Sustainable Performance Improvement: Identifying the Next Generation of Successful Consumer Product Companies and explaining their success

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Master's Thesis

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Rotterdam, July 30th, 2014

Abstract

This paper ranks a set of 100 consumer product companies on the basis of Sustainable Performance Improvement (SPI). SPI is measured by three financial measures and a sustainability measure. The list produces a top 10 and a bottom 10, the prior being identified as the next generation of top consumer product companies.

Four variables – Geographical presence, emerging market presence, social media activity and average salary – are used to try and identify the reasons these companies vary in rank. Top 10 and the bottom 10 averages are compared and a number of results provide interesting insights. What is found is that high SPI firms are more geographically spread, have lower emerging market presence and have greater social media activity levels. Average salary has no influence on SPI levels. A range of future studies and implications are also discussed

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1 Introduction

It is a fact that there are companies that outperform others. This is proven by some companies going bankrupt where others seem to keep on existing for decades more. These surviving companies are better at what they do than their rivals, but what does it mean to 'outperform' and be better than a rival? Take a look at a company that is well-known, with a settled brand name and a large share of their products found in shops and and stores all across the globe. Even a company whose products you use every day. It is a unanimous belief of the general public that such companies are successful companies. The question is why we have this belief and what this belief is based on, besides the fact that we come across many of their products. What measures do we use to classify a company a 'successful' or an 'unsuccessful' company? A great part of this paper is based on the ranking of companies according to their relative 'success'. Of great importance is the ability to rank a set of companies and to be able to compare them with the help of a few justifiably relevant, meaningful and informative measures. Here we are looking to define and measure success in terms of Sustainable Performance Improvement (SPI). The definition of SPI that pertains to this paper is the ability of a company to successfully and consistently realize an improvement of its business practices which is reflected in, and by, their financial statements.

In this paper, a list of 100 consumer product companies is ranked according to their performance on four measures: Sales Growth, Profit Margin, Return on Assets and Sustainability. A further analysis then follows which elicits differences in structure and practices between the top performing companies and the struggling companies. Ultimately, the question to be answered is what firm characteristics enable top consumer product companies to achieve high sustainable performance growth? The implications of these results are then discussed, followed by a section with concluding remarks.

2 Part A: List Composition

2.1 *Literature Review*

In the present literature, there is quite some divergence on which financial measures are used to quantify the degree of organizational success. Upwards of 20 different measures have been elaborated on in the existing literature. The peculiarity of this existing literature is that most papers simply use a set of measures without any foundation for them. Usually a summation is given of other papers that use the measure and then the authors tend to move on to the methodology, hypotheses and so forth.

There has been much analysis on which measures - such as Revenue, Profit, Return on Assets (ROA) etc. - are used. These descriptive papers give an overview of the past literature and attempt to draw conclusions on which measures are most used and are most informative. However, few definite conclusions are successfully drawn. The most prominent literature that analyses the use of performance measures will now be discussed.

Steers (1975) analyses the problems in the use of measures of organizational effectiveness and identifies 17 papers' models. What this author finds is that, even though the models are multivariate, there is actually little overlap in the evaluation criteria of performance – the measures used. A distinction is made between models that are inductive and deductive. The former is based on past literature and the latter uses the measures on the basis of their definitions and the information researchers expect the measure to reveal. A major problem that the author claims these models have, is their lack of generalizability. Steers mentions that the models lack in external validity and are rarely applicable to other sectors but the ones that are analyzed.

Murphy et al. (1996) seem to find similar issues with the choice of measures as the aforementioned author in that they find little consistency in the methods used. They posit that numerous papers seem to use a vast array of measures and sometimes give no justification for the selection. The authors find positive and negative correlations between certain measures. What this means is that it is essential to analyze what measures to use as using two measures that negatively correlate will result in a partial cancelling out effect. An example of this is Return on Assets (ROA) being negatively related to Return on Equity (ROE). Depending on the degree of leverage of the firm, ROE can differ considerably from ROA. A company can thus score very well on ROA and very poorly on ROE. When used together, it will not give an accurate portrayal of a company's financial standing. It is for this reason that ROA has been chosen as it captures the total and average return of the company's assets. This is discussed later on in the paper.

Maltz et al. (2003) have a somewhat different approach of analyzing the existent literature and start to build on their ideal model. An internal approach is used with the focus on the manager – measures are used as tools to help managers assess the productivity of the firm. Kaplan and Norton's "Balanced Scorecard" is mentioned and the authors argue that most financial measures used, only tell us about a company's past performance and little of their future performance. Although this is true, there is reason to believe that if a company has been profitable for the past 30 years, it will most likely outperform a company that has shown consistent losses. Maltz et al. (2003) challenge past models on the basis of their lack of empirical testing. The authors, having analyzed 51 empirical studies on performance measures, posit a new model. Out of the 51 studies, they identify 12 common measures and 5 success dimensions (e.g. financial measures, process measures). These were tested by interviewing managers and CEO's on which measures they deemed most important for judging overall performance. This resulted in a model with three baseline measures: Sales, Profit Margin and Revenue Growth. To be able to adjust for factors specific to some industries, they incorporate dummies to correct for many factors such as size of the firm and the technology magnitude of the firm. While this is yet another model, it is one that clearly analyzes the past models and tries to empirically support the choice of measures.

Delmar et al. (2003) look specifically at firm growth, one of the success measures described by already mentioned literature (Maltz et al. 2003). In line with the abovementioned papers, they also identify the great heterogeneity found in the choice of measures used to assess firm growth. The observation that most models and empirical papers use only one measure coincides with previous literature as well. Like Maltz et al. (2003), the authors form a new model and, using 19 measures of firm growth, identify 7 different types of high growth firms.

This is interesting as they not only analyze which firms seem to outperform others, but they go further and actually identify the particular type of growth that is realized by these firms. Examples are "Acquisition Growers", who grow because they acquire another firm and "Super Absolute Growers" who show immense growth in terms of sales and employment.

Finally, a grand summary is given by Dahlgaard-Park and Dahlgaard (2006) where all models, from "7-S" to "4P" are described in depth. All these models make use of different measures and the authors denote the problem that there is no general consensus or even understanding of what the term 'excellence' means. Peter and Waterman's famous book from 1982 "In Search of Excellence" is also referred to. In this book, Peter and Waterman make a list of 'excellent' firms in the US, using their own idea of good measures for measuring excellence. Many companies on this list are now, 30 years later, on the Forbes 500 list, a list they weren't on when the book was published. This shows that although some of the literature (Maltz et al. 2003) claim that accounting measures do not tell us about the future of a company, this notion is quite clearly challenged by Peter and Waterman. It is a common phenomenon that out of a large group of people, there will always be someone that will correctly predict a certain event and consequently get the spotlight. Though this may be thought to be the case for Peter and Waterman's book, the fact that their book was already popular in the first four years following its release, disproves this phenomenon is applicable to "In Search of Excellence".

2.2 *List measures*

After analyzing the various measures used in the literature a few measures are exposed that seem to carry the greatest validity in assessing a company's SPI level. By looking at the best practices in measuring company success, as presented by the literature, a triad of financial measures and an overall sustainability factor has been chosen. By combining the most credible measures used, the full scope of the companies' activities can be analyzed and eventually ranked. The financial measures are Sales growth, Return on Assets and Profit Margin growth. These measures have been extensively studied, as shown in appendix 1. In this table one can see the number of papers that use the various measures.

Additionally, a measure for sustainability. These measures have been chosen due to the belief that they, together, capture SPI, what this paper bases the 'success' or 'excellence' level of the firms analyzed on, the best. Now, a description follows of what these measures actually measure, why they are relevant and what they tell us about SPI.

Firstly, Sales Growth will be used as a measure of SPI. Sales Growth measures the growth of a company as a whole and tells us about the increase in scope of activities of the firm. It is calculated by dividing the difference in total sales between the current and previous year by the sales of the previous year. This results in a value for Sales Growth, expressed as a percentage.

In order for a company to remain successful and become even more successful, it must keep growing. Not only because of obvious reasons such as inflation, but also to stay ahead of competing firms who are always trying to gain market share. As the focus is on searching for the next generation of top firms - from here on out

referred to as 'Next Gen' - the inclusion of this measure is vital to find these stand-out firms. Einstein's famous quote "life is like a bicycle, to keep your balance you must keep moving" pertains to companies as well. Failure to move, in this case grow, will result in a loss of balance - bankruptcy. If a company can be shown to consistently increase their sales, year upon year, especially in comparison to its rivals, it can be seen as a sustainable performance improving firm. The fact that various papers (Delmar et al. 2003; Negandhi and Reimann 1973; Ittner et al. 2003) include this measure in their analysis of company success further supports its inclusion in this model.

Maltz et al. (2003) used a questionnaire amongst managers and found that the majority - more than 50 percent – used Sales Growth as a measure of firm performance, as well as Profit Margin. Knirsch and Székely (2005) interview companies and look at the measures they use internally to measure performance. The authors analyze German companies such as Daimler Chrysler and Volkswagen and these companies also use sales to measure their performance level. This shows that academia as well as firm managers find this to be an important and informative measure.

Secondly, Return on Assets (ROA) will be used to measure the degree of SPI of firms. ROA is the measure of the operating efficiency of the total business. It shows, as a percentage, the amount of profit earned in terms of the total assets of the company. This is thus calculated by dividing profit by total assets. If a company has a high ROA, it is utilizing its assets efficiently and is able to make them profitable. Unused capacity, for instance, will lower the ROA as these assets are not adding value to the company. A consumer product company's assets form its backbone and without assets, these companies are non-existent. In terms of sustainability and thus SPI, ROA is a vital indicator of this aspect of the company. A healthy ROA leads to value, which in turn allows for added investments in assets, which, as they have a positive return, will allow for increased profits and growth. This cycle is characteristic of a sustainably improving firm and thus of the utmost importance in the model. A firm that does not efficiently utilize its assets and has a negative or small ROA will seize to grow (or even shrink) and get left behind. These companies will not be Next Gen. Essentially, ROA allows for a divide to be made between SPI companies and non-SPI companies, hence its inclusion in this analysis. The literature seems to concur with these arguments as it is a vastly used measure of organizational success (Dess and Robinson 1984; Ittner et al. 2003).

The last financial measure in this model is Profit Margin. This measure has great support from the abundant literature (Gupta & Govindarajan 1984; Peters & Waterman 1982; McDougall et al. 1994) and is most relevant to this model and thus SPI. The Profit Margin is a measure of company profit performance and efficiency. It shows the return on sales. It is derived by dividing the net income by the total sales. In the world of business, Profit Margin management is key. Being able to extract the maximum value out of the sale of a good is crucial to a firm's survival. This is reflected in Profit Margin as well as the ability of a company to keep the costs low. Producing efficiently and achieving a high mark-up or Profit Margin distinguishes the Next Gen from the pack and is of paramount importance in terms of achieving SPI and ultimately, business longevity. Logically, there is a strong correlation between profit and Profit Margin but the latter tells us more about a company's level of success and sustainability. Where profit is an absolute measure, it tells us very little about the company itself. A large company will naturally have larger absolute profits when compared to a smaller firm. This does not mean that the

large company is doing better. Using Profit Margin allows us to compare companies of varying sizes and shows us how successful they are in turning sales into added value and opportunities for growth. In this model, a company's Profit Margin is therefore far more interesting than absolute profit. It allows for freedom to (re)invest and is essential for sustainability. This makes it the third financial measure that has been chosen for this model.

Finally, the last measure included in this model incorporates the variance in the three financial measures. This is done to incorporate the sustainability aspect of SPI into the analysis and to justly formulate a ranking with top performers covering the upper part of this list. It is one thing for a company to, on average, financially outperform other companies on the aforementioned measures. It is another, to achieve this superiority in performance sustainably and thus steadily. A company that shows immense variance in its Sales Growth is seen as unstable and that one year's returns for this company will not say much about the next year's returns.

A study by Hnatkovska & Loayza (2003) shows that high volatility is negatively related to long term growth. As a result, in the model, companies with high variance in Sales Growth, ROA and Profit Margin are deemed less successful and are rated as lower performing companies when compared to more stable firms. Volatility shows that a company is still searching for definite successful methods and that it is not in a mature phase where it can overcome influences of harsh market conditions or influences such as luck. Being able to handle market shocks and retain the confidence and trust of customers is a key factor that distinguishes true performers from average companies.

2.3 *Methodology*

2.3.1 Introduction

Now that the four measures - Sales Growth, ROA, Profit Margin and Sustainability - have been explained, the exact procedure of composing the SPI company list will be illuminated, along with the arrival at a relative SPI ranking. Firstly, a formal list of criteria shields behind the emergence of the 100 selected companies. As it is impossible to compare a company such as Royal Dutch Shell to your local hamburger place, a selection is made of what types of companies will be compared along with which characteristics. This is why a specific sector is honed in on, namely, the consumer product market.

The data is collected using the company database "Orbis".

2.3.2 List Criteria

Under consumer products, the following sub-industries are included: Food, Beverage, Household & Personal Care, Tobacco and Retail. This includes business-to-consumer companies as well as business-to-business companies. In order to be able to make a valid comparison, whereby the companies are subject to the same corporate taxes, the companies must have their legal seat in the Netherlands.

As company size and phase of the business life cycle may affect the performance levels, a revenue range between 240 million and 6 billion euro's is chosen. This range serves to omit very small companies as they are too volatile, serve only a local market or have just started up. These companies cannot be compared to larger companies simply because there are too many variables that could influence the results. The range, in turn, also eliminates very large firms who are already possibly market leaders and simply too big to be considered up and coming Next Gen companies.

Of the remaining companies, the companies that only use the Netherlands as their fiscal headquarters, for favorable tax legislature reasons, are removed from the list. These companies, referred to as 'Mailbox businesses', do not perform any of their activities on Dutch soil and are not comparable to the other firms in the sample.

Companies for which there is no financial data available for the years 2003 through 2012 are also removed from the list in order to be able to run the model over a large amount of data and many consecutive years. This will allow the variance measure to adequately capture the long run sustainability of the companies. After all the filters have been run, a list of 100 companies is generated that will be analyzed.

2.3.3 Measures

After the list of 100 companies has been generated, the next step is to rank all of these companies in terms of their ability to sustainably improve their performance. Of the remaining firms, a clear divide is expected between the companies that are performing well in terms of SPI and those that are not. To make this divide, the companies will be assessed on their performance according to the four measures discussed over the past 9 years.

For all four measures, the companies are ranked according to how they perform on that particular measure and awarded points on this basis. Now, an explanation follows of how the ranking is generated per measure. To begin with, the financial measures will be explained, followed by the sustainability measure. Firstly, however, it is important to note that although the raw data is available for 10 consecutive years, to calculate Sales Growth for a particular year, input data from the preceding year is needed. This means that 10 years of data will result in values of Sales Growth for only 9 years.

Sales Growth

In order to calculate Sales Growth, as stated before, the data for total sales is required. To calculate the Sales Growth for a given year, the percentage change in relation to the previous year is taken. For 2012, the Sales Growth is calculated by subtracting the 2011 from 2012 values and dividing this by the 2011 value. This is done for the years 2004-2012. As the interest lies in how well the companies do in terms of their peers, an average Sales Growth is calculated per year. Subtracting this average from the Sales Growth of a certain company results in a value which we shall be called Excess Sales Growth. This is the degree to which a company has outperformed its peers in a given year. Essentially, Sales Growth is benchmarked on the industry average. Achieving a higher

Sales Growth than one's peers hints at the success of a company. This benchmarking aspect will return in the other measures to come. The value for Excess Sales Growth is calculated for all companies in each of the 9 years. To be able to rank the companies on their average performance over the 9 years, a cumulative excess Sales Growth value is derived by adding the yearly excess returns. The outcome is a single measurement value for Sales Growth per company, which are then sorted from largest to smallest. Consequently this results in a ranking where the best company, with rank 1, has achieved the greatest excess Sales Growth over the period 2004 through 2012. The rank serves to facilitate a point system, where the rank corresponds to the number of points awarded to the particular company. The fourth company in the ranking receives four points, number 15 receives 15 points and so on. This points system returns in each of the four measures. See appendix 3.1 for detailed calculations.

ROA

Besides the use of different inputs, the Return on Assets measure is calculated in a similar manner. Dividing net income by total assets returns a value for ROA for a particular year. As in the previous measure, the interest lies in how well the companies do relative to the rest of the firms, and so, an average ROA is calculated per year. Subtracting this average from the ROA of a certain company results in a value for excess ROA. These are again calculated for the years 2004-2012 and summed to acquire a cumulative excess ROA for each company. These are ranked and awarded points equal to their rank. See appendix 3.2 for detailed calculations.

Profit Margin

The last financial measure is calculated in a similar fashion. Profit margin is obtained by dividing net income by total sales. This is done for 2004 through 2012. After having calculated a yearly average, this average is subtracted from the particular companies' Profit Margin in that year. The result, again, is an excess Profit Margin which shows to what extent the company is outperforming the other companies as a whole. Adding the yearly excesses results in a cumulative excess Profit Margin which is subsequently the basis of the ranking for Profit Margin. Again, points are awarded equal to the particular rank number of the firm. See appendix 3.3 for detailed calculations.

Sustainability

Lastly, the measure of sustainability is calculated. For this measure, the inputs are the 2004 to 2012 values of Sales Growth, ROA and Profit Margin. The assumption underlying this measure is that if a company is sustainable, it performs consistently on the performance measures year after year. As a result, variance is used for this measure. For each measure – Sales Growth, ROA and Profit Margin – the company obtains a rank on the basis of the variance of the performance measure. This way, the overall sustainability of the company can be calculated and used to base the ranking of SPI on. The lower the variance, the higher the company is ranked. The point

awardance is, like the three other measures, equal to the rank number. The cumulative aspect enters the equation here by adding up the sustainability ranks for each of the three measures. These are consequently ranked from smallest to largest and ranked again from 1 to 100. This is then the Sustainability ranking. See appendix 3.4 for detailed calculations.

Overall SPI Ranking

Finally, all companies now have points awarded to them on the basis of four measures, namely: Sales Growth, ROA, Profit Margin and Sustainability. The points are then added up and the companies are sorted from lowest to highest in terms of total points. This results in the overall SPI ranking. See appendix 3.5 for a further explanation.

2.4 *The List*

The list (appendix 2) is led by Amsterdam Commodities N.V., a company that distributes spices, nuts, tea and food ingredients worldwide. At the bottom of the list, we find the Chiquita Banana Company B.V., known for their supplying of bananas. The top and bottom 10 is shown in figure 1.

Figure 1. Top and Bottom 10

SPI Ranking	
Top 10	**Bottom 10**
Amsterdam Commodities N.V.	Uniconsult Groep B.V.
ITX Merken B.V.	Citrosuco Europa B.V.
L'Oréal Nederland B.V.	Tate & Lyle Netherlands B.V.
Continental Fruit B.V.	Gamma Holding B.V.
Koninklijke De Heus B.V.	Teka B.V.
Vodafone Libertel B.V.	Amtrada Holding B.V.
Sligro Food Group N.V.	Ecoval Holding B.V.
Rijk Zwaan Holding B.V.	Alliance Boots B.V.
IKEA Nederland B.V.	Yamaha Motor Europe N.V.
Hilton Meats Zaandam B.V.	Chiquita Banana Company B.V.

The top 10 is considered to outperform the bottom 10 in terms of SPI. It must be noted that this does not mean the bottom 10 are necessarily poorly performing companies. They are simply the lowest performing companies, within this range, in terms of SPI. Of course, they do have many opportunities to, and they should, improve their business. This difference in performance between the top and bottom 10 allows for a benchmarking type of analysis to take place, which shall be illuminated later on in this paper.

In order to prove the validity and forecasting power of the list, the ranking for the years 2004-2008 have been used to predict the ranking of the years 2009-2012. This is done by using the same method used to create the list, but here the range is split into two even time periods. Running a regression with the 2004-2008 and

2009-2012 data as independent and dependent variables respectively, reveals the forecasting power of the list. A significant explanatory effect is found for the ranking from 2004-2008 on the ranking from 2009-2012. The formula for the regression is given below:

$$Ranking2009to2012 = 22.682 + 0.549\ Ranking2004to2008$$

This shows that for every 2 ranks ranked higher (lower) than another company in the 2004-2008 range, a company will, on average, rank about 1 rank higher (lower) compared to that same company in the 2009-2012 range (appendix 4.1). To clarify this with an example, imagine two companies. One company is ranked 50th in the years 2004-2008 and the other is ranked 52nd. According to the regression analysis, ceteris paribus, the former company will be ranked roughly one rank higher than the latter over the years 2009 through 2012.

The same was done in predicting the ranking for 2012, using the 2004-2011 data. Again, a significant relation was found: For every 2 ranks ranked higher (lower) than another company in the 2004-2011 range, a company will, on average, rank roughly 1 rank higher (lower) compared to that same company in 2012 (appendix 4.2). This leads to the assumption that the list has some explanatory validity and gives, at least, a good estimate of the relative ranking in terms of SPI.

What this analysis also shows, and thus confirms, is the so-called "regression towards the mean". This concept, coined by Galton (1886), is the phenomenon that those performers on the top and bottom of the spectrum will gravitate towards each other and thus towards a common mean. This effect is found in the fact that the independent variable in the regression is smaller than 1. As a result the low rankings (close to 100) get discounted relatively more than the high rankings (close to 1) and thus the companies in the list grow towards each other. As a result of this, we can conclude that companies that are able to stay near the top of the list, despite this statistical phenomenon, really are the most promising Next Gen companies. This strengthens the model.

2.4.1 Limitations

Of course this list and its composition fall prey to a few limitations. As the list contains all consumer product type companies, a major limitation is that not all companies are the same. Even within a sample of supermarket chains like Jumbo and Hoogvliet, both companies can vary considerably in terms of their structure and variables affecting their performance. One company might be affected more by certain shocks that do not influence another company. It is however assumed that, in general, the higher the performance on each of the four measures, the more sustainable and high performing a given company is. It is true that a banana company is more reliant on the weather than a clothing company and that this may have an effect on the financials in a given year. However, it is assumed that both companies' actions and strategies have a far greater effect on performance, dwarfing the external shocks. Nevertheless, the inability to correct for these shocks is a limitation in this research.

A further limitation is the varying ages of the listed companies. Companies have been known to show fluctuations in the way they grow. These different phases of a company's existence are not explicitly corrected for and may influence the results. On the other hand, these phases may be smoothened due to the fact that a period of 9 years is taken. Here the assumption is that the 9 years is a long enough period that traverses multiple phases, essentially averaging the SPI over this period and discounting high and low SPI years.
Another limitation stems from the companies in the list being active in various countries. This means that they are subject to different market shocks and currency value fluctuations could also affect revenues and profits. It is assumed however, that these has only a very small effect on the results that does not drastically change the order of the list.

Furthermore, it must be stressed that the list, as it is produced, is an estimation of best to worst firms according to the measure "Sustainable Performance Improvement". It is in no way assumed that a company that is ranked closer to the bottom of the list is a low performing company. What the ranking shows is simply a comparison of similar companies that are consequently ranked according to how well they did on a few measures in a given period of 9 years. There can be factors that are unaccounted for which could alter the results. The list has, however, been composed with the greatest possible accuracy and should give a good indication of which companies, specifically in the top 10, are clearly outperforming the average company.

3 Part B: List analysis

3.1 *Introduction*

After having composed a list that identifies the top performing firms and the lowest performing firms, several variables are analyzed that may potentially be responsible for the success of the Next Gen companies. In order for an analysis to take place, the approach used needs to be clarified. It is important to specify which companies will be analyzed, and how this will be done. The next section will clarify this procedure.

3.2 *Data gathering and Sample*

In this paper, the systems approach, as defined by Drazin and van de Ven (1985) is used to analyze the company data. In the systems approach, an ideal type is identified as a certain top percentage of the data. This ideal type is then compared to the rest of the data, or other "types" to find differences and effects. As in the abovementioned paper, in this analysis, the top 10 percent is used as the ideal type group, here on out referred to as "top 10". The systems approach is shown to produce precise results and is thus included in this paper.

Drazin and van de Ven (1985) show that the further the deviation – in terms of business practices - from the ideal type, the lower the expected performance will be. For this reason, the bottom 10 is used as a

comparison as this should result in the biggest deviation from the ideal type. An assumption is that the variables used for the upcoming analysis are too coarse to allow a comparison between the top 10 and the companies just underperforming this group. Extending the analysis to the opposite end of the list allows an effect, if present, to be found.

Additionally, forming a buffer of these 80 companies, allows us to remove noise and chance from the analysis. Logically, a small touch of luck or an unforeseen inaccurate data point can influence the position of a company by a few ranks. It will not however, accidentally result in misranking a bottom 10 company in the top 10. The use of the systems approach enhances the validity of the results and allows the use of a large buffer and warrants the use of a small amount of data.

Based on the forecasting power of the list, it is expected that the top 10 will continue to outperform the selected sample in the years to come. Insight is provided into what aspect of the business gives the top 10 their sustainable competitive advantage, and what they do differently than companies that perform worse, in this case the bottom 10.

Though the companies are all active in the consumer product market and are deemed to be similar, it is possible that certain products could have shown more sustainable growth over the data period. For this reason, it is essential to test the two groups on the basis of product category differences. If the concentration of a particular product group is higher in one of the groups, this could impact our results. In total, there are six similar product categories the companies are active. The product categories as defined by the Dutch Bureau of Statistics' (CBS) Standaard Bedrijfsindeling (SBI) are used. The concentrations however, are equal for the top and bottom 10. It is therefore concluded that there is no reason to believe there is a product category bias that should influence the results. For the overview of product categories see appendix 5.

The analysis in this study will be conducted by benchmarking the best practices of the Next Gen companies. Not only is it useful for the top 10 to know what they are doing right, thus enabling them to continue to focus on these practices, it is additionally valuable for the companies with lower SPI rankings to learn which improvements can be made. Benchmarking is a common practice used by numerous companies. Cassell et al. (2001) have studied benchmarking by means of a survey of 100 companies, concluding that "an overwhelmingly positive outcome from the survey is the perceived effectiveness of the benchmarking process". Dervitsiotis (2000) has identified a number of possible limitations to benchmarking, including changing trends and the fact that different companies are benchmarked: the fact that the strategy and structure of one company differ from another company may discount the potential use of a benchmarked measure.

Although it is acknowledged in this paper that benchmarking may not always result in identifying the best practices for all companies, it is generally regarded as the most effective tool for highlighting and comparing SPI differences amongst the firms in the list. The fact that the listed companies are all consumer product companies forms the basis of the assumption that the company dissimilarity limitation of benchmarking does not significantly discredit the use of benchmarking. Considering the changing trends limitation, it is once again assumed that this does not discredit the use of benchmarking, for in this case, the measures that are benchmarked are relatively universal and not prone to significant trending behavior.

3.2.1 Eliciting Benchmarking Factor use

The top 10 companies will be compared to the bottom 10 companies on the basis of several factors that are hypothesized to contribute to their difference in rankings. Kaplan and Norton (1992) created the balanced scorecard to provide an overview of four important aspects of the business that companies, in particular managers, can monitor. These four perspectives measures are drivers of firm success. They are: financial, internal business, customer and innovation & learning.

Similarly, Maltz et al. (2003) devise the dynamic multi-dimensional performance model where they define five performance dimensions: Financial Performance, Market/Customer, Process, People Development and Future. All factors that are able to enhance performance on these dimensions and perspectives, will add value to the firm and improve organizational success.

With these models in mind, a few factors can be translated into comparable data, to benchmark the performance of the top 10 on the bottom 10. These factors are: geographical presence, emerging market presence, social media coverage and average salary. These factors are all assumed to fall under, and effect, at least one of the dimensions and perspectives describe in turn affecting SPI. The following section will cover the existing literature on these factors and the development of four hypotheses.

3.3 *Literature Overview and Hypothesis building*

3.3.1 Geographical Presence

The first measure that is analyzed is the geographical presence of the companies, also referred to as the multinationality of the firm. Jung (1991) has identified a positive effect between multinationality and a firm's profits, positing that if a firm is present in many countries, it is likely to perform better than if it were established in one country only. The underlying rationale is that a company that enjoys a competitive advantage – in terms of productive knowledge – will strive to exploit this as broadly as possible. After having reaped the benefits in its local market, it may obtain added value in foreign markets. The addition of another market broadens the firm's scale, even scope, of activities; this, in turn, may open the door to economies of scale, subsequently resulting in further performance improvements. A company that is broad in its reach and present in a large number of markets is additionally able to better overcome shocks. As in the case of a diversified stock portfolio, distributing the risk – possibly in the form of loss of sales - over multiple countries results in a stable and sustainable cash flow stream. Markets in which a company does not perform well may be counterbalanced by exceptional presence in other markets.

A broadly based company is more capable of identifying the source of the least costly input of raw materials. Ceteris paribus, and under the assumption that the supply chain operations are well managed, this

could provide a company access to relatively cheap inputs when a less diversified competitor cannot. This would once more lead to a relatively stable and sustainable competitive advantage.

Kogut (1984) has highlighted the fact that globalization leads to a competitive advantage in terms of differences in resource endowments. This can range from cheaper labor to better technology. Kogut has additionally argued that the flexibility and bargaining strength of a multinational network and the ability to obtain economies of scale and scope are all benefits of being geographically spread across the globe. Kobrin (1991) has stated that the ability to spread overhead costs over a larger base gives multinationals an advantage over smaller, geographically confined competitors.

As described by Glaum & Oesterle (2007), countries differ in terms of economies, laws, cultures and politics. It is assumed that international companies have the opportunity to exploit the market imperfections that arise from these differences. Ascertaining a lack of quantitative research, Pangarkar (2008) conducted a study of 94 international companies based in Singapore. The author has found a significant positive effect between the degree of internationalization and firm performance. Zahra et al. (2000) have indicated that international diversity results in technological learning, which in turn has a positive effect on performance.

Geographical presence, as described by the literature, has a significant impact on sustainable performance. As such, it is assumed that the top 10 companies are more active from a geographical point of view. On the basis of the described literature, the first and following hypothesis is formalized:

Hypothesis 1: *Being geographically widely spread and active in various countries leads to greater sustainable performance improvement, which accounts for the difference in rankings of the top 10 and bottom 10 consumer product companies.*

A potential drawback of a geographically broad presence is that a company may lose its focus and risk the neglect of particular markets in which they are present. This may be attributable to the lack of clear organizational structure and organizational talent within the company. This type of diseconomies of scale may occur if the multinationality factor becomes too large. In this paper, however, it is assumed that these effects are outweighed by the positive effects described earlier. Nonetheless, it is valuable to acknowledge the counterarguments for multinational presence; in case the hypothesis is rejected, these could be potential reasons. Accounting for all these factors lies beyond the scope of this research, and the noise that may be associated with this measure is assumed to be small and insignificant.

3.3.2 Emerging markets

Another interesting factor that may play a significant role in clarifying the rankings of the top 10 and bottom 10 companies is a firm's emerging market presence. According to Rapoza (2011), emerging markets – the markets of developing countries – are the global drivers of growth. Emerging markets are expected to grow two to three times faster than the developed markets, and have thus been deemed a great investment opportunity. Forbes has

argued that the success of leading US companies is largely attributable to their growth in these non-US, developing markets. Hooke (2001) has also recognized the benefits of the emerging markets. He highlights that lower wages in developing countries and the lack of strict regulations pertaining to health, the environment and safety add to the appeal of firm expansion in these areas.

Due to the fact that the emerging markets are located in the developing countries, they often lack the products that are available in the Western world. This entails that any firm that enters the developing market, which is yet to be as saturated as the developed economies, will endure less competition and realize greater performance. This is beneficial for sustainable performance; the companies present in the emerging markets are able to benefit from an increased demand for Western goods. This growth is sustainable in that several of the emerging markets are in the same economic state as Western countries were 20 years ago; as such, the excessive growth is expected to endure for at least the next few years.

Companies present in emerging markets are regarded as frontrunners and are actively and successfully engaging in activities that will allow their businesses to expand considerably. Successful companies have the ability to take advantage of opportunities and are thus more inclined to venture into high reward economies. As such, it is expected that the top 10 companies are more actively present in developing countries. Concluding with the argument that emerging markets increase sustainable performance improvement, the following hypothesis is proposed:

Hypothesis 2*: Greater relative presence in emerging markets (countries) leads to greater sustainable performance improvement, which accounts for the difference in rankings of the top 10 and bottom 10 consumer product companies.*

The great volatility in emerging markets cannot be ignored. As in all economies, high reward is paired with high risk. It must be mentioned that it is not the annual growth that is of interest, but rather the long term growth. Emerging markets lag behind in their development in comparison to Western states. Although the road towards economic development is a volatile one, they are expected to "catch up" eventually. Thus, when considering the average annual growth up until the year in which the developing markets eventually reach economic activity levels comparable to those of developed nations, it is relatively high. Assuming that a company entering a developing market intends to operate in it for a significant period of time, the volatility argument against emerging markets is assumed to become negligible.

3.3.3 Social Media

A relatively new concept that affects the way in which companies communicate is Social Media. Companies can use websites such Facebook, Twitter and LinkedIn to efficiently communicate with their customer base. This can be either business to consumers or business to business. According to Kaplan & Haenlein (2010), "Social Media allow firms to engage in timely and direct end-consumer contact at relatively low cost and higher levels of

efficiency than can be achieved with more traditional communication tools." In effect, this lowers a firm's marketing expenses and effectively raises the margins. With enhanced efficiency of being able to reach more customers, Social Media increases exposure and should thus result in a greater household penetration. This, in turn, can be expected to raise sales, thereby making Social Media a useful tool to utilize.

Hennig-Thurau et al. (2004) stated that Social Media has introduced a new way for consumers to express their opinions about certain products, a concept referred to as electronic Word-of-Mouth (eWOM). With many consumers voicing their opinions over the internet, it is crucial for a company to be able to communicate back to these consumers and to provide them with any information they may have been lacking. Access to Social Media platforms additionally allows firms to better understand the positive and negative aspects of certain products – as voiced by consumers and businesses –, consequently enabling them to improve or focus on these certain aspects. A company that proactively uses this information and effectively turns Social Media into a tool can undeniably benefit from it.

According to a study by Hennig-Thurau & vor dem Esche (2013), social networks are changing consumer behavior. German consumers rely equally on information from TV advertisements as on information from Social Media channels. Improving on critical issues voiced by consumers and exploiting the exposure benefits of Social Media may lead to a firm achieving sustainable performance improvement. These assumptions have led to the construction of the following hypothesis:

Hypothesis 3*: Greater social media usage leads to greater sustainable performance improvement, which accounts for the difference in rankings of the top 10 and bottom 10 consumer product companies.*

3.3.4 Average Salary

Another aspect of interest is the focus a company places on the level of human capital within the company. Here, the focus on tenured employees is important, but, possibly more important is the ability to attract bright new recruits to ensure a positive inflow of human capital. It is known that human capital is a key input in the production function. Hitt et al. (2001) found that human capital has a positive effect on performance. Here, it is not only the amount of human capital but also the quality of human capital that affects production and consequently performance. In the same way that high quality materials are used in high quality products, high quality labor is employed in order to be able to achieve high performance. Of course many factors may affect performance and influence the effect between human capital and performance, but, ceteris paribus, performance should increase with higher levels of human capital, as described by Hitt et al. (2001).

In order to attract human capital, the firm needs a tool which it can use to achieve this objective. One important aspect of employment is the reward, a salary. When choosing an employer, there are a few considerations one must make. One important consideration is the salary one can expect to earn at a firm. It is often the reason one employer is preferred to another. In this sense, it seems pliable that companies can

differentiate themselves by setting a higher wage, resulting in the attraction of better candidates. Bo et al. (2013) confirm this notion in their paper in which they found that higher wages result in the attraction of a better candidate pool. Not only was the candidate pool larger for companies offering a relatively high salary, the average quality – in terms of IQ - of candidates was also greater than firms offering lower salaries. A different study, by Marinescu & Wolthoff (2012), found similar results. In this 2012 study, the high salary applicant pool was of greater average quality. Interestingly, the absolute size of this pool was smaller than the low salary pool. Nevertheless, the important take away of these studies are the fact that raising salaries will attract higher quality workers and thus higher levels of human capital. This notion is also supported by Montgomery (1991).

High salaries are also beneficial due to their effect on those employees already working for the firm. According to the efficiency wages theory, high wages result in high productivity and lower turnover rates. Retaining employees serves to lower the costs associated with high turnover, such as hiring costs and costs related to an employees' departure. Thaler (1989) has confirmed the idea that firms offer high wages to decrease turnover. A study by Hausknecht et al. (2009) found that, amongst the 25.000 responses to a survey, one of the foremost reasons of the respondents for staying at their current job, was the extrinsic rewards. In this case, the extrinsic rewards pertain to the salaries offered by the firm.

Being able to simultaneously attract and retain higher levels of human capital, with the help of higher wages, will offer a sustainable advantage to firms offering these efficiency wages. Not only will these firms be able to hire the best, they are also able to keep the best. As a result, they can perform better and be assumed to have greater sustainable performance improvement. Following this train of thought, we arrive at the fourth hypothesis, namely:

Hypothesis 4*: Higher salaries will lead to greater sustainable performance improvement, which accounts for the difference in rankings of the top 10 and bottom 10 consumer product companies.*

An obvious pitfall of higher wages, is that if salaries are set too high, the costs will outweigh the benefits. The SPI increase will be canceled out by the drop in SPI as a result of these added costs. In this analysis however, it is expected that the worth of the increase in human capital is greater than the rise in salary costs.

3.4 *Methodology*

For all hypotheses, the top 10 and the bottom 10 of the SPI list, constructed in the earlier part of this paper, are compared. In order to perform these analyses, we use the relevant data for all 20 of these companies and compare the two group averages. Here the values of the top 10 are compared to the values of the bottom 10 with an independent t-test. If the values differ significantly between the two groups, there is reason to believe that

there is an effect of the variable on a company's SPI level. Now, the specific methodology pertaining to each hypothesis follows.

Geographical presence

In order to capture the effect of geographical presence on SPI, data is needed on a company's presence over the globe. The values assigned to each firm are based on the number of countries they are active in, as of July 2014, as stated by the company itself. Note that this measure does not require a firm to be headquartered in a country for it to be counted. The key criteria here is that the company itself states it has presence in a country, thereby declaring a focus on that market. Here, the number of countries a company is active in is revealed in either the most recent annual report, or their corporate website.

In the annual reports, some companies give information about the company's activities and the geographical scope of these activities. Sometimes subsidiaries are also mentioned. The countries these subsidiaries are present in are also counted as it is part of the company's geographic reach. In a few cases, the annual report simply states the company is only active in a single market. As companies present their annual reports at varying times, it is impossible to use data from the exact same time period. The most recent annual reports were used, which results in a maximum time difference between the earliest annual report and the last annual report of a few months. This is assumed not to influence the results as a firm will not drastically change its geographical presence in this time.

If the annual report does not clearly contain the geographic presence data, the corporate website is used to retrieve this data. Generally, most of the companies have an "about us" tab on their website. The information given usually has an introductory paragraph with the company's founding date, along with the (number of) countries the company is active in. In some cases this information is found elsewhere on the site. All websites were checked on the same day, and in the same year as the annual reports. This again means there is assumed to be no difference in the data as a result of inconsistent measurement. For all companies, the data was successfully found.

Emerging Markets

Emerging market presence is measured in a similar way to geographical presence. It involves looking at the company websites and annual reports for the data with the main criteria being that the company itself states which countries it is present in. One prerequisite however, is that emerging markets need to be identified. For this, the Financial Times Stock Exchange (FTSE) emerging market list is used. These are 23 markets that the FTSE identify as the fastest growing markets globally. Consequently, the number of markets the companies are present in, out of a possible 23, is the key value used for this variable. The list of emerging markets of 2014 was used.

Emerging market presence is a very difficult measure to analyze. To make a fair comparison between geographically spread and less geographically spread companies, a relative measure needs to be used. Logically,

a company which is present in many countries will be more likely to be present in an emerging market than a company focused on only one country. This would mean that if there is an effect between geographical presence and SPI, it will have an influence on the effect between emerging market presence and SPI. As a result, the number of emerging markets the particular company is present in is divided by the total geographical presence of the company, as used in the first hypothesis. This will result in the proportion of countries that are emerging. Consequently, a greater proportion of countries that are emerging will be used to elicit a greater degree of emerging market presence. However, as one can see, relativizing this measure does not fully remove the influence of geographical presence, as it is used as the denominator of this function. Still, given the available data, it is seen as the best way to measure the effect of emerging markets on SPI.

Social Media

For social media presence, it is important to first define said variable. Social media, as defined by the Merriam-Webster online dictionary, are "forms of electronic communication (as Web sites for social networking and microblogging) through which users create online communities to share information, ideas, personal messages, and other content (as videos)". As such, three social media platforms have been chosen: Facebook, LinkedIn and Twitter. These are deemed the most used social media platforms according to the Dutch statistics institution called the "Centraal Bureau voor de Statistiek" (CBS). According to a 2012 CBS study (Pronk & de Groot 2012), 35% of companies had at least one account on Facebook and Linkedin and 21% had at least one account on Twitter. All other social media forms had lower usage than these three platforms.

The way social media presence is measured, the firms receive one point for each website they are present on. This means a possible maximum of 3 and a minimum of 0 points may be achieved. This data has been found directly on the social media sites by searching for the particular company. Some companies in the list function as holding companies and have subsidiaries which are responsible for the majority of the revenues. It is therefore possible that the subsidiaries are present on social media sites and the parent/holding company is not. If this is the case, a score of 1 is given for each social media site if the majority of the subsidiaries have an account. This is done, as a majority social media presence in subsidiaries results in a majority presence in the parent/holding company. The data portrays the social media presence as of July 2014.

Average Salary

In measuring average salary, the total salary costs of the firm are divided by the total number of employees. This data is presented in all annual reports, dedicating a special section to employee costs. The values used are purely the actual salary costs and hence does not include social costs, pension costs or any other costs that may be associated with employee compensation. Dividing this by the number of FTE's, also stated in the annual reports,

results in a rough measure of the average salary an employee is offered. The annual reports of 2011 were used to extract the data needed for this measure.

One important note is that the data that is used for the five measures, is taken at a singular point in time. Here, the analysis is done on the basis of two assumptions.

Firstly, the SPI list, as formed in the first part of this paper, is assumed to possess forecasting power. As a result, the companies are assumed to be similarly ranked, or at least a considerable gap is still expected to be present between the current (2014) top and bottom 10. Concretely, the top 10 firms in the list are assumed to still outperform the bottom 10 in the years for which the data is collected.

The second assumption is that, even if the SPI list were to lack forecasting power, the companies would not have had enough time to fully expand the business, lower costs or improve on any of the other abovementioned measures. This, in turn, makes it feasible that the use of data from 2014 and especially 2012 can realistically be used to find the effects of these measures.

3.5 *Results*

This section contains the results of the t-tests comparing the means of the top and bottom 10 on the basis of the four variables. Each of the four hypotheses were tested, and the results are presented below.

3.5.1 Geographical Presence

The first hypothesis was tested by comparing the mean number of countries the top 10 and bottom 10 were active in. Table 1.1 shows the outcome of the independent t-test for comparing means.

Table 1.1. Geographical Presence of top and bottom 10

Geographical Presence (# of countries)		
t-Test: Two-Sample Assuming Unequal Variances		
	Top 10	*Bottom 10*
Mean	48,4	18,7
Variance	2894,933	237,7889
Observations	10	10
Hypothesized Mean Difference	0	
df	10	
t Stat	1,678014	
P(T<=t) one-tail	0,062136	
t Critical one-tail	1,812461	

The highest geographical presence in the top 10 was found to be 130 and the lowest was one. For the bottom 10, the highest value was 43 and the lowest was one.

As can be seen, the mean geographical presence for the top 10 is larger than the bottom 10, with values of roughly 48 and 19 respectively. The t-statistic reveals that this difference is significant with a 90% confidence level. This result is in line with hypothesis 1, showing that the Next Gen companies are present in more countries than the bottom 10.

3.5.2 Emerging Markets

The next hypothesis was tested by calculating the relative emerging market presence by dividing the number of emerging markets the company is active in by the total number of countries. The comparison between the top and bottom 10 is made in table 1.2 below. The largest emerging market presence in the top 10 is 24%, and 56% in the bottom 10. The lowest presence in both groups is 0%. Where the top 10 averages at 8% emerging market presence, the bottom 10 averages at around 24%. As confirmed by the t-statistic, this difference is significant at a 90% confidence level, identifying the bottom 10 as being relatively more present in emerging markets. This not only disproves the second hypothesis that states that greater presence in emerging markets leads to higher SPI levels, it proves the opposite effect. This interesting result is discussed further in the discussion section of this paper.

Table 1.2. Emerging Market Presence of top and bottom 10

Emerging Market Presence		
t-Test: Two-Sample Assuming Unequal Variances		
	Top 10	*Bottom 10*
Mean	0,0803003	0,240705
Variance	0,0094931	0,044798
Observations	10	10
Hypothesized Mean Difference	0	
df	13	
t Stat	-2,176976	
P(T<=t) one-tail	0,0242516	
t Critical one-tail	1,7709334	

3.5.3 Social Media

For this possible explanatory variable for Next Gen success, the presence in three social media forms is used. With a maximum of 3 and a minimum of 0, Table 1.3 displays the resulting presence for each of the two groups.

With an average presence on 2,7 social media sites compared to 1,9 for the bottom 10, the top 10 seems to be more active in this form of communication. The t-test confirms this difference to be significant. Hereby, hypothesis 3 is confirmed, showing that greater social media usage results in a greater SPI level.

Table 1.3. Social Media Presence of top and bottom 10

Social Media Presence		
t-Test: Two-Sample Assuming Unequal Variances		
	Top 10	*Bottom 10*
Mean	2,7	1,9
Variance	0,455556	0,988889
Observations	10	10
Hypothesized Mean Difference	0	
df	16	
t Stat	2,104939	
P(T<=t) one-tail	0,025726	
t Critical one-tail	1,745884	

3.5.4 Average Salary

The final hypothesis is tested by taking the total salary costs and dividing these by the total number of FTE's.

Table 1.4. Average Salary of top and bottom 10

Average Salary		
t-Test: Two-Sample Assuming Unequal Variances		
2011	*Top 10*	*Bottom 10*
Mean	44556,192	44478,852
Variance	308351713	376163796
Observations	10	10
Hypothesized Mean Difference	0	
df	18	
t Stat	0,0093479	
P(T<=t) one-tail	0,4963222	
t Critical one-tail	1,7340636	

These average salary costs are then compared between the two groups. As can be seen in table 1.4, the average salary costs for the top 10 and the bottom 10 do not differ significantly, with values of roughly 44600 and 44500 respectively. This is shown by the p-value of 0,5 associated with the completed t-test. These results disprove hypothesis 4, which claimed that the greater the average salary, the greater the SPI level.

4 Conclusion

In this paper the next generation of top consumer product companies is identified and the characteristics which enable them to achieve above average levels of sustainable performance improvement. Using public data found in annual reports, a four dimensional model is built to rank a set of 100 consumer product companies in a list referred to as the Sustainable Performance Improvement List. The tetrad of measures used to rank said firms are Profit Margin, Sales Growth, Return on Assets and Sustainability.

After the SPI list is formed, an analysis is performed whereby four variables - geographical presence, emerging market presence, social media activity and average salary - are tested for their explanatory value in why companies have varying SPI levels. This is done by comparing the top 10, identified as Next Gen, and the bottom 10 firms. By using the Next Gen companies to benchmark the bottom 10, a number of interesting results are found.

A firm that is geographically widely spread and active in many countries, like the majority of the Next Gen firms, will, in general, realize higher SPI levels. This stems from their ability to spread their risk, as one would with a stock portfolio. Markets that are underperforming are compensated by markets that are performing relatively well. Shocks felt in one market will be smoothened by other markets. This in contrast to a firm operating solely in one country, where the effect of a market shock is more severe. Not only does internationality ensure performance improvement, but it also ensures a sustainable performance improvement, the essence of this research. This is confirmed by the lower average variance for the top 10, as captured by the sustainability measure, when compared to the bottom 10.

Interestingly, greater relative presence in emerging markets leads to a lower SPI level. This is in disagreement with the presented literature and the formulated hypothesis. It is quite possible that this is a direct result of the extreme growth rates found in these markets. High returns are often paired with high risk and thus volatility. If a larger percentage of a company's sales stem from these volatile markets, it can be argued that this may result in varying levels of growth, and thus a low level of SPI. Low scores on the performance measures also seems to indicate the growth in these emerging markets may not be as high as the current literature seems to indicate. Alternatively, it may be that the distribution of social classes differs vastly from that of developed countries. Consumer products, compared to basic goods, may not be the top priority in these markets where there is a larger lower class, when compared to developed countries. Further research that dives deeply into growth rates of these specific markets could result in an analysis which turns these speculations into accurate findings.

Another variable of importance is social media and the extremity of its use within consumer product companies. For this sales and marketing tool, the larger the social media usage, the greater the SPI level. Of the top 10, only two firms do not employ all of the three social media sites, Facebook, Twitter and LinkedIn. The bottom 10 show far lower usage as no less than five firms utilize only one of these websites. Next Gen companies are exploiting this new form of customer relations and seem to extract value from serving customers via these platforms. Companies with lower levels of SPI are either unaware of these opportunities, undervaluing them or they are simply lax. The results provide interesting insights into the inattentive nature of low SPI companies.

Where the usage of these websites are free, the time spent on these platforms and serving customers and businesses online is not. Insight into these expenditures on social media would be valuable and would allow a more detailed analysis to take place.

The final variable analyzed in this paper seems to have no effect on the level of SPI. Where the literature shows that raising salaries will lead to the attraction of individuals with a higher IQ, higher salaries will not lead to a greater level of SPI. It could be that firms use other methods to attract high IQ individuals. Further research that uses more specific data could provide enlightening insights into the hiring process of firms and thereby decipher a difference between Next Gen firms and their lower performing peers.

Through this research it has become clear that Next Gen firms are characteristically different to low SPI firms. It is clearly not only important what the Next Gen does, but also how they do it. Though they are generally spread very wide across the globe, they make sure not to place too much of their operations in emerging markets as the volatile markets negatively affect their SPI levels. Exploiting the use of all available tools to extract value, results in the Next Gen's utilizing social media to further enhance the communication with customers and businesses. Though it remains speculative and further research needs to provide the decisive answer, it appears that Next Gen companies find ways other than offering above market wages to attract and retain human capital.

5 Discussion and Further Research

One of the main limitations of this paper is the data that was used. Though the formulation of the SPI List is was not limited, the use of public data seriously limits the analysis that is done in part B of this paper.

With one of the four hypotheses not confirmed, and one of the hypotheses proving to show an opposite effect, it is important to identify the source of these discrepancies. For each of the four variables, a short discussion is held on the hypotheses, the effects and possible limitations in the method used.

5.1 *Geographical Presence*

With strong indications that a larger geographical presence has a positive influence on SPI, Next Gen firms are clearly exploiting this more than firms with lower SPI levels. It is important to acknowledge that there is, within this study, no definite way to distinguish the causal flow. Causality could therefore be a problem here. It is assumed that businesses perform well due, in part, to their geographical spread. On the other hand, it is acknowledge that it could be possible that successful, high SPI firms are simply able to internationalize where lower performing firms are not.

A possible future study could include the use of time series analysis which would be able to test the direct effect of spreading the business activities to other firms. Where this study is limited to a static view, directly measuring the effect of entering a market on the SPI level could be valuable.

Out of the scope of this study was also the measurement of how well certain companies adapt their product to new tastes and preferences found in other markets. In combination with geographical spread, a higher ability to adapt may also be characteristic of the Next Gen. Future empirical research would have to reveal this effect.

Given these limitations, the significant effect found is still undeniable. Although this paper does not allow the exact value driver within internationalization to be pinpointed, the take away that greater geographical presence adds to sustainable performance improvement is valid.

5.2 *Emerging markets*

Arguably the most notable finding is that emerging market presence seems to lower SPI. As with the abovementioned variable, it is difficult to infer the causal flow. It could be that companies with low a SPI level try to boost their performance by entering these emerging markets, rather than these markets negatively affecting their SPI. Again, with the help of time series analysis and a broader dataset measuring expansion, this exact effect can be found, and more can be said on the causality issue. It is possible that emerging markets are entered as a last resort, with hopes of extracting value from these markets. However, this scenario seems unfeasible as the necessary investments have to be made to realize this entrance, something struggling firms would not likely be able to do.

A limitation is the method used to analyze this variable. Already mentioned in the methodology section of this paper is the fact that a relative measure was used, which still inhibited effects of geographical presence. As has now been shown, geographical presence does indeed have an effect on SPI, and thereby may have a small influence on emerging market presence, given its inclusion in the calculation. The absolute method, not seen as a viable option, and the relative method are the only two possible methods, given the available data. Within these limitations, the relative method was presumed to carry the most validity.

What the results show is that, although growth rates in emerging markets are high, it is hard to capture this growth and extract value from it. This research is limited to simply knowing the proportion of emerging markets entered. It does not tell us if emerging markets indeed add more value to the firm than other markets. It could also be that there is a maximum proportion of emerging markets a company should enter. This is hinted at by the fact that, for the top 10, there is a smaller variance. This could mean top firms all hover around a certain, possibly optimal, proportion of emerging market presence. It may be beneficial to add a few emerging markets to the global "portfolio", but too much may result in diminishing returns. Further research could provide valuable insights in this matter. Looking into the exact value extracted from emerging markets may reveal more about the true effect that these markets have on firms. This could be done by future researchers with access to information on the exact revenue generated per country, thereby being able to compare developed and developing economies.

For this variable, a set of emerging markets was selected according to the FTSE emerging market index as per 2014. This is a limitation of this study as, though unlikely, countries in this list may not have been emerging markets in the years before 2014. Unfortunately, this data was not available.

5.3 *Social Media*

Social media coverage is shown to have a positive effect on SPI. The confirmation of this hypothesis shows consumer product companies benefit from this form of exposure. A limitation of this study however, is that the intensity of use cannot be measured. Since no distinction is made on the activity level on a specific social media site, only a very global analysis can be made. Clearly this does not have grave consequences however, as for most of the bottom 10, there is at least one social media website that is not used. Were the top and bottom 10 to be very similar in terms of social media activity, or basically social media presence, then this may have been an issue. There appears to be no problem with causality, as using social media is very cheap and would therefore not limit lower performing firms to use it. The top 10 therefore do not use social media due to their high SPI, but have a higher SPI, partly due to social media.

An important note is that, although social media seems to contribute to a higher SPI level, the value of increasing social media coverage is unknown. Although one can speculate from the results in this paper that increasing investments in social media would raise SPI levels, this cannot be proven without doing further research. This could be an interesting extension.

5.4 *Average Salary*

The final variable is average salary, for which no significantly different values were found between the Next Gen and bottom 10. Though the hypothesis that the Next Gen would offer a higher salary than bottom 10 firms is not confirmed, there are few limitations pertaining to the method of analysis of this variable. The data, though cross-sectional, was as precise as is possible for this variable; it does not consist of smaller components. This means that one can conclude that on the basis of average salary, the results are accurate.

To make sure the financial crisis of 2008 did not affect the difference in salaries between the top and bottom 10, an analysis of the average salaries for the year 2007 was also done. The results (appendix 6) show there is no significant difference between the average salaries of the top and bottom 10 in 2007.

The only alternative way to prove a possible effect would be to perform a field experiment. In this experiment, a company would raise their average salaries and the effect on their SPI would be observed over time. By analyzing various companies, this is more or less what is done in this paper. For this reason, not performing a field experiment is not seen as a major limitation, though it may be an interesting extension of this paper.

A more relevant extension of this paper would be to explore what other ways a firm can, and does, increase the level of human capital. An analysis into the investments into training programs may reveal a difference in approach between the Next Gen and the bottom 10.

6 Appendix

1. Literature Overview of measures

Sales Growth	13	Maltz et al. (2003)	Delmar et al. (2003)	Dunne & Hughes (1996)	…
Return on Assets	9	Ketchen et al. (1993)	Zahra (1996)	Stimpert and Duhaime (1997)	…
Profit Margin	6	Gupta & Govindarajan (1984)	Maltz et al. (2003)	Black et al (1998)	…
Profit Growth	6	Bausman (2008)	Bloom and van Reenen (2007)	Child (1974)	…
EVA	6	Johnson & Soenen (2003)	Chen and Dodd (1997)	Ittner et al. (1998)	…
Revenue	5	Miller and Friesen (1983)	Maltz et al. (2003)	Ittner et al. (2003)	…
Return on Equity	3	Peters & Waterman (1982)	Miller and Friesen (1983)	Kaplan & Norton (1992)	
Return on Invested Capital	2	Koller et al. (2010)	Damodaran (2007)		
Cash Flow	2	Gupta & Govindarajan (1984)	Kaplan & Norton (1992)		
Operating Profits	2	Gupta & Govindarajan (1984)	Kaplan & Norton (1992)		
Number of Employees	2	Delmar et al. (2003)	Ardishvili et al. (1998)		
Market to Book Value Ratio	1	Peters & Waterman (1982)			
Equity Growth	1	Peters & Waterman (1982)			
Asset Growth	1	Peters & Waterman (1982)			
Return on Total Capital	1	Peters & Waterman (1982)			
Return on Investments	1	Gupta & Govindarajan (1984)			
Net Income	1	Miller (1988)			
Sharpe Ratio	1	Johnson & Soenen (2003)			
Jensen's Alpha	1	Johnson & Soenen (2003)			
Market Share	1	Kaplan & Norton (1992)			
WACC	1	Black et al (1998)			
Cash Flow Return on Investment	1	Ittner et al. (1998)			

2. SPI List

RANK	Company name	Measure: Sales Growth	Measure: ROA	Measure: Profit Margin	Measure: Sustainability	TOTAL
1	Amsterdam Commodities N.V.	2	13	22	54	91
2	ITX Merken B.V.	7	1	1	88	97
3	L'Oréal Nederland B.V.	5	2	6	91	104
4	Continental Fruit B.V.	31	21	11	43	106
5	Koninklijke De Heus B.V.	4	11	39	53	107
6	Vodafone Libertel B.V.	77	10	5	17	109
7	Sligro Food Group N.V.	41	26	38	5	110
7	Rijk Zwaan Holding B.V.	38	12	8	52	110
9	IKEA Nederland B.V.	17	14	17	63	111
9	Hilton Meats Zaandam B.V.	19	23	50	19	111
11	ASICS Europe B.V.	21	7	7	77	112
12	Beter Bed Holding N.V.	52	4	18	43	117
12	Van Dijk Educatie Beheer B.V.	8	5	10	94	117
14	The Sting B.V.	34	6	15	63	118
15	TOZA B.V.	50	20	34	16	120
16	Hoogvliet Super B.V.	53	18	48	4	123
16	Koninklijke Zeelandia Groep B.V.	47	38	29	9	123
18	Dutch Flower Group B.V.	28	19	62	20	129
18	Beheer- en Beleggingsmaatschappij Zandbergen B.V.	51	28	36	14	129
20	Qiagen N.V.	15	58	9	48	130
21	Blokker Holding B.V.	80	9	20	22	131
22	Genzyme Europe B.V.	11	36	19	74	140
22	Poiesz Beheer B.V.	55	41	41	3	140
22	Teeuwissen Holding B.V.	6	30	33	71	140
25	H2 Trading B.V.	39	37	40	26	142
26	Astellas B.V.	9	35	13	93	150
26	Meat Import Zandbergen Brothers B.V.	12	25	53	60	150
28	Perfetti Van Melle Nederland Holding B.V.	59	17	16	66	158
29	Coöperatie Koninklijke Cosun U.A.	64	46	24	27	161
30	Zeeman Groep B.V.	66	16	35	45	162
31	Rootry B.V.	29	49	56	36	170
32	Rothmans Far East B.V.	70	3	4	94	171
33	Jumbo Groep Holding B.V.	1	33	63	76	173
34	H.L. Barentz B.V.	26	45	58	46	175
35	Mars Nederland B.V.	65	40	12	62	179
36	Terberg Group B.V.	27	74	45	34	180
37	British American Tobacco Exports B.V.	40	15	26	100	181
38	Denkavit Internationaal B.V.	60	32	42	48	182
39	Van Drie Holding B.V.	22	43	52	66	183
40	Starbucks Manufacturing EMEA B.V.	3	77	72	32	184
41	Bacardi-Martini B.V.	46	73	49	18	186
41	Bavaria N.V.	63	56	30	37	186
43	Athlon Car Lease International B.V.	37	81	32	37	187
44	Metro Distributie Nederland B.V.	92	50	44	2	188
45	Coca-Cola Enterprises Nederland B.V.	71	24	21	73	189
46	Toshiba Medical Systems Europe B.V.	42	63	54	31	190
47	Interfood Holding B.V.	24	61	80	29	194
48	Merck Sharp & Dohme B.V.	90	22	2	83	197
48	Nestlé Nederland B.V.	95	8	14	80	197
50	Eastman Chemical B.V.	14	62	23	99	198
50	Vleesgroothandel gebrs. Zandbergen B.V.	49	60	74	15	198
52	HAVI Logistics B.V.	33	69	90	7	199
53	Nutreco N.V.	58	27	28	89	202
53	Compaxo Groep B.V.	54	57	71	20	202
55	Interface Europe B.V.	72	31	25	78	206
56	Coop Nederland U.A.	56	70	75	6	207
56	B.V. Beheer Jan Linders Supermarkten	69	39	59	40	207
58	Nike European Operations Netherlands B.V.	67	34	43	66	210
59	Nikon Europe B.V.	16	64	83	50	213

59	**Bausch & Lomb B.V.**	96	29	3	85	213
61	**Interfood B.V.**	36	47	77	56	216
62	**Continental Bakeries B.V.**	32	65	55	65	217
63	**Abbott Holdings B.V.**	23	88	65	42	218
63	**Farm Frites Beheer B.V.**	57	55	47	59	218
65	**Sperwer Holding B.V.**	68	68	78	7	221
66	**ACI Adam B.V.**	10	86	96	30	222
67	**Frankort & Koning B.V.**	62	53	81	28	224
68	**Forbo NL Holding B.V.**	78	59	31	61	229
69	**Vergeer Holding B.V.**	43	76	76	35	230
70	**Foot Locker Europe B.V.**	83	42	37	69	231
71	**Mediq B.V.**	74	52	51	55	232
71	**Aviko Holding B.V.**	30	87	82	33	232
73	**Meatpoint B.V.**	85	67	57	24	233
74	**Eurospecialities Foods B.V.**	82	78	64	10	234
75	**Addasta Holding B.V.**	20	85	88	47	240
76	**Eagleville Group B.V.**	75	82	60	24	241
77	**Intergamma B.V.**	87	66	89	1	243
78	**Paridaans en Liebregts B.V.**	35	79	93	37	244
79	**Theobroma B.V.**	61	54	73	58	246
80	**De Hoop Terneuzen B.V.**	86	72	68	22	248
81	**Macintosh Retail Group N.V.**	76	44	46	90	256
82	**Boston Scientific International B.V.**	13	80	70	97	260
82	**Th. Vergeer en Zonen B.V.**	44	89	87	40	260
84	**Markeur Houdster B.V.**	73	90	86	12	261
85	**Continental Juice B.V.**	18	75	79	92	264
86	**Mattel Europa B.V.**	79	71	66	51	267
86	**Coöperatie Coforta U.A.**	89	83	84	11	267
88	**Corbion N.V.**	100	48	27	94	269
89	**Koninklijke Distilleerderij M. Dirkzwager B.V.**	91	93	85	13	282
90	**Drents Overijsselse Coöperatie Kaas B.A.**	45	92	92	56	285
91	**Uniconsult Groep B.V.**	99	51	67	69	286
92	**Citrosuco Europa B.V.**	48	94	61	86	289
93	**Tate & Lyle Netherlands B.V.**	25	100	100	98	323
94	**Gamma Holding B.V.**	94	84	69	80	327
95	**Teka B.V.**	88	95	91	75	349
96	**Amtrada Holding B.V.**	93	96	95	72	356
97	**Ecoval Holding B.V.**	81	97	97	82	357
98	**Alliance Boots B.V.**	84	98	98	79	359
99	**Yamaha Motor Europe N.V.**	97	91	94	84	366
100	**Chiquita Banana Company B.V.**	98	99	99	87	383

3.1. Performance Measure Calculations: Sales Growth

Sales Growth

n = Company; i = Year

Step 1:

The Sales Growth is calculated per year for the years 2004-2012 for all companies:

$$Sales\ Growth_{n,i} = \frac{(Total\ Sales_{n,i} - Total\ Sales_{n,i-1})}{Total\ Sales_{n,i-1}}$$

Step 2:

The average Sales Growth is calculated per year for the years 2004-2012:

$$Average\ Sales\ Growth_i = \frac{\sum_{n=1}^{n=100} Sales\ Growth_{n,i}}{100}$$

Step 3:

The Excess Sales Growth is calculated to provide a view of a company's performance relative to the market average, per year, for the years 2004-2012:

$$Excess\ Sales\ Growth_{n,\,i} = Sales\ Growth\ _{n,i} - Average\ Sales\ Growth_i$$

Step 4:

The Excess Sales Growth is cumulated for the years 2004-2012 to acquire Cumulative Excess Sales Growth per company:

$$Cumulative\ Excess\ Sales\ Growth_n = \sum_{i=1}^{i=9} Excess\ Sales\ Growth_{n,i}$$

Step 5:

The companies are ranked from largest to smallest Cumulative Excess Sales Growth. This rank will be used later on to rank the companies in terms of overall Sustainable Performance Improvement.

3.2. Performance Measure Calculations: ROA

Return on assets (ROA)

n = Company; i = Year

Step 1:

The ROA is calculated per year for the years 2004-2012 for all companies:

$$ROA_{n,i} = \frac{Total\ Operating\ Profit_{n,i}}{Total\ Assets_{n,i}}$$

Step 2:

The average ROA is calculated per year for the years 2004-2012:

$$Average\ ROA_i = \frac{\sum_{n=1}^{n=100} ROA_{n,i}}{100}$$

Step 3:

The Excess ROA is calculated to provide a view of a company's performance relative to the market average, per year, for the years 2004-2012:

$$Excess\ ROA_{n,i} = ROA_{n,i} - Average\ ROA_i$$

Step 4:

The Excess ROA is cumulated for the years 2004-2012 to acquire Cumulative Excess ROA per company:

$$Cumulative\ Excess\ ROA_n = \sum_{i=1}^{i=9} Excess\ ROA_{n,i}$$

Step 5:

The companies are ranked from largest to smallest Cumulative Excess ROA. This rank will be used later on to rank the companies in terms of overall Sustainable Performance Improvement.

3.3. Performance Measure Calculations: Profit Margin

Profit margin

n = Company; i = Year

Step 1:

The Profit Margin is calculated per year for the years 2004-2012 for all companies:

$$Profit\ Margin_{n,i} = \frac{Total\ Operating\ Profit_{n,i}}{Total\ Sales_{n,i}}$$

Step 2:

The average Profit Margin is calculated per year for the years 2004-2012:

$$Average\ Profit\ Margin_{i} = \frac{\sum_{n=1}^{n=100} Profit\ Margin_{n,i}}{100}$$

Step 3:

The Excess Profit Margin is calculated to provide a view of a company's performance relative to the market average, per year, for the years 2004-2012:

$$Excess\ Profit\ Margin_{n,\,i} = Profit\ Margin\ _{n,i} - Average\ Profit\ Margin_{i}$$

Step 4:

The Excess Profit Margin is cumulated for the years 2004-2012 to acquire Cumulative Excess Profit Margin per company:

$$Cumulative\ Excess\ Profit\ Margin_{n} = \sum_{i=1}^{i=9} Excess\ Profit\ Margin_{n,i}$$

Step 5:

The companies are ranked - from 1 to 100 - from largest to smallest on the basis of Cumulative Excess Profit Margin w. This rank will be used later on to rank the companies in terms of overall Sustainable Performance Improvement.

3.4. Performance Measure Calculations: Sustainability

Sustainability

n = Company; i = Year

Step 1:
The variance of each performance measure is calculated for each company for the yearly data from 2004-2012.

$$Variance_{Sales\ Growth,\ n}$$

$$Variance_{ROA,\ n}$$

$$Variance_{Profit\ Margin,\ n}$$

Step 2:

The companies are ranked from smallest to largest on the basis of Variance. This is done for each performance measure resulting in 3 rankings: one for Sales Growth Sustainability, one for ROA Sustainability and one for Profit Margin sustainability.

Step 3:

Now, the rankings act as a point system, where the rank is equal to the number of points awarded to a company on a specific measure. This means each company acquires 3 scores. These scores are added together and again ranked from smallest to largest, resulting in an overall Sustainability ranking. This rank will be used later on to rank the companies in terms of overall Sustainable Performance Improvement.

3.5. Overall SPI Calculation

Overall SPI Calculation

Step 1:
Add all 4 measure rankings together to obtain a single value per company. Rank these values from smallest to largest and rank again from 1 to 100. Number 1 is identified as the best performing company in terms of Sustainable Performance Improvement and number 100, last, is considered the weakest.

4.1. 2009-2012 Forecast

SUMMARY OUTPUT								
Dependent variable: Ranking 2009-2012								
Regression Statistics								
Multiple R	0,530804551							
R Square	0,281753472							
Adjusted R Square	0,274424425							
Standard Error	24,75315031							
Observations	100							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	1	23554,98187	23554,98187	38,44340227	1,3404E-08			
Residual	98	60046,40813	612,7184503					
Total	99	83601,39						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	23,60637556	4,967504766	4,752159619	6,90011E-06	13,74852402	33,46422709	13,74852402	33,46422709
RANK 2004-2008	0,531203987	0,085674271	6,200274371	1,3404E-08	0,361186185	0,70122179	0,361186185	0,70122179

4.2. 2012 Forecast

SUMMARY OUTPUT								
Dependent Variable: 2012 Ranking								
Regression Statistics								
Multiple R	0,549335453							
R Square	0,301769439							
Adjusted R Square	0,294644638							
Standard Error	24,39008245							
Observations	100							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	1	25195,85007	25195,85007	42,35478471	3,2493E-09			
Residual	98	58297,85993	594,8761218					
Total	99	83493,71						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	22,68225091	4,890604827	4,63792347	1,08857E-05	12,9770048	32,38749703	12,9770048	32,38749703
2004-2011 Rank	0,549009932	0,084358522	6,508055371	3,2493E-09	0,381603191	0,716416673	0,381603191	0,716416673

5. Product Categories

Product Category Portfolio Mix		Number of different product categories	SBI
Top 10			
1	Amsterdam Commodities N.V.	4	46389, 1039, 46212, 4637
2	ITX Merken B.V.	3	7490, 47712, 47713
3	L'Oréal Nederland B.V.	2	6420, 4645
4	Continental Fruit B.V.	3	6420, 1032, 46311
5	Koninklijke De Heus B.V.	2	6420, 1091
6	Vodafone Libertel B.V.	4	6120, 4652, 4742, 612
7	Sligro Food Group N.V.	4	6420, 4617, 463, 4711
7	Rijk Zwaan Holding B.V.	3	6420, 0113, 01640
9	IKEA Nederland B.V.	4	6420, 64922, 7490, 47593
9	Hilton Meats Zaandam B.V.	1	4632
Bottom 10			
91	Uniconsult Groep B.V.	4	6420, 4711, 47741, 7911
92	Citrosuco Europa B.V.	2	6420, 46311
93	Tate & Lyle Netherlands B.V.	3	1062, 46384, 46389
94	Gamma Holding B.V.	4	6420, 132, 1396, 206
95	Teka B.V.	4	46471, 3102, 2591, 2751
96	Amtrada Holding B.V.	3	6420, 1083, 4637
97	Ecoval Holding B.V.	3	6420, 1051, 46331
98	Alliance Boots B.V.	3	6420, 46461, 4773
99	Yamaha Motor Europe N.V.	1	46491
100	Chiquita Banana Company B.V.	3	46311, 50201, 1039
SBI (standaard bedrijfsindeling) van CBS:	http://www.cbs.nl/nl-NL/menu/methoden/classificaties/overzicht/sbi/sbi-2008/default.htm		

6. 2007 Average salaries

Average Salary		
t-Test: Two-Sample Assuming Unequal Variances		
2007	*Top 10*	*Bottom 10*
Mean	39116,072	40707,221
Variance	36799766	415772306
Observations	10	10
Hypothesized Mean Difference	0	
df	11	
t Stat	-0,236519	
P(T<=t) one-tail	0,4086881	
t Critical one-tail	1,7958848	

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