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INTERNATIONAL DIVERSIFICATION IMPACT ON FIRM PERFORMANCE: A STUDY OF THE EAST AFRICAN COMMUNITY (EAC) FIRMS

Abstract:

The major purpose of this research was to analyse the impact of internationalisation strategy on industry performance among the East African Community (EAC) firms. We used a sample to 279 domestic firms and multinational companies (MNC's) subsidiaries in the manufacturing sector, service sector and agriculture sector. The impact of internationalisation strategy on firm performance was investigated by logistic regression analysis using statistical package for social sciences (SPSS). The results confirm that performance is perceived to be stronger by firms with foreign connections as compared to domestic firms, and that the MNC's subsidiaries experience better (sustainable development) performance of their functions as compared to local firms.

Keywords:

EAC firms, Firm performance, International diversification, Internationalisation theories, MNCs

JEL Classification: L25

1 Introduction

For over four decades, many multinational companies (MNCs) have opted for an internationalisation as a strategy for survival when undertaking their business operations abroad. It is widely believed that MNCs have opted for this strategy for many reasons, including among others; sell overseas in order to spread their overheads over a larger quantity of sales, looking for multiple sourcing to invest abroad, keeping domestic customers, and seeking for further knowledge. Furthermore, investors from industrialised economies want to invest in less developed countries (LDCs) due to the fact that the return on capital in their home countries is not adequate. Thus, they want to utilise the cheap raw materials of host countries by combining the capital with cheap labour so as to reduce the cost of production.

On the other hand, the host developing countries hope that the presence of these multinationals can results in the development of their services and infrastructure which may help their industrialisation and development, improve production of exportable goods and develop new technology in the industrial production and services. In addition, they hope that multinational affiliates can help to improve domestic firms' performance by enhancing their innovative capacity. Eventually, due to spill over effects, host economies expect to see domestic firms improving their productive capacity and service delivery, and thereby performing better than they did before.

There have been intellectual efforts towards understanding the relationship between internationalisation and firm performance. The multinational firms need to organise their resources in host countries to make sure that they realise profits. Furthermore, multinational firms need to examine country's specific factors that play a great role in moderating the relationship between internationalisation and firm performance in host countries. Kotabe, Srinivasan and Aulakh (2002) found that "the entry strategy and mode of operation of a multinational company also will have an impact on firm performance" (p. 94).

Nevertheless, multinationals need to study very carefully the business environment of the host countries prior to set up their business. An understanding of formal and informal institutions that may affect their existence can help them run their operations smoothly. In developing countries, especially in Africa, both economic and political factors including take-over of private enterprises and civil wars, have found to adversely affect multinationals. Nielsen and Nielsen (2010) argued that "firms aim to maximise profit by internalising the intermediate markets across national boundaries in the face of market imperfections (p. 529).

Due to huge investments in research and development (R&D), MNC possess advanced technology and state of the art managerial skills that they apply in producing various products in massive. Bwalya (2006, p. 524) argued that "foreign firms have an incentive to facilitate knowledge transfer to local firms to enable them produce intermediate inputs more efficiently, thereby making them available to foreign firms upstream at a lower cost". Similarly, Takii (2005) posits that the presence of MNCs has direct and indirect effects to the host economies. First and foremost, the MNCs can help improve host countries' economic growth through improving productive capacities of various sectors of economy. Second, through technology spill over, local manufacturing firms can be able to produce efficiently and therefore compete effectively.

Employing internationalisation theories, this study analysed the internationalisation-performance relationships in the 279 industries of the five countries of the East African Community (EAC) that include Burundi, Kenya, Rwanda, Southern Sudan Tanzania, and Uganda for the period of 2005 to 2015. We studied industries from the manufacturing sector, service sector, and agricultural sector. Performance parameters included finance, social, environment, and culture.

Firm level data for this study were obtained from both domestic companies and subsidiaries of the multinational companies in the EAC region. The key approaches used included surveys and logistic regression. Our aim was seeing if it would be possible to improve the performance of the MNC subsidiaries and suppliers and also the performance of purely local players by use of performance indicators.

1.2 Objectives of the study

This study was conducted to analyse on how firms perform due international diversification strategy in host countries. This was accomplished by evaluating the performance of foreign-owned against domestic firms within the East African Community.

The specific objectives were:

(i) To analyse the extent to which internationalisation impacts sustainable development performance of the affiliates of multinational firms and local companies in some selected industries in EAC countries;

(ii) To analyse the extent to which the relationship between internationalisation strategy and firm's operational performance (contribution to sustainable development) is stronger between affiliates of MNCs and domestic firms;

(iii) To analyse the extent to which the presence of MNC's subsidiaries leads to (sustainable development) performance improvement for domestic firms.

1.3 Research Hypotheses

From various theories on internationalisation we want to test empirically the theoretical underpinning; we thus formulate the following hypotheses:

H1: The impact of internationalisation on firm (sustainable development) performance is perceived to be stronger by domestics firms than for MNC subsidiaries.

H2: The purely domestic firms experience better (sustainable development) operational performance than MNC subsidiaries as a result of internationalisation.

1.4 Significance and Justification of the Study

The outcomes from this study are likely to fulfil the following goals:

1) To bridge the gap of the empirical literature on international diversification and firm performance among EAC countries;
2) To address how the macro-environmental and socio-economic factors the internationalisation-performance relationship.
3) To offer practitioners in international business and investment better tools for making informed decisions.
4) To assist practitioners and policy to address the challenges faced in making investment strategies within the EAC region, and thereby making the region more competitive in the changing global business environment.
5) To contribute to the body of knowledge on the international business strategies in developing countries such as those of East African Community, thereby adding value and laying a foundation for future research in this discipline.

1.5 Statement of the problem

The current global development in the flow of foreign direct investment (FDI) to the developing world has influenced foreign investments in the EAC. Also, all member states of the EAC have established investment promotion centres, which act as agencies for promoting and attracting investments from abroad, hence boosting the economic developments of the member states.

Notwithstanding the above, the empirical studies on internationalisation-firm performance, especially from the EAC region has been concerned with its impact on the financial and organisational performance sides, thus ignoring completely other performance measures such as social performance measures, environmental performance measures and cultural performance.

Furthermore, the prevailing studies have assessed the internationalisation-performance relationship from the side of MNE’s subsidiaries versus parent companies, disregarding totally comparing the performance between MNEs subsidiaries with local companies.

Thus, since the impact of international diversification on firm performance in the EAC region remains unclear, it was indispensable to evaluate its impact based on other performance indicators including social performance, environmental performance, and culture performance. The major objective was to see how the MNEs influence the performance of purely domestic firms in the EAC region.

2 LITERATURE REVIEW

2.1 Theoretical and Empirical Literature Review on International Diversification and Industry Performance

For over 20 years, the flow of foreign investments by multinational enterprises has played a major role in the development of the host country's economies. Theoretical and empirical studies show that this development has helped the host economies to make further improvements.

2.1.1 Internationalisation Theories

Multinational companies' involvement in international markets has been addressed by various theories of internationalisation. Below we discuss the two prominent theories, namely; internalisation theory, and eclectic paradigm.

2.1.1.1 The Internalisation Theory

Internalisation theory, developed by Buckley & Casson (1976, 2003), is a general theory that was initially aimed to explain the existence and survival of multinational enterprises. However, Buckley & Casson (2009) point out that the agenda has broadened to include entry modes to various markets, the position of partnership, the effect of technological advancement, and the cultural dimensions in international business

The internalisation theory is applied to MNCs to show where the boundaries of their operations lie. However, its major pitfall is to neglect of other organisation's aspects. Thus, Buckley & Casson (2009) point out that advancement in the theory is realised by merging the other aspects of the firm with other values, allowing this way to forecast different aspects of firm's performances.

2.1.1.2 The Eclectic Paradigm of Dunning

The eclectic theory, also called ownership-location-internalisation (OLI) theory of multinational enterprise has been developed by Dunning (1977). It has been modified several times by Dunning (2000, 2001) and (Denisia, 2010). This is a further development and refinement of the internalisation theory that was developed by Buckley & Casson (1976).

According to Dunning (2000) and (Denisia, 2010) the abbreviation "O" - stands for ownership of intangible assets enabling a firm to optimise production, and by this way, earning higher profits and the lowering costs. These advantages include technology, marketing skills, financial management, research and development, transportation networks, and economies of scale.

"L" - According to Dunning (2001, p. 175), "location advantages relate to the way the firms organised the generation and use of the resources and capabilities within their jurisdiction and those they could access in different locations". Denisia (2010) points out that the main factors include political advantages, economic advantages, and socio-cultural advantages.

According to Dunning (2000) and Denesia (2010), "I" stands for internalisation advantages that can be used by firms in organising their resources. The focus is on various approaches to the FDI structure, and on the manner in which a firm will benefit from selling goods and services to other companies.

2.1.2 Empirical Literature Review

International diversification is often one of the most extensive parts of corporate business plans. Various empirical studies indicate that there has been a substantial conflict in internationalisation-firm performance area. Some studies show a positive relationship, whereas others show negative effect and yet other studies find a neutral effect.

2.1.2.1 Evidence in Favour of Internationalization and Industry Performance

Several scholars have suggested that international strategy has positive impact on industry performance for both domestic firms and affiliates of MNEs in a host country. For instance, the main findings of the study based on Grant (1987) model showed that internationalization and firm performance are positively related, hence resulting into super profitability for the major 304 manufacturing firms in the United Kingdom, over a period of thirteen years. Grant postulated that competitive advantage is a major factor behind superior profit.

Several authors (including Tallman & Li, 1996; Gomes & Ramaswamy, 1999; Annavarjula, Beldona, & Sadrieh, 2005; Loncan & Nique, 2010; and Kirca, et al., 2011) examined the relationships between international diversification, product diversification, firm specific assets, firm size, age and performance using a sample of large MNEs from the United States and emerging MNEs from Brazil. Various performance indicators cover financial (such as return on assets, ROA; and return on equity, ROE), operational (such as operating cost to sales, OPSAL) and market performance (such as Tobin's Q). All these variables were used as being either independent or dependent. Their empirical results suggested positive curvilinear or non-linear relationships between internationalization and firm performance.

2.1.2.2 Evidence against Internationalization and Industry Performance

Internationalization strategy will not always have a significant positive impact on host industries' performance. However, only few scholars have tried to address this issue. For instance, in the study of the United States' based multinational enterprises, Omer, Durr, & Siegel (1998) revealed that internationalization does not play any important role in the firms' performance. Thus, they pointed out that diversification intensity plays trivial role on the risk and performances of firms they studied.

2.1.2.3 Mixed evidence on Internationalization and Industry Performance

For the past four decades, a large number of studies have been carried out in the internationalization-performance relationship. Existing theoretical underpinnings and empirical studies reveal mixed evidence on the relationship between international strategy and firm performance. There is still no consensus, as conflicting arguments still exist. For instance, research findings of Hitt, Hoskisson, & Ireland (1994) showed that firm performance and innovation are positively related with internationalization. On the other hand, Hitt, Hoskisson, & Ireland argued that firm performance, innovation, and product diversification are positively moderated by international diversification. Contractor, Kundu, & Hsu (2003) and Riahi-Belkaoui (2003) pointed out that the relationship between firm performance and internationalization depicts a three-stage sigmoid. The relationship has shrinking profit initially due to high costs associated with foreignness, then increases, and finally declines due increasing degree of internationalization.

Various studies employ performance indicators such as ROA, ROE, GDP growth, GDP per capita as dependent variables, whereas foreign sales to total sales, subsidiary presence, and total diversification are used as independent variables to study the relationship between internationalization and firm performance. For instance empirical findings by Pan, Tsai, & Kuo (2010, p. 4053) indicated “an inverted U-shaped relationship between internationalization and performance, with the slop positive at low levels of internationalization, and negative at high levels”. Similarly, empirical findings by Qian, Khoury, Peng, & Qian (2010) and Chiang & Yu (2005) showed that the relationship between firm performance and diversification is an inverted U-shaped. However, robustness checks by Qian, Khoury, Peng, & Qian (2010) revealed that there is no S-shaped relationship between the dependent and independent variables.

2.1.2.4 Local contexts and institutions and firm performance

Occasionally, academics writings on international diversification and firm performance have focused on studying corporate performance, but were ignoring other parameters such as local contexts.

Local settings and establishments on firm’s international strategy and performance are vital for MNEs, particularly when they organize factors of production in host country. Dunning & Lundan (2008, p. 586) argued that “national level institutions affect the attractiveness of a given country both as a host and home to MNE activity”. Gaur, Kumar, & Sarathy (2011) and Gaur, Kumar, & Singh (2014) postulated that the benefits enjoyed and utilized by the MNEs in overseas markets are regularly linked with their home markets institutional arrangements. Furthermore, the research findings by Gaur & Delios (2015) demonstrated that superior possession of real and intangible assets in home and overseas undertaking is connected with international diversification by developing economy companies.

Socioeconomic factors, also known as demographic or background variables have the great role to play in the internationalization-performance relationship. According to Hoffmeyer-Zlotnik (2008, p. 5), socioeconomic variables "describe the context in which a person acts." However, empirical literature on the impact of socioeconomics on firm performance is scarce. There are very few books and articles that have tried use socio-economic variables to measure performance problems faced by MNC in the international diversification research (Wolf & Hoffmeyer-Zlotnik, 2003).

2.2 A Gap in Knowledge from the Literature Review

Despite the relevance of social performance measures, environmental performance measures and cultural performance measures to multinational enterprises, research in these areas is still at its infancy stage of development. This is surprisingly because social, environmental and cultural differences are crucial aspects. In this context, it was necessary to conduct a study on the key factors of MNEs that operate in countries with diverse cultures, environmental and social background.

- To fill this gap, the study will analyse how social, environment and cultural divergence of multinational enterprises impact on range of products, corporate social responsibility, human resources and staff incentives, employment creation, customer retention rates, customer satisfaction, reduced emissions, carbon footprint, preservation of cultural heritage, and support to cultural activities. In addition, we will analyse how finance diversification of MNEs can affects sales margin, ROE and ROA.

2.3 Description of Variables

Conceptually we evaluated the influence of international diversification on the firms' sustainable development performances, being aware that:

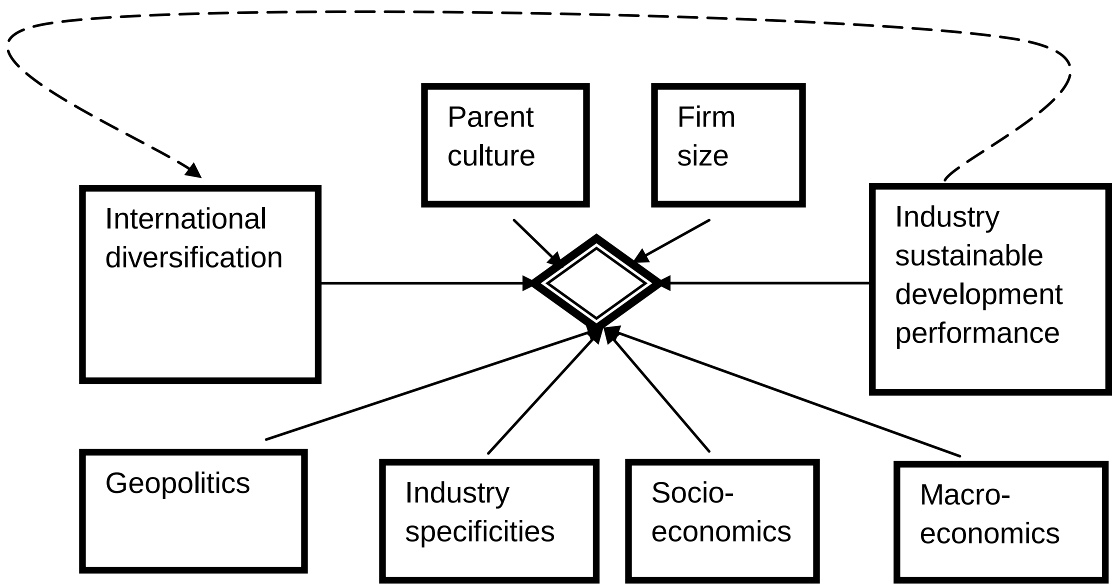
- as discussed in the literature survey, there are some control variables that are not independent;
- a number of direct and indirect feedback loops might exists as industries selected by an MNC to become a partner were the ones having performed well locally, before they became subsidiaries of MNC.

2.3.1 International diversification

We used degree of internationalisation as an independent variable. Prior studies have employed various indicators for measuring the degree of internationalisation. For instance, Ruigrok & Wagner (2003); Loncan & Nique (2010); and Chiang & Yu (2005) used the ratio of foreign sales to total sales, FS/TS; the ratio of foreign assets to total assets, FA/TA; growth rate in sales, and product diversification, marketing assets, technological assets; and geographic scope, respectively, to measure international diversity.

For our study, the morphological discriminants that were taken as our independent variables included firm size, industry specificities, parent culture specificities, socio-economics, macro-economics, geo-politics, relationship of performance btw MNCs & domestic firms, management plan effectiveness, strategic plan effectiveness, EAC sectoral strategies compliance, and international standards compliance as per Figure 1.

Figure 1: Schematic/Conceptual model of the study



Source: Researcher

3 Research Methodology

3.1 Introduction

This section discusses the research methodology that was used for the study. Research Methodology gives details regarding the procedures used in conducting the study.

3.2 Scope of the study

The study covered the five countries of the Eastern African Community (EAC), namely: Burundi, Kenya, Rwanda, Tanzania, and Uganda. The sixth member, that is, Southern Sudan was not included. The region has a total population of 115 million.

The establishment of the East African Common Market in 2010 has enhanced the cooperation among the member-states. However, there are contradictory economic policy issues among the member-states because some of them are affiliated to more than one economic bloc. Thus, all these contradictions in policy with the EAC's member states pose constraints on an industry development.

The survey on morphological characteristics, that is, seeking answers on various questions, was done from end of 2013 to 2015. However, due to availability of official statistics, the financial data used covered the period of 2005 to 2015.

Three industrial sectors that were studied included manufacturing sector, service sector, and agriculture sector.

Firm level data for this study were obtained from both domestic firms and affiliates of the MNEs in the EAC region. Only large and medium-sized industries were considered. The industries belonged to co-operatives, shareholders, families and/or MNEs. The companies' scope was representative, and the results were analysed at meso and micro levels.

3.3 Approach of the research

To be able to execute the study, we collected data from domestic firms and MNC's subsidiaries in the agricultural sector, manufacturing sector, and service sector. Qualitative and quantitative methods were used to collect primary data and secondary data, respectively. Methods of data collection included use of literature, documentary sources, and interviews. We collected data from managers and business owners.

Quantitative data and qualitative data were collected using questionnaires and interviews, respectively. Questions were asked under the form of five-point Likert scale and some open-ended questions. The data was analysed using both quantitative and qualitative techniques.

3.3.1 Sampling Procedures

Industries are geographically dispersed across the EAC region; this makes it expensive and time consuming to construct a sampling frame. At the same time, face-to-face contact was needed. Additionally, the geographical area of the region is large; this made it difficult to construct a sampling frame because it was time consuming and very expensive. We thus decided to use multi-stage probability sampling technique to overcome such problems.

We distributed our questionnaires to 300 business leader respondents but not all of them completed the survey. As a result, only 279 respondents completed the survey successfully, which represents 93 percent.

A Likert scale was used in the questionnaires of the current research. Information on morphological independent and dependent variables (that is, primary data) were completed by senior officers of the survey firms. Financial information was obtained from financial reports of the affiliates of multinational firms and domestic firms. These provided secondary data.

3.3.2 Sources of information

The data for this research came from our survey and archival sources. We used questionnaires to obtain survey data Questionnaires were distributed to senior managers in areas of human resources, business, and finance in MNE subsidiaries and domestic firms. Surveys were conducted by the researcher in three countries (that is, Kenya, Tanzania, and Uganda; who then distributed and collected the questionnaires. Due to time and financial constraints and security reasons, the survey in the remaining member countries of Burundi and Rwanda was subcontracted. Questionnaires were sent by emails and after being filled in, were sent back to the researcher via Post office. From the survey, morphological discrimination data (that is, independent and dependent variables) were obtained.

The archival/secondary data on financial discrimination independent variables came from sources; including published annual reports, papers, books, and other company's documents.

3.3.4 Methods of data collection

The study used both quantitative and qualitative methods of data collection. This included second hand information and primary information, in which interviews and questionnaires were adopted. Conventional statistical methods, including regression and hypotheses testing were used to analyse data.

The surveys and logistic regression methods was used to investigate the impact of internationalisation on firm performance. A software known as Statistical Program for Social Sciences (SPSS) was used to run the common statistical analysis on data and interviews.

3.3.5 Control variables and material evidence

Several scholars have proposed different types of control variables. For instance Tallman & Li (1996); Gomes & Ramaswamy (1999); Nakos, Mousesetis, & Abu-Rahma (2004); and Butnariu & Avasilcai (2015) have suggested for control variables to include parent culture, international diversification, industry sustainable development performance, firm size, industry effects, geopolitics, macroeconomics, and socioeconomics. For this study, the above-mentioned variables were controlled explicitly.

The sources of information included company websites, statistics, newspapers, and existing figures. The data were obtained from the annual financial and operational reports published by the industries within the EAC region. Others sources included publications and reports issued by the EAC Secretariat, central banks, chambers of commerce, industry and agriculture and bureaus of statistics.

3.4 Key performance indicators (KPIs)

Key performance indicators are the measurements which quantify the management objectives and evaluate its success or a success of a particular activity in which the organisation is engaged (Weber & Thomas, 2005). For this study, we conceptualised performance based on afore-mentioned four indicators, namely: finance, social, environment, and culture. The applied key performance indicators (KPIs) included sales margin; return on equity; return on assets; range of products; social responsibility to society; human resources and staff incentives; employment creation; customer retention rate; customer satisfaction; reduced emissions to air, water, and land and carbon footprint; and Contribution to cultural activities and preservation of the cultural heritage.

4. Data Analysis and Results

4.1 Logistic Regression

We wanted to assess how successful the participants were able to rate key performance indicators (KPI's). We did a study in which were recorded ratings by participants from 81 affiliates of MNC's and 198 participants from domestic firms in the EAC region. The KPI used in each case was rated by each participant in one of the following 5 choices: (5 = Strongly Agree, 4 = Agree, 3 = Neither Agree nor Disagree, 2 = Disagree and 1 = Strongly Disagree. Thus, the study wanted to predict which of the five categories a firm was likely to belong given other information on morphological and financial independent discriminants.

Using logistic regression, we wanted to assess how successful the participants were able to rate key performance indicators (KPI's). We did a study in which were recorded ratings by participants from 81 affiliates of MNC's and 198 participants from domestic firms in the EAC region. A summary on logistic regression is summarized in Table 1.

Testing Research Hypothesis 1: Discussion of Findings

In this study it was hypothesized that:

H1: The impact of internationalization and firm (sustainable development) performance is perceived to be stronger by domestics firms than for MNC subsidiaries.

Generic and Specific Findings

We examined the extent to which international diversification improves the firm performance (that is, contribution to sustainable development), of MNC subsidiaries, given control for firm size and industry effects.

Applying Logistic regression analysis in the study, we examined how international strategy is likely to impact the performance of multinational enterprises and domestic firms and how morphological discriminants can influence the relationship. Our results from multinomial logistic regression from utilizing key performance indicators (KPI), that is, sales margin, range of products, corporate social responsibility, human resources and staff incentives, employment creation, and customer retention rate as the criteria and morphological discriminants (including socioeconomics, macroeconomics, relationship of performance between subsidiaries of multinational enterprises and local firms, and compliance with EAC sectoral strategies) as predictors indicated a statistically significant, $p < .05$. Thus, our results reject our formulated hypothesis and confirm that performance is perceived to be stronger by firms with foreign affiliation as compared to domestic firms.

Research Hypothesis 2: Discussion of findings

In this study it was hypothesized that:

H2: Purely domestic firms experience better (sustainable development) performance of their operations than MNC affiliates as a result of internationalization.

Generic and Specific Findings

From multinomial logistic regression we found mixed results. Affiliates of MNC’s performed well in a number KPI’s (including sales margin, range of products, CSR, HR and staff incentives, employment creation, customer retention, Customer satisfaction and reduced emissions). Similarly, domestic firms performed at higher Likert scales on customer satisfaction, reduced emissions, carbon footprint, and preservation of cultural heritage.

We found that the significance values (p) associated with the data were less than the threshold of 0.05 (that is, $p < .05$). Hence, hypothesis 2 was rejected at a confidence level of 95% because there was significant difference (between the affiliates of MNE’s and local firms) in terms of the above-mentioned variables.

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Table 1: A summary of logistic regression output

Sales Margin[a]		B	Wald	Sig.
Disagree	Intercept	-36.562	.000	.990
	[TYPE=0] Local firm	19.756	.000	.995
	[TYPE=1] MNE affiliate	0[c]	.	.
	Socio-economics	-.297	.010	.920
	Compliance to EAC sectoral strategies	16.212	2752.126	.000
	Relationship of performance between MNCs and domestic firms	1.704	.294	.588
	Macroeconomics	-.791	.311	.577
Neither Agree nor Disagree	Intercept	-17.127	.000	.995
	[TYPE=0] Local firm	5.347	.000	.998
	[TYPE=1] MNE affiliate	0[c]	.	.
	Socioeconomics	-.185	.004	.950
	Compliance to EAC sectoral strategies	16.376	2531.569	.000
	Relationship of performance between MNCs and domestic firms	1.479	.221	.639
	Macroeconomics	-2.176	2.211	.137
Agree	Intercept	-28.661	.000	.992
	[TYPE=0] Local firm	5.725	.000	.998
	[TYPE=1] MNE affiliate	0[c]	.	.
	Socioeconomics	.345	.014	.907
	Compliance to EAC sectoral strategies	16.954	3342.549	.000
	Relationship of performance between MNCs and domestic firms	1.962	.389	.533
	Macroeconomics	-.574	.161	.689
Strongly Agree	Intercept	-29.164	.000	.992
	[TYPE=0] Local firm	.311	.000	1.000
	[TYPE=1] MNE affiliate	0[c]	.	.
	Socioeconomics	.957	.103	.748
	Compliance to EAC sectoral strategies	17.183	.	.
	Relationship of performance between MNCs and domestic firms	.729	.053	.817
	Macroeconomics	.409	.075	.785

5. Conclusions, Implications and Recommendations

From the research generic and specific findings in this thesis, we may conclude the following three points.

The findings of our study on research hypothesis 1 confirm two things. First and foremost, our finding confirms earlier studies (Chacar, Celo, & and Thams, 2010; Castellani & Zanfei (2006) that assert that foreign-owned firms perform better than purely domestic firms. Second, our finding confirms earlier studies (Bhattacharya & Michael, 2008; Barbosa & Louri, 2005) that suggest that purely domestic firms perform better than foreign-owned firms.

The findings of research hypothesis 2 confirm prior studies such as those of Chacar, Celo, & and Thams (2010) who assert that empirical evidence shows that foreign-owned firms perform better than purely domestic firms. However, the performance declines as the firm gets older.

The findings from our empirical studies have several primary implications. One is that international strategy is a foundation of inventive commitment by a number of local firms. Presence of foreign firms helps local firms to improve and enhance their state-of-the-art performance in the provision of goods and services.

Another implication is that multinational enterprise affiliates outperform purely local firms. This is attributed to a number of factors, including: ability to tap additional resources from parent companies; ability to copy their parent firm’s managerial expertise to manage the large scale production in foreign countries; ability and capacity for assessing swiftly diverse circumstances; and ability to access to superior technology from parent companies.

The study recommends that there is a need to conduct future research which include testing a larger sample of business firms to be able to apply more sophisticated statistical tools. Also, there is great potential to compare the results of the study in settings other than manufacturing, agriculture, and service sectors such as mining, construction industries. The unique characteristics of these environments may also impact the relevance of future findings in these research areas. The future research efforts in these areas may help detecting the effect of moderating variables such as firm size, industry specificities and parent culture on firm’s performance.

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