EXPATRIATE CAPABILITIES, KNOWLEDGE TRANSFER, COMPETITIVE ADVANTAGE AND FINANCIAL PERFORMANCE OF FOREIGN DIRECT INVESTMENTS IN THE UGANDAN SERVICE SECTOR

BY

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DECLARATION

I Yunia Musasizi, declare to the best of my knowledge that, this dissertation is my original work which has never been published and/or submitted for any award in any other University.

Signed ....

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Date: ....

APPROVAL

This dissertation has been submitted with our approval as supervisors and our signatures are appended against the respective names below:

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DEDICATION

To my precious little daughter, Kyla Safari Malaeka Uzamukunda; you bring out the best in me.

At the end of your life, you will never regret not having passed one more test, not winning one more verdict, or not closing one more deal. You will regret time not spent with a husband a friend, a child, or a parent.

Barbara Bush

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LIST OF FIGURES AND TABLES

LIST OF ABBREVIATIONS

CEO:	Chief Executive Officer
CFO:	Chief Financial Officer
CMO:	Chief Marketing Officer
COP:	Chief of Operations
FDIs:	Foreign Direct Investments
GPM:	Gross Profit Margin
MNCs:	Multinational Corporations
HRM:	Human Resource Management
RBV:	Resource-Based View
ROA:	Return On Assets ratio
ROE:	Return On Equity ratio
ROI:	Return On Investment
VRIS:	Valuable, Rare, Imperfectly imitable and no commonly available Substitutes

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Abstract

The purpose of the study was to establish the relationship between Expatriate Capabilities, Knowledge Transfer, Competitive Advantage and FDI Financial performance.

The study adopted a cross sectional design which was quantitative and qualitative in nature. It involved descriptive and analytical research designs. The study sample comprised of 61 foreign registered firms in the sub sectors of telecommunication, financial services, trading and hospitality who were selected through stratified sampling. The data was tested for reliability, analysed using SPSS and results presented based on the study objectives.

Results revealed positive and significant relationships between Expatriate Capabilities and Knowledge Transfer, Expatriate Capabilities and Competitive Advantage, Knowledge Transfer and Competitive Advantage and Competitive Advantage and FDI Financial performance which implies that when one variable is improved it leads to improvement of the other. In addition, expatriate capabilities are a better predictor of finacial performance followed by competitive advantage and lesser by knowledge transfer which implies that to improve on financial performance; emphasis should be put on improvement of capabilities followed by competitive advantage and lesser emphasis on knowledge transfer.

The study recommended MNCs to send managers on expatriation assignments who are competent and willing to disseminate knowledge which will give them an edge over their competitors and thus result into better financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

As global competition intensifies, the importance of managing international operations by Multinational Corporations (MNCs) increases (Sohn, 1994; Vernon., Wells & Rangan, 1996). This heightens the need to identify and select qualified and competent managers for overseas assignments who can implement the organization's strategies in a particular host country (Gregersen, Black, & Morrison, 1998).

Specifically, the use of expatriate capabilities has been recognized as an important mechanism to monitor and evaluate the activities and behaviors within the subsidiary (Tung, 1993; Harzing, 2001b). For instance, MNCs that dominate Uganda's service sector like banking and telecommunication, prefer to appoint their own foreign executives as a way of protecting their interests (The Monitor, June 3rd 2008) and to transfer corporate knowledge and develop operations abroad in a manner consistent with their values and objectives (Mutoigo & Sejjaaka, 2004; The Independent, January 28th 2009). This in turn through the accumulation, development, and reconfiguration of the organization’s unique resources, capabilities and knowledge creates a competitive advantage (Cater, 2005).

In a knowledge-based perspective Nonaka and Takeuchi, (1995) and Zack, (1999) argue that managerial capabilities and knowledge-based resources are the most relevant to the achievement of a firm’s competitive advantage (Bae & Lawler, 2000; Fey & Hebert, 2000; Hocking, Brown & Harzing, 2004) while financial performance is the outcome of past or present competitiveness (Depperu & Cerrato, 2005). However, many expatriate appointments are unsuccessful (Muenjohn & Armstrong, 2005). 30 to 50% of expatriates who stay at foreign assignments are considered to be ineffective or marginally effective by their organizations (Usunier, 1998; Hill, 2003)

Studies to assess the impact of Foreign Direct Investment (FDI) on technology transfer conducted by Uganda National Council of Science and Technology in 2000 and 2001 revealed that the absorption of organization and management practices as well as tacit knowledge (Polanyi, 1997) was neglected (Muhenda, 2006). This is evidenced by the poor performance of smaller MNCs who find it hard to make strong profit margins due to intense competition (The Observer, 19 November 2009) and there is poor quality of services and products offered. This is due to same product offering and poor knowledge and technology transferred hence lack of a competitive edge over other players in the different sectors leading to use of survival strategies to maintain market share and profitability (Summit Business Review, October, 2008) which could include takeovers and mergers as seen by the acquiring of companies.

For example, Zain (U) has been acquired by Bharti Airtel whose major challenge will be bringing on board more subscribers as Zain has been losing them to its competitors (The Independent, 13 April 2010) due to lack of a competitive edge. In addition, she has been reporting losses for the last 4 years to a tune of 29 billion in 2006, followed by decrease in loss by 25% and then an increase by 72% in 2007 and 2008 respectively (Director's report Celtel (U) Ltd, 2007 and 2008). Further more, the Ugandan banking industry is increasingly becoming very competitive as more entrants take up niche positions including venturing into SME banking and introducing new products. However Barclays Bank customers felt dissatisfied with the quality of service after a long running IT problem in 2008 that showed failure to effectively address the merging process with Nile Bank (The Monitor, 23 June 2009). Further more, It's operating costs in 2008 grew by over 100% and yet it has also posted a net operating loss for the last three years running of 4.7 billion shillings ($2.3 million) in 2009 compared with that of 17.9 billion shillings a year earlier (The Observer, 21 April 2010).

The challenge for MNCs is to accurately understand the cost versus benefit of using expatriates so as to effectively recruit expatriates who can use their capabilities to transfer knowledge so as to gain a competitive advantage and thus good performance.

1.2 Statement of the Problem

To ensure good financial performance, Foreign Direct Investments (FDIs) often utilize expatriates so as to ease operations through transfer of knowledge (Lyles & Salk, 1996). Despite this, many MNCs in the Ugandan service sector still fail to achieve their targeted profitability level and growth levels (The Observer, 19 November 2009) which could be attributed to incapability of these expatriates in terms of failure to adapt to the environment, incompetence on how best to transfer the needed managerial and technical knowledge from the parent company to the subsidiary hence inability for the organization to effectively compete and thus continued poor financial performance.

1.3 Purpose of the Study

The study investigated the relationship between Expatriate Capabilities, Knowledge transfer, Competitive advantage and Financial Performance of Foreign Direct Investment.

1.4 Objectives of the Study

(i.) To establish the relationship between Expatriate Capabilities and Knowledge Transfer.

(ii.) To investigate the relationship between Expatriate Capabilities and FDI Competitive Advantage.

(iii.) To determine the relationship between Knowledge Transfer and FDI Competitive Advantage.

(iv.) To determine the relationship between Competitive Advantage and FDI Financial Performance

1.5 Research Questions

(i.) What is the relationship between Expatriate Capabilities and Knowledge Transfer?

(ii.) What is the relationship between Expatriate Capabilities and FDI Competitive Advantage?

(iii.) What is the relationship between Knowledge Transfer and FDI Competitive Advantage?

(iv.) What is the relationship between Competitive Advantage and FDI Financial Performance?

1.6 Scope of the Study

- **Geographical Scope**

The study covered foreign investments in the service sector operational in Uganda particularly in Kampala district because of the growing contribution of this sector to Uganda's Gross Domestic Product and Kampala is concentrated with these firm's headquarters.

- **Subject Scope**

The study focused on the relationships between the different variables like; expatriate capabilities, knowledge transfer, competitive advantage and FDI financial performance.

1.7 Significance of the Study

(i.) The outcomes of the study will help MNCs to devise means of ensuring that the expatriates have the right attributes to influence the performance of these firms.

(ii.) The findings of the study will enable FDIs to make decisions on how best knowledge can be transferred from parent companies so as to ensure increased competitive advantages and performance in the subsidiaries.

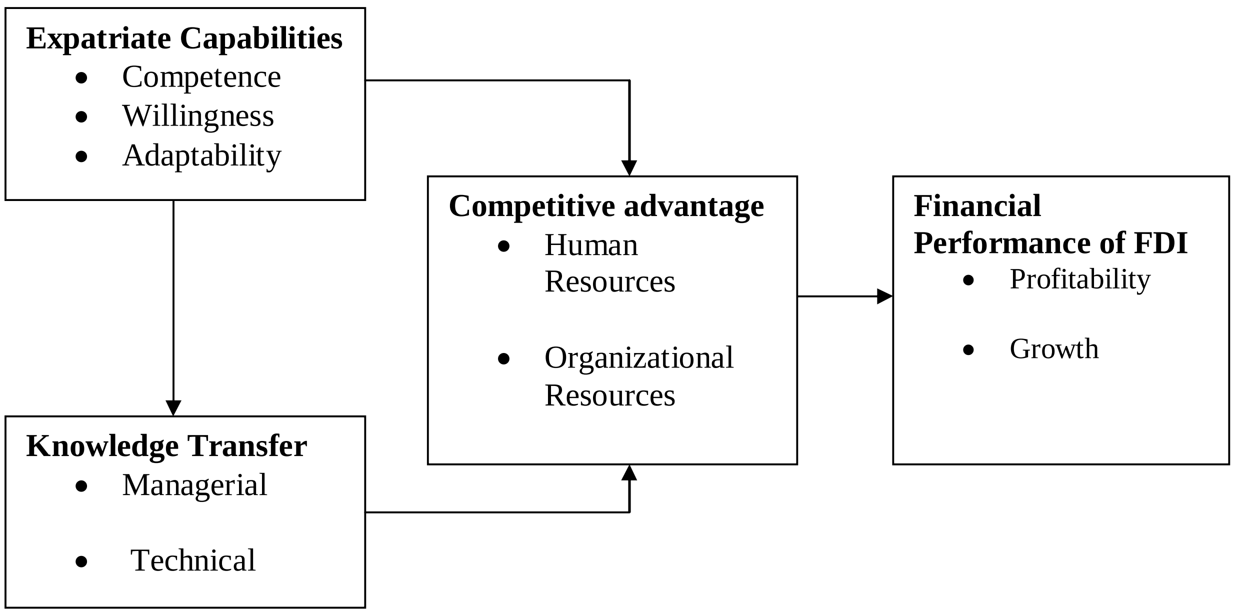
(iii.) The study will increase the knowledge on FDIs and in addition future academic research can be based on it.

(iv.) The findings of this study will provide insight into factors facilitating or inhibiting inter-firm technological knowledge transfer and illustrate to FDIs how to augment knowledge management transfer strategies.

1.8 The Conceptual Framework

The conceptual frame work was developed from existing literature as shown below and it illustrates the relationship between Expatriate Capabilities in terms of their competence, willingness and adaptability which influence the ability of MNCs to transfer both technical and managerial knowledge which in turn influences the MNC's competitive advantage and financial performance.

Fig 1: Conceptual Framework



Source: Self developed from literature review (Delios & Bjorkman (2000); Pulakos *et al*., 2000; Bonache, & Brewster, (2001)*;* Tsang, 1999, 2001and Depperu & Cerrato, 2005).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature from studies carried out by different authors on Expatriate Capabilities, Knowledge transfer, Competitive advantage and Financial Performance of Foreign Direct Investment.

2.2 Foreign Direct Investment

FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency (World Bank, 1996) which may take the form of either "greenfield" (new) investment or merger and acquisition, which entails the acquisition of existing interest rather than new investment.

2.2.1 Expatriate Capabilities

It is a common scenario that foreign companies in the developing countries are managed or headed by expatriate managers from the home country whose management style is in accordance with their home country's culture (Patrick, *et al.*, 2005). These expatriates are sent to a foreign country by MNCs with the intent to control their operations and to provide technical and administrative services (Jun, *et al.*, 2001). Existing literature recognizes many advantages of staffing these subsidiaries with expatriates over host country nationals. Compared to their locally hired counterparts, expatriates are generally believed to have a better understanding and a greater commitment to overall corporate goals (Doz & Prahalad, 1986; Kobrin, 1988). Expatriates' familiarity with the corporate culture and the control system of headquarters would result in more effective communication and coordination (Scullion, 1994) and are effective in replicating existing organizational specificities and the operating procedures in headquarters in the subsidiaries (Rosenzweig & Singh, 1991).

According to Dowling and Welch (2004) the other advantages of using expatriates for business abroad include the aspect of organizational control and coordination. Expatriates are better equipped with an understanding of the values, attitudes and priorities of the headquarters, (Phatak *et al.*, 2005) as well as familiar to the products and procedures of the company (Deresky, 2003). They further add that expatriates contribute to the establishment of company objectives and policies in foreign subsidiaries. In comparison to Host country Nationals, expatriates are generally better equipped for training local workers in new technology as well as corporate systems (Hutching, 2002).
In addition, Collings *et al,* (2007) suggest that organizations understand that the use of people they know and who are integrated in the organization, when positioning people abroad is beneficial for them and especially when looking at minimizing organizational problems. There is a level of trust between these individuals and their superiors and it is more likely that they will strive for the organization’s best interest in comparison to host country managers.

However, the disadvantage of using expatriates include; a low level of promotion opportunities for local managers, which can influence their work moral and motivation (Dersky, 2003). In addition expatriates inability to quickly adapt to another country and culture arises which can lead to ineffectiveness of the expatriate if it is not dealt with

(Dowling & Welch, 2004). According to Hutchings (2002) expatriates are generally not aware of details concerning local labor markets, education systems, specific practices and techniques of the country and they often lack language skills while Collings *et al.* (2007) argues that the cost of sending people abroad is high.

Expatriate Capabilities are highly considered when selecting expatriates to send on overseas assignments (Torrington, 1994) and these are based on three attributes namely, competencies, willingness and adaptability of expatriates (Fuchsberg, 1994; Whitfield, 1995; Hyondong, 2005). Competencies are looked at in terms of knowledge and skills in managerial and technical aspects which must be possessed by expatriate managers (Tung, 1981, 1987; Bjorkman & Schaap, 1994). Technical competence has been almost the sole variable used in deciding whom to send on overseas assignments, despite the fact that multiple skills are necessary for successful performance in international assignments (Mendanhall, *et al*., 1987). Previous research suggests that, most importantly, competent and valuable expatriates must possess superior managerial and technical skills. For example, Tung (1981, 1987) notes on a number of occasions that one of the most basic elements that expatriate managers must possess is professional knowledge and competence. The findings of Bjorkman and Schaap's (1994) study on western expatriates working in China reveal that Chinese employees are more willing to learn from expatriates possessing superior managerial and technological skills, and less likely to do so from those who fail to measure up to the expected standards of overseas subsidiary demands. In fact, expatriates who are not professionally competent are resented for receiving high compensation packages, therefore hindering knowledge transfer.

In addition, literature on expatriate staffing and localization suggests that expatriates who are useful and valuable to overseas affiliates must have the genuine desire to impart years of hard-earned professional know-how to local employees (Rogers, 1999) that is their willingness is very crucial for the success of the subsidiary. This is in relation to having the motivation to do so.

And lastly, expatriates flexibility and adaptiveness to the subsidiary environment is essential for successful expatriation (Lyles & Salk, 1996; Lane, Salk & Lyles., 2001) which is in relation to the ability of the expatriates to sustain cross-cultural and institutional differences so as to adjust themselves to host country environment. Expatriate adaptability is defined as the level of psychological comfort towards the various aspects of a host culture (Black & Gregersen, 1991; Van Vianen, De Pater, Kristof-Brown, & Johnson, 2004). There are three dimensions of adjustment used in the literature (Black, 1988; Black & Stephens, 1989) that is adjustment to the general environment (degree of comfort with general living conditions, such as climate, health facilities and food); interaction adjustment with host country nationals; and (c) work adjustment (performance standards, job and supervisory responsibilities). When expatriates adjust in these dimensions, it could be expected that they will perform as well as in their home country (Suutari & Brewster, 2000). As suggested by Harvey and Novicevic (2001), the effective expatriate is one who is able to adapt or adjust him/herself to the host country. When expatriates are not well adjusted in the host country, it could be expected that their expatriation will not be successful (Webb, 1996).

However expatriate failure rate is an important indicator for measuring the effectiveness of expatriation management which is in terms of the associated high costs in terms of expatriate recalls, travel and relocation expenses (Shen, 2005) and they can also be costly for MNCs with respect to good will and reputation (Dowling & Schuler, 1990). A study by Black and Gregersen (1999) showed that 10% to 20% of all U.S. managers sent abroad returned early because of job dissatisfaction or difficulties in adjusting to a foreign country. Of those who did complete the assignment, nearly one-third did not perform up to the expectations of their superiors. A study performed in the United Kingdom by Forster (1997) revealed that an average of 8% of expatriate employees return home before the agreed end of the assignment. When the definition of expatriate failure was broadened to include the negative effects, stresses, and strains of an international assignment on expatriates and their families, failure rate raised up to 28% an alarmingly high failure rate of the international business assignments that the MNCs should be aware of.

2.2.2 Knowledge Transfer

Knowledge transfer in this study refers to the process through which organizations learn from each other's experience and adapt all or some of the knowledge acquired (Darr & Kurtzberg, 2000). Knowledge transfer can take place through a variety of channels that involve the transmission of ideas and new technologies. Literature often makes the distinction between tacit and explicit knowledge (Polanyi, 1967). Explicit knowledge is what can be formally expressed clearly, fully, and leaves nothing implied and can be stored in specifications, reference manuals, procedures and company handbooks (Nonaka & Takeuchi, 1995). Tacit knowledge on the other hand cannot be expressed outside the action of the person who has it; is non-codified, unvoiced and unspoken and often referred to as know-how (Roberts 2000). Although different areas of knowledge have been categorized as relatively tacit or explicit quantifiable technologies and process are more explicit (Von Glinow & Teagarden, 1988), managerial and marketing expertise are more tacit (Dhanaraj, Lyles, Steensma & Tihanyi, 2004) than product development, production, and technology (Lane *et al*., 2001; Shenkar & Li, 1999) it is always difficult to decide which knowledge can be considered as tacit rather than explicit. However, the two types are not completely distinct: knowledge codifiability and tacitness should be considered as a continuum and when knowledge is transferred, that process will generally involve both tacit and explicit knowledge (Nonaka & Takeuchi, 1995).

The very reason why MNCs exist and succeed is that they are efficient vehicles for creating and transferring knowledge across borders (Gupta & Govindarajan, 1991; Kogut & Zander, 1993; Borensztein, De Gregorio, & Lee, 1995). FDI also contributes to economic growth via technology transfer since MNCs can transfer technology directly (internally) to their foreign owned enterprises (FOE) through their expatriates (Blomstrom, & Lipsey, 2000; UNCTAD, 2000).

Technological and managerial knowledge are the two major types of knowledge embedded in foreign direct investment. Technological knowledge has gained much significance (Hansen & Lovas, 2004; Khin, 2001; Stern & Henderson, 2004) unlike in the past when technology was considered in terms of tangible objects like working machinery and artifacts, giving little significance to knowledge related aspects (Ford & Saren, 1996).

Technology is much more than machinery for it involves the practical application of scientific knowledge that is codified and easily accessible in addition to nonscientific knowledge that may be embedded in the culture of society or company, group, worker or inventor tasks (Fernandize, *et al.*, 1999). For example, Ford and Saren (1996) describe different technologies under three categories; product, process and market technologies. Product technologies that include firm's abilities to design particular types of products or services and embedded in staffs that know how to perform such design works while process technologies are what a firm uses to manufacture or to produce particular products or services and market technologies enable a firm to relate its products and services to other firms' requirements and to their technologies. Market technologies also include skills needed to manage firms' relationships with other companies.

Technological knowledge in our context refers to a body of experience, contextual information and techniques used in the development, design, production and application of processes, procedures, systems and services (Shrivastava & Souder, 1987).

While managerial knowledge including the endowment of managerial intellectual property of a firm and its managerial and organizational practices, plays an important role in determining the productive efficiency of a MNC subsidiary (Teece & Pisano, 1994). It covers all aspects of the management of the firm, ranging from strategic planning and decision making to human-, financial- and information-resource management as well as operations and marketing management (Xiolan, 2005).

However, MNCs can have a negative impact on the direct transfer of technology to the FOEs and thereby reduce the spillover from FDI in the host country in several ways.

They can provide their affiliate with too few or the wrong kind of technological capabilities, or even limit access to the technology of the parent company. The transfer of technology can be prevented if it is not consistent with the MNC's profit maximizing objective and if the cost of preventing the transfer is low. Consequently, the production of its affiliates could be restricted to low-level activities and the scope for technical change and technological learning within the affiliate reduced (Adeolu & Obafemi, 2007).

2.2.3 Competitive Advantage

The concept of competitive advantage is central in strategic management studies (Porter, 1985; Ghemawat, 1986). It can be interpreted as "the asymmetry or differential among firms along any comparable dimension that allows one firm to compete better than its rivals" (Ma, 2000).

Barney (1991) described competitive advantage as a value creating strategy, not simultaneously being implemented by any current or potential competitors. That is it is 'a function of a set of firm-specific resources and capabilities that are Valuable, Rare, and imperfectly imitable and for which there are no commonly available Substitutes' (VRIS). There are two kinds of competitive advantages: a) logistics-based competitive advantage (Porter, 1991) and b) resource-based competitive advantage (Barney, 1991). This study will dwell upon Barney's Resource-Based View (RBV) competitive advantage theory.

According to the RBV Model, firm resources which include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm enable the firm to conceive of and implement strategies that improve its efficiency (doing things right) and effectiveness (doing the right things) which give it a competitive advantage. In the language of traditional strategic analysis, firm resources are strengths that firms can use to conceive of and implement their strategies (Jassim, 2005).

The RBV of the firm is presently being touted as an alternative theory of strategy to that developed by Porter 1985. Instead of focusing on positioning in the product market, it argues that firms achieve sustainable competitive advantage by developing resources, which add unique or rare value, which can't easily be copied by others. Thus the firm with superior access to physical resources, which others can not buy, holds a superior advantage.

Barney (1991) suggests that in order to understand sources of sustained competitive advantage, a firm resource must have four attributes that is; Valuable in the sense that it exploits opportunities and/or minimizes threats in a firm's environment; Rare among a firm's current and potential competition; Imperfectly Imitable*;* There are no strategically equivalent substitutes.

According to Barney (1991) and Hunt and Morgan (1995) firm resources can be conveniently classified into four categories: physical capital resources (the physical technology used in a firm, a firm's plant and equipment, its geographic location, and access to raw materials); human capital resources (training, experience, judgment, intelligence, relationships and insight of individual managers and workers in a firm); financial resources (firm's borrowing capacity and ability to generate internal funds including capital, cash, equity, retained earnings) and organizational capital resources (formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as relations among groups within a firm and between a firm and those in its environment) but for purposes of this research, human and organizational resources will be discussed.

Human Resources

Wright, *et al*. (1994) have shown that the human resources can be a source of competitive advantage because they meet the criteria for being a source of sustainable competitive advantage that is they add value to the firm, are rare, can not be imitated and are not sustainable. The result of effectively managing human resources is an enhanced ability to attract and retain qualified employees who are motivated to perform, and the results of having the right employees motivated to perform are numerous. They include greater profitability, low employee turnover, high product quality, lower production costs, and more rapid acceptance and implementation of corporate strategy. These results, particularly if coupled with competitors who do *not* have the right people motivated to perform, can create a number of competitive advantages through human resource management practices (Schuler & MacMillan, 1984).

Specific Human Resource Management (HRM) practices such as staffing and compensation need to be developed so as to create the competitive advantage for the company. In addition, companies can also gain a competitive advantage through using their HRM practices on others through helping their suppliers, customers, or servicers /distributors with their practices (Schuler & MacMillan, 1984). In this way they can secure a differential position in the eyes of their stakeholders which is often all that is needed to get priority of attention and support in times when this is critical.

Organizational Resources

The RBV of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage which eventually leads to superior firm's performance (Wernerfelt, 1995; Barney, 1995, 2001a, 2001b;

Peteraf, 1993; Priem & Butler, 2001a, 2001b; Morgan *et al*., 2004 and Sirmon *et al*., 2007). Wernerfelt (1984) concludes from his exploration of the usefulness of analyzing firms from the resource side rather than from the product side that resources such as brand names, technology, skilled personnel, trade contacts, machinery, efficient procedures and capital are the foundation for attaining and sustaining a competitive advantage position. In addition, relationships with other firms (such as partners, suppliers, buyers, and creditors), channels of distribution, corporate culture, competences and controls are equally important.

From the categories of resources cited above, the human resources (Adner & Helfat, 2003; Datta, Guthrie & Wright, 2005 and Haslinda, Raduan & Naresh, 2007a, 2007b) and the organizational resources (Oliver, 1997; Makadok, 2001) are deemed to be the more important and critical resources in attaining and sustaining competitive advantage position because of their nature, being not only valuable but also hard-to-copy relative to the other types of tangible resources (i.e. physical and financial resources). In short, conceptually and empirically, resources are the foundation for attaining and sustaining competitive advantage and eventually superior firm’s performance.

2.2.4 Financial Performance

Birlay and Westheed (2001) look at financial performance as an approximation for financial success that is, the rate at which the enterprise is satisfied with the profits and growth levels attained. Financial performance looks at the results of a firm's policies and operations in monetary terms that is, a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Hillman & Keim 2001).

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Dess & Robinson, 2003; Kaplan, 2006). Hayes and Wheelwright (2002) identified competitive priorities with certain dominant competitive modes as ways of improving financial performance. In addition, (Kakuru, 2000) asserts that the competitive advantage of an organization is a means through which financial performance would improve.

There are a number of financial performance measures, however there is little consensus about which instrument to apply. Many researchers use market measures like Alexander and Buchholz (1978) and Vance (1975) while others put forth accounting measures like Cochran and Wood (1984) and Waddock and Graves (1997). Some adopt both of these McGuire, Sundgren, Schneeweis (1988) while others use perceptual measures given inaccessibility of accounting measures of performance (Lyles *et al.*, 1996; Peng, & Luo, 2000). However each has different theoretical implications (Hillman and Keim 2001) and each is subject to particular biases (McGuire, Schneeweis & Hill, 1990).

This study uses the perceptual measures that include profitability and growth.

Profitability is the ability of an enterprise to earn returns which returns are a margin of sales, proportion of capital invested and assets used. This is used as a measure of financial performance by a number of firms with the interest of knowing whether the firm is earning substantially more than it pays in terms of interest (Sedakkadulla & Subbaiah, 2002). The best measure of a company is its profitability since it includes the two major factors of financial performance that is maximizing revenues and minimizing expenses and without it, it cannot grow, and if it doesn't grow, then its stock will trend downward. Increasing profits are the best indication that a company can pay dividends and that the share price will trend upward (Williams, 2008).

Growth is something for which most companies, large or small, strive. Organizational growth, however, means different things to different organizations. It can be measured based on the long term earnings, sales, cash flow, book value, number of employees, revenue growth and others (Frank wood, 2000). This study looks at it in the following ways;

Long-Term Earnings Growth: Earnings are what are left of a firm's revenues after it pays all of its expenses, costs, and taxes. Companies whose earnings grow faster than those of their industry peers usually see better price performance for their stocks. Sales Growth shows the rate of increase in a company's sales per share, and is considered the best gauge of how rapidly a company's core business is growing. Cash Flow Growth: Cash flow tells you how much cash a business is actually generating. It is considered a gauge of liquidity and solvency. Book Value Growth: Book value is, in theory, what would be left over for shareholders if a company shut down its operations, paid off all its creditors, collected from all its debtors, and liquidated itself. Employee productivity: An employee-based measure of growth is change in company or departmental revenue or profit generated per employee. This is a valuable measure of increasing (or decreasing) productivity. Revenues: Every company is described by its revenues as an "X million dollar company." Although this is probably the most commonly cited measure of corporate growth, the pitfall of relying on gross revenue or gross margin as a measure of growth for an organization is that it completely ignores the expenses associated with generating those revenues. Greater revenues do not necessarily mean greater profitability. In periods of very quick "growth," expenses can spiral upward and out of control leaving a company strapped for cash and facing an uncertain future, at best (Kotler, 2003).

In addition, accounting measures are used. Investors and other external users of financial information often measure the performance and financial health of an organization so as to evaluate success, determine any weaknesses and compare current and past performance of the business (Waddock & Graves, 1997). Ratio analysis is a good way to evaluate the financial results of a business in order to gauge its performance and financial health of an organization. This is done in order to evaluate the success of the business, determine any weaknesses of the business, compare current and past performance, and compare current performance with industry standards. Financially stable organizations are desirable, because it is a business that successfully ensures its ability to generate income for investors and retain or increase value. Ratios include: profitability ratios, liquidity ratios, debt ratios, asset activity ratios and financial efficiency ratios (Bushman, 2007). However this study will be limited to profitability and financial efficiency ratios as accounting measures of performance.

Profitability ratios measure the profitability of the organization. The common profitability measures compare profits with a base say sales (gross profit margin, operating profit margin, net profit margin), assets (return on assets (ROA) ratio), or equity (return on equity (ROE) ratio).

The gross profit margin (GPM) determines the amount of profit remaining from sales after subtracting the cost of goods sold so as to determine how much is left to use for purposes other than the cost of goods sold. The higher the GPM the better pricing flexibility and cost management controls a firm has in its operations. The operating profit margin is used to determine how effective the company is at keeping production costs low which shows how much of sales revenues remain after subtracting all operating expenses (David, 2002).

The (ROA) ratio is an indicator of how profitable a company is relative to its total assets, gives an idea as to how efficient management is at using its assets to generate earnings and shows how well a company controls its costs and utilizes its resources. This ratio is used to determine the amount of income each asset generates and it measures overall profitability from investment in assets. A high return on assets ratio indicates that the business is earning more money and investing less on assets. The higher the ROA number, the better, because the company is earning more money on less investment (Niall, 2005). Return on assets is an indicator of the asset intensity of a company. A low return on asset ratio shows that the company is more asset-intensive. A high percentage of return on assets indicates that the company is less asset-intensive. It also means that lesser investments are needed in assets to make profits. In the industry, as a general rule, return on assets ratio below 5% indicates that the company is asset heavy and return on asset ratio above 20% indicates that the company is asset – tight. The ROE ratio also known as return on investment (ROI) is a measure of how well management has used the capital invested by shareholders. This ratio is used to determine the percent returned for each dollar that common stockholders have invested. It measures the return earned on the owners’ equity in the firm. The higher the rate the better the firm has increased wealth to shareholders (Forrester, 2000).

Financial Efficiency Ratios measure the degree of efficiency in use of labor, management and capital and include Asset turnover, Operating Expense and Interest expense (Niall, 2005).

Asset Turnover: measures a firm's efficiency at using its assets in generating sales or revenue, the higher the better. It reflects the level of capital tied-up in assets and how much sales can be squeezed out of the assets. A high asset turnover rate implies that the company can generate strong sales from a relatively low level of capital. Low turnover would imply a very capital-intensive organization. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Operating Expense Ratio: is usually viewed as a measurement of management efficiency. This is because management usually has greater control over operating expenses than they do over revenues. The lower the operating expense ratio, the greater the profit for the investors (Gay, 2000). Interest expense Ratio indicates the relationship between sales and net sales. It reveals the average total variations in expenses.

2.3 Expatriate Capabilities and Knowledge Transfer

The expatriation literature frequently cites the need to transfer resources abroad as a primary reason for expatriating capable home-country nationals to foreign affiliates (Dowling *et al.*, 1994). MNCs use competent expatriates as a means of organizational development, aimed at increasing knowledge transfer within the subsidiary processes (Harzing, 2001b) through a “contagion” effect from the more advanced technology and management practices used by foreign firms (Findlay, 1978). De Gregorio (2003) adds that FDI may also bring in expertise that the country does not possess through which technological and managerial knowledge that is not readily available to domestic investors can be transferred.

For the transfer to be successful, mechanisms based on human resources are relied on (Nonaka & Takeuchi, 1995). Consequently, expatriate capabilities are a legitimate way of transferring embedded knowledge (Downes & Thomas, 2000). Expatriates with a given set of capabilities are employed in the MNCs as vehicles for the knowledge transfer from one unit to the other (Minbaeva, 2003). According to Downes and Thomas (2000) and Bonache and Brewster (2001) the greater the number of expatriates in a subsidiary, the more the knowledge that can be transferred as such, the practice of employing expatriates may be a strategic move on the part of an MNC to increase the international experience and knowledge base of present and future managers (Boyacigiller, 1991). Thus, expatriation is a tool by which organizations can gather and maintain a resident base of knowledge about the complexities of international operations.

Several researchers have identified important features of this role. Both Harzing (1999) and Selmer and de Leon (2002) noted that expatriates playing this role take responsibility not only for transferring technical knowledge and skills, but also for cultivating corporate culture in the subsidiary. Leach (1994) emphasized that for expatriates to function effectively as transferor; they must transfer appropriate up-to-date knowledge and skills in their current posts and prepare local employees to take over their duties when they leave. The latter requires making certain that local managers can consistently and effectively apply existing practical knowledge and skills to improving planning and organization within the institution, which means that local employees must have some managerial knowledge and skills to begin with. She found that when local employees had poor organizational and managerial skills, expatriates spent most of their time on administrative duties and directing the work of local managers, rather than transferring knowledge and skills to them.

2.3.1 Expatriate Competence and Knowledge Transfer

The ability of a firm to transfer knowledge depends on knowledge, skills, and competencies of individuals who are directly involved in the transfer process, because ultimately it is the individuals who are imparting and receiving knowledge (Argyris & Schon, 1978). One of the major responsibilities of expatriates is to bring and transfer skills from the parent firms to the affiliates in the host countries (Bonache *et al.,* 2001). Expatriate assignment is an effective means that increase knowledge stock within a relatively short time horizon by grafting knowledge that is new and useful to the host-country context to the overseas affiliates (Huber, 1991). When the underlying knowledge being transferred is tacit or the objective of the transfer is to change the mindsets of knowledge recipients, significant learning would not take place without the presence of expatriates (Pucik, 1988; Tsang, 1999, 2001). Thus, the success of knowledge transfer depends critically on the types of expatriates being appointed.

Delios and Bjorkman (2000) and Tsang, (2001) suggest that given the knowledge function that expatriates play, the greater knowledge and skills the expatriates possess, the greater knowledge and skills will be transferred to foreign subsidiaries. In recent field research, Wang and colleagues (2004) also found that sending overseas expatriates with professional competence increases knowledge transfer from MNCs to foreign subsidiaries. Several previous studies evidence the importance of individual and contextual factors that are weakly related to competence of expatriates (Dowling *et al.* 1999). However, most MNCs place heavy emphasis on technical and managerial capabilities of expatriates: unless expatriates possess and develop their expertise that is necessary to overseas operation effectiveness, the contribution of these individual and contextual factors may be questionable. Thus, expatriates who are competent and possess professional knowledge are valuable corporate resources. Using the resource-based logic, appointing valuable expatriates to an overseas subsidiary should help improve the subsidiary's performance.

2.3.2 Expatriate Willingness and Knowledge Transfer

In addition to competence, the expatriates' willingness to transfer knowledge is essential to implement effective knowledge transfer program. Literature on expatriate staffing and localization suggests that expatriates who are useful and valuable to overseas affiliates must have the genuine desire to impart years of hard-earned professional know-how to local employees and commit to localization (Rogers, 1999) thus individual willingness and motivation for knowledge transfer has been suggested to have greater impact on individual behavioral outcomes (Gupta & Govindarajan, 2000; Steensma & Lyles, 2001). Given that parent knowledge is critical to subsidiaries and expatriates play critical roles in its transfer, then the expatriates willingness or motivation to transfer knowledge becomes a very valuable element too (Hyondong, 2005). However prior research on expatriate management further indicates that such an element is not commonly seen among expatriates which is in part because expatriates also have their own career concerns, and unless a firm has a routinized and systematic repatriation or mentoring system, expatriates may feel reluctant to transfer knowledge (e.g. Tung, 1981; Rogers, 1999; Wong & Law, 1999).

Many expatriate managers have little incentive to share knowledge they have acquired because, to the extent that they harbor a monopoly of locally-developed knowledge, they gain bargaining power in the MNC by controlling a crucial asset (Coff, 2003). Furthermore, it is impossible for the organization to be aware of all the knowledge expatriates gain during their assignments or to monitor the extent to which that information is shared. This results in a basic principal-agent problem as described by agency theory.

Hence expatriates have to be motivated to share their valuable knowledge especially the tacit one despite the fact that their income and status within the firm are invariably linked to their know – how. This is acute when there is no prospect of receiving an immediate payback in equally valuable knowledge or when there is a fear that it may be leaked to competitors. Hence for intra firm knowledge to take place, a motivation system must be in place that provides the source sufficient incentive to engage in transfer (Porter, 1985).

2.3.3 Expatriate Adaptability and Knowledge Transfer

Another valuable and rare attribute is expatriates' adaptability in knowledge transfer.

Most multinational corporations place heavy emphasis on technical competence when recruiting and selecting expatriates (Dowling *et al*., 1999). Although technical and managerial expertise is the key factor to the expatriate success, existing literature has suggested that there are other important criteria that predict expatriate success: unless expatriates can sustain cross-cultural and -institutional differences, it is not easy for these expatriates to adjust themselves to host country environment (Hyondong, 2005). Shaffer, Harrison, and Gilley (1999) found that rather that job-related factors (roles of expatriates in overseas affiliates), non-work related factors (e.g. spouse adjustment, culture novelty, support from supervisor and coworker, and individual personality) exert strong influence on expatriate adjustment. Thus, in multinational corporation settings, adaptability is the key attribute of the expatriate success in knowledge transfer.

Expatriates who are flexible and adaptive can implement changes in knowledge transfer activities because they help ensure that the right types of knowledge are transferred to overseas operations and that the knowledge of the parent firms is effectively transmitted and assimilated into their foreign subsidiaries. Flexible approaches to knowledge management enhance subsidiaries' absorptive capacity by allowing managers latitude in altering activity patterns and ways of dealing with changing needs and conditions (Lyles & Salk, 1996; Lane *et al.*, 2000). In sum, flexibility and adaptability enhance expatriates' abilities to transfer knowledge and the effectiveness of knowledge transfer. This is because these attributes allow expatriates to tailor knowledge and skills to the needs and demands of overseas contexts. The more the expatriates possess adaptabilities to transfer knowledge, the more likely the knowledge being transferred will be applicable to the subsidiary and in addition since adaptabilities of expatriates to transfer knowledge are valuable and rare (Tsang, 2001), and that they facilitate effective knowledge transfer, it is expected that sending such expatriates to foreign subsidiaries will help enhance FDI performance.

2.4 Expatriate Capabilities and Competitive Advantage

It is commonly accepted that employees create an important source of competitive advantage for firms (Barney, 1991 Pfeffer, 1994). Specifically, capable expatriate workers are necessary to guarantee that foreign subsidiaries' operations remain competitive (Lee & Sukoco, 2008). Hence MNCs seeking a competitive advantage in the management of their companies are increasingly relying on the appointment of competent expatriate managers to carry out headquarters policies in the host markets (Muenjohn & Armstrong, 2005). In a capability-based perspective a firm's competitive advantage derives from its management's competencies (Collis, 1994). This perspective emphasizes a more dynamic view of competition, by focusing on management's distinctive capabilities (Teece, Pisano, & Shuen, 1997; Eisenhardt & Martin, 2000) and its core competencies (Prahalad & Hamel, 1990; Leonard-Barton, 1992).

In addition, the RBV of the firm suggests that multinational companies build competitive advantage by utilizing their tangible and intangible resources, including those directly related to human behavior in the organization (Barney 1991, 1995). Core competencies by the expatriates developed through organizational learning, which are valued by customers and are difficult to imitate by competitors are viewed among the major strategic success factors that enhance competitive advantage (Hamel & Prahalad 1990, 1994). Furthermore, in the competitive global economy, human resources are not as easy to duplicate as factors of production and can therefore provide the source of competitive advantage (Phatak *et al.*, 2005).

Expatriate managers may create sustained competitive advantage directly if they are able to exploit their unique specific competencies. These competencies are particularly valuable to the organization if they provide an institutional bridge between the cultural, social, and political divide often found between the domestic and foreign subsidiaries (Gabby & Zuckerman, 1998). As these managerial competencies develop, the resulting outcomes from implementing new strategic visions may reshape the thinking, actions, and even the worldview of the TMT, making it ultimately evolve into a global mindset (Kefalas, 1998; Paul, 2000) and hence develop a competitive advantage.

As suggested by Harvey and Novicevic (2001), the effective expatriate is one who is able to adapt or adjust himself to the host country. When expatriates are not well adjusted in the host country, it could be expected that their expatriation will not be successful hence failure to have a competitive advantage over others (Webb, 1996). As described by Shaffer, Harrison, Gilley and Luk (2001), this is because well-adjusted expatriates will have greater resources (time, effort, emotional investment) available to support and facilitate their job performance. The importance of global assignments for expatriate managers is directly tied to their ability to transfer knowledge and cultural attributes of the headquarters to overseas operations (Bender & Fish, 2000). Developing this multilevel competency through knowledge transfer may result in a superior competitive advantage of the organization (Wright *et al*., 1994).

Therefore numerous scholars have emphasized the importance of deploying competent expatriates to establish a global competitive advantage (O'Donnell, 2000) given that a successful global manager must possess a complex set of technical, political, social, organizational and cultural competencies (Harrison & Shaffer, 2005). There is a growing recognition that employees with international expertise do make a difference in contributing to achievement of competitive advantage in the international business environment (Stroh & Caligiuri, 1998; Taylor *et al.*, 1996). However, acquiring these collective competencies may be one of the most challenging tasks faced by rapidly expanding global organizations (Takeuchi, Tseulk, Yun & Lepak, 2005).

2.5 Knowledge Transfer and Competitive Advantage

To a great extent, the success of MNCs is considered to be contingent upon the dissemination of valuable knowledge throughout the subsidiaries (Hedlund, 1986; Bartlett & Ghoshal 1989, Gupta & Govindarajan, 1991). This transfer of valuable knowledge acquired from the expatriates is seen as an important source of competitive advantage (Pedersen, 2000). From a theoretical point of view, the literature on knowledge transfer in MNCs has implicitly and positively related it to the ability and willingness of expatriates to integrate new geographic dispersed skills, know-how, and capabilities in the existing knowledge base, that consequently fosters technological and managerial innovation and creates synergies that can significantly leverage the MNC's competitive advantage (Hedlund, 1986; Bartlett & Ghoshal, 1989; Cantwell, 1995; Gupta & Govindarajan, 2000). Particularly, intangible and knowledge-based resources are largely acknowledged as the most important determinants of a firm's competitiveness as they fit better such condition of imperfect mobility which resource and knowledge-based perspectives have identified as a potential source of competitive advantage (Peteraf, 1993; Inkpen, 1998; Zack, 1999; Nonaka & Takeuchi, 1995).

Managerial knowledge, including the current endowment of managerial intellectual property of a firm and its managerial and organizational practices, plays an important role in determining the productive efficiency of a firm and hence its competitive advantage (Teece & Pisano, 1994). It covers all aspects of the management of the firm, ranging from strategic planning and decision making to human-, financial- and information-resource management as well as operations and marketing management. The resulting "systems" of management practices, when successfully implemented, create a unique source of competitive advantage for a firm (Xiaolan, 2005).

In the emerging knowledge economy many companies are forced to access globally dispersed technological and market knowledge to maintain their competitive advantage (Fallah & Lechler, 2008). The effective dissemination throughout the MNC organization of valuable knowledge acquired by its local affiliates is seen as an important source of competitive advantage. To an increasing extent the success of (MNCs) is considered to be contingent upon the ease and speed by which valuable knowledge is disseminated throughout the organization (Hedlund, 1986; Bartlett & Ghoshal, 1989, Gupta & Govindarajan, 1991). Thus, creation of knowledge in the spatially dispersed multinational organization is a necessary, but not sufficient condition for success in the global marketplace. If valuable knowledge remains in, or only diffuses slowly from, the individual MNC affiliates, opportunities for worldwide leverage are lost. Therefore, appropriate incentive structures and proper knowledge transfer mechanisms should be in place to ensure swift dissemination to other units of the multinational organization (Pedersen, Petersen & Sharma, 2000)

Research in the area of knowledge management indicates that the ability to create and transfer knowledge internally is one of the main competitive advantages of MNCs (Minbaeva *et al.* , 2003) Thus, the competitive advantage that MNCs enjoy is contingent upon their ability to facilitate and manage inter subsidiary transfer of knowledge. Furthermore Gooderharm (2001) stipulates that the success of a MNC is ultimately dependent on its ability to replicate its domestic advantage in foreign locations. This domestic advantage may be due to a number of factors among which include that of knowledge assets and its transference. Using the resource-based logic, expatriates who are motivated for knowledge transfer are valuable and rare corporate resources that should contribute to foreign subsidiaries' performance (Hyondong, 2005).

2.6 Competitive Advantage and Financial Performance

Competitive advantages that are sustained over time lead to higher performance and positive returns (Peteraf, 1993). Peteraf and Barney (2003) in addition assert that a firm that has attained a competitive advantage has created more economic value (the difference between the perceived benefits of a resource-capability combination and the economic cost to exploit them than its competitors.

RBV scholars hypothesize that (1) if a firm possesses and exploits resources and capabilities that are both valuable and rare, it will attain a competitive advantage, (2) if these resources and capabilities are also both inimitable and non-substitutable, the firm will sustain this advantage, and (3) the attainment of such advantages will enable the firm to improve its short-term and long-term performance (Amit & Schoemaker, 1993;

Barney, 1991, 1997; Pisano, & Shuen, 1997; Eisenhardt & Martin, 2000; Henderson & Cockburn, 1994 & Powell, 2001; Teece,).

A firm that can exploit its resource-capability combinations to effectively attain an efficiency-based competitive advantage should be able to improve its financial performance compared to competitors by selling more units at the same margin (i.e., low price) or by selling the same number of units at a greater margin (i.e., parity price). In either case, it is logical to assume that a firm that attains a competitive advantage, whether in the form of greater benefits at the same cost or the same benefits at lower cost, will be able to improve its performance in ways that its competitors cannot (Newbert, 2008).

There is a complex but significant relationship between Competitive advantage and firm's performance (Ma, 2000; Fahy, 2000; Gimenez & Ventura, 2002; Wang & Lo, 2003; Wiklund & Shepherd, 2003; Morgan *et al.*, 2004; Ray *et al.*, 2004).
Fahy (2000) and Ma (1999a) argue that the attainment of a sustainable competitive advantage position can be expected to lead to superior performance, usually measured in conventional terms such as market-share and profitability, i.e. the financial performance measurement approach. In other words, anchoring on the view that competitive advantage and performance are two different concepts and dimensions, firms should focus their managerial strategy towards attaining and sustaining competitive advantage position over their rivals. Subsequently, such a competitive advantage position will lead to superior firm's performance (Rose, Abdullah & Ismad, 2010).

The above assumption, however, should not imply that competitive advantage and performance will necessarily be equivalent from an empirical standpoint for at least two reasons. First, although a competitive advantage may be a sufficient condition for improved financial performance, it may often be unnecessary (Durand, 2002). Thus, a firm's performance may increase even in the absence of a well-executed resource-based strategy that impact on the competitive advantage of the firm (Newbert, 2008). Second, even when a firm does effectively implement a resource-based strategy that gives it a competitive advantage, it may often find itself unable to recover the resulting economic value at a cost lower than that required to create it (Coff, 1999; Peteraf & Barney, 2003).

On the other hand, Ma (2000) makes three observations and conceptually explores the various patterns of relationship between competitive advantage and firm's performance, namely: (i) competitive advantage does not equate to superior performance; (ii) competitive advantage is a relational term; and (iii) competitive advantage is context-specific.

Nonetheless, there are other two potential relationships between competitive advantage and performance as projected by Ma (2000), namely that competitive advantage does not always lead to superior performance.

Bearing in mind the notion that competitive advantage is a relational concept and it is also context-specific, there are possibilities that competitive advantage does not result in superior firm's performance, and there are also possibilities that superior firm's performance being achieved without attaining and/or sustaining competitive advantage position (Rose, Abdullah & Ismad, 2010).

Profitability as a measure of financial performance is generally considered the most important outcome of competitive success. According to the largely consolidated view of competitive process, a firm's performance is affected by its competitive advantages. In its turn, the nature of such advantage results in one or more specific sources of competitive advantage which a firm controls (Depperu & Cerrato, 2005).

From an empirical point of view, a relevant percentage of the variance in profitability is attributed to a firm's competitive advantage given its effect on performance (Rumelt, 1991; McGahan & Porter, 1997).

At the firm level, profitability and growth are outcomes of competitiveness. Generally, competitiveness is considered synonymous with success. In very simple terms, success can be intended as achievement of company objectives. Hence, performance should be measured in terms of how an organization manages its critical success factors (Ferguson & Dickenson, 1982).

In summary, while it is expected that competitive advantage and performance will be correlated, the two constructs are clearly theoretically and empirically distinct. Whereas competitive advantage refers to the economic value that has been created from the exploitation of a firm's resource capability combinations, performance refers to the economic value that the firm has captured from their commercialization. Although a firm's performance is influenced by a host of exogenous effects, the competitive advantages a firm attains are no doubt an important antecedent toward this end.

Thus, it is expected that the performance of firms that are able to attain competitive advantages will be greater than the performance of those firms that are not (Newbert, 2008).

2.7 Conclusion

In the process of FDI, parent companies' management capability and experience can affect the results of investment (Lyles & Salk, 1996) considering that they provide the expatriate management skill and knowledge which affects the subsidiaries' survival thus, their experience determines the nature of knowledge transferred (Lyles & Steensma, 1997). Such knowledge resources transferred are transformed into new sources of competitive advantage as they are processes that enable firms to obtain new resource configurations and generate new and innovative forms of competitive advantage (Teece, Pisano & Shuen, 1997)

The MNC's competitive advantage relies on its capability to accumulate, exploit, recombine and innovate its set of firm-specific resources that include expatriate capabilities and their ability to transfer the knowledge and technology to the subsidiary (Depperu & Cerrato, 2005). Grant (1996) proposed that integrating individual specialized knowledge is an organizational capability allows organizations to establish and sustain their competitive advantage. Since knowledge can be found in individuals, an organization needs to integrate such knowledge through combining a variety of individual skills to create revenues and pooling various functional and personal expertise to make strategic moves (Eisenhardt & Martin, 2000) hence a better financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the way the research was carried out in line with the research design, the procedures of sampling, data collection methods, processing and analysis, measurement of the variables and the limitations and problems encountered while carrying the study.

3.2 Research Design

The study adopted a cross sectional design which was quantitative in nature. It involved descriptive and analytical research designs to establish whether the changes in the independent variables affect the dependent variable. Correlation and Regression approaches were used to investigate the relationships between the variables of study. This is because the objective was to examine the relationship between these variables.

3.3 Study Population.

The study population comprised of foreign investors in the service sector of Uganda given the fact that it attracts a big portion of FDI in Uganda. This consists of 61 registered firms in the sub sectors of telecommunication, financial services and hospitality an estimate of UIA Report of 2008.

3.4 Target Sample Size and Sampling Procedure

Using Krejcie and Morgan, (1970), a sample of 53 was determined from a population of 61. Further more Stratified sampling was used to select sub sectors consisting of the telecommunication (Telephone, Internet and Courier Service providers), financial services (Banks and Insurance services) and hospitality sub sectors since the service sector is made up of such strata that attract the majority of FDI within the service sector among others as shown in table 1 below. In addition, purposive sampling procedure was used to select 3 key expatriate personnel in each of these firms due to the need to target respondents who are knowledgeable on required information (Sekaran, 2000). Hence the unit of analysis in this study was FDI firms that employ expatriates while the unit of inquiry was the 3 respondents and the response rate was 85%.

Table 1: ***Population, sample and Response rate***

Strata	Population	Sample	Response Rate
Telecommunication	19	14	93%
Financial Services	31	28	82%
Hospitality	11	11	70%
Total	61	53	85%

Source: UIA Report, 2008

3.5 Data Sources

- **Primary Data**

Raw data was collected directly from the respondents (expatriates) in the selected MNCs. This was done through administering structured questionnaires with the help of a research assistant.

- **Secondary Data**

Secondary data was used to support the empirical findings of the study. It was obtained from existing literature in previous research paper findings, journal articles, Text books, News papers, reports and conference proceedings. This literature relates to expatriate capabilities, knowledge transfer, competitive advantage and financial performance of FDIs. This data was also obtained from Uganda Investment Authority, Enterprise Uganda, Uganda Bureau of Statistics, Public and online libraries.

3.6 Data Collection Instruments

Primary data was collected through administering questionnaires so as to ensure confidentiality of the respondents. The questionnaire contained structured questions relating to the study variables expatriate capabilities, knowledge transfer, competitive advantage and financial performance of FDIs which were constructed on an interval scale with respondents answering in line with the extent to which they agree or disagree with the statements in the questionnaire and in addition they ranked the criteria used in selecting them and importance of some methods used in preparation for expatriation.

Secondary data was obtained through literature review of previous research findings and existing literature on each study variable.

3.7 Data Reliability

The research instrument was examined for reliability by using Cronbach's Alpha value so as to prove that the research instrument used to collect data from the respondents was appropriate and could yield similar results at all times (Sekaran, 2000). All the items included in the scale were analyzed in the literature review on expatriate capabilities, knowledge transfer, competitive advantage and financial performance of FDIs thus ensuring content validity as shown in table 2 below.

Table 2: ***Reliability Coefficient for the Study Variable***

Variable	Anchor	Cronbach Alpha Value
Expatriate Capabilities	5 point	0.7882
Knowledge transfer	5 point	0.7943
Competitive Advantage	5 point	0.8449
Financial Performance	5 point	0.7212

Source: Primary Data

3.8 Measurement of Variables

The independent variables were expatriate capabilities, knowledge transfer and competitive advantage while the dependent variable was Financial Performance. For all variables a structured standard questionnaire was used.

- Expatriate Capabilities were measured based on competencies, willingness and adaptability of expatriates as measured by previous scholars like (Hyondong, 2005). Competencies in terms of knowledge and skills (Delios and Bjorkman, 2000; Tsang, 2001); willingness in terms of motivation (Gupta *et al.,* 2000; Steensma and Lyles, 2001) and adaptability in terms of flexibility (Tsang, 1999, 2001). The item scales were adopted from previous studies of the above scholars.
- Knowledge transfer was measured based on how Adler, Campbell and Laurent, (1989) and Lyles and Salk (1996) measured it. This was in terms of managerial and human resource management skills and manufacturing and product related technology. The item scales were adopted from previous studies of Darroch (2003).
- Competitive Advantage was measured based on the RBV Model which was advanced by Barney (1991); Hunt and Morgan (1995) and Jassim (2005). They assert that firm resources are strengths that firms can use to conceive of and

implement their strategies so as to gain a competitive advantage. These include among others; human capital resources in terms of: training, experience, intelligence and relationships and organizational capital resources in terms of: a firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as relations among groups within a firm and between a firm and those in its environment. The item scales were adopted from Barney's study of 2007.

- Financial Performance measurement was based on both perceptual and accounting measures. This is due to difficulty in accessing financial statements of the respective organizations so as to only use accounting measures of performance (Lyles *et al.*, 1996; Peng *et al.*, 2000). Nevertheless, research shows a positive relationship between objective and perceptual measures of firm performance (Dess & Robinson, 1984; Geringer & Hebert, 1991) given that subjective financial measures can be used to proxy performance against multiple financial criteria (Dess & Robinson, 1984) and they provide valuable insights into the estimated achievements of the firm's economic objectives (Brouthers, 2002). Hence perceptual measures like satisfaction with profitability and growth levels (Hyondong, 2005) were used while accounting measures like profitability ratios and financial efficiency ratios as used by Cochran and Wood (1984) and Waddock and Graves (1997) were also used.

3.9 Data Processing and Analysis

The data collected was edited for incompleteness and inconsistence to ensure correctness of the information given by the respondents. Variables were coded and a Statistical package for social scientists (SPSS) was used for data entry and analysis. Pearson' correlation of coefficient was used to establish the relationships between Expatriate Capabilities, Knowledge transfer, Competitive advantage and Financial Performance. Multiple Regression analysis was used to determine how the predictor variables could explain the dependent variable. This was because there was more than one variable affecting the dependent variable.

3.10 Limitations of the Study

- There was limited availability of statistics on registered multinationals which impacted on the accuracy of the sample taken.
- The study focused on a sample of FDIs which could limit the generalization of the findings to all existing firms.
- The target respondents were so hard to access which impacted on the time taken in the field and the final response rate.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents findings of the study that were generated from data analysis and its interpretation. It includes Descriptive Statistics, Correlation Analysis and Regression Analysis. The results presented were guided by the research objectives which were:

(i.) To establish the relationship between Expatriate Capabilities and Knowledge Transfer.

(ii.) To investigate the relationship between Expatriate Capabilities and FDI Competitive Advantage.

(iii.) To determine the relationship between Knowledge Transfer and FDI Competitive Advantage.

(iv.) To determine the relationship between Competitive Advantage and FDI Financial Performance

4.2 Descriptive Statistics of Background Information

This section presents the sample characteristics of the expatriates such as their gender, marital status, qualification and number of years worked in the organization and further presents the characteristics of the MNCs such as the service sub sector they belong to, form of FDI and location of the organization.

4.2.1 Gender of the Respondents

Table 3 below presents findings on the gender of respondents with an aim of establishing the gender that dominates managerial positions of MNCs using percentage distributions.

Table 3: ***Gender of Respondents***

Gender		**Frequency**	**Valid Percent**	**Cumulative Percent**
	Male	37	82.2	82.2
Valid	Female	8	17.8	100.0
	Total	45	100.0	

Source: Primary Data

The results in table 3 above showed that the majority of the respondents were male (82.2%) while only 17.8% were female. This implies that majority of management sent on expatriation assignments are male.

4.2.2 Marital Status of Respondents

The marital status of respondents is presented in table 4 below using percentage distribution so as to determine the proportion of expatriates based on marital status.

Table 4: ***Marital Status of Respondents***

		Frequency	**Valid Percent**	**Cumulative Percent**
Valid	Single	10	22.2	22.2
	Married	34	75.6	97.8
	Other	1	2.2	100.0
	Total	45	100.0	

Source: Primary Data

In establishing, the marital status of participants in the study, 22.2% of the respondents were single and 75.6% of them were married as shown in table 4 above. This is an indication that majority of respondents given managerial positions are married so as to ensure stability at the job and easy acceptance of foreign country assignments given that they are settled and their families can accompany them to ease the process of adaptation.

4.2.3 Highest Qualification Attained

The results showing the percentage proportion of respondents in relation to the highest qualification attained are presented in table 5 below so as to determine the education levels of managers of MNCs.

Table 5: ***Highest Qualification Attained***

		Frequency	Valid Percent	Cumulative Percent
	Diploma	7	15.6	15.6
Valid	Degree	28	62.2	77.8
	Masters	7	15.6	93.3
	Professional	3	6.7	100.0
	Total	45	100.0	

Source: Primary Data

Results from table 5 reveal that the majority (93.3%) of respondents had masters' degrees. This does not differ from the expectation that managers should be trained in management issues at post graduate level. The results further reveal that the minority of respondents (15.6) % are Diploma holders and these are mainly found in the technical aspects of organization management.

4.2.4 Position held

Table 6 below shows the findings on the position held by the respondents using percentage distribution so as to determine which managerial positions are held by expatriates in MNCs.

Table 6: ***Position Held***

		Frequency	Valid Percent	Cumulative Percent
Valid	CEO	6	13.3	13.3
	CFO	13	28.9	42.2
	COP	18	40.0	82.2
	CMO	8	17.8	100.0
	Total	45	100.0	

Source: Primary Data

Table 6 above shows that 40% of the respondents held the position of Chief of Operations (COP) who were the majority, while 28.9% of them were Chief Financial Officers (CFOs), Chief Marketing Officers (CMO) made up 17.8% and the least respondents were Chief Executive Officers (CEOs). This indicates that the majority of respondents who were available and willing to respond to the questionnaires were in charge of operations while the CEOs were scarce and it could also indicate that expatriates are mainly sent to oversee the operations of the subsidiaries.

4.2.5 Number of years worked as an expatriate in the Organization

Findings on number of years worked as an expatriate in the Organization by the respondents are presented in Table 7 using percentage distributions so as to show length of period served as an expatriate.

Table 7: ***Number of Years Worked as an Expatriate in the Organization***

		Frequency	Valid Percent	Cumulative Percent
Valid	Less than 3 yrs	19	42.2	42.2
	3 - 6 yrs	17	37.8	80.0
	7 - 10 yrs	7	15.6	95.6
	11 - 14 yrs	2	4.4	100.0
	Total	45	100.0	

Source: Primary Data

Table 7 above indicates that 42.2% of the respondents who are the majority have spent less than 3 years as expatriates in the organization while 37.8% have spent between 3-6 years, 15.6% between 7-10 years and the least take up 4.4% which is between 11-14 years in the organization. This indicates that few expatriates stay on the assignment for a long time due to contractual terms that range from 3-5 years and the majority of the respondents indicate that they are on new assignments and the organizations have not been in operation for a long time.

4.2.6 Sub Sector of the Organization

Table 8 below presents the findings on the service sub sector in which the organization of the respondent belongs using percentage distribution so as to determine the sub sector that attracts the highest FDI.

Table 8: ***Sub Sector of the Organization***

		Frequency	Valid Percent	Cumulative Percent
Valid	Telecommunication	13	28.9	28.9
	Financial Services	23	51.1	80.0
	Hospitality	2	4.4	84.4
	Trade	7	15.6	100.0
	Total	45	100.0	

Source: Primary Data

In establishing the sub sector in which the respondent belongs, it was found that the majority are in the Financial Services sector (51.1%) followed by the Telecommunication sector (28.9%) with the least of them belonging to the Hospitality sector as shown in table 8 above. This implies as seen on ground that most FDI is in the financial services sector and the Telecommunication sector is also growing.

4.2.7 Form of FDI

Percentage distributions were used to present findings on the form of FDI in table 9 below so as to determine the types of FDI in the sample service sub sectors.

Table 9: ***Form of FDI***

		Frequency	Valid Percent	Cumulative Percent
	Greenfield	26	57.8	57.8
Valid	Joint Venture	8	17.8	75.6
	Merger & Acquisition	11	24.4	100.0
	Total	45	100.0	

Source: Primary Data

The results in table 9 above show that the majority of the Organizations are of the Green field type (57.8%) followed by those that merge or are acquired (24.4%) and joint ventures make up the least percentage (24.4%) as indicated in table 9. This reflects that the majority of MNCs have had no prior arrangement in the Ugandan market and the second largest category indicates what is expected that FDI is normally reflected in mergers and acquisitions.

4.2.8 Location of Organizations

Table 10 below presents findings in percentage distribution of the location of FDIs so as to establish the proportion of desired location of MNCs.

Table 10: ***Location of Organizations***

		Frequency	Valid Percent	Cumulative Percent
Valid	Urban	43	95.6	95.6
	Other	2	4.4	100.0
	Total	45	100.0	

Source: Primary Data

Table 10 shows that the majority of MNCs (95.6%) are located in the urban centre of the country while the least of the respondents (4.4%) are in other places other than urban or rural areas and non are located in the rural area (0.0%). This reveals as expected that these MNCs locate in the urban area where there is easy access to resources like labor and market.

4.3 Correlation Analysis

The objectives of the study were based on the relationships between the different variables which were: Expatriate Capabilities, Knowledge Transfer, FDI Competitive Advantage and FDI Financial Performance. In order to achieve this, the Pearson (r) correlation coefficient was computed given the interval nature of the data and the need to test the direction and strength of relationships that exist among the study variables. Table 11 below presents the correlation analysis results.

Table 11: ***Pearson Correlations***

	1	2	3	4
Expatriate Capabilities-1	1.000			
Knowledge Transfer-2	.495**	1.000		
Competitive advantage-3	.627**	.554**	1.000	
Financial Performance-4	.635**	.464**	.634**	1.000

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

Source: Primary Data

4.3.1 The Relationship between Expatriate Capabilities and Knowledge Transfer.

The results in table 11 above showed a significant and positive relationship between the Expatriate Capabilities and Knowledge Transfer (r = .495**, p<.01). These results indicate that if expatriates come in with advanced management and technical skills and are committed to corporate goals, this is bound to improve the Knowledge transfer which will for instance be reflected by working with and through others to accomplish assigned tasks and provision of feedback to employees.

4.3.2 The Relationship between Expatriate Capabilities and FDI Competitive Advantage.

In addition, table 11 results revealed a significant and positive relationship between Expatriate Capabilities and FDI Competitive Advantage ($r = .627^{**}$, $p<.01$). This highlights the fact that the more competent the expatriates are the higher the chances of the organization achieving a competitive advantage as compared to its rivals given the capable human resources that add a positive value to the organization and hence what they offer is unique and imperfectly imitable.

4.3.3 The Relationship between Knowledge Transfer and FDI Competitive Advantage.

A significant and positive relationship between Knowledge Transfer and FDI Competitive Advantage is illustrated in table 11 above ($r = .554^{**}$, $p<.01$). This indicates that if expatriates exchange knowledge and experience with their subordinates and work with them in teams as a means to disseminate that knowledge, it will lead to effective management of their capabilities and possession of costly to imitate and not easily substituted resources.

4.3.4 The Relationship between Competitive Advantage and FDI Financial Performance

The correlation analysis in table 11 above indicates a significant and positive relationship between Competitive Advantage and FDI Financial Performance ($r = .634^{**}$, $p<.01$). This points out that if MNCs develop a competitive advantage through attracting professionals who add positive value to the firm through being creative and innovative and thus offer rare services to their customers as compared to their competitors, then the organization will reap higher profits and there will be growth of the organization in terms of revenues and cash flows.

4.4 Regression Analysis

The regression model was used to determine the degree to which Knowledge Transfer, Expatriate Capabilities and FDI Competitive Advantage can explain or predict FDI Financial Performance. This was done since there was more than one predictor variable impacting on the dependent variable. Table 12 below presents the regression analysis results.

Table 12: ***Regression Analysis Model***

	Un standardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
Model	**B**	**Std. Error**	**Beta**		
(Constant)	1.441	.830		1.737	.090
Expatriate Capabilities	.630	.247	.372	2.550	.015
Competitive advantage	.542	.232	.355	2.333	.025
Knowledge Transfer	.112	.182	.084	.614	.543
Dependent Variable: Financial Performance					
R Square	0.500				
Adjusted R Square	0.463			Sig.	0.000

Source: Primary Data

The results in table 12 above show that the predictor variables can explain at least 46.3% of the variance in financial performance (Adjusted R Square = .463). The results further indicated that Expatriate Capabilities (Beta = .372, Sig. = .015), was a better predictor of Financial Performance as compared to Competitive Advantage (Beta = .355, Sig. = .025) and Knowledge Transfer (Beta = .084, Sig. = .543). It means that a change in Expatriate Capabilities leads to 0.372 positive changes in firm performance while Competitive Advantage contributes to 0.355 and Knowledge Transfer 0.084 which is not a very significant predictor of financial performance. Therefore MNCs should prioritise expatriate capabilities followed by competitive advantage and lastly knowledge transfer in a bid to increase Financial Performance. The regression model was also observed to be significant (sig. <.01) and could thus be used to reliably make deductions and recommendations for the MNCs in line with expatriation.

4.5 Further Findings

4.5.1 Ranking of Attributes Considered when Selecting Expatriates for International Assignments in terms of Importance.

Results are presented in table 13 below to show the value attached to expatriate attributes when being selected for international assignments based on a scale such that 1 represented Least Important, 2- Less Important, 3 - Not sure, 4 - Important and 5 - Most Important.

Table 13: ***Attributes Considered When Selecting Expatriates for International Assignments.***

	Min	Max	Mean	Std. Deviation
Job experience	4.00	5.00	4.78	0.42
Technical Skills and competences	3.00	5.00	4.42	0.58
Managerial skills and competences / job knowledge	2.00	5.00	4.76	0.57
Willingness and motivation to live and work abroad	1.00	5.00	3.84	1.00
Flexibility and adaptability	1.00	5.00	3.89	1.01
Language ability	1.00	5.00	2.42	1.10
Family situation	1.00	5.00	2.78	1.43

Source: Primary Data

The results in table 13 showed that the respondents in the study, believe that the most important attributes considered when selecting them for international assignments were Job experience (Mean = 4.78) followed by possession of Managerial skills and competences /

job knowledge (Mean = 4.76) and Technical Skills and competences (Mean = 4.42) with family situation and language ability having the least importance (Mean = 2.78) and (Mean = 2.42) respectively. This implies that management of MNCs is highly experienced with both managerial and technical skills so as to efficiently manage the subsidiaries and in addition the language ability did not influence their selection process.

4.5.2 Ranking of training or preparation methods availed to expatriates by the organization in terms of importance

Results for the ranking of training or preparation methods availed to expatriates by the organization were presented as shown in table 14 below so as to establish the importance attached to such methods. The results were presented from a scale indicated such that 1 represented Least Important, 2- Less Important, 3 - Not sure, 4 - Important and 5 - Most Important.

Table 14: ***Training or Preparation Methods Availed to Expatriates***

	Min	Max	Mean	Std. Deviation
Language training	1.00	5.00	1.96	1.30
Cross-cultural training	1.00	5.00	2.49	1.29
Country-specific information	1.00	5.00	4.07	1.23
Informal briefings	2.00	5.00	4.24	0.86
Pre-assignment orientation visits	1.00	5.00	3.79	1.34

Source: Primary Data

The results in table 14 above reveal that the respondents, believe that the most important training or preparation methods provided to them by the organization were Informal briefings (Mean = 4.24) Country-specific information (Mean = 4.07) and Pre-assignment orientation visits (Mean = 3.79) with Cross-cultural and Language training having the least importance (Mean = 2.49) and (Mean = 1.96) respectively. This implies that expatriates value informal briefings, country specific information and Pre assignment visits much more than they would value cross cultural training and language training in preparation for expatriation assignments.

4.5.3 Comparison of Financial Performance Attributes

Results for the comparison of financial performance with other firms in the same sub sector based on different attributes were presented as shown in table 15 below so as to determine an organization's improvement in performance relative to its competitors. The results were presented from a scale which was indicated such that 1 represented Much worse, 2 - Worse, 3 - Same, 4 - Better and 5 - Much Better.

Table 15: ***Comparison of Financial Performance Attributes***

	Min	Max	Mean	Std. Deviation
Profitability	2.00	5.00	3.60	0.86
Growth in sales	3.00	5.00	3.81	0.59
Growth in Market share	2.00	5.00	3.70	0.67
Growth in total value	2.00	5.00	3.43	0.67

Source: Primary Data

The results in table 15 showed that compared to other firms, the expatriates believe that the Profitability (Mean = 3.60), Growth in sales (Mean = 3.81) and Growth in Market Share (Mean = 3.70) of their firms is better than those of other firms. However, their growth in total value (Mean = 3.43) was indicated as the same with their competitors.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study focused on the relationship between Expatriate Capabilities, knowledge transfer, competitive advantage and financial performance of FDIs. This chapter is divided into four sections; Discussion of findings, Conclusions, recommendations and areas for further study which will be guided by the study objectives.

5.2.0 Discussion

5.2.1 Relationship between Expatriate Capabilities and Knowledge Transfer

The results showed a significant and positive relationship between the Expatriate Capabilities and Knowledge Transfer. This implies that the greater the capabilities of the Expatriate in terms of possession of managerial and technical skills and their willingness to share such with their subordinates, the more knowledge will be transferred. This is in agreement with Downes and Thomas, (2000) who assert that expatriate capabilities are a legitimate way of transferring embedded knowledge and thus Expatriates with a given set of capabilities are employed in the MNCs as vehicles for the knowledge transfer from one unit to the other (Minbaeva, 2003).

This relationship is enhanced by the fact that knowledge is transferred to other employees only if the person transferring the knowledge has superior skills as compared to the other employees which he or she is willing to transfer and thus employees would be more willing to learn from the expatriate. This is supported by Delios and Bjorkman (2000) and Tsang (2001) who suggest that given the knowledge function that expatriates play, the greater knowledge and skills the expatriates possess, the greater knowledge and skills will be transferred to foreign subsidiaries and expatriates who are useful and valuable to overseas affiliates must have the genuine desire to impart years of hard-earned professional know-how to local employees and commit to localization (Rogers, 1999)

5.2.2 Relationship between Expatriate Capabilities and FDI Competitive Advantage

The results also revealed a correlation between Expatriate Capabilities and FDI Competitive Advantage which means that expatriate capabilities positively affect FDI competitive Advantage since their presence leads to attaining a competitive edge for the organization. This is in such a way that with possession of professional knowledge, expatriates are a valuable corporate resource for the organization hence creating a competitive advantage. This is in conformity with the findings of Lee and Sukoco (2008) that show that capable expatriate workers are necessary to guarantee that foreign subsidiaries' operations remain competitive.

In addition, the resource-based view of the firm suggests that MNCs build competitive advantage by utilizing their tangible and intangible resources, including those directly related to human behavior in the organization (Barney 1991, 1995). Therefore the positive and significant relationship between the two variables thus implies that MNCs have to select expatriates who have superior managerial and technical skills so as to create an important source of competitive advantage as seen by utilization of the knowledge acquired from the parent company in the subsidiary.

5.2.3 Relationship between Knowledge Transfer and FDI Competitive Advantage

There is a positive and significant relationship between Knowledge Transfer and FDI Competitive Advantage as shown by the results. This indicates that with dissemination of appropriate knowledge by the expatriates throughout the subsidiary, the organization develops superior resources that are only possessed by that organization, can not be easily substituted and are costly to imitate. This is supported by literature that states that transfer of valuable knowledge acquired from the expatriates is seen as an important source of competitive advantage (Pedersen, 2000). Using the resource-based logic, expatriates who are motivated for knowledge transfer are valuable and rare corporate resources that can not be substituted and costly to imitate and thus should contribute to the foreign subsidiaries' performance (Hyondong, 2005).

From a theoretical point of view, the literature on knowledge transfer in MNCs has implicitly and positively related it to the ability and willingness of expatriates to integrate new geographic dispersed skills, know-how, and capabilities in the existing knowledge base, that consequently fosters technological and managerial innovation and creates synergies that can significantly leverage the MNC's competitive advantage (Cantwell, 1995; Gupta & Govindarajan, 2000). This supports the results from the study given the fact that the superior technological and managerial knowledge transferred by expatriates enables MNCs gain a competitive edge over its competitors.

5.2.4 Relationship between Competitive Advantage and FDI Financial Performance

Findings show that there is a positive relationship between Competitive Advantage and FDI Financial Performance. This points out that if MNCs develop a competitive advantage through attracting professionals who add positive value to the firm through being creative and innovative and thus offer rare services to their customers as compared to their competitors, then the organization will reap higher profits and there will be growth of the organization in terms of revenues and cash flows. This is supported by RBV scholars who hypothesize that if a firm possesses and exploits resources and capabilities that are both valuable and rare, it will attain a competitive advantage (Amit & Schoemaker, 1993; Barney, 1991, 1997; Teece, Pisano, & Shuen, 1997 and Eisenhardt & Martin, 2000). Thus, it is expected that the performance of firms that are able to attain competitive advantages will be greater than the performance of those firms that are not (Newbert, 2008).

This implies that great importance is attached to resources owned by MNCs that are valuable, rare, imperfectly imitable and can not be substituted that enhance the performance of these organizations.

5.3 Conclusion

The study revealed a positive and significant relationship between Expatriate Capabilities and Knowledge transfer in MNCs. This implies that the more capable the expatriate management is the more knowledge will be transferred within the subsidiary. These capabilities are in terms of experience gained over time, knowledge and skills in both managerial and technological aspects. However these are combined with their willingness to share the knowledge and to a less extent, adaptability to the current environment.

Given the findings that Expatriate capabilities positively and significantly impact on Competitive Advantage of FDI, it means that MNCs gain a competitive edge over their rivals based on the Human resources they own. When they employ Expatriate management who are professionals, add positive value to the firm given the knowledge and skills possessed, they become a major corporate strategic asset hence giving the organization a competitive advantage as seen by the resources that are valuable, rare, imperfectly imitable and can not be substituted.

Findings further showed that Knowledge Transfer and Competitive Advantage of a MNC are correlated. This suggests that the when the expatriates in this study work with and through others to accomplish assigned tasks, they build capacity for the organization since people are fully involved in the activities of the organization. Through this they get knowledge from the experienced management hence ensuring that all human resources can add positive value to the organization and not management alone. This ensures proper management of their capabilities which results into possession of superior resources hence a source of competitive advantage for the firm.

Finally, Competitive Advantage and FDI Financial Performance have a positive and significant relationship as revealed by the findings of this study. This shows that MNCs manage their Human and Organizational resources well through attracting professional managers who are creative and innovative and thus enable the organization to offer what is unique in comparison to their competitors which is later translated into better financial performance in terms of higher profits, growth in revenues, cash flows and earnings.

5.4 Recommendations

In order for the subsidiaries to gain knowledge transfer from the parent companies, MNCs should ensure that the expatriates sent to manage these subsidiaries have capabilities in terms of being competent in both managerial and technical skills; they should have the willingness to transfer this knowledge and even adapt this knowledge within the context of the subsidiary.

In addition, there is need to send managers on expatriation assignments who have the experience and knowledge on how the Parent organizations are run so as to ensure that they do likewise in the subsidiaries. This guarantees provision of the right and adequate knowledge hence gaining a competitive edge over their competitors.

Expatriate managers should endeavor to work in teams so as disseminate the much needed knowledge and give feedback to employees in the subsidiaries. In addition, appropriate incentive structures and proper knowledge transfer mechanisms should be put in place to ensure swift knowledge transfer. All the above will lead to development of human resources that are valuable to the organization who can offer services that are unique among current and potential competitors thus a competitive advantage,

Since there was a positive and significant relationship between Competitive Advantage and Financial Performance, there is need for the MNCs to possess superior human resources and Organizational resources that are valuable, non imitable, rare and hard to substitute. This will bring about better performance within the subsidiaries as evidenced by better profitability, growth in revenues, earnings and cash flows.

5.5 Areas for further research

- Expatriate adaptability and performance of overseas affiliates
- Knowledge transfer and financial performance of FDIs
- Expatriate motivation and Knowledge Transfer in MNCs

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APPENDIX

QUESTIONNAIRE

MAKERERE UNIVERSITY BUSINESS SCHOOL
STUDY ON EXPATRIATE CAPABILITIES, KNOWLEDGE TRANSFER, COMPETITIVE ADVANTAGE AND FINANCIAL PERFORMANCE OF FOREIGN DIRECT INVESTMENTS IN UGANDA

Dear Respondent, you are kindly requested to participate in this post graduate study by providing answers to the following questions. The findings are purely for academic purposes and your responses will be treated with utmost confidentiality. Thank you for your positive response.

SECTION A: BACKGROUND INFORMATION (Please tick appropriately)

a) Sex of the respondent **b) Nationality ....**

Male	Female

c) Marital status of respondent (Please state if other)

Single	Married	Divorced	Other

d) Highest Qualification attained (please state if other)

Diploma	Degree	Masters	Professional	Other

e) Position held (please state if other)

CEO	CFO	COP	CMO

f) Number of years worked as an expatriate in this Organization

Less than 3 years	3-6years	7-10 years	11-14 years	Over 14 years

g) In what service sub sector is your organization?

Telecommunication	Financial Services	Hospitality	Trade

h) What form of FDI is this organization?

Green Field	Joint Venture	Merger and Acquisition

i) Where is the Location of the organization?

Urban	Rural	Industrial Park	Other

j) How long has the organization been in operation in Uganda?..

k) Please state the number of expatriates in this organization...

l) What was the purpose of your expatriation? (Please tick the appropriate box / boxes)

Control	**Competence Development**	**Knowledge Transfer**	**Problem Solving**	**Career enhancement**	**Other**

SECTION B: Expatriate Capabilities

Based on your own experience, what WOULD YOU SAY were the most important attributes considered when you were selected for the international assignment? *** Please rank the following criteria from most important (5) to least important (1)**

	Most important	Important	Not Sure	Less important	Least important
Job experience	5	4	3	2	1
Technical Skills and competences	5	4	3	2	1
Managerial skills and competences / job knowledge	5	4	3	2	1
Willingness and motivation to live and work abroad	5	4	3	2	1
Flexibility and adaptability	5	4	3	2	1
Language ability	5	4	3	2	1
Family situation (adaptability of spouse and family, stable marriage, willingness of spouse to live abroad)	5	4	3	2	1

In the following sections indicate how much you *agree* or *disagree* with the statements based on the following scale:

5 = STRONGLY AGREE, 4 = AGREE, 3 = NOT SURE, 2 = DISAGREE, 1 = STRONGLY DISAGREE

	Strongly agree	Agree	Not Sure	Disagree	Strongly Disagree
Competencies					
I have adequate knowledge and experience to do the job	5	4	3	2	1
I am better equipped than nationals to train local workers	5	4	3	2	1
I have a better understanding of corporate goals as compared to my local counter parts	5	4	3	2	1
I always transfer appropriate up-to-date knowledge and skills	5	4	3	2	1
I normally train local employees to take over my duties when I leave.	5	4	3	2	1
The greater knowledge and skills I possess, the greater knowledge and skills will be transferred to foreign subsidiaries	5	4	3	2	1
I feel that management needs to be replaced since they are not competent	5	4	3	2	1
I have fulfilled the purpose for my expatriation to a greater extent	5	4	3	2	1
Substituting expatriates with local personnel will critically affect the firm's performance	5	4	3	2	1
I am competent and possess professional knowledge that are valuable corporate resources	5	4	3	2	1
My capabilities create an important source of competitive advantage for firms	5	4	3	2	1
I possess superior managerial and technical skills than the local counterparts	5	4	3	2	1
Employees are more willing to learn from me if I possess superior managerial and technological skills	5	4	3	2	1

	Strongly agree	Agree	Not Sure	Disagree	Strongly Disagree
The greater the number of expatriates in our organization, the more the knowledge that can be transferred	5	4	3	2	1
Willingness					
I have more commitment to corporate goals as compared to my local counter parts.	5	4	3	2	1
I have a genuine desire to impart years of hard-earned professional know-how to local employees	5	4	3	2	1
I would readily accept to come back and work in this country	5	4	3	2	1
I am motivated to share knowledge and skills	5	4	3	2	1
Instituting a mentoring system is crucial for my knowledge transfer	5	4	3	2	1
When people need information concerning work issues I am often available to give it	5	4	3	2	1
Adaptability					
a) Personal Adaptability					
Inability to quickly adapt to foreign culture greatly impacts on my performance	5	4	3	2	1
I relate well with other employees	5	4	3	2	1
I am flexible and have totally adapted to this work environment	5	4	3	2	1
I am comfortable working with the nationals	5	4	3	2	1
Failure to adjust affects my ability to create a competitive advantage for the organization	5	4	3	2	1
I tailor my knowledge and skills to the needs of this organization	5	4	3	2	1
b) Language Skills					
I comfortably manage a conversation in the local language	5	4	3	2	1
Learning the basics of the country’s language is part of the assignment	5	4	3	2	1
The host country language significantly impacts on my adjustment	5	4	3	2	1
Language training is essential for adjustment success.	5	4	3	2	1
I would be in a better position if I could make myself understood in the local language	5	4	3	2	1
Mastering the local language connotes to the locals that the expatriate really cares to make an effort to understand the host culture	5	4	3	2	1
Language ability enhances my ability to adjust to the work and social environment	5	4	3	2	1
Language problems are a major source of frustration and dissatisfaction.	5	4	3	2	1
Language and Cross-cultural training was provided to me by my company	5	4	3	2	1
c) Political situation					
The political situation is of great concern in my ability to adjust	5	4	3	2	1
The political situation greatly impacts on my willingness to stay on international assignments.	5	4	3	2	1
Country legislations highly influence my performance levels	5	4	3	2	1
I am contented with the political situation in this country	5	4	3	2	1
The country environment is very hospitable	5	4	3	2	1
I carried out a qualitative risk assessment before taking on this assignment	5	4	3	2	1
d)Family situation					
It is important to have spousal support in this assignment	5	4	3	2	1
I highly value my family accompanying me for this assignment	5	4	3	2	1
My spouse and family's inability to adapt to the new culture affects my performance	5	4	3	2	1
My Family is supportive of leaving our home country	5	4	3	2	1

Sometimes I feel lonely or homesick and cannot concentrate on my daily activities	5	4	3	2	1
My employer contacted my spouse before the decision to move abroad was made	5	4	3	2	1
My family situation played an important role in the selection process for this assignment.	5	4	3	2	1
I had enough time to get prepared for this assignment	5	4	3	2	1
I had Pre-assignment orientation visits and Informal briefings with people who work or have worked in the host country	5	4	3	2	1
Country-specific information was given to me prior to my assignment	5	4	3	2	1
My children obtain quality education from the Ugandan education system	5	4	3	2	1
My taste via food is met with the available delicacies	5	4	3	2	1
I do not worry about my health given the standard medical services offered	5	4	3	2	1
My spiritual wellbeing is catered for with the diverse denominations	5	4	3	2	1
The entertainment industry always serves my taste for leisure activities	5	4	3	2	1

Of the following training programs / preparation methods that were provided to you by your company which were the most important? *** Please rank the following methods from most important (5) to least important (1)**

	Most important	**Important**	**Not sure**	**Less important**	**Least important**
Language training	5	4	3	2	1
Cross-cultural training	5	4	3	2	1
Country-specific information	5	4	3	2	1
Informal briefings (meeting with people who work/ have worked in the host country)	5	4	3	2	1
Pre-assignment orientation visits	5	4	3	2	1

Which of the following risk factors is evident in this business environment?

Poor political and legal system ☐ Corruption ☐ Social risk ☐

Chances of confiscation of company property ☐ Economic factors ☐

Of the above factors which ones do you perceive as "high risk factors" that can lead to capital losses? Rate them based on **5 Highest to 1 Lowest**

	Highest	**High**	**Moderate**	**Low**	**Lowest**
Corruption	5	4	3	2	1
Poor political and legal system	5	4	3	2	1
Chances of confiscation of property	5	4	3	2	1
Economic issues	5	4	3	2	1
Social issues	5	4	3	2	1

SECTION C: KNOWLEDGE TRANSFER

This section contains statements concerning **Knowledge Transfer** in your organization. Please indicate how much you **agree** or **disagree** with the statements.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Managerial Skills					
I hold regular meetings to discuss business trends and developments	5	4	3	2	1
Our company periodically circulates reports which provide information on business	5	4	3	2	1
I normally exchange my knowledge and experience with my subordinates	5	4	3	2	1
I always work in teams as a method to disseminate knowledge	5	4	3	2	1
Management keeps a database of customers' information that is easily accessible	5	4	3	2	1
I always provide feedback to others whenever I attend conferences, exhibitions	5	4	3	2	1
Organization success is contingent upon my ability to disseminate valuable knowledge throughout the subsidiaries	5	4	3	2	1
The subsidiary substantially uses knowledge from the parent company	5	4	3	2	1
Appropriate incentive structures and proper knowledge transfer mechanisms are in place to ensure swift dissemination to other units of the organization	5	4	3	2	1
I like to work with and through others to accomplish assigned duties	5	4	3	2	1
Technological Skills					
Technology and other techniques are always used to transfer knowledge in this organization	5	4	3	2	1
Technological developments at the parent company are always passed on to the subsidiary	5	4	3	2	1
We respond quickly to changes in technology	5	4	3	2	1
My organization provides its affiliate with adequate and the right kind of technological capabilities	5	4	3	2	1
My organization often performs development activities and scientific research activities	5	4	3	2	1
Our organization owns well established procedures, manuals and administrative systems which are reproduced and shared	5	4	3	2	1
Our organization's investment in databases and management information systems is appropriate	5	4	3	2	1

SECTION D: COMPETITIVE ADVANTAGE

This section covers organizational resources that bring about a **competitive advantage**. Please indicate in comparison to your competitors how much you **agree** or **disagree** that each resource generates a competitive advantage for your resource.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Human Resources					
The organization successfully attracts proffessionals	5	4	3	2	1
Human Resources always add positive value to the firm.	5	4	3	2	1
What we always offer is unique or rare among our current and potential competitors.	5	4	3	2	1
Our skills can not be imitated.	5	4	3	2	1
Human resources are highly creative and innovative	5	4	3	2	1

Human resources is our major corporate strategic asset	5	4	3	2	1
Human Resources have adequate training to do their job well	5	4	3	2	1
We have an enhanced decision making process	5	4	3	2	1
We have a decentralised organizational structure	5	4	3	2	1
My organization attaches great importance to the stability of employees	5	4	3	2	1
The human resources are normally managed well.	5	4	3	2	1
Organizational Resources					
The organization effectively manages its capabilities	5	4	3	2	1
The organization has built a good reputation	5	4	3	2	1
We have strong brands	5	4	3	2	1
We have a better understanding of our customers	5	4	3	2	1
We are capable of building long term relationships with suppliers and chain members	5	4	3	2	1
The organization has effective advertising	5	4	3	2	1
We have product patents	5	4	3	2	1
Our superior resources are possessed by our organization only	5	4	3	2	1
Our superior resources are not easily substituted	5	4	3	2	1
Our superior resources are costly to imitate	5	4	3	2	1
I am satisfied with the outcome of the use of our resources	5	4	3	2	1

SECTION E: FINANCIAL PERFORMANCE

This section covers statements concerning **Financial Performance** in your organization measured based on your perception of the profitability and growth levels. Please indicate how much you **agree** or **disagree** with the statements

Profitability					
My management capability and experience usually affects the results of investment	5	4	3	2	1
The organization always earns profits through the transfer of specific knowledge to the subsidiary	5	4	3	2	1
Our organization is highly profitable	5	4	3	2	1
Our profits are always influenced by expatriate management	5	4	3	2	1
Successful knowledge transfer is measurable on the financial bottom line of the organization	5	4	3	2	1
I am generally satisfied with our financial performance	5	4	3	2	1
Management is efficient at using its assets to generate earnings	5	4	3	2	1
The company always controls its costs and utilizes its resources.	5	4	3	2	1
I am very satisfied with the amount of income generated from each asset	5	4	3	2	1
Management efficiently utilizes the capital invested by shareholders	5	4	3	2	1
Stockholders are always satisfied with the return earned on the their equity	5	4	3	2	1
Each net sale contributes a sufficient amount of profit	5	4	3	2	1
The proportion of gross profit to net sales is sufficient	5	4	3	2	1
The company is effective at keeping production costs low	5	4	3	2	1
The proportion of operating profits to net sales is satisfactory	5	4	3	2	1
A significant amount of sales revenue remains after subtracting all operating expenses	5	4	3	2	1
The firm always efficiently utilizes its assets in generating sales revenue	5	4	3	2	1
Our company generates strong sales from a relatively low level of capital	5	4	3	2	1
Management efficiently controls operating expenses	5	4	3	2	1
The proportion of operating expenses to net sales is quite low	5	4	3	2	1

Iam satisfied with the proportion of interest expenses to gross revenue	5	4	3	2	1
Growth					
Growth is used as a measure of financial performance in this organization	5	4	3	2	1
There has been an incredible growth in earnings in this year	5	4	3	2	1
The over all productivity per employee (Net profit divided by number of employees) is very satisfactory	5	4	3	2	1
The organization is experiencing a substantial growth in revenue this financial year	5	4	3	2	1
The rate at which our cash flows grows is remarkable	5	4	3	2	1
I am totally satisfied with the over all growth rate of this organization	5	4	3	2	1
If the company shut down its opeartions today, what woud be left over after settling liabilities would be adequate for shareholders	5	4	3	2	1

Compared to other organizations in the same sub sector, how would you rate the organization's performance in terms of?

	Much Better	**Better**	**Same**	**Worse**	**Much Worse**
Profitability	5	4	3	2	1
Growth in sales	5	4	3	2	1
Growth in Market share	5	4	3	2	1
Growth in total value	5	4	3	2	1

THANK YOU FOR YOUR COOPERATION