platform that promotes growth in MNC profits and creates an ideal formulation of strategies that incorporates unique underlying emerging market conditions.

Section 5.5.2 provides significant statistical evidence on the correlation between the principle position to dominate the main segments and ROI. The research found the statistical evidence to be independently convincing to the extent that the researcher concluded that there is a strong correlation that supports the adoption of Hypothesis 2.

The strategic idea of dominating the market is not meant to replicate the dominating strategies experienced in developed markets or to assume that the same strategies can work in emerging markets. MNC senior executives should leverage on market information acquired during appropriate immersion for markets, and use the same information as key input in the formulation of strategies to dominate main segments. It is prudent to note that the strategy of dominating the main segments should also mean considering the underlying conditions and assumptions for local markets, and this applies to issues such as socio-economic, cultural and political factors. Therefore, the strategy to dominate the main segments should be designed to have an objective to derive an increased market share and profit margins in each of the emerging markets it ventures into (Raina, 2010). This supports Hypothesis 2 which states that MNCs

dominate main segments in order to achieve improved financial performance. The hypothesis achieved concrete significant statistical evidence that showed a strong correlation between the two variables (refer to Figure 14), that is, as the MNCs strengthen their dominance in main market segments, it is expected that the revenue generated will increase. The MNC strategic objective is to dominate specific potential emerging markets by gaining an increased market share and profit margins, and this is in direct support of Hypothesis 2.

The researcher can therefore conclude that the study findings support Hypothesis 2 and the framework for SMPs, since a strong positive correlation has been observed resulting in improved financial performance of MNCs. Hence, the null hypothesis is rejected.

6.4 Hypothesis 3: Building new competences

Based on the correlation and t-test analysis reports there is statistically significant support for Hypothesis 3, at a 95 percent confidence interval. The research found a significant positive correlation between the two variables, namely, building new competences and ROI, which means that as the MNC deploys existing competences in potential emerging markets, it is prudent for senior executives to inject a specific new portfolio of competences to enhance their competitive advantages and profit margins (Khanna *et al.*, 2006). The survey response rate from MNC executives depicts that the majority of top management were in support of building new competences as part of key

strategic design, and this was positively supported and statistically confirmed by a mean of 3.97 for the principle.

Again, based on the research findings, there is significant and strong evidence to suggest that as MNCs invest in potential emerging markets, they will be required to replenish the identified shortfall competences in order to improve their competitive advantages and financial results (Kolodko, 2003). The literature support and statistical evidence received by Hypothesis 3 rendered similar support for the framework for SMPs, whereby the two research objectives result in MNCs leveraging on improved financial performances from emerging market operations. The study findings agreed that identified areas of competences for emerging markets should cover critical areas which influence the financial results – such as technology, distribution networks and pricing – while integrating with local cultures in order to attract a sustainable market share to enhance profit performance.

Furthermore, in support of the statistical evidence, Hypothesis 3 is found to be in agreement with the various theories and literature that calls for MNCs to always look beyond their existing portfolio of competences when they venture into emerging markets. The positive correlation found in the study for Hypothesis 3 variables is at risk if MNCs experience a drop in the development of new competences to match specific emerging market industry requirements. Such experiences have a directly negative impact to ROI because according to

statistical evidence, future growth on ROI is dependent on the incremental performance of continuous development of a specifically required portfolio of competences that match emerging market contexts (Meyer *et al.*, 2006).

It is concluded that the research findings are in agreement with and support Hypothesis 3; they are also backed by relevant literature. The null hypothesis is therefore rejected in this case.

6.5 Hypothesis 4: Empowering emerging market CEOs

This is one of the hypotheses that received resoundingly significant statistical evidence in support of the strong positive correlation between the two variables. Based on the regression research findings, MNCs have great opportunity to increase financial results by a factor 0.51; this is the strength of the correlation achieved after regression analysis of senior management responses on their strategic practices on empowering emerging market CEOs, in relation to achieved levels of ROI.

It is clearly evident from Figure 16 of Section 5.5.4 that this hypothesis and the SMP framework were proven correctly in that MNC strategic initiatives in empowering heads of their subsidiaries and country operations had a direct influence on increasing the revenue generated (Stewart, 1995).. This is vividly illustrated in the relation graph (Figure 16) The evidence can be classified as an acknowledgement by MNC senior executives that emerging markets have

highly competent talent to run their operations better and more efficiently, than less informed expatriates who were placed as CEOs in emerging markets.

However, despite the fact that the response rate correlation is 0.51, without any doubt a very strong relationship compared to the other SMP responses, there are still MNCs that are treating emerging market operations as an extension of developed markets. In these scenarios, CEOs are often tasked to perform the administrative activities of executing head office strategy with no or very little authority in the formulation and design of their country operation strategies. These are MNC elements that suppress the level of correlation that could have been achieved by statistically analysing the actual results of empowering emerging market CEOs and financial performance.

With support from the relevant literature, Hypothesis 4 attested that senior executives have seen the benefits of empowering emerging market CEOs who then manage to satisfy and surpass set corporate profit targets. There has been a trend among MNCs to relinquish a measure of their international authority and to instead empower the heads of local operations, who understand the context of their emerging markets. With reference to Hypothesis 4, most local CEOs are being empowered to deal decisively with strategic decisions and are accountable for their country operations (Raina, 2010). This has resulted in 32 of the MNC respondents confirming that their emerging market operations

continue to achieve better and improved financial results – ranging from one percent to more than 10 (percent) in actual ROI (refer to Section 5.5.6).

Therefore, the null hypothesis is rejected based on significant and substantive research evidence and findings that support the acceptance of the research/ alternative hypothesis.

6.6 Hypothesis 5: Building an inclusive culture

According to the descriptive statistics, the SMP of ‘building an inclusive culture’ received the lowest mean compared to the other four SMPs. Section 5.3 has both a statistical and a schematic illustration of how MNC senior management rated this principle in reference to their strategic practices for emerging markets, with the highest standard deviation indicating the wide dispersion of the response rate of their assessment.

There has been evidence of MNCs appreciating the strategic importance of the principle, especially with regards to creating a conducive working environment to accommodate employee diversity in culture, religion, opinion and free association at the workplace. But it is the inclusive culture principle that portrayed whether MNCs are creating environments that promote desired employee morale, group productivity and efficiencies that result in improved financial performance.

Unfortunately certain MNCs consider this principle to be an operational issue and not a strategic priority, as yet. This view is supported by the statistical analysis which identifies that the survey respondents believe that there is no significant evidence for a relationship between building an inclusive culture and financial performance. The regression analysis found that building an inclusive culture has a statistically very low negative correlation (refer to Section 5.5.5) to MNC financial performance. The correlation results are, however, contradicted by two further statistical analyses on normality and t-testing. Both tests had positive results in support of Hypothesis 5. The normality tests concluded that the hypothesis cannot be rejected based on the fair association of distribution. On the other hand, the t-test for the difference between mean for building an inclusive culture accepted Hypothesis 5 at probability 0.03 and at a 95 percent confidence level.

Although the correlation and regression analysis contradict each other, the research findings were found to support the hypothesis that MNCs build an inclusive culture to achieve improved financial performance in emerging markets. The marginal negative correlation between the two variables is insignificant to influence the overall results of the rest of the statistical evidence, relevant literature and research study findings.

According to Pless *et al.* (2004), MNCs were found to improve their financial results after addressing the issue of culture differences within the working

environment. The hypothesis agrees with various literature reviews in that current trends incorporate this principle into their strategic formulation and design of MNC investment initiatives into emerging markets. The focus has been to build an inclusive culture that brings together people of different backgrounds and cultures, allowing them to work as a productive team in achieving long-term financial gains for the business. Senior executives have realised that blind imposition of foreign culture in emerging markets has stifled innovation and creativity (Raina, 2010).

It can therefore be concluded that the findings of the research study support the hypothesis and the literature in that MNC are gradually moving from negative correlations towards significantly positive correlation, which signifies that their strategies consider inclusive culture as part of strategy execution in emerging markets. However, it is imperative to acknowledge the marginal statistical contradictions between linear regression with a marginal negative correlation of 0.01 from the two variables and the rest of the analysis, which rejected the null hypothesis on normality. The contradiction is, however, so insignificant, weak and marginal, that it could not influence the overall literature and remainder of the research findings.

Therefore based on all the study findings, the null hypothesis is rejected.

6.7 Discussion on MNC financial performance in emerging markets

The study findings have built a significant and substantive portfolio of evidence to demonstrate that the five hypotheses were tested and accepted based on statistically significant positive analysis results. These have proved and enhanced that the framework of guiding SMPs is appropriately implemented at strategic level with adequate senior executive support and that it attracts outright sustainable revenue growth for MNC operations in emerging markets.

It is interesting to note what happened after combining the averages of the five guiding principles for SMPs assuming weighted averages are the same by analysing the correlation and regression to determine the nature and type of relationship that exists between combined guiding principles for SMPs (variable) and ROI. The descriptive statistics showed a favourable mean of 3.78 and 3.8 for the five combined guiding SMPs and a ROI respectively at a 95 percent confidence level. Furthermore, statistical analysis confirmed a significant correlation of 0.279 (approx. 0.3) and a Spearman rank correlation coefficient of 0.3 a convincing concrete evidence that if MNCs adopt and successfully implement the SMP framework their emerging market operations will have greater opportunities to improve on their overall financial performances. The research found that individual guiding SMPs significantly contributed towards the financial results of MNC emerging market operations.

Figure 18 depicts a clear strong positive correlation, supporting the practical experiences of MNC executives and the hypotheses on the relationships between appropriate implementation of a SMP framework and financial performance. Furthermore, research findings continue to lend support to the five tested research hypotheses, and the validity and authenticity of a framework of guiding principles for SMPs by making reference to Figure 19. Figure 19 evidently further confirms the sentiment of MNCs that full adoption of a SMP framework, from where the hypotheses were derived, will result in a significant increase in profits and will further create opportunities for gaining sustainable new business in emerging markets (Raina. 2010). Effectively, out of 36 respondents, only four indicated that their organisations had achieved less than a one percent ROI since an attempt to adopt the framework. Therefore, 32 MNCs that have made an effort towards fully adopting the framework of guiding SMPs have managed to achieve improved financial performance ranging from a ROI of one percent to over 10 percent. This is significant evidence and a clear testimony that full adoption of a SMP framework will create and generate improved financial value for both shareholders and stakeholders, and further supports the acceptance of the five research/alternative hypotheses.

The outcome of the research has been a strong show of evidence in support of the five hypotheses and the SMP framework. . It can therefore be concluded that there is healthy and positive financial performance associated with MNCs

that fully adopt this framework as a strategic tool to guide investment in emerging markets.

CHAPTER SEVEN: CONCLUSION

7.1 Main Findings

The main purpose of this research study was to address two critical objectives which are to determine the relationship between strategic management practices (SMPs) and financial performance of multinational corporations (MNCs) with operations in emerging markets; and to test the validity, viability and applicability of the framework of guiding principles for SMPs for adoption by MNCs to improve competitive advantage and profit margins. There was wide consultation of relevant literature that fell within the scope of the research that provided some clarity in most of the conflicting and contradictory issues on MNC investment strategies in emerging markets. This was a global research study that incorporated all MNCs from developed and developing countries with investment interests in emerging economies. It was encouraging to note that the actual response rate was within the projected forecasted range, despite the limitations identified. Actual respondents provided incredible and significant firsthand MNC fieldwork experiences and great insights some of which were summarised in Appendix 2 into the realities of operating businesses in emerging markets, which comprehensively assisted in addressing the study objectives.

The framework of the research study was based on a working paper by Raina (2010) on guiding principles for crafting winning strategies in emerging markets. The working paper introduced a pragmatic framework on the SMPs proposed to

assist MNCs in dealing with the persistent investment challenges they face when developing or pursuing new business opportunities in emerging markets.

Prahalad *et al.* (2006) established that most MNCs had decided to invest in emerging markets based on a narrow view associated with inappropriate assumptions. MNCs assumed that by imposing Western investment strategy models on to developing economies they would create better chances of deriving higher return on investment (ROI) from the resources deployed. These are some of the anomalies addressed by the SMP framework, which is a revolutionised strategic tool. The research found that several misconceptions by MNCs play a major role in their financial failures and lack of competitiveness to aggressively penetrate into untapped local markets. It is the SMP framework that lends a structure to analyse the collected fieldwork information and the review of relevant supporting literature, and concludes that for MNCs to improve their business growth and financial performances they must take drastic measures in the way emerging market strategies are designed and executed. The study found that the motive behind the SMP framework is for the MNCs to learn more about conditions and environments that exist on targeted potential emerging markets prior to the approval of any investment decision.

The research found a strong positive relationship between MNCs that adopt the SMP framework and their achieved financial results. The study also confirmed that before MNCs adopted the SMP framework, it is a requirement that senior

executives learn more about their potential new markets and only then can they formulate and develop customised and tailored strategies that take cognisance of the unique conditions and assumptions in these markets.

It was also found that the reviewed literature (refer to Chapter 2) and statistical evidence positively supported the findings between each individual SMP and their financial contribution towards the overall financial performance of MNCs. It is important to note that the research further uncovered that the effectiveness and efficiency of MNCs in adopting and implementing the framework, created a sound environment where financial results were dependent on the practise and maturity of each individual SMP.

The study findings have isolated the arrogant Western attitudes of some MNC senior executives as one of the major bottlenecks that hinder pragmatic roll-out of appropriate strategies tailored for emerging markets. It is evident from the study that MNCs that comprehensively adopt and implement the SMP framework without any form of bias from developed economies, achieve overwhelmingly improved and sustainable financial performance.

The research study findings concluded by giving support to the adoption of the SMP framework and by emphasising its strong positive contribution towards the overall MNCs financial performance of business operations in emerging markets.

7.2 Recommendations to stakeholders

The research findings provide clear evidence (refer to Chapter 5) that the SMP framework is the most recommended and pragmatic management strategy for MNCs to adopt, whose interest is to grow sustainable business and to compete financially in emerging markets. However for MNCs to achieve and derive the full benefits of adopting the SMP framework – in terms of increased return on investment and other core business fundamentals of operating investments in emerging markets – the research findings recommend that MNCs should:

- Critically and independently evaluate current strategic practices and performances in their emerging market operations, against the proposed standard SMP framework (Raina, 2010) to identify pockets of excellence on their strategy design, execution and renewal, and any major deviations from the framework. It is expected that at this stage senior executives should take ownership and accountability of any observed shortcomings and bring external strategy gurus where necessary, on board to assist in the redesign and formulation processes of relevant emerging market strategies.
- Deploy a balanced focus when rolling out emerging market strategies. The research found that there were deliberate and specific areas of focus by senior executives at both strategic design and execution levels, resulting in various inconsistencies of SMPs during implementation. For example, the study found that the principle of SMP ‘building an inclusive culture’ was the least prioritised as a key component of the framework. This also has a direct influence on the financial performance of the operations in emerging

countries, because of the diversity in employee composition. Senior executives need to demonstrate the tone at the top as far as deployment and prioritisation of tailored emerging market strategies are concerned, to enforce comprehensive implementation of the SMP framework in order to generate the expected financial contributions from the respective guiding SMPs.

- Promote complete empowerment of emerging market CEOs and give local managers clear responsibility and accountability to fully utilise local resources to prevent a 'silo mentality' during the implementation of SMPs. This calls for identification of local entrepreneurial talent and the appointment of local people in leadership positions, especially the ones who demonstrate wide knowledge of the environmental context of those emerging markets.

Khanna et al. (2006) and Prahalad et al. (2003) agree that for MNCs to improve their competitive advantages in emerging markets, they have to design investment strategies that are unique and customised to address specific local consumer requirements. It is therefore recommended that senior executives get their hands dirty by investing their time directly in gathering local market information in order to understand the intricacies of the targeted potential market segments. One of the study findings was that immersion for markets by top management was not evenly practised, whereas this is a key SMP for the executive to consider when formulating investment strategies to incorporate realities and the environmental context of emerging markets.

It was found that emerging markets are challenged as industries tend to operate on very low competence levels. Therefore, one of the research study's key recommendations is for MNC executives to deliberately invest adequate, if not unlimited resources, towards the development of identified shortfalls of competences found not to exist within their portfolio of competences. It is encouraged for senior executives to forge ahead with establishing partnership agreements with other local industry players, in order to accelerate development and share technological competences along their supply value chain. It is also imperative for management to prioritise creating an environment where emerging market operations compete for a broader local market share, with a balanced in-house portfolio of competences to support long-term strategic initiatives of achieving improved financial performance.

7.3 Recommendation for future research

Emerging markets play a pivotal role in the shift of balance of power in the economic world by offering largely untapped population markets that still exist at the bottom of the pyramid and are fiercely contested for by MNCs from developed nations (Hart *et al.*, 2002a). This scenario follows on from the flattening market demand experienced in developed markets, against such a highly resilient and sustainable growth in emerging markets. It is clear from the study findings that MNCs from developed countries want to gain a rapid competitive edge and continue generating a high return on investment from their operations in emerging markets. Unfortunately the study has recognised

that most of the emerging market strategies of MNCs lack the impetus to achieve the goals of dominating local markets in terms of market share and profit margins.

Therefore, based on the research findings, it has been found pertinent to consider the following recommendations for future research:

Firstly, it is recommended that the same research topic of study should be repeated in future by expanding the scope of the research to target a bigger sample of final respondents from a global population of MNCs. The research should target total respondents from MNC top management, of not less than 100. The objective of the recommended research is to compare and contrast findings of this study with the future research, and further evaluate the maturity of the adoption of the SMP framework. The research study outcome will further give MNC executives narrowly focused insights into critical strategic areas to continue refining, as a continuation processes in redesigning strategies that fit holistically into the emerging market context. The research will continue as a stepping stone leading from the key findings raised in this report, in enhancing the relationship between SMPs and the financial performance of MNCs that continue to operate in emerging markets.

The final recommendation is also perceived to be pertinent is a study with the objective of establishing a relationship between SMPs and the financial

performance of MNCs whose origins are in emerging markets; whose business agenda is to invest in other countries, that is, both developed and developing countries. It is vital to investigate, analyse and appreciate the level of entrepreneurial skill and competence resulting from emerging markets. Several reputable MNCs such as MTN and the Tata Group of companies have emerged from developing economies. The research should evaluate the emerging market MNCs' effectiveness in the adoption and implementation of the SMP framework, in relation to achieved ROI. It is recommended that the research study goes a step further and makes a comparison between the financial performance of emerging market MNCs and MNCs from developed economies that are operating in emerging economies.

8. CONSISTENCY MATRIX

The consistency matrix is a summary table that shows the research study alignment between research problem, literature review, applied research methodology and the overall data analytical approach followed.

Table 33: Consistency Matrix

Hypotheses	Literature Review	Data Collection Tool	Analysis
<p><i>H01</i>: MNCs do not practise immersion for market intimacy to achieve improved financial performance in emerging markets.</p> <p><i>HA1</i>: MNCs practise immersion for market intimacy to achieve improved financial performance in emerging markets.</p>	<p>Cusumano <i>et al.</i>, (1992) Arthur (1996) Potgieter <i>et al.</i>, (2007) Stern <i>et al.</i>, (1997) Osarenkhoe <i>et al.</i>, (2008) Khanna <i>et al.</i>, (2006) Ghemawat <i>et al.</i>, (2007)</p>	<p>Questionnaire: Q11; 12 & 13</p>	<p>SPSS 18 Tool Correlations Multiple linear regression T- tests</p>
<p><i>H02</i>: MNCs do not dominate main segments to achieve improved financial performance in emerging markets.</p> <p><i>HA2</i>: MNCs dominate main segments to achieve improved financial performance in emerging markets.</p>	<p>Ross (1986) Stalky (1993) Albernathy (1978) Porter (1980) Bower <i>et al.</i>, (1995) Markides (1997) Boehe (2007) Stewart (1995) Hamel <i>et al.</i>, (1989)</p>	<p>Questionnaire: Q11; 12 & 13</p>	<p>SPSS 18 Tool Correlations Multiple linear regression T- tests</p>
<p><i>H03</i>: MNCs do not build new competences to achieve improved financial performance in emerging markets.</p> <p><i>HA3</i>: MNCs build new competences to achieve improved financial performance in emerging markets.</p>	<p>Immelt <i>et al.</i>, (2009) Pralhad <i>et al.</i>, (1994) Porter (2006) Khanna <i>et al.</i>, (1997) Raina (2010) Stalk <i>et al.</i>, (1992) Mintzberg <i>et al.</i>, (1996) Arnold <i>et al.</i>, (1998)</p>	<p>Questionnaire: Q11; 12 & 13</p>	<p>SPSS 18 Tool Correlations Multiple linear regression T- tests</p>
<p><i>H04</i>: MNCs do not empower emerging market CEOs to achieve improved financial performance.</p> <p><i>HA4</i>: MNCs empower emerging market CEOs to achieve improved financial performance.</p>	<p>Pralhad <i>et al.</i>, (2003) Fernández-Ar�oz (2007) Immelt <i>et al.</i>, (2009) Ghemawat (2007) Kolodko (2003) Thompson <i>et al.</i>, (2001) Hamel <i>et al.</i>, (2010) London <i>et al.</i>, (2004a)</p>	<p>Questionnaire: Q11; 12 & 13</p>	<p>SPSS 18 Tool Correlations Multiple linear regression T- tests</p>
<p><i>H05</i>: MNCs do not build an inclusive culture to achieve improved financial performance in emerging markets.</p> <p><i>HA5</i>: MNCs build an inclusive culture to achieve improved financial performance in emerging markets.</p>	<p>Bird <i>et al.</i>, (2003) Beechler <i>et al.</i>, (2008) Pless <i>et al.</i>, (2004) Markovi� (2008) Calton <i>et al.</i>, (1996)</p>	<p>Questionnaire: Q11; 12 & 13</p>	<p>SPSS 18 Tool Correlations Multiple linear regression T- tests</p>

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10. APPENDICES

Appendix 1: Questionnaire

Exit this survey

MNCs investment strategies in emerging markets

1. Thank you for participating in the MNCs investment strategies in emerging markets survey

1 / 6		17%
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I am currently studying for a Masters of Business Administration (MBA) degree at the Gordon Institute of Business Science (GIBS), University of Pretoria. One of the requirements of the degree is to complete a research project. My chosen field of research is a study of strategic management practices (SMPs) of multinational corporations (MNCs) in emerging markets (EMs). This research attempts to investigate the relationship between SMPs and success or failure of MNCs in EMS. The framework for the study is based on a working paper written by Dr Raj Raina.

Your willingness to participate in this survey is appreciated. It is however important to note that your participation in the survey is voluntary and you are free to withdraw from the survey at any time should you feel inconvenienced. I undertake to keep all information received strictly confidential and participants will remain anonymous. Neither company nor participant's details will be included in the report. However, I will distribute consolidated summary of the results to ALL RESPONDENTS in which confidentiality and anonymity will be maintained.

Kindly complete and return the survey within three days of receipt or earlier. If you have any concerns, please contact me or my research supervisor on details below:

Researcher:

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Next



MNCs investment strategies in emerging markets

2. Research definition of MNCs

2 / 6		33%
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Multinational corporations (MNCs) in this research study refer to both MNCs from developed and emerging countries who invest in other markets. Emerging markets (EMs) are defined as synonymous to developing countries.

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MNCs investment strategies in emerging markets

3. Information about your MNC and your roles & responsibilities in the EMs in the last 10 years

3 / 6		50%
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Please fill in the boxes on all OPEN questions and tick (√) the most appropriate answers per question for the rest of the questions in this section (You could select/tick more than one relevant block(s) per question).

1. What is your current position in the MNC?

(Please state complete designation)

2. Describe your current role and responsibilities.

3. In which industry does your MNC operate?

- Mining
- Manufacturing/products
- Services
- Financial Services
- Telecommunications
- FMCG
- Property and real estate

Other (please specify)

4. In which emerging markets has your MNC been operating in the last 10 years, since 1999?

- Africa
- Middle East
- Brazil
- Russia
- China
- India

Other (please specify)

5. What specific products/services has your MNC launched in the targeted emerging markets in the last 10 years, since 1999?

6. Where is the corporate/head office of your MNC?

- South Africa
- US
- Nigeria
- Japan
- Germany
- India

Other (please specify)

7. Have you been directly involved in evaluating, starting and running emerging market operations for your MNC in the last ten years i.e. from 1999?

(Please specify the name of all the emerging market operations and duration)

8. Please specify your designation, roles and responsibilities, and period of your stay in the most recent EMs named in QUESTION 7.

9. With reference to QUESTION 8 above how many years were you in this position in the EM?

- 5+
- 3-5
- 1-3
- Less than 1

Other (please specify)

10. With reference to QUESTION 9 above what was your position BEFORE and AFTER this appointment?

(Please state position BEFORE and AFTER)

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MNCs investment strategies in emerging markets

4. Additional survey instructions

4 / 6	67%
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Please answer all the subsequent questions below with respect to your specific role as the specific emerging market head/senior official as detailed in questions 7-10.

Please tick (✓) one option ONLY. Select the most appropriate answer per question/statement.

11. How many senior staff were deployed by your company in the specific emerging market to collect information and become familiar with the market prior to the investments approval?

- 6+ senior staff
- 5-6 senior staff
- 3-4 senior staff
- 1-2 senior staff
- 0 senior staff

Other (specify)

12. How many person-months were invested by senior staff in emerging markets to collect information and become familiar with the market prior to investments approval?

(NB: one person-month equals 20 days)

- Person-months >25
- Person-months >20 but ≤ 25
- Person-months >15 but ≤ 20
- Person-months >10 but ≤ 15
- Person-months >5 but ≤ 10

Other (please specify)

13. What was the level of engagement of the senior staff of the company in the EM with the local industry players prior to investment approval?

- Very high
- High
- Modest
- Low
- Very low

14. Were the goals of the company in the EM to become a significant player in the main market segments of the EM at the time of entry?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

15. Did the company identify specific product/service features unique to the EM and incorporate these in the design of its launch offerings prior to investment decision?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

16. Did the company consider its pricing structure to position its product/service offerings in the EM at possible competitive prices prior to the investment decision?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

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MNCs investment strategies in emerging markets

5. SECTION 4 continues:

5 / 6	83%
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17. Did the company conduct detailed investigations of plausible new competences required in the EM prior to the investment decisions?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

18. Did the company identify new competences specifically needed in the EM which it expected will provide a competitive edge prior to investment decision?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

19. Did the company allocate dedicated resources to build these new competences as part of the investment decision?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

20. Did the company appoint the CEO/head of the EM who had deep knowledge about the EMs?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

21. Did the appointed CEOs of the EM enjoy high credibility with the top management of the company in its regional/corporate/head office?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

22. Did the appointed CEO of the EM have the final authority with respect to strategy, products, goals and resources required for the EM?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

23. Did the company carry out cultural difference assessments between the core company and the EM prior to investment decision?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

24. Did the company develop a clear view of its intended culture in the EM prior to investment decision?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

25. Did the company identify clear initiatives in order to attain the intended culture in the EM prior to investment decision?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

Prev

Next



[Exit this survey](#)

MNCs investment strategies in emerging markets

6. MNCs' successes and failures in emerging markets

6 / 6	100%
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26. How would you rate your success in MNC specific investments you were directly involved measured in terms of return on investment (ROI) in the last 10 years, since 1999.

Please tick (v) the most appropriate option.

- 10%+
- 5-10%
- 1-5%
- Less than 1%

Please provide your INSIGHTS and EXPERIENCES on strategic management practices (SMPs) of the MNC investments you were directly involved in EMs.

Thank you for completing this survey. Your responses are invaluable.

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Done

Appendix 2: MNC executives insights on emerging markets

Survey Extracts on various MNC executives' insights on investments in emerging markets	
1.	It is sometimes challenging to match the work ethics and culture with what is expected by the company investing. The quality of staff in emerging markets is not always very high. For this reason it is very important to constantly do training to get staff to the required levels of competence. It is therefore recommended to always employ an expatriate to manage any new operation initially.
2.	Tax regime investigation per emerging marketing and how it fits to company's strategy. We always screen out opportunities that require under the table dealings. We align with organisations or people with influence on the political and economic landscape of the target country
3.	Most of the times we believe that our winning strategic recipes of a local flavour land attempt to import this into EMs. I believe that we expect little adaptation of our local model for complex markets agility and ability are the best skills for the company to possess in breaking into and surviving in EMs.
4.	The company's strategy in emerging markets has always been to identify badly run established companies and then buy them out at rates less than their NAV and then optimise those operations using knowledge and expertise residing within the company. All of these operations are given to people who have extensive experience within the company to run, predominantly South Africans for at least 10 year after takeover to ensure that the values and culture is changed.
5.	Cultural dynamics in EMs were a challenge that restricted speedily penetration into targeted new markets compounded by lack of required local competences resulted in the importation of skilled manpower from developed countries.
6.	Investment decisions were based on financial attractiveness of the market rather than an in-depth analysis of what was necessary to give the MNC a competitive advantage in the EM. Usually, only the CEO/GM had some familiarity/experience with the EM and the rest of the team was foreign to this environment. Senior managers were imported from other regions rather than locally sourced. A track record of them having been successfully in developed markets was used as an indicator for their success in the EMs which is flawed. The companies offering in the EMs were not tailor-made. The MNC tried to impose a business model and product portfolio that had been successful in other developed markets onto the EM. Investment beyond basic infrastructure for the companies' operations was not made in the EM. Minimal consideration was given to cultural fit of the MNC in the EM
7.	There is a bit of a cultural shock in the sense that in some of the countries the way business is handled is very different from what we have been experienced with, issues of governance and how they affect strategic direction the company adopts may actually be huge pitfall to progress. The way our business was established revolved around local partners coming up as service providers and in most instances the relationships have been one sided and this has created inadequacies in the whole service provision and

Survey Extracts on various MNC executives' insights on investments in emerging markets	
	growth of the business.
8.	Be prepared to change course (agility) is key to survival and success. It is critical to know the terrain and proactively craft pre-emptive strategies. Competition is at its peak in the emerging markets. Pay lip service to it at your own peril.
9.	1. US companies are the slowest to adapt their business practices to Emerging markets. 2. The importance of these markets were only recognised in 2004-5 when the US economy was flagging. 3. The companies belonging to the emerging markets themselves focus on advanced markets and not on their own. In the absence of this, it is difficult to get outsiders to develop products and competences for the EMs. 4. There is some interest in adapting products to EMs but very few organisations are really prepared to invest in product development specifically targeted at emerging markets (the exceptions being cars and mobile phones - these are mass market items). 5. The levels of technology investments are low.
10.	Crucial to be able to access strong local knowledge (in our case through local partners). Initial plans are always too optimistic when it comes to time needed to achieve results.
11.	Usually issues to do with Compliance are strict, but an opportunity still lies as the MNC is up to date with technological innovative ideas.
12.	Lack of preparedness prior to entering EMs (did not seek local partners). 'Bullying' imperialist mentality.
13.	It is critical to develop the necessary competence and culture to succeed in emerging markets. Skills are a critical issue.
14.	The years had different outcomes with regards to performance. In the five years growth has been in double digits with regards to sales but slow in revenues. This is as a result of high turnover and low margins business we operate. It is important to segment the offers specific to the customers. In a culturally sensitive society like RSA deployment of human capital must take this into account. It is also important to understand the political direction of the the country both in opportunities and constraints it brings into play that may affect success. If such ventures do not have a learning part in them, they are doomed to fail. Textbook and reality share so much commonalities, but the leadership must be prepared to learn and adjust in the process.
15.	Key insights were on, 1) cultural differences- very significant as the product was targeted at Muslims who do not consume alcoholic beverages but would like to be associated with a non-alcoholic malt based beverage which looks like beer. 2) Route to market- some African countries do not have a well developed road network and as such certain vehicle configurations have to be indentified which suit some of the very narrow road links. 3) Product packaging- need to be aligned to disposal incomes and market conditions as most of the selling in certain Africans is just from cooler boxes right in the streets not from fridges in supermarkets or organised business premises.