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# Management's perceptions of factors that influence firm performance : Chinese international subsidiaries in South Africa

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# Management's perceptions of factors that influence firm performance: Chinese international subsidiaries in South Africa

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**A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management specialising in Entrepreneurship and New Venture Creation**

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# ABSTRACT

Firm performance and its determinants in emerging markets have generated much attention in recent years. This study examined the perceived performance of Chinese international subsidiaries in South Africa and the influence of four factors, namely, host country institutions, financial capital, human resource management, and entrepreneurial orientation. Questionnaires were distributed to 46 Chinese subsidiaries operating in South Africa. The analysis of the results used the Spearman's rho to test the relationship of the four factors with the performance of the Chinese subsidiaries.

The findings showed a positive relationship between entrepreneurial orientation and perceived performance of Chinese international subsidiaries. A negative relationship was revealed between sufficient initial capital investment and the perceived performance of Chinese international subsidiaries. The remaining two factors did not show any significant influence on the perceived performance of Chinese international subsidiaries.

This study provided empirical evidence to support the existing performance theories in the context of emerging economies. This research examines the performance of Chinese foreign direct investment in South Africa. Both countries involved are developing countries, which in itself was an unusual research setting. Furthermore, this paper could provide guidance for those Chinese international companies that are already operating, or are about to set up business, in South Africa. The findings of this research indicated that Chinese international subsidiaries could adopt EO as a firm strategy to improve performance. The South African government could help firms to achieve better performance by creating a social climate to encourage innovation, protect innovative products and develop its institutions to give every firm fair access to information that is key when predicting market trends.

# DECLARATION

I, Hongyan Ren, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

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Hongyan Ren

Signed at Johannesburg on the 11th day of August 2014.

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# CHAPTER 1. INTRODUCTION

## 1.1 Purpose of the study

The purpose of this study was to examine the relationship between the perceived performance of Chinese international subsidiaries in South Africa and four factors namely, host country institutions, financial capital, human resource management (HRM), and entrepreneurial orientation (EO).

## 1.2 Context of the study

Beginning with the 'open-door' policies in the late 1970s and accelerated by the entry into the World Trade Organisation in 2001, China's economy experienced high growth (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007). Since 2009, China has been the world's second largest economy, the largest exporter, the second largest importer and the second largest recipient of foreign direct investment (FDI) (Quer, Claver, & Rienda, 2012). Researchers argue that the next move for China is the globalisation of Chinese enterprises (Quer et al., 2012). In recent years, there has been a notable rise in Chinese outward FDI, fostered by the 'going abroad' policy (Kolstad & Wiig, 2012; Luo, Xue, & Han, 2010). In 2012, China, following the United States and Japan, had moved to the position of third top investor in world economies (UNCTAD, 2013). By the end of 2009, 13,000 foreign affiliates to Chinese enterprises had been established in 177 countries all over the world (Quer et al., 2012).

China and South Africa have maintained good relations for some time and since 1998, bilateral trade between the two countries has progressed rapidly. According to statistics from Chinese customs, the bilateral trade volume was

US$ 295.1 billion in 2011, an increase of 32.7 percent from the previous year and South Africa has become China's key trade partner in Africa (MOFCOM, 2013). Chinese investment in South Africa is growing fast and by the end of 2011, Chinese FDI stock in Africa was US$ 16 billion with South Africa as the leading recipient (UNCTAD, 2013). Recently, more Chinese companies are focusing on Africa, especially South Africa, for the following reasons:

- South Africa has a stable political and economic environment;
- South Africa has a sound financial and legal system;
- South Africa is rich in mineral resources and one of the five biggest mining countries;
- South Africa's infrastructure is relatively well developed with a convenient and robust transport system; and
- South Africa offers a wonderful natural environment and pleasant weather (MOFCOM, 2013).

## 1.3 Problem statement

### *1.3.1 Main problem*

With the increasing number of Chinese firms investing in South Africa, the performance of these firms and factors affected performance require more attention. In fact, determinants of firm performance are fundamental questions in the international business realm (Christmann, Day, & Yip, 1999; Peng, Wang, & Jiang, 2008). Two major theories have been widely used to explain the varying performance among firms. The industry structure view argues that the conditions of the industry in which the firm competes, determines the strategy and performance (Christmann et al., 1999; Peng et al., 2008). The

resource-based view argues that the specific characters of an individual firm, such as the resources it possesses and the capabilities that it has, determine strategy and performance (Christmann et al., 1999; Peng et al., 2008). Moreover, scholars realise the importance of environment, in which firms compete, on performance; for example, Christmann et al. (1999) found that the host country's characteristics played the most important role in determining subsidiary performance, rather than industry structure, subsidiary strategy and corporate characteristics. Furthermore, Peng et al. (2008) suggested that institution-based views together with industry structure views and resource-based views formed the 'strategy tripod' that affected firm performance and determined the competing strategy in emerging economies.

Building on these theories, four factors determining the performance of an international subsidiary were identified: host country institutions (host country related), financial capital (parent company related), HRM and EO (international subsidiary strategy related). An examination of how these four factors affect the perceived performance of Chinese international subsidiaries in South Africa follows.

### *1.3.2 Sub-problems*

Institutions are defined as "rules of the game, [governing] societal transactions in the areas of politics, law, and society" (Peng et al., 2008, p. 922). Christmann et al. (1999) suggested that institutions, as part of the country's condition, influence firm performance directly by affecting the general business climate and indirectly by affecting the industry a firm enters and the strategy a firm can choose. For example, some industries are not open to wholly foreign equity, thus a foreign firm has to find a local partner in order to

enter the market. Since the concept of institution is a very broad concept, scholars investigate and examine the institution-firm performance relationship from different angles. For example, Christmann et al. (1999) asserted that high political risk and a high tax rate might negatively affect firm performance by discouraging adequate investment and reducing after-tax profit. Demirbag, Tatoglu and Glaister (2007) proved that the host country's favourable regulations were positively associated with subsidiary performance.

Culture is classified as a part of informal institutions (Peng et al., 2008) and is believed to have a significant influence on firm performance (Li, Lam, & Qian, 2001). A number of studies were conducted, but findings are inconsistent. Some find that international subsidiary performance is negatively associated with cultural distance (Li & Guisinger, 1991); however, others report a positive result. For example, Pangarkar and Lim (2003) found that cultural distance was positively associated with market share as a performance indicator. Many studies support the notion that culture influences firm performance, although a few studies report that cultural influence is not significant for firm performance (Demirbag et al., 2007). The first sub-problem is to determine how institutional factors in South Africa influence the perceived performance of Chinese international subsidiaries.

Finance capital is important for firm performance. A firm's economic performance is generally considered to have two dimensions: growth and profitability (Covin & Slevin, 1991). Ayyagari, Demirgüç and Maksimovic (2008) identified that finance, crime and policy instability were three factors, which directly influenced firm growth. Cooper, Gimeno-Gascon and Woo (1994) claimed that adequate finance was one of the significant predictors of new firms' performance. Only with sufficient initial capital, can a small firm survive

and grow, and thus improve performance. The second sub-problem is to determine how financial capital influences the perceived performance of Chinese international subsidiaries in South Africa.

It has long been recognised, in theory and practice, that human resources (HR) have a significant influence on firm performance. HR can create sustained competitive advantage, as it is valuable, rare, and difficult to imitate (Barney & Wright, 1998). During the past two decades, HR research has experienced a shift in focus from micro analytic to a broader macro perspective (Delery & Doty, 1996). In other words, organisations achieve superior performance when the organisation's strategies and HR practices 'fit' together (Delery & Doty, 1996). Researchers commonly use one of the following three approaches to examine the HR-performance relationship.

- First, the universalistic approach argues that adapting some HR practices will always lead to better firm performance;
- Second, the contingency approach argues that the relationship between specific HR practices and firm performance is dependent on the firm's strategy; and
- Third, the configuration approach argues that a firm achieves superior performance when an employment system is appropriate for the firm's strategy (Delery & Doty, 1996).

Further to theory development, Delery and Doty (1996) tested these three models using a sample of 1,050 banks and found support for all three. Support for the above-mentioned models is also found in other research (Akhtar, Ding, & Ge, 2008; Liu, Chow, Huang, & Liu, 2008). The third sub-

problem is to determine how HRM influences the perceived performance of Chinese international subsidiaries in South Africa.

EO has generated much interest because it is believed to be the core of superior performance (Covin & Slevin, 1991; Lumpkin & Dess, 1996). “EO refers to the strategy-making process that provides organisations with a basis for entrepreneurial decisions and actions” (Rauch, Wiklund, Lumpkin, & Frese, 2009, p. 762). “It represents a frame of mind and a perspective about entrepreneurship that are reflected in a firm’s ongoing processes and corporate culture” (Dess & Lumpkin, 2005, p. 147). The initial three EO dimensions were defined as innovativeness, pro-activeness and risk-taking (Covin & Slevin, 1991; Miller, 1983). Lumpkin and Dess (1996) proposed another two dimensions: autonomy and competitive aggressiveness. Firms with EO have the following characteristics:

- They frequently try out new products/services and are innovative in their operational process;
- They choose to shape the competing environment through the above actions rather than respond to market changes; and
- They are bold and aggressive in pursuing opportunities, even willing to take on high-risk projects, which potentially have high returns.

The managers or managerial team of a company should independently initiate a business idea or vision and continue to execute this idea or vision until completion (Covin & Slevin, 1991; Lumpkin & Dess, 1996). Some scholars argue that each EO dimension has a universal positive influence on performance. Lumpkin and Dess (1996) and Wiklund and Shepherd (2005) stated that new firms could grow and create wealth if new goods and services

are launched in the market. Lieberman and Montgomery (1988) stated that firms would generate high profits and get a head start on building brand recognition, by taking the first move in existing markets or entering an emerging market. Some scholars agree that EO positively affects performance, while other contingencies moderate this relationship (Covin & Slevin, 1989). Two sets of contingencies have been identified; for example, internal contingencies include firm size, structure, resources etc., and outside contingencies include industry characteristics, environment dynamism etc. (Lumpkin & Dess, 1996). Moreover, a configuration approach is supported by other studies. Wiklund and Shepherd (2005) conducted a longitudinal study of 413 small Swedish firms and found that small business performance was explained by configurations of EO, access to capital and environmental dynamism. Access to capital or environmental dynamism alone is not significant in explaining the EO-performance relationship. The fourth sub-problem is to determine how EO influences the perceived performance of Chinese international subsidiaries in South Africa.

## 1.4 Significance of the study

All four selected factors receive support theoretically in the literature and empirically in research conducted in the developed world, however the question remains, are all the relationships discussed previously, valid in emerging countries? This study makes the following contributions. On the one hand, this study provides empirical evidence of the existing performance theories in the context of emerging economies. It examines the performance of Chinese FDI in South Africa. Both countries involved are developing countries, which is an unusual research setting. On the other hand, this paper

could serve as guidance for the Chinese international companies already operating, or about to set up business, in South Africa.

This paper intends to answer the following questions:

[1] In the institutional context is South Africa the right place for China to invest?

[2] What type of finance, HR and EO strategy should Chinese Multi-National Corporations (MNCs), and their subsidiaries, adopt to pursue and maintain improved performance?

## 1.5 Delimitations of the study

Two delimitations exist. First, this study is conducted in South Africa and second, it examines only those companies that are the branches or subsidiaries of Chinese multinational companies. South African companies established and managed by Chinese nationals are not included in this research.

## 1.6 Assumptions

As the data was collected from managers of the Chinese international subsidiaries in South Africa, it was assumed that the respondents (managers) had enough knowledge and were willing to answer all questions.

## 1.7 Outline of remaining chapters

The remainder of this paper is divided into five chapters: first, a literature review that discusses the relationship between each of the four factors and

their influence on firm performance is presented and hypotheses developed. Secondly, the research methodology is explained, including a description of the sample, data collection process and variables. An analysis follows in the next two chapters, where results are presented and discussed. Finally, recommendations are made and future suggestions given.

## 1.8 Conclusion

In summary, this chapter addresses some important issues regarding the research. The research scope is outlined by clearly stating the purpose and context of the research. The research problems are identified and linked to the literature review, while simultaneously the significance of the study evolved. Before concluding the chapter, the assumptions are identified.

# CHAPTER 2. LITERATURE REVIEW

## 2.1 Introduction

In this chapter, the relationships between firm performance and four factors (host country institutions, financial capital, HRM and EO) are explained. Business performance and factors that influence business performance have long been a popular topic. Various perspectives have been researched; however, the focus for this research was environment and organisation (Ireland, Covin, & Kuratko, 2009; Manolova, Eunni, & Gyoshev, 2008; Poon, Ainuddin, & Junit, 2006). From the perspective of environment, institutional factors play a significant role. Manolova et al. (2008) made a clear and valuable statement:

> "The institutional framework of a society comprises the fundamental political, social, and legal ground rules that establish the basis for production and distribution, and organisations must conform to it if they are to receive support and legitimacy. In addition, the institutional environment shapes the structure of political, social and economic incentives, and thereby limits the scope of strategic choices available to individuals and organisations" (p. 204).

From the perspective of organisation, a firm's performance is determined by finance, HRM and EO. Finance is important to firm performance as it limits the scope of business, and available strategies a firm can choose (Cooper et al., 1994). From the resource-based view, HR is considered important to firm performance as it creates sustained competitive advantage (Barney & Wright,

1998). In addition, at the organisational level, EO is also proved to influence the firm's performance (Lumpkin & Dess, 1996). According to the model developed by Lumpkin and Dess (1996), firms with strong EO tend to achieve superior performance. Such firms have one or some of the following characteristics.

- They frequently launch new products/services and are innovative in their operational process;
- They tend to act boldly and aggressively to pursue opportunity, and are willing to take high-risks in order to achieve high returns; and
- They would rather shape the environment than respond to it (Covin & Slevin, 1991; Lumpkin & Dess, 1996).

Each of the four factors that influence firm performance are elaborated on in the sections that follow.

## 2.2 Framework

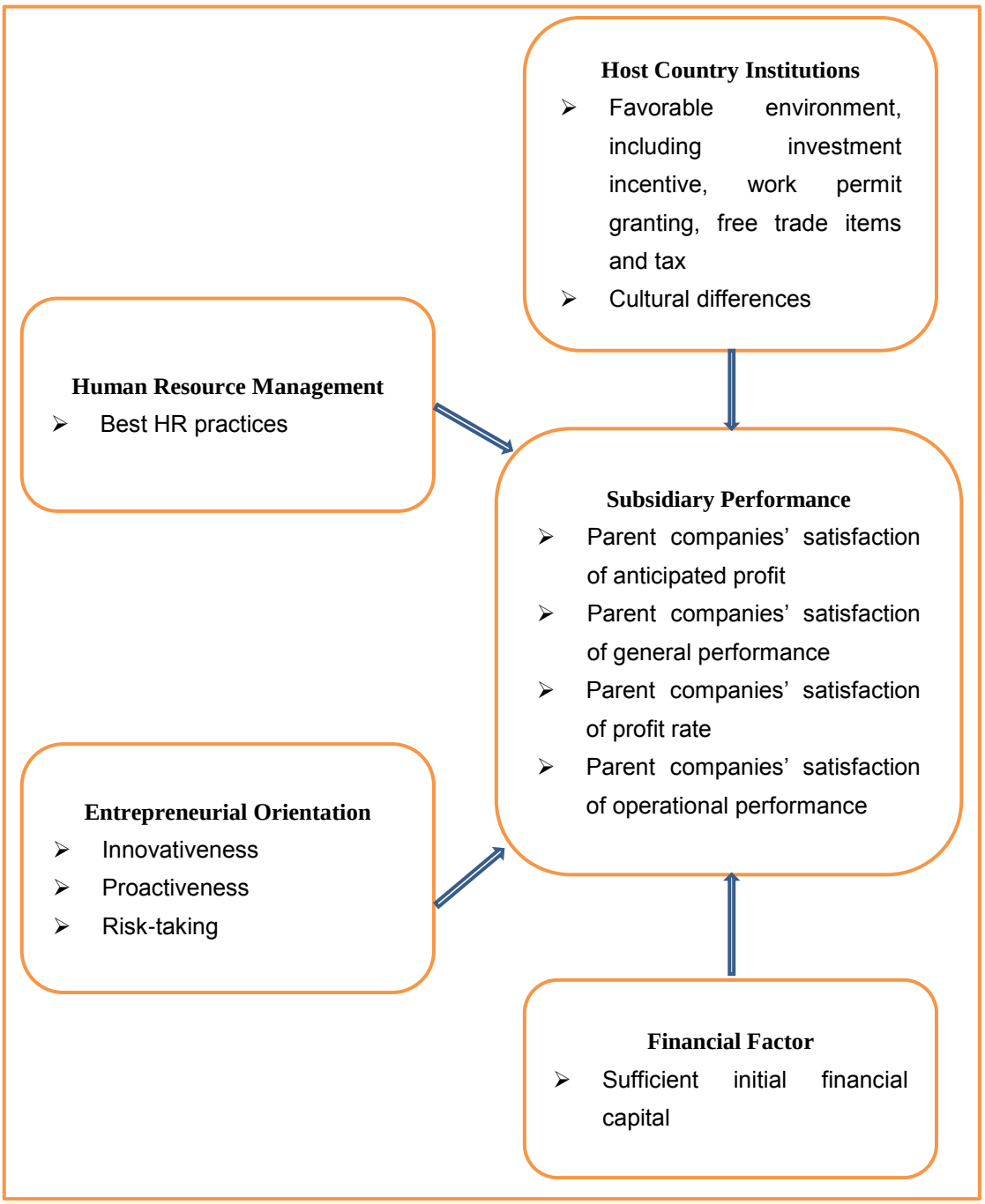



**Figure 1: Relationship display**

As depicted in Figure 1, international subsidiaries' performance is influenced by four factors: host country institutions, financial factors, HRM and EO.

Institutions are defined as ‘rules of the game’ and manifest formally in laws and regulations related to trade, company ownership, and immigration; and informally to culture (Peng et al., 2008). Financial factors refer to the initial capital commitment from the parent company. HRM affects firm performance via ‘best practices’. EO, as a firm level strategy, manifests in the combination of three dimensions: innovativeness, proactiveness and risk-taking.

From the perspective of the environment, a favourable institutional environment in a host country is believed to affect international subsidiaries’ performance positively. Culture difference is believed to affect international subsidiaries’ performance negatively. In terms of resource commitment, sufficient initial capital investment is believed to affect international subsidiaries’ performance positively. Lastly, adopting HR best practice and EO is believed to affect international subsidiaries’ performance positively, from the strategic perspective.

## 2.3 Institutional factors

The industry structure view and the resource-based view were the two main perspectives used in the past to explain firm performance (Christmann et al., 1999; Peng et al., 2008). However, with globalisation, scholars find that these two theories cannot explain all the variations in performance when firms operate in other countries. An important variable in explaining cross-country firm performance is country conditions (Christmann et al., 1999; Makino, Isobe, & Chan, 2004). Furthermore, industry factors and country conditions are salient aspects in explaining the variation in international subsidiaries’ performance in less developed countries, while the parent company plays a more important role when subsidiaries are in developed countries (Chan,

Isobe, & Makino, 2008; Makino et al., 2004). Peng et al. (2008) and Chan et al. (2008), in particular, stated that institutions, as part of a host country, had a significant influence on an international subsidiary's performance.

Institutions influenced firm behaviour and performance formally via the economic, political and judicial rules and informally with culture and ideology in society (Li et al., 2001). As part of institutions (Peng et al., 2008), culture affects international subsidiary performance as it "defines profit potential and/or the risks associated with a specific market entry" (Brouthers & Brouthers, 2000, p. 91). Culture influences a firm's performance by affecting its managerial decision-making, leadership style and HR management practice (Li et al., 2001). The relationship between host country institutions and international subsidiary performance is discussed in detail.

### *2.3.1 Host country institutions and firm performance*

Institutions have three dimensions: regulatory, normative and cognitive.

> "Regulatory institutions refer to the formally codified, enacted, and enforced structure of laws in a community, society, or nation. Less formal are the normative institutions, which typically manifest in standards and commercial conventions such as those established by professional and trade associations, and business groups. Last, but certainly not least, cognitive institutions are the axiomatic beliefs about the expected standards of behaviour that are specific to a culture, which are typically learned through social interactions by living or growing up in a community or society" (Manolova et al., 2008, p. 204).

The host country's institutional environment influences the performance of international subsidiaries (Makino et al., 2004). For example, the host country government could launch investment incentives to attract foreign investment. They could also introduce policies and regulations to put international subsidiaries into a non-favourable position in competition to protect local firms (Makino et al., 2004). The host country may promulgate laws or regulations to limit the ownership choice of entrants, which can influence the entry mode choice. In this case, not adopting a preferred entry mode can increase the transaction cost, and result in poor performance (Brouthers, 2002). Institutions are important in terms of information asymmetries. Strong institution arrangements can reduce information asymmetries, and thus reduce the cost of doing business. Weak institution arrangements, typically in many emerging economies, increase information asymmetries, because firms operating in such conditions need to spend more resources searching for information; therefore, weak institution arrangements increase the cost of doing business (Meyer, Estrin, Bhaumik, & Peng, 2009).

Makino et al. (2004) conducted research with a sample of 616 Japanese parent firms in 79 host countries, and found that external elements, including host country environment, played a more important role in explaining subsidiary performance in developing countries than in developed countries. Child, Chung, and Davies (2003) proved that foreign subsidiaries, operating in more favourable host environment, performed better. Chao and Kumar (2010) also claimed that firm performance was negatively associated with an unfavourable host country institutional environment and positively associated with a favourable host country institutional environment, as firms were 'embedded' in country-specific institutional arrangements (Busenitz, Gómez, &

Spencer, 2000). Christmann et al. (1999) stated that host country 'regulatory constraints' had a negative influence on international subsidiaries' performance. Demirbag et al. (2007) proved empirically that affiliate performance was positively associated with favourable government regulations of the host country. Researchers have defined several elements that create favourable host country institutional environments: supportive government policy decisions toward the exchange rate, corporate taxes and FDI incentives, and positive attitudes of the host government, including infrastructural support, favourable terms for trade and easy granting of work permits for employing expatriate personnel (Christmann et al., 1999; Pangarkar & Lim, 2003).

South Africa is classified in the 'below potential' group, due to the unattractive policy climate towards investment (UNCTAD, 2012). It ranks in the top-five countries that withdraw cross-border mergers and acquisitions for reasons related to the regulatory landscape and/or political opposition (UNCTAD, 2013). Moreover, with regard to policies, some investment barriers are mentioned in a report published by the Ministry of Commerce of the People's Republic of China: Bureau of Fair Trade for Imports and Exports. For example, the South African government implemented a tightened immigration policy, which since 2011 made it more difficult to apply for a work permit and negatively affected the enterprise personnel exchanges. BBBEE scorecard may seem to have a positive effect on improving black employment; however, this policy negatively affects Chinese international companies, which may have to employ unnecessary staff and are concerned about private business policies being disclosed (MOFCOM, 2013).

### *2.3.2 Culture*

Culture comprises values and beliefs that are shared by a whole nation (Chen & Hu, 2002). It is viewed as part of an informal institution in the environment (Peng et al., 2008). Kostova and Zaheer (1999) confirmed that regulations, cultural norms and educational systems are all components of the institutional environments of MNCs.

Cultural distance reflects differences in values, norms and behavioural rules between home and host country (López-Duarte & Vidal-Suárez, 2013). It influences the choice between a wholly owned subsidiary and a joint venture (Brouthers, 2002; Kogut & Singh, 1988; López-Duarte & Vidal-Suárez, 2013); the selection of investment location (Moore, Payne, Bell, & Davis, 2014) and even FDI performance (Demirbag et al., 2007; Pangarkar & Lim, 2003). Makino et al. (2004) further explained that:

> "Cultural and social distance between institutional environments of the home and host country creates a barrier to social networks in local business communities, thus limiting the chance of gaining access to the intangible assets and know-how shared among particular local firms and favourable transactions with particular local firms and government authorities" (p.1029).

Scholars report various results about the relationship between cultural distance and the performance of foreign subsidiaries. Some studies found that international subsidiary performance is negatively associated with cultural distance (Li & Guisinger, 1991). Li et al. (2001) found that joint ventures started by Chinese firms with East Asian collectivistic cultures (small cultural distance) failed to achieve a better performance in China than those from

individualistic cultures (large cultural distance). However, the converse is also true, for example, Pangarkar and Lim (2003) found that cultural distance was positively associated with one performance indicator, market share. Some studies suggest that cultural distance does not significantly influence firm performance (Demirbag et al., 2007). Although previous research has not produced consistent results, it seems most of them indicate that cultural differences do influence foreign subsidiaries' performance. Based on transaction theory and literature related to 'liabilities of foreignness, Calhoun (2002) claimed that cultural differences increased the risk of doing business abroad and led to understanding the gap between foreign subsidiaries and external environment, and thus result in additional costs and poor performance for the foreign firm. This body of literature suggests the first hypothesis.

### *2.3.3 Hypothesis 1*

- *Hypothesis 1a:* South Africa does not create a favourable institutional environment for foreign investment with regard to investment incentives, work permit granting, free trade items and tax, therefore the perceived performance of Chinese international subsidiaries is negatively associated with the institutions in South Africa.
- *Hypothesis 1b:* Cultural difference has a negative influence on the perceived performance of Chinese international subsidiaries in South Africa.

## 2.4 Financial factors

Sufficient finance is considered important to firm performance, especially for small firms (Ayyagari et al., 2008; Chandler & Hanks, 1998; Cooper et al., 1994). On the one hand, with greater financial resources, firms can invest more in development of products/services and be more flexible in their dealings with market changes or managerial mistakes (Chandler & Hanks, 1998). On the other hand, finance constraints can result in liquidity crises and failure "because employees, suppliers, creditors, etc. are no longer willing to wait for it to meet its short-term cash obligations to them" (Mcmahon, 2001, p. 11).

### *2.4.1 Finance and performance*

Cooper et al. (1994) proposed that initial financial capital is a critical predictor of small business performance. They further explained that the level of capitalisation influenced small firms' performance. More initial capital can enable small firms to be more flexible when they deal with outside turbulence, to pursue capital-intensive strategies (which are difficult to imitate) and to meet the financial demand for growth, all of which lead to better performance (Cooper et al., 1994).

Wiklund and Shepherd (2005) linked financial capital with EO performance and suggested that sufficient financial capital promoted EO, and thus lead to better performance. Adequate financial capital can alleviate the resource constraints faced by small business, as capital is relatively easy to convert into other types of resources. Sufficient financial capital can facilitate innovation, proactiveness and risk-taking. Access to financial capital can enable a firm to

invest in new products/services or processes. Access to financial capital can also reduce the risk when pursuing market opportunities (Wiklund & Shepherd, 2005). Proactiveness requires the firm to predict trends in the market and shift the resources from old products/services to promising new products/services. It is easier for a firm to be proactive if they have access to financial capital (Wiklund & Shepherd, 2005).

Compared with local firms, international subsidiaries have more difficulties to overcome in South Africa. In the overseas market, international subsidiaries encounter liability of foreignness. For example, they may lack quality information about local markets due to a lack of understanding of the local environment and culture, face increased administrative expense, coordination and monitoring costs and undertake high-risk investments due to the currency, and economic and political uncertainty (Elango, 2009). In order to compete with local companies, who normally maintain strong customer, supplier and distributor networks, a foreign subsidiary requires sufficient resource commitment by its parent company. Only with sufficient resource commitment by the parent company, could a foreign subsidiary 'counterbalance' its vulnerability to emerging market contingencies, and manage to achieve the goals set by its parent company (Luo, 2003). Sufficient resource commitment may help subsidiaries to operate more freely because they do not need to depend heavily on local resources such as raw materials, capital and semi-finished products. The parent company may also increase a foreign subsidiary's competitive advantage by committing sufficient resources, such as capital, skilled labour and materials that in many cases are underdeveloped in emerging markets (Luo, 2003). If resource commitment by the parent company is inadequate or absent, the international subsidiaries may

experience organisational instabilities. In short, lack of sufficient resource commitment by the parent company, creates a situation where the international subsidiaries find it difficult to overcome 'liability of foreignness', and remain in an unfavourable position against the competition. In summary, a lack of parent company resource support may increase transaction costs at various stages of subsidiary operations in the host country (Luo, 2003).

However, subsidiary performance does not always improve with the continuous increasing of resource commitment. In fact, the contribution of resources commitment may not be as beneficial after reaching a certain point. The reason is that: "according to the transaction cost theory, the over-commitment of critical resources will involve the organisation in excessive exposure to market uncertainties or environmental hazards, and risks arising from this exposure cannot be avoided through commonly used hedging instruments" (Luo, 2003, p. 294). This body of literature suggests the second hypothesis.

### *2.4.2 Hypothesis 2*

Sufficient initial financial capital, as a critical resource to firm survival and growth, positively affects perceived performance of Chinese international subsidiaries in South Africa.

## 2.5 Human resource management (HRM)

HRM research can be divided into three subfields: micro HRM, strategic HRM and international HRM (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). Micro HRM focuses on HR policy and practice, strategic HRM focuses

on the overall HR strategy and the HR strategy-performance relationship and international HRM is concerned with the HRM in multinational companies (Lengnick-Hall et al., 2009). In the past three decades, strategic HRM has become well developed. Research focusing on theory development and providing empirical evidence is presented. Resource-based perspectives are undoubtedly the dominant theories in strategic HRM research (Boselle, Dietz, & Boon, 2005; Lengnick-Hall et al., 2009). It provides a "framework for viewing HR as a pool of skills that can provide a resource to serve as a sustained competitive advantage" (Wright & McMahan, 1992, p. 303). Barney (1991) identified three types of resources that could provide a competitive advantage: physical capital resources (e.g. firms' tangible belongings and finances), organisational capital resources (e.g. structure, planning and HR systems) and human capital resource (e.g. intelligent traits and skills of firms' employees). Barney and Wright (1998) argued that HR became a source of sustained competitive advantage because it was valuable, rare and difficult to imitate. Lengnick-Hall et al. (2009) further explained why:

> "The HR function creates value by either decreasing costs or increasing revenues and it can acquire HR with rare characteristics that are difficult to imitate. And, with the right organisational systems to get the most from its employees, the combination of factors can lead to competitive advantage' (p. 70).

The contingency approach is widely accepted in strategic HRM fields. It posits that the relationship between dependent variable and independent variable varies depending on a third variable. To be specific, HRM and firm performance is moderated by a third variable (Delery & Doty, 1996; Martín-Alcázar, Romero-Fernández, & Sánchez-Gardey, 2005). Moreover, there is a

third important theme in strategic HRM research, which focuses on the elements or structure of HR systems. Supporters believe that HR practices should not be viewed independently, but as a system or bundle, because they are complex and interdependent processes (Lengnick-Hall et al., 2009).

### *2.5.1 Contingency approach*

The contingency approach is used to examine the relationship between HRM and firm performance. The basic premise is that HRM is positively associated with firm performance (Delery & Doty, 1996). Contingency theory posits that the relationship between the dependent and independent variables vary depend on a third variable. To be specific, HRM and firm performance is moderated by a third variable (Delery & Doty, 1996; Martín-Alcázar et al., 2005). Firm strategy is considered the primary contingent variable, such as rate of product, service or market innovation (Delery & Doty, 1996). There are two types of strategy-related contingent models. The first one examines the fit between HR practices and a specific strategy, and state that the better the HR practices fit with the strategy, the better the firm performance (Delery & Doty, 1996; Miles & Snow, 1984). The other type of contingent model focuses on the interaction between HRM strategy and organisational strategy, and promotes the need to achieve a fit between the firms' HR strategy and their organisational strategy to enable HR to affect strategy (Lengnick-hall & Lengnick-hall, 1988; Lengnick-Hall et al., 2009). Other contingent variables are used as well, including organisational variables, such as size, technology and structure, and environmental factors, such as competitive, technological, macro-economic and labour context (Martín-Alcázar et al., 2005).

Two theories form the basis of the contingency approach: the behavioural perspective and agency theory. The behavioural perspective suggests that organisations achieve better performance by adapting HR practices to encourage employees to behave as they wish (Delery & Doty, 1996; Wright & McMahan, 1992). During this process, HR practices should be guided and aligned with firm strategy (Delery & Doty, 1996; Wright & McMahan, 1992). The agency theory views the employer as principal and employee as agent. Superior firm performance is achieved when the interests of principal and agent align. In order to achieve this alignment, organisations adopt certain HR policies and practices to encourage the employee to behave in a way that is beneficial to the organisation (Delery & Doty, 1996).

Two competing models, other than the models in the contingency approach are used in the strategic HRM field, the universalistic perspective and the configuration perspective (Delery & Doty, 1996; Lengnick-Hall et al., 2009; Martín-Alcázar et al., 2005). The universalistic approach supporters assert that better organisational performance is because of the implication of high performance work practices or 'best practices'. Strategic HRM theorists consider those HR practices, which can enhance performance, as high-performance work practices (HPWPs) (Combs, Yongmei, Hall, & Ketchen, 2006; Huselid, 1995). HPWPs include, for example, training, formal information sharing, job design, and performance appraisals (Huselid, 1995), participation and empowerment, incentive pay and employment security (Pfeffer, 1998). Strategic HRM literature suggests that HPWPs can improve organisational performance by increasing employees' knowledge, skills and abilities (KSAs), empowering employees to leverage their KSAs for organisational benefit, motivating them to do so, and building organisational

structure to enable skilled and motivated employees to act (Combs et al., 2006). First, HPWPs can improve employees' KSAs. Recruiting and selectivity in staffing bring KSAs into organisations; training, job design and compensation further improve employees' KSAs. Second, HPWPs can improve employees' motivation to leverage their KSAs through incentive-based compensation, performance appraisals and internal promotion and commitment through employment security, flexible work schedules and high overall compensation. Finally, HPWPs can create an organisational structure that encourages the skilled and motivated employees to act. Participation programs, self-managed teams and information sharing will serve this interest (Combs et al., 2006).

Delery and Doty (1996) have identified seven strategic HR practices that contribute to organisational performance: internal career opportunities, formal training systems, results-oriented appraisals, employment security, participation, job descriptions and profit sharing. Internal career opportunities refer to the preference to hire internal employees to fill job openings (Delery & Doty, 1996). Formal training systems refer to the organisations' choice of providing extensive training to their employees or hiring people equipped with adequate skills from outside (Delery & Doty, 1996). "Appraisals can be based on results or behaviour. Behaviour-based appraisals focus on the behaviours of individuals necessary to perform the job effectively, whereas results-oriented appraisals focus merely on the consequences of those behaviours" (Delery & Doty, 1996, p. 805). Employment security reflects the degree to which employees feel secure to work in an organisation continuously (Delery & Doty, 1996). Participation reflects the degree to which employees can take part in decision-making and 'grievance systems' (Delery & Doty, 1996). Job

descriptions refer to how well a job is described (Delery & Doty, 1996). A clear and accurate description of job will allow employees to understand their duties and perform accordingly. Profit sharing reflects the concern for overall organisational performance on a sustainable basis (Akhtar et al., 2008; Delery & Doty, 1996). Compared with the other two approaches, the universalistic approach appears too simple and does not have a strong logic; however, it received strong empirical support. For example, Delery and Doty (1996) used a sample of 1,050 banks to test the universalistic, contingent and configuration frameworks, and found strong support for the universalistic approach. Akhtar et al. (2008) adapted Delery and Doty's (1996) definition of seven practices and conducted research using a sample of 465 Chinese enterprises. They found that internal career opportunities, training, results-oriented appraisals, and participation, which were considered 'core' to strategic HRM in Chinese enterprises, had significant effect on both financial and product/service performance. Profit sharing was proved to have an influence on financial performance, while employment security and job descriptions affected only product/service performance.

Configuration theory looks at the relationship between the 'pattern' of multiple independent variables and the dependent variable. To be specific, an HR system must be developed for an organisation to be effective. This HR system needs to achieve both 'horizontal fit', which refers to the internal consistency of the organisation's HR policies or practices, and 'vertical fit', which refers to the congruence of the HR system with other organisational characteristics, such as firm strategy (Delery & Doty, 1996). The configuration model receives empirical support from the studies conducted in China. For example, Liu et al. (2008), using a sample of 116 enterprises, found that integrating HR

configuration with business strategy enhanced organisational performance. This body of literature suggests the third hypothesis.

### *2.5.2 Hypothesis 3*

Internal career opportunities, training, results-oriented appraisals, and participation positively affect the perceived performance of Chinese international subsidiaries in South Africa.

## 2.6 Entrepreneurial orientation (EO)

In the 21st century, the business environment is characterised with endless and complex changes. Change is everywhere, in markets, technologies, regulation and numerous other areas. Competing in such a turbulent environment, it is very challenging for a firm to create and sustain a competitive advantage. Entrepreneurship is believed to be the “core source of sustainable advantage” (Kuratko, Morris, & Covin, 2011, pp. 4-9) in companies today. Entrepreneurship is about constantly pursuing business opportunities, which lead to business expansion, technological progress and wealth creation (Lumpkin & Dess, 1996). Entrepreneurial companies not only adjust to a dynamic, threatening and complex external environment, but also create changes in that environment (Kuratko et al., 2011). Since entrepreneurship plays such an important role in business today, how can entrepreneurship be undertaken or effective in a firm? Scholars suggest that firms can pursue entrepreneurship by adapting EO (Lumpkin & Dess, 1996). Miller (1983) defined an entrepreneurial firm as one that “engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch” (p. 771).

Dess and Lumpkin (2005) further asserted that EO was observed in those companies where managers favoured innovativeness, proactiveness and risk-taking, and they created a firm structure and culture to foster the above-mentioned ideas.

EO, which focuses on the entrepreneurial process, refers to the methods, practices, and decision-making activities of firms that engage in entrepreneurial activities (Lumpkin & Dess, 1996). Miller (1983) identified three dimensions of EO: innovativeness, risk-taking and proactiveness. Building on his work, Lumpkin and Dess (1996) added two more dimensions: competitive aggressiveness and autonomy. The five dimensions are explained in turn and the relationship between EO and firm performance is explored.

### *2.6.1 Autonomy*

Autonomy refers to the will and ability of an individual or a firm to pursue opportunity independently (Lumpkin & Dess, 1996). From an individual perspective, new ventures are often found to be established by strong leaders who are able to find opportunities and seek out specific resources to pursue these opportunities until they succeed (Hughes & Morgan, 2007). From a firm perspective, autonomy is an important premise upon which internal corporate venturing happens. Only with autonomy, can employees exercise creativity, pursue opportunity and champion new ideas, all of which leads to entrepreneurial activity (Hughes & Morgan, 2007). Moreover, autonomy serves as the driver of a firm's flexibility, with which firms can respond to environmental change quickly and more appropriately (Hughes & Morgan, 2007). On both levels, the freedom of acting independently is a key dimension

of EO as it is an important impetus for new venture creation (Lumpkin & Dess, 1996).

### *2.6.2 Innovativeness*

Innovativeness reflects a firm's tendency to support new ideas, products and services, and creative processes (Lumpkin & Dess, 1996). Innovativeness includes two directions: product-market innovation and technological innovation. The former reflects a firm's efforts to achieve competencies from new product, technology or promotion; while the latter reflects a firm's efforts to achieve competencies from the operational methods, such as latest technologies and production methods or operational process, such as advanced manufacturing process (Lumpkin & Dess, 1996). The innovation benefits for new firm growth and wealth creation are achieved by disrupting existing market structure and shifting resources from existing firms to new firms (Lumpkin & Dess, 1996).

### *2.6.3 Risk taking*

Risk taking, defined by Miller and Friesen (1983), refers to the willingness of managers to make large and risky resource commitments to projects where the cost of failure may be high and outcomes are unknown. Risk-taking is typical behaviour of firms with EO (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). Entrepreneurial firms combine opportunity-seeking behaviour with managed risk-taking (Morgan & Strong, 2003). In doing so, firms do not suffer from inertia, inaction and adherence to traditions (Hughes & Morgan, 2007).

### *2.6.4 Proactiveness*

Proactiveness is a process by which a firm anticipates and then acts on future opportunities. A firm shifts its resources from produces/services in the mature or declining stage of the company life cycle and reinvests in new products/services (Lumpkin & Dess, 1996). Such firms are able to take the 'first move' advantages to secure a favourable position against its competition in the short-term and shape the market environment in the long-term (Hughes & Morgan, 2007). Proactiveness reflects a firm's forward-looking perspective, which may cause a firm's first move towards a new opportunity or entry into an emerging market, and thus generate above-normal profits and gain advantage through brand recognition (Lumpkin & Dess, 1996).

### *2.6.5 Competitive aggressiveness*

Competitive aggressiveness is about a firm adapting to competitors' challenges (Chen & Hambrick, 1995), which is different from proactiveness that shapes the environment to its advantage, Firms adopting competitive aggressiveness as a strategy rather than responding to trends and demands, aim to outperform their competitors (Lumpkin & Dess, 1996). Most of time, proactiveness and aggressiveness happen sequentially, which means a firm gains competitive advantage by proactiveness and makes the competitive advantages sustainable by competitive aggressiveness (Dess & Lumpkin, 2005).

Furthermore, competitive aggressiveness could improve firm performance because the focus on out-doing and out-manoeuvring competitors strengthens the firm's competitiveness while simultaneously undermining rivals'

competitiveness (Hughes & Morgan, 2007). An aggressive strategy could manifest in different forms: aggressive price competition, market entry with a new or superior offering, fast following a rival into the market, continuously exploiting information and using unconventional surprise tactics (Hughes & Morgan, 2007).

### *2.6.6 EO and firm performance*

EO is considered a three dimensional concept, which is widely accepted and used in literature (Rauch et al., 2009). Wiklund and Shepherd (2005) argue that EO had a universal positive relationship to firm performance. On the one hand, each EO dimension is positively associated with firm performance; on the other hand, EO can have a positive influence on firm performance as an overarching construct (Wiklund & Shepherd, 2005).

Each EO dimension can have a universal positive influence on firm performance. Innovativeness reflects a firm's tendency to be innovative and takes place in three forms: new products, new or improved service and created process. A firm generates higher returns by introducing important innovations that create competitive advantage (Hult, Hurley, & Knight, 2004), and by using superior product design that can differentiate its product from its competitors (Hughes & Morgan, 2007). Similarly, improved manufacturing processes can allow a firm to reduce its production costs and improve product quality (Hughes & Morgan, 2007). "A strong emphasis on innovativeness mobilises entry into new arenas, renews the firm's presence in existing ones and embodies a capability to explore new possibilities" (Hughes & Morgan, 2007, p. 653). Innovation benefits new firm growth and wealth creation by disrupting existing market structures and shifting resources from existing firms

to new firms (Lumpkin & Dess, 1996). Klomp and Van Leeuwen (2001) found that innovation contributed significantly to sales performance, productivity and employment growth. Calantone, Cavusgil, and Zhao (2002) also found a positive relationship between innovativeness and firm performance.

Proactiveness reflects a firm's forward-looking perspective, which may cause a firm's first move towards a new opportunity or entry into an emerging market, thus generating high profits and gaining an advantage on brand recognition (Lumpkin & Dess, 1996). Hughes and Morgan (2007) asserted that proactiveness could secure first-mover advantage in the short-term and shape the direction of the market environment in the long-term. A proactive firm can take advantage of further environmental changes by positioning itself in a favourable position against its competition (Kreiser, Marino, Davis, Tang, & Lee, 2010). Proactive firms gain a better position to seize market share and customers quickly by anticipating and acting for the further changes (Hughes & Morgan, 2007). Proactiveness also allows firms to shape their external environment, for example, to create a new product market, which is not available to their rivals. Firms in this new market could maintain the increasing demand and high level of customer loyalty, which generally means greater return (Kreiser et al., 2010). In summary, firms with proactive behaviours, act in advance to situate themselves in a better position in the existing markets or create new markets by continuously scanning the environment and learning about customers' demands. They leverage their resources to pursue opportunities and generate high return.

Risk-taking involves a willingness to pursue opportunities that have a chance of failure. Extreme and uncontrolled risks are not encouraged here, but moderate and calculated risks encouraged. In fact, anything new involves

some level of risk and carries some likelihood that results will differ from expectations. A ‘go slow’ strategy may allow firms to examine new opportunities. However, their rivals have to move quickly and beat them to the punch (Kuratko et al., 2011). Opportunities are fleeting, which requires making strategic decisions speedily. Hughes and Morgan (2007) emphasised that:

> “Without a degree of risk-taking, firms delay or refrain from introducing innovations, from undertaking exploitative activities and react conservatively to changing market conditions. The result would be weaker performance as the firm would do little to seize customer and market opportunities” (p. 653).

Therefore, researchers suggest that entrepreneurs and entrepreneurial companies should ‘come to bat’ more often in order to develop a sharp sense of identifying a profitable projects (Kuratko et al., 2011).

In addition, previous research also suggests that EO, as a combination of three dimensions has a universally positive influence on firm performance (Miller, 1983). Business environment today is characterised by rapid change and short product and business model lifecycles, which requires business to seek out new opportunities constantly (Rauch et al., 2009; Wiklund & Shepherd, 2005). EO is the right strategy to use in such instances. Innovativeness, manifesting as new products/services or processes, can create a new demand, new markets or reshape the resource allocation in the existing market. Proactiveness allows companies to act in advance of their competitor and thus take advantage in the market (Lumpkin & Dess, 1996). Risk-taking allows companies to seize fleeting opportunities. The above argument has been proved by empirical studies. For example, Wiklund (1999),

using a large sample of small Swedish firms, found a positive linear relationship between EO and firm performance. Zahra and Covin (1995) arrived at a similar finding. Different from western research, Chinese researchers found that EO and firm performance were indirectly related (Yongbin, Yuan, Soo Hoon, & Long Bo, 2011), or formed an inverted U-Shape (Tang, Tang, Marino, Zhang, & Li, 2008), caused by China's socialist tradition and strong cultural backdrop. It seems their findings could be more applicable to Chinese firms, and may not be true for Chinese international subsidiaries in South Africa, considering that South Africa is more like a western country in its social system. This body of literature suggests the fourth hypothesis:

### *2.6.7 Hypothesis 4*

EO has a positive influence on the perceived performance of Chinese international subsidiaries in South Africa.

## 2.7 Conclusion

Based on the above discussion, four factors that affect the perceived performance of Chinese international subsidiaries were identified. From the perspective of environment, host country institutions are considered to affect the subsidiaries' performance significantly. To be specific, international subsidiaries achieve superior performance under favourable host country institutions. From the perspective of resource, financial capital is considered vital to subsidiaries survival and growth. Sufficient financial capital investment from the parent company can provide international subsidiaries a better chance of prosperity, otherwise, the international subsidiaries' performance suffers due to financial constraints. From the perspective of strategy, HRM

and EO are considered major determinants of international subsidiaries' performance. The so-called 'best practices', such as training, results-oriented appraisals, and participation, positively affect subsidiaries. EO, consisting of three dimensions, is considered the driver of superior firm performance in modern society. The three dimensions of EO are innovativeness, proactiveness and risk-taking. Innovativeness refers to the frequent introduction of new products/services, with which the firm generates a high profit. Proactiveness refers to the managerial teams' forward-looking attitude and subsequent action, with which a firm shapes the competitive environment and places itself in a favourable position for the future. Risk-taking refers to the mind-set of seizing fleeting opportunities in the fast-changing business world. The above-mentioned relationship between the international subsidiaries' performance and the four factors, institutions, finance, HR and EO are summarised in the framework in Figure 1.

### *2.7.1 Hypothesis 1:*

Hypothesis 1a: South Africa does not create a favourable institutional environment for foreign investment with regard to investment incentives, work permit granting, free trade items and tax, therefore the perceived performance of Chinese international subsidiaries is negatively associated with the institutions in South Africa.

Hypothesis 1b: Cultural difference has a negative influence on the perceived performance of Chinese international subsidiaries in South Africa.

### *2.7.2 Hypothesis 2:*

Sufficient initial financial capital, as a critical resource to firm survival and growth, positively affect perceived performance of Chinese international subsidiary in South Africa.

### *2.7.3 Hypothesis 3:*

Internal career opportunities, training, results-oriented appraisals, and participation positively affect the perceived performance of Chinese international subsidiaries in South Africa.

### *2.7.4 Hypothesis 4*

EO has a positive influence on the perceived performance of Chinese international subsidiaries in South Africa.

# CHAPTER 3. RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter, research methodology, aims to address the four hypotheses developed in the previous chapter. It begins with a detailed discussion of the research methodology, followed by the research design, sample description, data collection and data analysis techniques and the interpretation of the data. In conclusion, the limitations, validity and reliability are discussed.

## 3.2 Research methodology /paradigm

Research can be classified into different groups according to the different measurement techniques. Considering the degree of research question crystallisation, a study could be exploratory or formal. The exploration technique is used when little is known of the target of the research as it is very new and vague (Cooper & Schindler, 2011). Exploratory research may serve the purpose of developing hypotheses or research questions for future study. A formal study starts where an exploratory study stopped, and aims to test hypotheses or answer research questions (Cooper & Schindler, 2011). Based on the above discussion, this study is exploratory in nature, because performance of Chinese FDI was seldom investigated in any previous research examine in the literature review. This study made efforts to gain primary knowledge on this topic and encourage more research in the future.

Three approaches are available for adoption when conducting scientific study. These approaches reveal different ways to look at the world: the interpretive approach finds truth from observing, the positivist approach finds truth by

measuring and the critical approach aims to understand (Neuman, 1997). The positivist approach, widely believed to be the approach of science, dominates in today's social research field. Neuman (1997) further explained that:

> "Positivist social science is an organised method for combining deductive logic with precise empirical observations of individual behaviour in order to discover and confirm a set of probabilistic causal laws that can be used to predict general patterns of human activity" (p. 32).

This study made use of a positivist approach as it aims to test the relationship between the Chinese international subsidiaries and their perceived performance. Furthermore, the four performance determinants, which were identified and proven to be valid in the context of developed countries, were identified.

Aligning with the positivist approach, this study was designed to be quantitative for the following two reasons. First, the focus of this research was to examine the relationship between firm performance and its determinants or predictors, and then to draw conclusions based on the findings. This is the focus of quantitative research, which should describe, explain and predict (Cooper & Schindler, 2011). Second, the purpose of this study was to test the hypotheses, based on a sound literature review, in the context of South Africa. Quantitative research serves this purpose well as stated by Cooper and Schindler (2011), quantitative research aims to measure something precisely and is often used to test theories.

## 3.3 Research design

As the dominant research method in quantitative studies, the survey was used in this study as a research method (Cooper & Schindler, 2011). The data collection approach is determined largely by two important factors: the type of information needed and the characteristics of the sample unit (Cooper & Schindler, 2011). A survey was appropriate for this study for the following reasons. On the one hand, this study was about perceptions of managers, so the information comprised opinions and attitudes of the managers. This kind of information can only be gathered with and approach involving communication and not through observation or any other technique. Considering the characteristics of the sample unit, managers are usually busy and do not have large quantities of time to be interviewed, so the survey was the best choice for data collection for this study.

There are many advantages of a survey, as listed by Cooper and Schindler (2011, p. 249):

- Reach inaccessible participants, such as the CEO;
- Give the participant time to think about the question;
- Expand geographic coverage without an increase in costs; and
- Low cost.

This method has disadvantages as well. For example, hard to reach top managers, may not have enough time to consider the questions, resulting in a low response rate.

To address the disadvantages, efforts were made in several aspects. First, a covering letter, stating the purpose and importance of this study, was included

to encourage more potential participants to respond. This letter also helped the respondents to understand the research background and survey questions better. Second, the questionnaire was made easy to read. No ambiguity appeared in the questions and clear response directions were offered. Third, an explanation in Chinese was provided to help the managers' to understand each question, respond appropriately and save time. The return deadline was also clearly stated. Finally, personal connections were used to increase response rate.

## 3.4 Population and sample

### *3.4.1 Population*

"A population is the total collection of elements about which we wish to make some inferences" (Cooper & Schindler, 2011, p. 364). A population element is the theoretical unit of study, and is the object on which the measurement is taken (Cooper & Schindler, 2011). In this study, the relationship between four determinants and the performance of Chinese international subsidiaries in South Africa was examined. Therefore, the population of this study was all the subsidiaries or branches of Chinese MNCs operating in South Africa at the end of year 2012.

A sampling frame, often different from the theoretical population, is the list of units, which a study uses (Cooper & Schindler, 2011). In this study, the sampling frame and population are different. Though all Chinese subsidiaries operating in South African are supposed to have a record in the Chinese embassy, it was still possible that some subsidiaries had not reported to the embassy. This results in a lack of information about those firms and thus leads

to the difference between the population and sampling frame. Therefore, the sampling frame of this study was the 46 Chinese subsidiaries recorded at the Chinese embassy at the end of 2012.

### *3.4.2 Sample and sampling method*

Sampling is the selection of some elements in a population, which would enable a conclusion to be drawn about the entire population (Cooper & Schindler, 2011). Sampling is based on two premises. One, that all elements in a population have enough similarities, so some of the elements could represent the whole. Two, that "although some elements in a sample underestimate a population value, others overestimate this value" (Cooper & Schindler, 2011, p. 387). When population size is large, sampling is used to ensure that studies can be completed within the specified period and budget. When the sample size is small and samples are quite different from each other, a census may be used (Cooper & Schindler, 2011). In this study, 46 branches or subsidiaries of Chinese MNCs (a census) were targeted. Two general managers in each subsidiary were selected to answer the questionnaire, totalling 92 responses. The respondents were chosen purposively. The questions in the questionnaire covered a wide range of operational aspects, so only general managers were able to answer all the questions.

Forty-two subsidiaries returned questionnaires, which indicated a participation rate of 91.3 percent. The questionnaire from one of the companies was considered invalid because every question was marked with the same answer. Therefore, the final valid sample was 41, which is 89.13 percent of the total census size. This sample was considered representative because the majority

of the responses were valid. Furthermore, the valid responses covered all ranges of age, size and industry.

## 3.5 The research instrument

A questionnaire, presented in appendix A, was used in this study as the research instrument for the following reasons. The respondents were assumed to be the general managers of the subsidiaries. They were familiar with the operational, human, and financial aspects of the company, and thus had the best knowledge to answer the questions in the questionnaire. The nature and purpose of the study determined the research approach. It was not necessary to use other methods of communication-based research.

The questionnaire was divided into six sections. The first section covered demographics. Three questions were included about subsidiaries' age (measured by the length of operation in South Africa), size (numbers of employees) and industry.

The second section contained subsidiary performance. Subsidiary performance is traditionally measured by financial measures and growth (Manolova et al., 2008; Wiklund, 1999; Zahra & Covin, 1995). However, those measures were not suitable for an international subsidiary, because an international subsidiary might perform a variety of roles within the network of MNCs (Demirbag et al., 2007; Fan & Bjorkman, 2003; Pangarkar & Lim, 2003). For example, it may serve as a supplier to the parent, as a source of new ideas. In some cases, it may help the parent company to secure a favourable position in the competition (Pangarkar & Lim, 2003). International subsidiaries have different goals when operating in overseas markets, such as increasing

market share, getting to know the market and gaining short-term profit (Fan & Bjorkman, 2003). Therefore, subsidiary performance was measured by satisfaction in this study. Questions related to satisfaction in the questionnaire were from Fan and Bjorkman's (2003) research as follows:

- The parent company is satisfied with the subsidiaries' anticipated profit;
- The parent company is satisfied with the subsidiaries' general performance;
- Compared with subsidiaries of other companies in the same industry, the parent company is satisfied with subsidiaries' profit rate; and
- Compared with subsidiaries of other companies in the same industry, the parent company is satisfied with subsidiaries' operational performance.

A five-point Likert-type scale was used with one being the strongly disagree indicator and five being the strongly agree indicator. The average score of satisfaction was used in Spearman's rho correlation test.

The third section was about institutional factors. Questions were developed for this study. Institutional factors, regarding government policies and cultural differences, were measured by responses to the following statements.

- Government policies:
    - The South African government has specific policies to attract foreign investment;
    - The South African government provides sufficient assistance to start businesses, such as company registration and work permits; and

    - The South African government provides sufficient assistance to continue business, such as free trade items and tax incentives.
- Cultural differences:
    - Our company often loses business opportunities due to cultural barriers.

A five-point Likert-type scale was applied with one being the strongly disagree indicator and five the strongly agree indicator. The average score of institutional factors regarding government policies was used in Spearman's rho correlation test.

The fourth section was about financial factors. Questions were developed for this study. Financial factors were measured by responses to the following statement:

- I have sufficient capital which allows me to pursue capital-intensive strategies when starting the business.

A five-point Likert-type scale was applied with one being the strongly disagree indicator and five the strongly agree indicator.

The fifth section was about HRM. The questions are taken from Liu et al. (2008). A five-point Likert-type scale was applied with one being the strongly disagree indicator and five being the strongly agree indicator. Each of best practices was measured by several questions as displayed in Table 1. The average score of training and participation is used in Spearman's rho correlation test.

**Table 1: List of HR related questions**

| Name of best practice | Related questions |
|---|---|
| Internal career opportunity | ✧ There is an official employment process including advertising, selecting, employing and evaluating.<br>✧ Standardised testing methods, including written examination, psychological tests and a structured interview are used in internal recruitment. |
| Training | ✧ Our company has a systematic training program aimed at improving new employees' working skills.<br>✧ Our company provides top managers with comprehensive training programs other than skills pertaining to their position.<br>✧ Training programs are focused on long-term goals not short-term goals.<br>✧ Top managers often have cross functional training and job rotation. |
| Results-oriented appraisals | ✧ The bonus is different between high-performance employees and low-performance employees in the same management position.<br>✧ To a large extent, management bonuses are linked to firm performance. |
| Participation | ✧ Employees are highly involved in the setting of performance evaluation standards.<br>✧ Employees have complete autonomy to arrange their own work.<br>✧ The staff is often invited to participate in the production and operational decisions of the company. |

The last section covered EO; questions were about EO's three dimensions. The questions were taken from Bora and Cagri (2008). A five-point Likert-type scale was applied with one being the strongly disagree indicator and five being the strongly agree indicator. Each EO dimension was measured by several questions as displayed in Table 2. The average score of EO was used in Spearman's rho correlation test.

**Table 2: List of EO related questions**

| Name of EO dimension | Related questions |
|---|---|
| Innovativeness | ✧ Our company frequently tries out new ideas.<br>✧ Our company is creative in its methods of operation<br>✧ Our company places emphasis on developing new products and proprietary technologies. |
| Proactiveness | ✧ In dealing with its competitors, our company has a strong tendency to be ahead of other companies in introducing novel ideas or products.<br>✧ Our company is very often the first firm to introduce new products/services, operating technologies and the like.<br>✧ Our company shapes the environment by proactively introducing new products, technologies, and administrative techniques rather than merely acting reactively to changes in the environment. |
| Risk-taking | ✧ Relative to our competitors, our company has a higher propensity to take risks.<br>✧ Our company has shown a great deal of tolerance for high risk projects.<br>✧ In general, the top managers of my firm favour a bold, aggressive posture in order to maximize the probability of exploiting potential when faced with uncertainty.<br>✧ The term 'risk taker' is considered a positive attribute for all staff.<br>✧ Employees are often encouraged to take calculated risks with new ideas around here. |

## 3.6 Procedure for data collection

A subjective measurement was used in this study, so two respondents from each subsidiary were required to prevent bias. Questionnaires were distributed to 46 Chinese international subsidiaries/branches, with 60 respondents being reached via email. In order to save respondents' time, help them to understand the context and encourage return rate, a Chinese translation for each question in the questionnaire, which was originally written in English, was provided

The further 32 questionnaires were distributed to the respondents in person, by the researcher. These questionnaires were completed during face-to-face

meetings. By the deadline, questionnaires from 42 subsidiaries were returned, and 41 were considered valid. Two questionnaires from one subsidiary were considered invalid because the responses were identical.

## 3.7 Data analysis and interpretation

Spearman's rho correlation was selected as the test instrument, considering the size of the sample, type of variables and purpose of this study. First, the sample size was 41, which was too small to consider using other techniques, such as multiple regressions, which require 50 observations at least (Hair, Black, Babin, & Anderson, 2010). Second, most of the variables were directly formed or calculated based on ordinal questions, so Spearman's rho correlation was appropriate. The purpose of this study was to test the correlated relationship between each factor and the performance of the international subsidiaries. Spearman's rho correlation served this purpose.

In addition, Spearman's rho correlation has its own advantages (Cooper & Schindler, 2011):

> "First, when data are transformed by logs or squaring, rho remains unaffected. Second, outliers or extreme scores that were troublesome before ranking no longer pose a threat since the largest number in the distribution is equal to the sample size. Third, it is an easy statistic to compute" (p. 521).

## 3.8 Limitations of the study

There were two limitations of this study. On the one hand, the sampling frame was not the same as population, which could have caused some errors.

However, all the Chinese subsidiaries, which were known and officially recorded, were included. On the other hand, the sample size was small, which resulted in a limitation to the choice of statistical technique. Normally, an appropriate type of regression should follow the correlational test to enhance the findings. However, due to the nature of the data (an ordinal scale was widely used in this study) and the size of the sample (a sample of 41 were available to be measured), the hypotheses of this study could only be tested by a basic tool, Spearman's rho correlation.

## 3.9 Validity and reliability

Validity and reliability are major criteria for evaluating a measurement tool (Cooper & Schindler, 2011). Sound measurement must meet the validity and reliability tests. Validity has two major forms: external validity and internal validity (Cooper & Schindler, 2011). Validity and reliability are discussed further in the sections that follow.

### *3.9.1 External validity*

"The external validity of research findings is the data's ability to be generalised across persons, settings and times" (Cooper & Schindler, 2011, p. 280). In other words, it tests how generalised the research results could be. Findings from this study were externally valid because all the elements listed in the sampling frame were used in the sample. Furthermore, the firms largely represent the population, for they include a broad range of age, industry and size.

### *3.9.2 Internal validity*

Internal validity refers to how precisely the research instrument measures what the researcher claimed to measure and includes three dimensions: content validity, criterion-related validity and construct validity (Cooper & Schindler, 2011). This study was designed to follow a rigorous scientific research procedure, from sample selection to data collection and method of hypotheses testing, all of which led to internal validity.

### *3.9.3 Reliability*

Reliability refers to the "extent to which a variable or set of variables is consistent in what it is intended to measure" (Hair et al., 2010, p. 93). In this research, reliability was tested using Cronbach's alpha, which is a measure of internal consistency. SPSS software was used to calculate Cronbach's alpha coefficient. Results are presented in Table 3.

**Table 3: Cronbach's alpha coefficient**

| **Variables** | **Cronbach's alpha coefficient** |
|---|---|
| Satisfaction | .935 |
| ***Institutional factor*** | |
| Institutional factors related to incentives, work permit, tax, etc. | .734 |
| Culture | .917 |
| Finance | .897 |
| ***HRM factor*** | |
| Training | .770 |
| Internal career opportunities | .648 |

| Variables | Cronbach's alpha coefficient |
|---|---|
| Results-oriented appraisals | .508 |
| Participation | .721 |
| ***EO*** | |
| EO | .901 |
| Innovation | .704 |
| Proactiveness | .855 |
| Risk-taking | .887 |

Cronbach's alpha coefficient should be at least .6 to be considered acceptable (Hair et al., 2010) higher than .8 to be considered good and excellent when higher than .9 (Coldwell & Fried, 2012). However, as discussed by Coldwell and Fried (2012), a Cronbach's alpha coefficient of .5 is acceptable in an exploratory study such as this one. As displayed in Table 3, all the Cronbach's alpha coefficient scores of this study are higher than .5, and half the scores were in the good and excellent categories. These numbers indicate a good internal consistency. The Cronbach's alpha coefficient of results-oriented appraisals is particularly low, lying just above the borderline of acceptable scores. The cause of this might have been the small sample size.

# CHAPTER 4. PRESENTATION OF THE RESULTS

## 4.1 Introduction

In this chapter, the test results of each hypothesis are revealed. Statistical data is presented and results are then described. Finally, brief conclusions are drawn based on the results.

## 4.2 Demographic profile of respondents

As discussed previously, 41 valid samples were used in this study. The demographic profile of respondents is presented in Table 4.

**Table 4: Profile of respondents**

| Demographic | Frequency | Percent |
|---|---|---|
| **Age** | | |
| Less than a year | 8 | 9.8 |
| 2-3 years | 24 | 29.3 |
| 4-5 years | 12 | 14.6 |
| Over 6 years | 38 | 46.3 |
| **Size** | | |
| 1-5 employees | 22 | 26.8 |
| 6-10 employees | 16 | 19.5 |
| 11-50 employees | 26 | 31.7 |
| Over 51 employees | 18 | 22 |
| **Industry** | | |
| Communication/Electronics and Information Technology | 10 | 12.2 |
| Construction | 8 | 9.8 |
| Financial Services | 14 | 17.1 |
| Manufacturing | 18 | 22 |
| Mining | 8 | 9.8 |
| Transportation | 6 | 7.3 |
| Others | 18 | 22 |

Some characteristics of Chinese subsidiaries are notable:

- Nearly half the Chinese subsidiaries studied have been in operation for over six years;
- Subsidiaries established in the last year amounted to 9.8 percent;

- Most subsidiaries, 78 percent of the whole population, were small in size with 50 or less employees;
- Subsidiaries were operating in a wide range of industries.

## 4.3 Results pertaining to Hypothesis 1

**Table 5: Performance and institutions**

| Tests | | | Satisfaction | Institutions |
|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | .068 |
| | | Sig. (2-tailed) | . | .545 |
| | | N | 82 | 82 |
| | Institutions | Correlation Coefficient | .068 | 1.000 |
| | | Sig. (2-tailed) | .545 | . |
| | | N | 82 | 82 |

Table 5 illustrates the correlation between performance and the institutional factor regarding incentives, work permits, free trade terms, etc. There was no significant correlation at the five percent level, so H1a is not supported.

**Table 6: Performance and culture**

| Test | | | Satisfaction | Culture |
|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | -.176 |
| | | Sig. (2-tailed) | . | .114 |
| | | N | 82 | 82 |
| | Culture | Correlation Coefficient | -.176 | 1.000 |
| | | Sig. (2-tailed) | .114 | . |
| | | N | 82 | 82 |

Table 6 illustrates the correlation between culture and performance. There was no significant correlation at the five percent level, so H1b is not supported.

## 4.4 Results pertaining to Hypothesis 2

**Table 7: Performance and financial capital**

| Test | | | Satisfaction | Finance |
|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | -.221* |
| | | Sig. (2-tailed) | . | .046 |
| | | N | 82 | 82 |
| | Finance | Correlation Coefficient | -.221* | 1.000 |
| | | Sig. (2-tailed) | .046 | . |
| | | N | 82 | 82 |

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

Table 7 illustrates the correlation between the financial factors and firm performance. There was a significant correlation at the five percent level. However, the coefficient is -.221, which suggested a negative relationship; therefore, H2 was not supported.

## 4.5 Results pertaining to Hypothesis 3

**Table 8: Performance and training**

| Test | | | Satisfaction | Training |
|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | .201 |
| | | Sig. (2-tailed) | . | .070 |
| | | N | 82 | 82 |
| | Training | Correlation Coefficient | .201 | 1.000 |
| | | Sig. (2-tailed) | .070 | . |
| | | N | 82 | 82 |

Table 8 illustrates the correlation between training and performance. There was no significant correlation at the five percent level.

**Table 9: Performance and internal career opportunities**

| Test | | | Satisfaction | INT1 | INT2 |
|---|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | .007 | .129 |
| | | Sig. (2-tailed) | . | .953 | .249 |
| | | N | 82 | 82 | 82 |
| | INT1 | Correlation Coefficient | .007 | 1.000 | .459** |
| | | Sig. (2-tailed) | .953 | . | .000 |
| | | N | 82 | 82 | 82 |
| | INT2 | Correlation Coefficient | .129 | .459** | 1.000 |
| | | Sig. (2-tailed) | .249 | .000 | . |
| | | N | 82 | 82 | 82 |

***. Correlation is significant at the 0.01 level (2-tailed)*
*INT1= internal career opportunity*

Table 9 illustrates the correlation between internal career opportunities and performance. There was no significant correlation at the five percent level.

**Table 10: Performance and results-oriented appraisals**

| Test | | | Satisfaction | RES1 | RES2 |
|---|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | -.003 | .180 |
| | | Sig. (2-tailed) | . | .976 | .105 |
| | | N | 82 | 82 | 82 |
| | RES1 | Correlation Coefficient | -.003 | 1.000 | .367** |
| | | Sig. (2-tailed) | .976 | . | .001 |
| | | N | 82 | 82 | 82 |
| | RES2 | Correlation Coefficient | .180 | .367** | 1.000 |
| | | Sig. (2-tailed) | .105 | .001 | . |
| | | N | 82 | 82 | 82 |

***. Correlation is significant at the 0.01 level (2-tailed)*
*RES=results-oriented appraisals*

Table 10 illustrates the correlation between results-oriented appraisals and performance. There was no significant correlation at the five percent level.

**Table 11: Performance and participation**

| Test | | | Satisfaction | Participation |
|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | -.110 |
| | | Sig. (2-tailed) | . | .324 |
| | | N | 82 | 82 |
| | Participation | Correlation Coefficient | -.110 | 1.000 |
| | | Sig. (2-tailed) | .324 | . |
| | | N | 82 | 82 |

Table 11 illustrates the correlation between participation and performance. There was no significant correlation at the five percent level.

Tables 8 to 11 illustrate the correlation between four HR 'best practice' and firm performance. None of the correlations was significant, which means H3 is not supported.

## 4.6 Results pertaining to Hypothesis 4

**Table 12: Performance and EO**

| Test | | | Satisfaction | EO |
|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | .251* |
| | | Sig. (2-tailed) | . | .023 |
| | | N | 82 | 82 |
| | EO | Correlation Coefficient | .251* | 1.000 |
| | | Sig. (2-tailed) | .023 | . |
| | | N | 82 | 82 |

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

Table 12 illustrates the correlation between EO and firm performance. The correlation was significant at the five percent level, which means H4 is supported.

**Table 13: Performance and EO dimensions**

| Test | | | Satis-faction | Inno-vation | Pro-active | Risk |
|---|---|---|---|---|---|---|
| Spearman's rho | Satisfaction | Correlation Coefficient | 1.000 | .216 | .327** | .059 |
| | | Sig. (2-tailed) | . | .051 | .003 | .598 |
| | | N | 82 | 82 | 82 | 82 |
| | Innovation | Correlation Coefficient | .216 | 1.000 | .720** | .458** |
| | | Sig. (2-tailed) | .051 | . | .000 | .000 |
| | | N | 82 | 82 | 82 | 82 |
| | Proactive | Correlation Coefficient | .327** | .720** | 1.000 | .611** |
| | | Sig. (2-tailed) | .003 | .000 | . | .000 |
| | | N | 82 | 82 | 82 | 82 |
| | Risk | Correlation Coefficient | .059 | .458** | .611** | 1.000 |
| | | Sig. (2-tailed) | .598 | .000 | .000 | . |
| | | N | 82 | 82 | 82 | 82 |

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

The correlation between each EO dimension and firm performance is presented in Table 13. Proactiveness was significantly related at the one percent level. Each EO dimension was significantly correlated with one another.

## 4.7 Ethics

Human subjects were involved in this study as respondents of questionnaires, and ethics issues arise accordingly. To address these issues, the following procedures and principles were followed. First, participation in this study was strictly voluntary. Respondents could withdraw at any time. Second, there was

no harm done or known risk posed to anyone who participated in this study. Third, questionnaires were answered anonymously, ensuring that all information was confidential and last, information acquired from the questionnaires was not shared with anyone. The questionnaires were destroyed once the research was complete.

## 4.8 Summary of the results

Based on the correlation tables in this chapter it was concluded that the host country institutions, with regard to incentives, work permits granted, free trade terms and culture are not significant related to the subsidiaries' performance; therefore, H1 was not supported. Financial factors regarding the initial investment is significantly related to a subsidiaries' performance, but in a negative way, which is the opposite of what appeared in the literature; therefore, H2 was not supported. Four HR best practices are not significantly related to subsidiaries' performance, which means H3 was not supported. Lastly, EO was found to be positively associated with subsidiaries' performance, so H4 was supported.

# CHAPTER 5. DISCUSSION OF THE RESULTS

## 5.1 Introduction

Firm performance has been the focus of research for many years. Several theories, such as the resource-based view and the industry structure view, are well developed. Based on these theories, determinants of firm performance were identified. With the rising trend of globalisation, performance of international affiliates generates more and more attention. Theories relating to cross-country business operations and performance are evolving, such as the institutional theory. Entrepreneurship, as an emerging driver of superior firm performance also generates considerable attention. The hypotheses of this study built on some the above-mentioned theories. To be specific, this study aimed to examine the relationship between Chinese international subsidiaries' performance in South Africa and the host country's institutions, financial capital, HRM and EO. The results of the analyses are presented in the last chapter. The implications of those results are discussed in detail in the sections that follow.

## 5.2 Discussion pertaining to host country institutions

Literature suggests that favourable host country institutions positively affect international subsidiaries' performance (Demirbag et al., 2007; Pangarkar & Lim, 2003). Culture, as a part of national institutions, has a significant influence on international subsidiary performance (Calhoun, 2002; Li et al., 2001). However, the results of this study did not support these arguments. The correlation between the institutional factor and subsidiaries' performance

was not significant. The possible reason could be that the conclusions drawn from developed countries do not apply for FDI from developing countries or in emerging markets. China's out flowed FDI is increasing with encouragement from government in recent years. There is another possible reason. This study only tests the direct influence of host country institutions on subsidiaries' performance. An indirect relationship may exist, as suggested by Brouthers (2002), based on transaction theory. A foreign subsidiary must adopt the entry mode in line with the host country institutions in order to achieve superior performance (Brouthers, 2002; Kogut & Singh, 1988); otherwise, a firm's performance will suffer because of higher transaction costs and encounter problems regarding their legitimacy in the host country (Kostova & Zaheer, 1999). No research has investigated the performance of Chinese FDI prior to this study, so it is difficult to decide which, if any, of the above-mentioned reasons might apply.

## 5.3 Discussion pertaining to financial capital

The results revealed that sufficient initial investment is correlated with subsidiaries' performance in a negative way. The literature indicates that continuous resource commitment after a certain point would not be necessary to enhance subsidiaries' performance (Luo, 2003). This unexpected result may be caused by the performance measurement chosen for this study being the parent companies' satisfaction over the subsidiaries. Obviously, the parent company makes a big investment with the expectation of high return, while the profit the South African subsidiaries generated did not meet their expectations and thus results in their dissatisfaction regarding performance. This finding suggests that a multifaceted performance measure should be considered

when examining the performance of cross-border subsidiaries. Furthermore, subjective measurements should be taken into consideration to gain a comprehensive understanding of this particular phenomenon.

## 5.4 Discussion pertaining to HRM

Training, internal career opportunities, participation and results-oriented appraisals are known as high-performance work practices (HPWPs). The argument that HPWPs positively affect firm performance received strong support from the literature (Akhtar et al., 2008; Delery & Doty, 1996), but was unsupported in this study. This result indicates that there is no HR practice, which singularly leads to superior firm performance across various time spans and situations. There are two possible explanations for this finding. One is that a firm's strategy should be considered before any HR practice is employed. As suggested by the contingency theory, in order to achieve superior performance, HR practices must be aligned with the firm-level strategy (Delery & Doty, 1996). The other alternative is to implement HR systems, sometimes referred to as an HR bundle (Combs et al., 2006; Lengnick-Hall et al., 2009). HR systems that succeed at both an internal and external fit are proven to affect Chinese firm performance positively (Liu & Liu, 2008). Internal fit means the elements of the HR system should be consistent with each other to reinforce the whole system. External fit means the alignment of HR strategy with the firm strategy (Combs et al., 2006; Huselid, 1995).

## 5.5 Discussion pertaining to EO

This study finds a significant positive relationship between EO and international subsidiaries' performance. This result is in line with literature

(Wiklund, 1999; Wiklund & Shepherd, 2005), and proved that adopting EO as a strategy can improve a firm's performance.

There is something else worthy of notice. Results show that EO, as a combination of dimensions, affects performance positively. This finding provides support to the argument that EO is a unidimentional concept (Miles & Snow, 1984). The correlation between subsidiary performance and any single EO dimension is also tested. Only proactiveness was found to have a significant effect on performance. Innovation may have been significant if more samples were available (Sig=.051). Risk-taking did not show a significant correlation with performance. Furthermore, each EO dimension is significantly correlated with the others, suggesting that they are interdependent. This finding supports the unidimentional concept, and rejects the multidimensional relationship. In other words, a firm achieves superior performance only when it innovates, is proactive and bold enough to take risks. Moreover, this finding did not support the argument made by Lumpkin and Dess (1996), that EO dimensions are independent.

## 5.6 Conclusion

In this chapter, findings of this study are discussed. First, host country institutions do not affect Chinese international subsidiaries' performance in South Africa. This finding could indicate that FDI from developing countries has unique features, or that the institutional theory developed in western countries is not appropriate to explain international subsidiaries' performance in emerging markets. Second, sufficient initial capital investment negatively affects Chinese international subsidiaries' performance in South Africa. This finding indicated that parent companies make big investments with

expectations of high returns, whereas the returns from Chinese international subsidiaries in South Africa cannot meet the expectations of the Chinese MNCs. Third, HR best practices do not affect Chinese international subsidiaries' performance in South Africa. This finding indicated that single HR practices could not have any significant influence on firm performance in modern business. The alignment between firm strategy and HR practices and systems should be considered. Lastly, EO positively affects Chinese international subsidiaries' performance in South Africa. This finding is in line with literature, which indicates that EO is a driver of superior performance not only in developed economies but also in emerging markets. In addition, EO dimensions were proven to be interdependent, not independent.

# CHAPTER 6. CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

## 6.1 Introduction

The purpose of this study was to examine the relationship between the perceived performance of Chinese international subsidiaries and the four determinants in the context of South Africa. Four hypotheses were developed based on a sound literature review. Forty-six Chinese international subsidiaries operating in South Africa were selected as the sample and Spearman's rho correlation was used to test the proposed hypotheses. Chapters 4 and 5 contain the results presentation and discussion respectively; thereafter, conclusions on the overall research were drawn.

In this chapter, a summary of the literature reviewed and the findings are first presented. Implications and recommendations are then discussed, and finally, suggestions for future research are given.

## 6.2 Summary of literature

Several theories lay at the foundation of this study. Institutional theory is the major theory adopted in the discussion of host country institutions. Institutions, regarded as 'rules of the game', have three dimensions: regulatory, normative and cognitive (Manolova et al., 2008). Regulatory institutions refer to the laws or regulations in a society. Normative institutions refer to the standards or commercial conventions established by professional and trade associations and business groups. Cognitive institutions refer to those norms or beliefs

acquired from the educational system or living in the society (Manolova et al., 2008). Host country institutions have a significant influence on international subsidiary performance since firms are 'embedded' in the host country's conditions. International subsidiaries need to conform to host country institutions to establish legitimacy, to reduce transaction cost and finally achieve superior performance. This discussion leads to a natural argument. Scholars claim that firms operating in favourable host institutions would like to improve their performance, which is proved in many studies (Demirbag et al., 2007; Pangarkar & Lim, 2003). Culture is considered part of the informal institution (Peng et al., 2008) and cultural difference is believed to negatively affect firm performance because it creates uncertainty and misunderstandings, which results in additional cost and thus poor performance (Calhoun, 2002).

The resource-based view plays an important role in explaining the relationship between international subsidiaries' performance, initial capital commitment and HRM. Initial capital, as one type of strategic resource, is considered vital to SMEs survival and growth (Cooper et al., 1994). Luo (2003) examines the parent-subsidiary relationship and points out that international subsidiaries depend heavily on parent company's resources commitment. Therefore, adequate resources commitment, including financial capital promotes firm performance.

HRM is believed to be able to create sustainable competitive advantage, which leads to superior firm performance (Barney, 1991; Barney & Wright, 1998). The universalistic approach suggests that some HR practices, named 'best practices', always lead to superior firm performance. The contingency approach suggests that superior performance is achieved only when HR practices are aligned with a firm's strategy (Delery & Doty, 1996). The

contingency approach is true under the premise that strategic HRM positively affects firm performance (Delery & Doty, 1996). The behaviour theory explains the reason that firms achieve better performance when HR practices and firm strategy achieve a suitable fit. Organisations use HR practices to control employees' behaviours. When HR practices align with the firm's strategy, employees' behaviours lead in the direction of better performance (Delery & Doty, 1996).

Entrepreneurship is seen as the engine that drives modern business. Firms who want to be entrepreneurial need to adopt EO as their strategy. EO leads to superior firm performance (Lumpkin & Dess, 1996; Rauch et al., 2009). EO has three dimensions, innovativeness, proactiveness and risk-taking. Firms with strong EO are characterised by frequently introducing new products, services or processes; continuously scanning the external environment to find opportunity and commit resources to capitalise on future opportunities and they prefer to shape the competitive environment than to respond to environmental changes. They are willing to take calculated risks to take advantage of fleeting opportunities. All of these acts lead to a better chance of prosperity and high profit (Lumpkin & Dess, 1996).

## 6.3 Findings

**Table 14: Findings summary**

| Element | Satisfaction | |
|---|---|---|
| | Correlation Coefficient | Sig (2-tailed) |
| Institutions regarding to government polices | .068 | .545 |
| Culture | -.176 | .114 |
| Financial capital | -.221* | .046 |
| Training | .201 | .070 |
| Internal career opportunity 1 | .007 | .953 |
| Internal career opportunity 2 | .129 | .249 |
| Results-oriented appraisals 1 | -.003 | .976 |
| Results-oriented appraisals 2 | .180 | .105 |
| Participation | -.110 | .324 |
| EO | .251* | .023 |
| Innovation | .216 | .051 |
| Proactiveness | .327** | .003 |
| Risk-taking | .059 | .598 |

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

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

## 6.4 Implications

The findings summarised in Table 14 indicate that the perceived performance of Chinese subsidiaries in South Africa is influenced positively by EO and negatively by initial financial capital commitment, which differs from the literature (Cooper et al., 1994). The remaining two factors, host country institutions and high-performance work practices (training, internal career

opportunities, results-oriented appraisals, and participation) do not have a significant influence on the perceived performance of Chinese subsidiaries in South Africa. This also differs from the existing literature (Christmann et al., 1999; Delery & Doty, 1996). The findings of this study suggested that a multi-dimensional measure be considered when examining the performance of an international subsidiary as performance is affected by a variety of factors. Objective measures alone are not enough to gain a comprehensive understanding of international subsidiary performance. Institutional factors did not directly affect the perceived performance of Chinese subsidiaries in South Africa, but they were identified to determine the location and entry mode choice of Chinese FDI (Buckley et al., 2007; Quer et al., 2012). Therefore, an indirect relationship could be considered. As suggested by the literature, entry mode choice may play a crucial role in this regard (Brouthers, 2002).

## 6.5 Recommendations

This study contributes in three ways. First, it adds empirical evidence to the emerging market research body of knowledge. As suggested by the findings, emerging markets have their own features, and the theory emerging from developed countries is not appropriate for direct application to developing nations. A careful evaluation is necessary.

Second, this study provides guidance for the Chinese firms to better their performance. From the perspective of resources, large amounts of initial investment are not necessary for superior performance. From the perspective of strategy, single HR practices like training, internal career opportunity and so forth do not influence performance, while high EO does stimulate performance. Being aware of these facts, managers can improve their strategy accordingly.

For example, in order to improve an existing firm's performance, EO strategy could be adopted, and a, HR system aligned with firm strategy could be used instead of single HR practices. For the Chinese MNCs who are considering subsidiaries in South Africa, they would be advised to make wise entry mode choices, based on host country institutions. They should also try to ascertain the optimal amount of initial investment.

Finally, the South African government could make an effort to create a social climate in which innovation is encouraged and nurtured, to develop its institutions further so that every firm has a fair access to information, which is key when predicting market trends.

## 6.6 Suggestions for further research

In this study, some questions have been answered while some solutions remain unclear. For example, entry mode choice seems important when examining cross-border business. Moreover, due to the small sample size, complicated test tools, such as regression could not be used, and contingent and configuration models cannot be tested. Therefore, further research could be conducted in the following areas.

- Entry mode could be considered in future research, aiming to examine the relationship between host country institutions and subsidiary performance (Makino et al., 2004). Literature suggests that entry in the right mode would encourage better performance, and vice versa (Brouthers, 2002; Kogut & Singh, 1988).
- The relationship between HR systems and the perceived performance of Chinese international subsidiaries in South Africa could be tested

with a larger sample to gain a deeper understanding in this field and provide guidance for Chinese firms.

Many scholars have noticed that HPWPs are complex and interdependent. Using HPWPs as an integrated system can lead to superior firm performance (Huselid, 1995; Lengnick-Hall et al., 2009). However, researchers also pointed out that a HPWP system needs to achieve internal fit (fit between HPWPs) to achieve superior organisational performance (Combs et al., 2006; Huselid, 1995). If internal fit is not achieved in an HRM system, firm performance may suffer. For example, if two substituted practices exist in one HRM system, the implementation cost of the second practice is wasted and two opposing practices existing in one HRM system, could have dire consequences (Combs et al., 2006). A HPWP system also needs to achieve external fit (fit between HRM practices and the firm's competitive strategy) to ensure superior organisational performance (Huselid, 1995). Wright and Snell (1998) argue that HRM and firm strategy interact during the formulation of firm strategy and the implementation process. In the strategy formulation process, HR as an important input limits the firm's strategy choice. In the strategy implementation process, HRM practices provide the firm with the required skills and behaviours, and thus impact the organisational performance.

- Finally, more research about performance of Chinese FDI could be conducted, so that comparisons between different countries are made, which could provide more insight. Moreover, this information could serve as important guidance to Chinese MNEs when making their decision to internationalise. According to the theory of organisational

learning, organisations are able to overcome the difficulties caused by liability of foreignness by learning, so the determinants of long-term and short-term performance should be different. Longitudinal research on this subject will improve our knowledge on the predictors of long-term performance of international subsidiaries.

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# APPENDIX A: QUESTIONNAIRE

问卷采用中英文对照的形式发放，英文为准，中文帮助理解。所有问题均为单选题。请结合您公司的实际情况，完成所有问题，谢谢合作！

***The following questions will help us understand your companies' background. Place a cross (X) in the block that best corresponds to your answer.***

1. How long have you been operating in South Africa? / 您的公司在南非经营多久了？

Less than a year/不足一年 ☐

2-3 year/2-3 年 ☐

4-5 year/4-5 年 ☐

Over 6 years/6 年及以上 ☐

2. How many employees do you have? / 您的公司现有多少名员工?

1-5 employees/1-5 名 ☐

6-10 employees/6-10 名 ☐

11-50 employees/11-50 名 ☐

Over 51 employees/51 名及以上 ☐

3. Which industry do you operate in? / 您的公司所在的行业是?

| | |
|---|---|
| Manufacturing/制造业 | ☐ |
| Construction/建筑业 | ☐ |
| Financial Services/金融服务业 | ☐ |
| Mining/采矿业 | ☐ |
| Communication/Electronics and Information Technology/通信、电子信息技术 | ☐ |
| Transportation/运输业 | ☐ |
| Others/其他 | ☐ |

***The following questions will help us determine the performance of your company. Indicate how much you agree or disagree with a statement by placing a cross (x) in the block corresponding to your answer.***

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| 1. The parent company is satisfied with our company's anticipated profit./ 母公司对于南非分公司的预期利润感到满意 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 2. The parent company is satisfied with our company's general performance. / 母公司对于南非分公司的整体表现感到满意 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 3. Compared with subsidiaries of other companies in the same industry, the parent company is satisfied with our company's profit rate./ 与同行业中其他公司的子公司相比，母公司对于南非公司的利润率感到满意 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 4. Compared with subsidiaries of other companies in the same industry, the parent company is satisfied with our company's operational performance./ 与同行业中其他公司的子公司相比，母公司对于南非公司的经营表现感到满意 | ☐ | ☐ | ☐ | ☐ | ☐ |

***The following questions will help us determine how institutional factor influences your performance. Indicate how much you agree or disagree with a statement by placing a cross (x) in the block corresponding to your answer.***

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| 5. The SA government has specific policies to attract foreign investment./ 南非政府有具体的政策吸引外商投资 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 6. The SA government provides sufficient assistance to start businesses, such as company registrations and work permits./ 南非政府在您的公司成立阶段提供了有效的支持，例如公司注册方面以及工作签证方面 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 7. The SA government provides sufficient assistance to continue business, such as free trade items and tax incentives./ 南非政府在您的公司经营阶段提供了有效的支持，例如自由贸易条款以及税收优惠政策 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 8. Industry barriers are strong in SA due to the protection of trading unions./ 南非有较强的行业壁垒 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 9. Our company often loses business opportunities due to cultural barriers./ 我公司经常因为文化差异而失去商机 | ☐ | ☐ | ☐ | ☐ | ☐ |

***The following questions will help us determine how financial capital influences your performance. Indicate how much you agree or disagree with a statement by placing a cross (x) in the block corresponding to your answer.***

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| 10. I have sufficient capital which allows me to pursue capital-intensive strategies when starting the business./ 公司成立之初，我公司就有足够的资本实行资本密集型战略 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 11. I can easily access outside financial resources. /我公司很容易得到外部金融支持 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 12. External financial resources are important components of my company's capital structure./ 外部资金是我公司资本的重要组成部分 | ☐ | ☐ | ☐ | ☐ | ☐ |

***The following questions will help us determine how human capital influences your entrepreneurial performance. Indicate how much you agree or disagree with a statement by placing a cross (x) in the block corresponding to your answer.***

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| 13. Our company has a systematic training program aimed at improving new employees' working skills./公司有针对提高新员工工作技能的系统培训计划 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 14. Our company provides top managers with comprehensive training programs other than skills pertaining to their position. / 公司为管理人员提供除岗位技能以外的广泛培训项目。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 15. Training programs are focused on long-term goals not short-term goals. / 培训项目主要关注长期目标而非短期目标。 | ☐ | ☐ | ☐ | ☐ | ☐ |

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| 16. Top managers often have cross functional training and job rotation./ 管理人员经常参加跨职能培训或工作轮换。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 17. There is an official employment process including advertising, selecting, employing and evaluating internal candidates./ 内部招聘中使用了包括宣传、挑选、录用和评估在内的正式招聘程序 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 18. Standardized testing methods, including written examination, psychological tests and a structured interview are used in internal recruitment. / 内部招聘中使用了包括笔试、心理测评和结构化面试在内的标准测试方法。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 19. When there is a vacancy in key positions, the company is mainly filled through internal rather than external recruitment. / 关键岗位出现空缺时，公司主要从内部进行填补而非外部招聘。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 20. The bonus is different between high-performance employees and low-performance employees in the same management position. / 管理人员中，同一岗位高绩效员工和低绩效员工在奖金上的差别很大。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 21. To a large extent, management bonuses are linked to firm performance. / 管理人员的奖金与团队绩效挂钩的程度很大。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 22. Staff performance evaluation is aimed at the development of employees rather than rewards and punishment. / 绩效评估的重点是鼓励员工发展而非员工奖惩。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 23. Performance evaluations guide employees' behaviour to meet the company's strategic direction. / 公司的绩效评估非常注重将员工行为引导向符合公司战略的方向。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 24. Employees are highly involved in the setting of performance evaluation standards. / 员工高度参与绩效标准的设置。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 25. Employees have complete autonomy to arrange their own work. / 员工可以完全自主安排自己的工作。 | ☐ | ☐ | ☐ | ☐ | ☐ |

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| 26. Staff are often invited to participate in the production and operational decisions of the company./ 员工经常被邀请参与生产运营决策 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 27. Greater effort has been made to integrate corporate strategy and human resource strategy. / 公司不遗余力的进行企业战略和人力资源战略的整合。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 28. To a greater degree, the human resources department is engaged in the corporate strategic planning process./ 人力资源部门在很大程度上参与了企业战略的制定 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 29. To a large extent, the human resources managers are considered to be enterprise management partners and change agents by the personnel of other departments. / 在很大程度上，人力资源管理人员都被认为是企业管理的合作伙伴和变革推动者。 | ☐ | ☐ | ☐ | ☐ | ☐ |

***The following questions will help us determine how institutional factor, financial capital, human capital and top managers' intention to be entrepreneurial influence your entrepreneurial performance. Indicate how much you agree or disagree with a statement by placing a cross (x) in the block corresponding to your answer.***

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| 30. Our company frequently tries out new ideas./ 我公司经常尝试新的想法 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 31. Our company is creative in its methods of operation./我公司在经营方式上多有创新 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 32. Our company places emphasis on developing new products and proprietary technologies./ 我公司重视新产品和新技术的开发 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 33. In dealing with its competitors, our company has a strong tendency to be ahead of other competitors in introducing novel idea or | ☐ | ☐ | ☐ | ☐ | ☐ |

| | Strongly Agree 非常同意 | Agree 同意 | Neutral 一般 | Disagree 不同意 | Strongly Disagree 非常不同意 |
|---|---|---|---|---|---|
| products. / 我公司倾向于领先其他竞争者引进新想法和新产品 | | | | | |
| 34. Our company is very often the first firm to introduce new products, services operating technologies and the like./ 我公司经常是市场中第一个引进新产品，新技术以及新服务的公司 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 35. Our company shapes the environment by proactively introducing new products, technologies, and administrative techniques rather than merely acting reactively to changes in the environment. /我公司总是主动的通过引进新产品，新技术以及新的管理手段来改变外部经营环境，而不是被动的适应外部经营环境 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 36. Relative to our competitors, our company has a higher propensity to take risks. / 与其他竞争者相比，我公司更愿意承担风险 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 37. Our company has shown a great deal of tolerance for high risk projects. / 我公司对于高风险的项目有较大的宽容度 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 38. In general, the top managers of my firm favor a bold, aggressive posture in order to maximize the probability of exploiting potential when faced with uncertainty. /总体来说，我公司的高层管理人员更倾向于以大胆的，进取的态度来面对不确定的情况。 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 39. The term “risk taker” is considered a positive attribute for all staff. / “冒险家”这个词在我公司是一个褒义词 | ☐ | ☐ | ☐ | ☐ | ☐ |
| 40. Employees are often encouraged to take calculated risks with new ideas around here. 公司鼓励员工承担可控的风险去实现新的想法 | ☐ | ☐ | ☐ | ☐ | ☐ |