Salient factors in executive managements’ FDI decisions: A study of South African multinational enterprises

by

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Study leader: Professor David Coldwell

October 2016
DEDICATION

This thesis is dedicated to my parents:

my mother

ROSENARE JOOSUB HABIB

and the late

SULIMAN JOOSUB HABIB
ACKNOWLEDGEMENTS

I would like to acknowledge Professor David Coldwell, who so kindly put aside time to review the many drafts and make helpful comments.

I would also like to thank my mother, Rosenare, who has been so patient and supportive over this period.
DECLARATION

I, Tasneem Joosub, hereby declare that the above thesis is my own unaided work, both in concept and execution, and that apart from the normal guidance of my supervisor, I have received no assistance. Neither the substance nor any part of the above thesis has been submitted in the past, or is being, or to be submitted for a degree at this university or at any other university, except for the aforementioned degree.

Signed .................................................................

T. Joosub
ABSTRACT

Pursuit of an international strategy has been a recognised tenet of multinational businesses for centuries. It is an absolute requirement for companies to investigate new and potential markets in order to expand their operations internationally and, in certain circumstances, to secure key supplies, especially minerals, energy and scarce raw material resources. Evaluating new markets remains a daunting task, because companies have to evaluate risk and opportunities in the potential markets.

Internationally, enterprises have entered new global markets after following a strategic decision-making process, taking into account factors such as the country’s environment, psychic distance, market-based factors such as taxation and competition. However, the exact process followed by MNEs has never been sufficiently elaborated upon by research; in the degree to which it has, the focus has been almost entirely on European and North American MNEs, leaving a gap in the knowledge base.

The purpose of this study is to identify key strategic variables that impact the decision-making processes of South African MNEs, when deciding which country to enter. The study attempts to better understand how the enterprise formulates its decision, and looks at elements influencing the decision on whether or not to enter a particular new market, such as perceptions (business risk perception or opportunities), as well as heuristics regarding the factors considered.

The research was conducted using a survey instrument directed at South African MNEs executive management (in order to determine trends in their strategic decision making processes), as well as personal interviews with senior management of selected MNEs. The study adopts a mixed methods approach which utilises qualitative and quantitative data and incorporates triangulation analysis to determine the most salient factors considered by SA MNEs.

Key Words:
Strategy, risk, taxation, business risk, decision making, qualitative, quantitative, mixed methods, triangulation.
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>BC</td>
<td>Before Christ</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CFO</td>
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<td>Chief Operating Officer</td>
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<td>DBI</td>
<td>Doing Business Index</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FMCG</td>
<td>Fast Moving Consumer Goods</td>
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<td>FSA</td>
<td>Firm Specific Advantages</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>Gross National Product</td>
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<td>Joint Venture</td>
</tr>
<tr>
<td>KR</td>
<td>Kudar Richardson</td>
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<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
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<tr>
<td>MNEs</td>
<td>Multinational Enterprises</td>
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<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<tr>
<td>NEPAD</td>
<td>New Partnership for Africa's Development</td>
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<tr>
<td>NY</td>
<td>New York</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OFDI</td>
<td>Outward Foreign Direct Investment</td>
</tr>
</tbody>
</table>
OLI  Ownership, Location and Internalisation
R&D  Research and Development
SA   South Africa
SADC Southern African Development Community
SARB South African Reserve Bank
SD   Standard Deviation
SME  Small Medium Enterprises
TQM  Total Quality Management
UK   United Kingdom
UNCTAD United Nations Conference on Trade and Development
US   United States
WTO  World Trade Organisation
CHAPTER 1
INTRODUCTION

1.1. INTRODUCTION AND PROBLEM STATEMENT

During the apartheid years under the National Party government, South African enterprises tended to stay home (due to sanctions), a tendency that was reinforced as international controversy about apartheid intensified. Sanctions placed businesses in economic quarantine, meaning that South African enterprises had to focus their energy on their modest shares of a modest domestic market. The resulting corporate inbreeding spawned an economy dominated by a small number of large corporations (Lynch, 2006; Streak & Dinkelman, 2000; Luiz & Charalambous, 2009). The market limitations inherent in South Africa resulted in a dual economy; a sophisticated capital-intensive production process and capital export economy co–existed with massive and growing structural unemployment and other features of underdevelopment (UNCTAD, 2015) trade barriers fell, during the immediate post-apartheid period, South African enterprises faced new competition in their previously protected home markets. They therefore had to explore new markets. Globalisation had become entrenched, and was being manifest as a complex, dynamic, multifaceted interdependence among countries. Economic globalisation was starting to become apparent in the increasing amount of cross-border trade in goods and services, the increasing volume of international financial flows, and increasing flows of labour. Multinational firms domiciled in South Africa started to carry out foreign direct investment (FDI)(FDI is generally referred to as the capital flows from abroad that are invested in the production capacity of the economy-(Andersen et al, 2014) in order to compete with their global competitors and to keep riding the international globalisation wave, and international trade became the main driver of the globalisation process in South Africa’s economy (UNCTAD, 2000; Loots, 2006).

FDI in Asia was already reaching saturation for both North American and European multinationals. With established markets, becoming saturated, multinational enterprises (MNEs) steered towards emerging markets, i.e., markets that were considered to be at the bottom of the development pyramid. These markets provided new opportunities and unique challenges (London & Hart, 2003; Luiz & Charalambous, 2009). Africa remained an essentially untapped market, characterised by economies that were so weak that the governments of these countries – desperate to reverse their economic declines – enticed potential investors with attractive incentives, and South African enterprises, desperate for new sales, responded eagerly (Lancaster, 1992; Miller, 2005; Luiz & Charalambous, 2009).

Two frequently cited models describe the internationalisation process as a gradual development, taking place in different stages and over a long period. The models are Vernon’s (1966) product
cycle model and the Uppsala internationalisation process model (Johanson & Wiedersheim-Paul, 1975).

For South African enterprises aspiring to become multinationals, Africa was seen as a stepping-stone, i.e., an opportunity to test the waters. South African enterprises have remained viable through South Africa's political (r)evolution, and this has given them an advantage over the North Americans and the Europeans in that it has trained them to handle the challenges of underdeveloped, and even dangerous, markets. Some of the skills that South African MNEs have developed might be uniquely advantageous to South African businesses (Itano, 2003; Werker, 2006). The South African MNEs have been able to serve poorer clients within South Africa while preserving their profitability, and most of these local clients resemble the citizens of other countries in Africa, both in terms of the products that they desire and their purchasing ability. Similarly, there is a weak infrastructure in many of the countries in Africa, especially outside of the capital cities, and this is similar to parts of South Africa. This home-grown expertise allows South African enterprises to revolutionise ways of transporting and distributing products to areas that lack any normal shops or major roads (Isa, 2013; Itano, 2003; Werker, 2006).

By 2003, South Africa had emerged as Africa's dominant foreign investor (Mtigwe, 2004; UNCTAD, 2015). The UNCTAD (2015) World Investment Report states that South Africa was the leading African source of FDI. The status was based on South Africa's economic success, particularly in cell phones and banks, but also in fast food chains and grocery supermarkets. South Africa's cell phone operator MTN is one such major investor, establishing data centres, sales offices and 4G projects in Cote d'Ivoire, Ghana, Swaziland and Uganda in 2013. (Isa, 2013; UNCTAD, 2015; Itano, 2003).

While South Africa has a dual economy, FDI from South Africa is predominantly into Europe (as can be seen from Table 1.1 below). A possible reason for this is that South Africa has many financial characteristics in common with the advanced economies of Europe. The duality of the South African economy has also produced a number of enterprises that appear to deviate from normal expectations. These enterprises have become world-class MNEs with the ability to compete on an equal footing with enterprises in developed markets. In fact, they have advantages that are not location bound, and appear to have more of the characteristics of a MNE from a developed country (Klein & Wöcke, 2007; Johanson & Vahlne, 1977).
Table 1.1: Total FDI stock by South African enterprises by region 2015

<table>
<thead>
<tr>
<th>Region</th>
<th>R millions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1 246 913</td>
<td>78</td>
</tr>
<tr>
<td>Americas</td>
<td>150 947</td>
<td>9</td>
</tr>
<tr>
<td>Africa</td>
<td>53 370</td>
<td>4</td>
</tr>
<tr>
<td>Asia</td>
<td>137 954</td>
<td>8</td>
</tr>
<tr>
<td>Oceania</td>
<td>18 835</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1 608 019</td>
<td>100</td>
</tr>
</tbody>
</table>


The extensive investment in Europe can also be explained by the fact that Europe is psychoculturally closer to South Africa than it is to other African countries, as most directors of SA MNEs have cultural roots in Europe. Most company directors, chief executives and chief financial officers of Johannesburg Stock Exchange-listed companies are white males, according to a SA institute of Chartered Accountants (SAICA) survey (www.fin24.com; Johanson & Vahlne, 1977), many proudly cognisant of their European ancestries.

The ending of official apartheid in South Africa in 1994 opened up a new regional movement and space where the ‘definition of the possible’ for Southern Africa changed, and South Africa was reintegrated into the region (Simon, 2001; Streak & Dinkelman, 2000). South Africa’s democratic transition brought about a new respectability to the region’s policies and projects, elevating South Africa from its status as a pariah country to a regional liberator (Miller, 2005; UNCTAD, 2015). Restless South African retail businesses that had been increasingly constrained by an oversupplied domestic market with limited profit margins were keen to explore new possibilities for expansion in neighbouring countries and the rest of Africa. In concurrence with the underlying psycho-cultural phenomena, Africa became increasingly attractive especially as new management at some of the South African multinationals, after 1994, was now black, in compliance with the new black empowerment laws. In 1992, there were only 15 black directors of listed companies in South Africa. By 2010, this number had risen to 951 black company directors. Trailblazers’ 2012 research shows there are now 1,046 black directors (Sieren, 2012; Miller, 2005; Soderbaum, 2002). The expansion of South African multinationals into other parts of Africa provided opportunities for new regional solidarities. In the retailing sector, for example, the appearance of large-scale investments (via shopping malls and food retailing chains), encouraged different forms of consumption and raised a new set of positive expectations about South Africa’s regional development role (Isa, 2013; Miller, 2005; Soderbaum, 2002).

Whether the investment is in Africa or Europe, the location decision is the most complex decision that managers must consider. Each location presents unique factors and firms’ key decision makers...
have to feel that they understand a market and are comfortable operating in that market in order to justify a foreign direct investment (Johanson & Vahlne, 1977). The Uppsala internationalisation process model, which was developed by Johanson and Wiedersheim-Paul and first published in 1975, was based on research on the internationalisation process of large Swedish manufacturing firms in the 1970s. Johanson and Wiedersheim-Paul (1975) argued that firms tend to select foreign markets in accordance with their “psychic” proximity to the home market (Johanson & Wiedersheim-Paul, 1975:308), and that differences in language, culture, political systems, levels of education and levels of industrial development all affect business activity, FDI and other forms of foreign production, because such differences "prevent or at least disturb the flows of information between firms and the market".

Beckerman originally introduced the term psychic distance in 1956, to describe the different issues, which firms encountered when they tried to carry out FDI in culturally "other" locations (Beckerman, 1956). Johanson and Wiedersheim-Paul (1975:308) formally defined psychic distance as the "sum of factors preventing or disturbing the flows of information between firms and markets", and to explain how managers of MNEs will generally tend to favour those countries with which they are familiar. It is only once they gain experience, that investment will be made in markets, which are unfamiliar. Psychic distance is therefore the result of perceived differences between the MNE’s home environment and that of the foreign market (Strottinger & Schegilimilch, 1998, Ellis, 2000). Psychic distance is thus considered to be a significant predictor of international market selection (Dow, 2000).

Various researchers have tried to operationalise psychic distance to obtain a better understanding of the concept by using the following indicators:

- differences in levels of economic development between two countries
- differences in levels of education
- differences in business language
- differences in culture and local languages and,
- The existence of previous trading channels (Nordstrom & Vahlne, 1994).

O’Grady and Lane (1996), in studying the operationalisation of the psychic distance concept, introduced industry structure and competitive environment as components of the psychic distance measure. Brewer (2007) acknowledged that cultural differences, as introduced by the Uppsala model, account for "impediments to knowledge flows". Brewer argues, however, that the Uppsala model is in fact flawed as it only focusses on the differences; he therefore introduces new measures in the form of 15 variables on psychic distance that he considers play an important part in determining the "impediments" which affect flows of information between a country and a firm. Brewer (2007) attempted to operationalise the concept of market knowledge by not only holding to the original
definition but also by accounting for measures other than simply the differences between the firm’s home country and the target country.

Firms choose psychically close countries in which to invest so as to maximise benefits from the foreign investment by capitalising on similarities between the home and the foreign markets (O’Grady & Lane, 1996). However, the general tendency of management is to concentrate on ‘psychic’ factors in ‘psychically close’ locations and this can nevertheless still result in poor FDI performance and possible failure (O’Grady & Lane, 1996). This has become known in the literature as the ‘psychic distance paradox’, as key decision makers often expect closeness of markets to be a winning formula (supposedly guaranteeing successful FDI ventures), and disregard other factors which might prove to be more salient in making effective location decisions for FDI. Such non-psychic distance factors include subjective managerially oriented aspects such as strategic preferences and management experience (biographic factors), as well as other non-psychic distance elements of the FDI location that specifically attract and/or repel the decision maker.

Prior research into the operationalisation of the psychic distance index was based on the researcher’s interpretations of observations made from the researcher’s assumption that national markets were assessed against wholly objective standards. Researchers ignored individual firms’ senior management’s perspectives, and often less tangible “attractors”, and focussed instead on “impediments”, the negative aspects of a potential market which acted as ‘repellers’ to FDI, and thus reinforcing the apparent psychic distance paradox described earlier. (This aspect will be dealt with in detail in Chapter 2.)

The study aims to make two fundamental contributions to the extant literature: methodological and theoretical. In the first instance, the study uses both quantitative (nomothetic) and qualitative (idiographic) methods in a triangulated methodological synthesis to obtain a more complete picture of the salient factors senior managers of South African multinationals consider in their FDI decisions than is currently available in the literature. As mentioned earlier, the extant literature on FDI decision-making relates largely to an assumed objective national market perspective, and tends to ignore almost entirely the subjective, phenomenological elements that occur in the actual FDI decision-making process.

In the second instance (that relating to the theoretical contribution), the study, by using Brewer’s (2007) model of psychic distance as a basic theoretical edifice, and by considering the shortfalls in that theory uncovered by the psychic distance paradox, aims to develop an empirically-based repeller/attractor model. This model is intended to contribute to the knowledge base by providing a novel theoretical perspective that develops Brewer’s (2007) largely ‘push’ or ‘repeller’-oriented model and, thereby, present a possible theoretical solution to the psychic distance paradox.
A lack of understanding of multinational firms' actual FDI decision-making processes, and the theoretical inadequacy of the psychic distance explanation exposed in the paradox, suggests that further empirical and theoretical developments are necessary. The purpose of the study is, therefore, to contribute to the extant FDI research literature by providing methodological and theoretical perspectives that enhance our understanding of the FDI decision-making process.

1.2. RESEARCH QUESTIONS

In light of the complexity of the location decision described in the introduction, the following research questions are arrived at:

- What are the salient factors senior managers of South African multinationals consider in their FDI decisions, and in what ways do they correspond to the literature? (As mentioned earlier, the extant literature on FDI decision-making relates largely to an assumed objective national market perspective and tends to ignore the subjective, phenomenological elements that occur in the actual FDI decision-making process almost entirely.)

- Do senior managers of South African companies make FDI decisions in the South African industrial context that correspond to Brewer’s impediment-oriented model (Brewer, 2007) of psychic distance, or are there other factors that they also reference in their FDI decision-making?

1.3. RESEARCH OBJECTIVES

To determine through the use of a triangulated methodological approach, whether a theoretical modification to the existing psychic distance model (Brewer, 2007) and the Uppsala School’s model is empirically warranted, and to consider the development of an ‘attractor'/repeller’ model as a possible modification which recognises factors other than those that can be regarded as impediments in the FDI decision making process. The intentions is to develop a more holistic model that embraces both psychic distance factors (which when considered on their own lead to errors characterised by the psychic distance paradox), and factors about a specific location that attract and/or repel the FDI decision maker.

1.4. RESEARCH APPROACH

The research methodology is discussed in detail in Chapter 3. The research is designed to use a mixed method study. Mixed method studies have emerged as a solution to the paradigm conflict between qualitative and quantitative research studies and has become a popular mode of inquiry. The analysis uses both qualitative and quantitative data. Using a sequential explanatory strategy,
the collection and analysis of quantitative data is followed by the collection and analysis of qualitative data, and the methods are given equal priority.

Figure 1.1: Sequential Explanatory Strategy

The data is then integrated and triangulation is used to determine the validity of the findings. Mixed method theory allows dynamic interplay between practical research approaches, with strong disciplinary theoretical traditional research designs (Greene, 2008). A methodological approach is also used to look at the degree to which the objective data obtained from the questionnaire is corroborated by the more subjective meanings provided in the interviews. In effect this means that nomothetic quantitative data will be validated at the idiographic, subjective level of analysis via triangulation.

Triangulation is a way of corroborating and confirming results from both qualitative and quantitative research methods by providing a third paradigm choice that will provide the most informative, complete, balanced and useful research results. This is called the pragmatic paradigm.

1.5. THE PURPOSE OF THE STUDY

The essential difference between descriptive and causal studies lies in their objectives. If the research is concerned with finding out who, what, where, when, or how much, then the study is descriptive. If the study is concerned with learning 'why' – in other words, how one variable produces changes in another – then the study is a causal study (Cooper & Schindler, 2003).

In this case, a theoretical approach was used, because the objective of the study was to convey information. In other words, the objective is the collection of sufficient data about the South African MNEs that have internationalised their operations over time, in order to attempt to determine the extent of differences and similarities in the factors they considered prior to making their foreign investments.

1.6. DELIMITATIONS AND ASSUMPTIONS

The research is aimed only at South African MNEs that have made FDI (not all companies registered on the Johannesburg Stock Exchange have cross-border investments), and the selection of firms for
the sample was therefore purposive. In addition, the sample was only drawn from companies from the following sectors: mining, retail, engineering, pharmaceutical, fast food, oil and gas, manufacturing, telecommunications, information and technology, legal services, and auditing services. The selection did not cover the full spectrum of companies trading in South Africa. The survey instrument was addressed to, and the interviews conducted with senior managers (CFOs and CEOs), the intention being to obtain a collective overview of each company’s decision-making processes rather than just the individual perceptions of senior managers. The research therefore did not take account of individual personality or psychological variables which might have impacted on the decision-making process.

The research study additionally assumes that senior managers are able to present a company view of FDI decision-making processes, and that the members of the management teams selected to participate in the survey and those interviewed are able to present the company’s FDI views. Finally, before completing either the questionnaire or participating in the interviews:

- All respondents, whether participating in the qualitative and/or the quantitative aspects of the study were reminded that they were doing so voluntarily;
- All respondents’ input would remain anonymous even after the research had been completed;
- It was ensured that all respondents understood the purpose and procedures of the study, and that
- Anonymity would be maintained throughout the entire data gathering and analysis process, and that the raw data would be kept for a reasonable period of time after publication.

1.7. CHAPTER OUTLINE

This study consists of eight chapters, each of which is briefly discussed below:

**Chapter 1: Introduction and Problem Statement**

Chapter 1 provides an introduction to the psychic distance phenomenon and other factors considered by MNEs when screening new markets for FDI, and contains a statement of the problem associated with this process. This leads to a definition of the research problem and a statement of the purpose and objectives of the study. This chapter also provides a brief explanation of the methodology used in this research (this will be discussed in full in Chapter 3).
Chapter 2 Literature Review

Part I – Globalisation

This chapter introduces the concept of globalisation and defines the phenomenon, which is partially responsible for the expansion of firms globally. Globalisation has created a mind-set which encourages enterprises to undertake FDI.

Part II – Internationalisation and Market selection

This part of Chapter 2 provides an overview of the processes followed by companies when screening new markets for FDI, and identifies the different factors inherent in the countries, which will influence the decision process.

Part III – Foreign Direct Investment and Modes of Entry

Research has shown that most enterprises undertake FDI to seek new markets rather than to benefit from cost factors. However, host country policies and market conditions do contribute to the decision making process. The main objective in this chapter is to answer a broad range of questions regarding the nature of SA MNEs’ investments in foreign markets. The study aims to ascertain whether strategic motives (reasons for the investment) were important factors in determining the location choices of the FDI.

This section of the chapter also reviews how MNEs prefer to implement FDI, i.e., the mode of entry preferred by South African MNEs. It addresses how companies can enter a new market: whether or not they prefer to form strategic alliances to maximise market access; to take full ownership of their affiliates (establishing a wholly-owned greenfield subsidiary, or making a full acquisition), or to share it with another enterprise (setting up a greenfield joint-venture, or making a partial acquisition). The decision on when South African MNEs decide it is right to enter a new market, and on what scale, will also be discussed.

Part IV - Psychic distance

This part of the chapter expands on the concept of psychic distance first introduced in the problem statement. Psychic distance is the basic theoretical edifice of the study. The intention here is to show how prior literature has used the concept; to further understand the psychic distance paradox, and to determine whether it does in fact exist. Most importantly, the idea is to lay the groundwork in order to operationalise the concept.

Chapter 3: Research methodology

This chapter provides an overview and discussion of the methodology used in collecting and analysing the data for this research.
Chapter 4: Findings

This chapter provides an analysis and interpretation of the results of the empirical research findings and discussions:

Chapter 4.1 – Quantitative analysis, findings and discussion, and
Chapter 4.2 – Qualitative analysis, findings and discussion.

Chapter 5 – Integration of the Quantitative and Qualitative findings, and Discussion thereof

This chapter shows how the mixed method of research is applied, and how the quantitative and qualitative findings are validated using triangulation.

Chapter 6 – Conclusions, Limitations and Recommendations for further studies

The last chapter provides a discussion of the research findings, draws conclusions from the findings, and concludes with observations and recommendations on the factors used by South African MNEs in pursuing effective globalisation strategies.

1.8. SUMMARY AND CONCLUSIONS TO CHAPTER 1

This chapter provided an introductory overview of the research. The background to the research problem was introduced, and the research questions and objective of the study stated. This introductory chapter also presented a brief summary of the research design and methodology. It concluded with an outline of the structure of the thesis. The literature review will follow in subsequent chapters.
CHAPTER 2
LITERATURE REVIEW

2.1. INTRODUCTION TO LITERATURE REVIEW

This chapter presents the extant literature on internationalisation of firms. The focus of the literature review is to introduce the concepts of globalisation which is the integration of markets and internationalisation which is a firm's foray into international markets. The chapter also explains the foreign direct investment (FDI) process, and how firms decide on the mode of entry to attain maximum profitability. The psychic distance concept is also introduced to explain the proximity concept and how it influences the overall location decisions of firms.

2.2. GLOBALISATION: INTRODUCTION

The period 1870 to 1913 saw a rapid expansion of international trade (Krugman, 2010a; Kirkegaard, Christen, Krupinsky & Layzell, 2008). It was a period when goods, capital and labour moved across borders without any government intervention and resulted in beneficial trade and investment across economies. This free trade and the expansion of the volume and value of economic transactions is the process that created economic interdependence and was responsible for integrating extensive portions of the world economy. The phenomenon has continued, and is now called globalisation (Kirkegaard et al., 2008; Yücel, Elibol & Dağdelen, 2009).

Globalisation means different things to different people. Depending on the author, it can mean the growing integration of markets and countries or the spread of technological advancement. Globalisation is more than just an economic phenomenon manifesting itself on a global scale. The more visible manifestations of globalisation are the international movement of goods and services, capital, information and people, all of which are facilitated by technological developments and enhanced legal systems which move across borders with diminishing hindrance. Another key contribution of globalisation is the commoditisation of cultural diversity, which is facilitated by a combination of free trade, tourism and immigration.

Globalisation is not a uniform, universal phenomenon (Nayyar, 2006). While it has been described as an integration of economies, there are however, three primary underlying parts to the concept, namely international trade, international investment and international finance.

Globalisation means that firms now treat the world as their domain in order to meet their supply and demand requirements. The South African economy is still predominantly confined to the export of primary commodities, especially from the mining and agricultural sectors. In South Africa, these business activities will not be sustainable because of a lack of domestic competitive drive or initiative. Therefore, unless they follow the globalisation route (and so defend themselves against the rise of
the modern Multinational Enterprise (MNE), investment capital (which is able to seek out the most
efficient markets), and producers and consumers (who are able to access the most competitive
sources worldwide), will not be available to do business.

The purpose of this chapter is to understand how the concept of globalisation came about and has
become the impetus for MNEs to undertake increasing amounts of foreign direct investment, whether
because of increasing competition, or because there has been a corresponding reduction in trade
barriers.

In the first part of this chapter, the history and definitions of globalisation and the role of globalisation
as an economic and developmental phenomenon, will be discussed. This is followed by a more in-
depth study of how globalisation has affected the South African economy, and South African MNEs.
The final section of this chapter explores the phenomenon of globalisation and attempts to answer
the question: does globalisation, as the term is generally understood, actually exist

2.2.1. MNEs and globalisation

Common control, common goals and common ownership of geographically dispersed resources
create the potential for mutual gains between MNEs and nation states. Multinational firms come with
firm-specific advantages that enable them to overcome the liabilities associated with foreignness in
host countries (Hymer, 1960).

By definition, MNEs are representative of globalised economic activity because they operate in
multiple countries. Because of their economic prowess, and cross-border production, distribution
and management activities, they are the inventors and propagators of globalisation. These MNEs
have pursued strategies that identify individual countries’ comparative advantages at each stage of
the production and marketing cycle, and this is the impetus for economic integration (Huwart &
Verdier, 2013).

All MNEs pursue selfish interests through business firms (Vernon, 1977). Therein lies the inherent
conflict with the needs of governments to accomplish their economic and social welfare objectives
for their citizens, normally achieved through policies and strategies (Dunning, 1991).

Liberalisation of FDI regimes worldwide, competition among firms from all parts of the world, and
technological and logistical advancements influence FDI from both developed and emerging market
MNEs alike. FDI flows from emerging market MNEs experienced incredible growth rates of about
82% per year on average since 2003, reaching approximately US$351 billion in 2009 (Sauvant,
Maschek & McAllister, 2009).

MNEs and FDI are key features of the global economy. The importance of MNEs has changed the
face of the global economy. MNEs’ global pursuits have become major determinants of trade flows
and of the location of industries and other economic activities around the world. FDI generally occurs in capital intensive and technology intensive sectors, and these firms have become central to the expansion of technology flows to both developed and emerging economies. Through these processes MNEs have become extremely important in determining the economic, political, and social welfare of many countries. Being able to control the majority of the world’s investment capital, technology and access to global markets, such firms have become important players not only in the international economic landscape, but in political affairs as well; however, this dominance has resulted in a backlash from some countries (Gilpin, 2011).

MNEs, when trading internationally, have to adapt to different cultures and become nationally responsive. MNEs do not have to develop global strategies: rather they prefer to create alliances and to make the workforce aware of the local cultural differences, and they analyse and implement regional drivers of success.

Economic development is intrinsically related to international investment. The spatial patterns of multinational investment therefore play a very important role in the nature of economic development. As such, while it is true that a country’s economic growth is to a large extent determined by its domestic competitive conditions, both inward and outward FDI can also play a crucial role in the growth of an economy (McCann, 2008).

2.2.2. Is globalisation a myth?

For the last 20 years the business world has used the phrase ‘globalisation’ to characterise the complex web of business and investment developments worldwide (Dull, 2009). However, several researchers have questioned whether globalisation actually exists. Rugman (2001) claims that globalisation does not exist, because most sales made by multinational enterprises are in fact only made on a ‘triad-regional basis’. This triad regional basis consists of NAFTA, the European Union (EU) and Japan, plus a small group of Asian and Oceania nations. Rugman’s (2001 cited in Stevens & Bird, 2004) regions are defined rather broadly and are to all intents effectively global in extent. It is difficult to determine when a company becomes a global presence in Rugman’s (2001 cited in Stevens & Bird, 2004) topology because Rugman does not state, for example, how much of its sales have to be generated elsewhere than on the home range in order to be considered a global business.

Stevens and Bird (2004) argue that revenue cannot be the only measure of globalisation, as has been asserted by Rugman (2001 cited in Stevens & Bird, 2004). Stevens and Bird (2004) also feel that sales revenue data do not constitute acceptable evidence that there is a cultural commonality emerging in the world, and that the use of sales revenue as the basis of deciding whether a firm’s presence is global in extent is considered “narrow and counter intuitive” (Stevens & Bird, 2004).
Stevens and Bird (2004) also identified trends that show a declining use of indigenous languages, and a move towards a common penchant for fast food, and other American trends, indicating a "very real phenomenon of globalisation". Even though there is a convergence towards a common global culture, there remains the presence of national, regional and local ethnic variations (Stevens & Bird, 2004). If seen from the perspective of adoption of USA cultural symbols, there is also Chinese globalisation that produces goods that are American or European in style and design but Chinese in origin and style of manufacture. Rugman however states that products have to reflect regional preferences, thereby resulting in heterogeneity (Rugman, 2001).

Stevens & Bird (2004) clarify that their intention in terms of their research on globalisation is to show and catalogue the emergence of a global culture that springs from it. They see the impact of the global culture as a phenomenon reaching far beyond OECD economies, although, because they have better access to capital markets, the OECD economies are influenced more by the global culture than are the nations of the rest of the world. Stevens and Bird (2004) conclude that all cultures have always been pressured to evolve, and that globalisation is a modern manifestation of such cultural pressure, and not a fragmented regional culture, as has been suggested by Rugman (2001).

2.2.3. Definition of globalisation

"The spatial reach and density of global and transnational interconnectedness weave complex webs and networks of relations between communities, states, international institutions, non-governmental organisations, and multinational corporations which make up the global order" (Held et al., 1999:27 as cited in Rugman, 2010). However, globalisation "transcends economics," showing a deep integration and interconnectedness, including "social, cultural and political processes which are enmeshed in a larger global order," and that fall "beyond the pale of the state" (Albrow, 1997 as cited in Rugman, 2010). Globalisation is thus weakening territorial sovereignty, and compromising the viability of economic and political governance that was formerly based on geographically defined jurisdictions (Rugman, 2010).

Several authors have attempted to define globalisation. The Financial Times defines globalisation as the integration of economies, industries, markets, cultures and policy-making around the world. Globalisation is a process by which different economies and cultures have become intertwined through the network of international trade (lexicon.ft.com).

Globalisation is also defined as the on-going process of achieving greater interdependence among countries and their citizens. Globalisation is not one unique phenomenon: rather, it is a 'syndrome' of processes and activities which result from the reduction of barriers between countries, which in turn enable closer economic, political and social interaction (Mapuva, 2010), and that facilitates business, without having to consider the geography of the country.
A classic study by Higgott (1999) hypothesises that there are four broad styles of definitions of globalisation, depending on whether the writer views globalisation as:

- a specific historical epoch;
- a confluence of economic phenomena including policy changes and technology diffusion;
- the hegemony of US values or the creation of a global mind set among key decision makers; or
- A technological and social revolution.

The above four styles of definitions identified by Higgot (1999) show common features in the sense of cross border integration of national production, exchange and financial markets, and the declining autonomy and policy capacity of the nation state. Thus, globalisation is not measured simply by the growth in cross-border activities, but rather by the creation and growth of globalised activities; that is, phenomena that transcend national borders, simultaneously extending across, and leveraging and moving between many locations around the globe (Higgott, 1999).

Economic globalisation involves reducing the barriers that limit the free movement of business, trade, investment and even labour across national borders. Economic globalisation is the economic unification of the world’s economies and its trade on financial markets (Langhammer, 2011).

The driving forces behind economic globalisation include the following:

- Globalisation – forces that result in convergence in buyer preferences in markets around the world, and low cost production in addition to falling barriers to trade and investment and increasingly rapid technological innovation.
- Networking – the extent to which businesses use their interconnected business relationships as a bridge for the efficient and cost-effective purchasing of resources and knowledge necessary to achieve the foreign development aims of their firms.
- Entrepreneurial prowess – the managerial or organisational ability to operationalise opportunity and allow companies to accept higher levels of risks (including financial risk) to pursue that opportunity.
- Technological tools – information technology facilitates globalisation because it contributes to lowering cost of goods sold, and/or transaction costs, and enhances access to current and potential markets. Business-specific factors enable companies that produce goods for a specific niche market to embrace globalisation more easily because micro-segmenting potential markets is a world-based process (Langhammer, 2011).
2.2.4. History of globalisation

Globalisation is not a new phenomenon. In 1913, world markets in goods were already closely integrated. Today, the world economy is achieving a similar level of close integration, this time in the global capital markets (Krugman, 2010b; Kirkegaard et al., 2008; Yücel et al., 2009). Historians have argued that globalisation is a phenomenon that has its origins several centuries back.

The German historical economist, Andre Gunder Frank traces the start of globalisation to the growth of trade and market integration that occurred between the Sumerian and Indus civilisations of the third millennium BCE. Thereafter, economic trade between China and Europe flourished during the Hellenistic age, and global trade has continued to grow essentially ever since, fuelled by ideas and knowledge, as well as by decreases in transport costs (www.economist.com).

Long distance trade between continents in the early centuries of the last millennium became increasingly successful as transport costs, monopoly restrictions, trade interventions, and international conflicts decreased. The range of goods traded increased, influenced as always by a mix of fashion and necessity, overlaid by the politics of power. Prior to the eighteenth century, trade was dominated by non-competing goods, which were very expensive luxuries in the importing markets, and which justified the high transportation and importation costs.

In 1839, an English journalist, Sir Francis Bond Head, wrote about the possibly negative implications of rail travel by asserting that if distance was “annihilated, the surface of our country would, as it were, shrivel in size until it became not much bigger than one immense city” (Harvey, 1996:242 as cited in Scheuerman, 2014). The socialist, Karl Marx, formulated the first theoretical explanation of the sense of territorial compression in 1848 by stating that the imperatives of capitalist production inevitably drove the bourgeoisie to “nestle everywhere, settle everywhere, and establish connections everywhere” (Marx & Engels, 1977 :224). The objection to industrial capitalism was that it constituted the most basic source of technologies resulting in the annihilation of space, helping to pave the way for “intercourse in every direction” (Wolff, 2015).

Modern economic growth began with the industrial revolution a little over two centuries ago, and ever since the key to economic development for most developing economies has been industrialisation. The industrial revolution played an important role in accelerating global interaction. There is a relationship between globalisation and industrialisation. The period of the greatest (most rapid) penetration of modern industry across the globe was between 1918 and 1973; these years saw increased protectionism of the interwar period (1919–1939), which was followed by an increase in import substituting industrialisation after the Second World War as former colonies gained their independence, and pursued economic policies ostensibly different from their former colonial allegiances, thereby driving globalisation (O’Rourke & Hatcher, 2013).
2.2.5. Globalisation in the modern world

Globalisation is a modern phenomenon that continues to grow, and countries worldwide have had to accept the bad aspects of it along with the good. Globalisation is a package, inseparable into its component parts (Krugman, 2010c). Spanning a range of political, economic and social trends, globalisation has become a fashionable buzzword. The term globalisation is used interchangeably with the phrases “free market policies” in the world economy, and with “economic liberalisation, and westernization” (i.e. the growing influence of American economic and cultural life), and with “global integration” (i.e. the concept of one single unified global community) (El-Din Shahin, 2005).

Globalisation also refers to fundamental changes in the “spacial and temporal contours of social existence, according to which the significance of space territory undergoes shifts in the face of a no less dramatic acceleration in the temporal structure of crucial forms of human activity” (Scheuerman, 2014:146).

Today, globalisation of economic activity is the principle contemporary event that is challenging the traditional systems and roles of capitalistic states. Globalisation introduces a new dimension to the systematic costs of an innovation-led economy by adding new spatially related transaction and coordination costs of doing business. From the perspective of firms, such costs range from those of surmounting natural and artificial barriers to trade and FDI, to the less easily measurable and tacit costs of setting up, organising and administering a group of value-adding activities in very diverse economic, political, and cultural environments, and in maintaining satisfactory communication both between headquarters and the operating units, and between the individual operating units (Yücel et al., 2009).

It is a fundamental tenet that globalisation is requiring national governments to re-evaluate various facets of their systematic governance. Sometimes, their efforts need to be directed to obtaining and enforcing common internationally accepted laws and regulations. Sometimes they need to be directed to ensure that their institutional frameworks and governance systems do not disadvantage their own firms and citizens relative to those of other countries. Sometimes they need to be directed to reduce cross-border non-tariff barriers, discriminatory procurement policies, and technical standards and border controls; and sometimes national governments need to create more harmonious policies in order to enhance the essential benefits of globalisation (Kirkegaard et al., 2008; Yücel et al., 2009).

Internationally, researchers have found empirical evidence demonstrating that it has been globalisation and financial integration that have caused the growth in international trade. These studies have highlighted the advantages of holding a global asset base, rather than limiting investment holdings to local assets only (Sassen, 2011).
Multinational companies using the newest technologies, and the simultaneous listing of companies on multiple financial markets, allow cross border trading that is all part of the phenomenon of globalisation (Iqbal, 2006). These companies have emerged as the major trade agents: two thirds of all trade is with MNEs, or is associated with them (Kaplinsky & Fitter, 2004).

Over the past 10 years, financial liberalisation has contributed to the growth of FDI by the removal of exchange controls on residents and foreigners by many countries, and as they have established free-floating exchange rate systems. To this should be added the high degree of international mobility in portfolio capital, with major balance of payments instability as its counterpart. Because of trade and financial liberalisation, the scope for autonomous policy discretion in the fields of macroeconomic stability, industrial development and international trade has shrunk (Subramanian, Nielson & Fachinotti, 2009).

FDI is an important driver of growth and an important variable driving globalisation today. It provides a transmission mechanism for the diffusion of technological innovations, and less tangible benefits such as managerial skills. FDI has also brought about important gains in the form of trade liberalisation (Goyal & Joshi, 2006).

2.2.6. Nature and extent of globalisation

2.2.6.1. Positive effects of globalisation

With any new phenomenon, there are positive and negative aspects, and most economists have raised the issues of costs and risks involved in the globalisation of national economies, as well as the impact on future growth prospects of nations (Mapuva, 2010).

Globalisation has become an important factor in economics. However, it has not been able to achieve world-wide equilibrium, let alone world economic stability, nor has it resulted in decreasing environmental damage; but despite this, its positive effects, seen in the development of trade and the access to new markets, have been tremendous (Nistor, 2012).

Globalisation is a highly dynamic process that leads increasingly to a worldwide interdependence, and which is supported by growth and an increasingly dense interconnection of systems, geography, firms and individuals. This global network creates innovative ways in which companies can create value by responding quickly to changes in the market, and enables them to capitalise from knowledge creation and exploitation (Osarenkhoe, 2009). The world economy has become globalised in form, and it is dominated by so-called market forces that old-style national and regional political authorities are no longer willing or able to control. At its core it has as its principle economic drivers the multinational firms that owe allegiance to no nation-state and locate wherever market advantage dictates (Hirst, Thompson & Bromley, 2015).
With regard to human welfare, the case for globalisation is generally positive. Globalisation has brought large economic gains to many parts of the world, and most noticeably to Asia, which has successfully exploited the development opportunities created by labour-intensive manufacturers.

The rise of globalisation has allowed developed economies and less developed economies to engage within an increasingly monolithic global economy. Allowing market prices to balance supply and demand and to allocate scarce resources helps develop investment, trade and job creation, thereby helping to reduce poverty. This dramatic fall in poverty since 2009 to 2015, represents a new era in economics, resulting in a large middle class. This change will be far reaching, impacting on global businesses (Chandy & Gertz, 2011).

Another impressive and positive aspect of globalisation has been that it has presented less developed countries with opportunities to access new technologies, products and information, direct investments and loans, and to benefit from the high mobility of all production factors (Nistor, 2012).

A celebrated advantage of globalisation that has been enjoyed by developed countries is that it has advanced the efficiencies of their production facilities relative to other countries, resulting in lower costs. Globalisation has helped ensure that these developed countries have been able to access new markets, resulting in an increase in their export volumes and the occurrence of favourable conditions for attracting foreign capital. Quantifying the gains globalisation has brought to the developed countries, recent work by the Institute for International Economics suggests that the financial gains to the United States alone amounted to $1000 billion – almost 10 percent of its 2004 Gross Domestic Product (Wolf, 2005).

Globalisation as it is currently manifesting itself cannot be achieved by allowing MNEs total freedom: the role of governments and their interventions economically is relevant because it helps generate local economic development, which is in turn necessary for generating a better standard of living for the country’s population. Other positive impacts of globalisation have to be mentioned as well. The growth of FDI is proceeding at a prodigious rate, one that is much greater than the growth in world trade. FDI plays a vital role in technology transfer, in industrial restructuring, and in the formation of multinational enterprises, all of which have major impacts at the national level. Globalisation is one of the key drivers of technological innovation, and has contributed to its diffusion within nations through foreign direct investment. Another positive contribution is the growth of trade in services (including legal, financial, managerial, and information services), and intangibles of all types, that have become key aspects of international commerce.

In the last years of the twentieth century, only 20% of FDI related to the export of services. However, over the last decade (2005–2015), this has risen to 50% (and it is expected to rise even further), making intellectual capital the most important commodity on world markets. Another major factor
contributing to the growth of FDI has been the increase in economic competition worldwide, which has created beneficial effects by compelling companies to improve productivity and efficiency in order to stay abreast of competitive forces. Competition, and the objective of increasing market share, has resulted in specialisation and the division/stratification of labour in the quest for improved productivity. Other positive aspects include the economies of scale and scope that have resulted in lower costs and prices, which have in turn allowed economies to grow. There have also been gains from deals in which both parties enter into mutually beneficial trade relations.

Globalisation has also resulted in increased productivity as a result of the rationalisation of production worldwide, the increasing use of technology, and the competitive pressures for remaining innovative globally. The positive aspects of competition brought about by globalisation have shown how globalisation enables and forces companies to evaluate the position of all parties to the economy, resulting in increased output and higher real wage levels and living standards.

2.2.6.2. Negative effects of globalisation

There is a widely held perception that globalisation has not only positive effects but negative effects as well, in that it generally allows developed countries to impose unilateral restrictions on less developed countries that are primarily beneficial to the developed country. The other major negative aspect affects the developed countries in that when outsourcing the manufacturing of products, certain economic benefits are lost by the developed country's own population. Migration of workers from less developed to developed countries is perceived as another negative aspect of globalisation. These migrant workers leave their families and live temporarily in another country, thus disrupting the family and the greater social fabric of their home communities. These migrant workers also transfer a significant proportion of their earnings back to their home countries, decreasing the benefits their employment could have had in the country in which they are employed.

Developing countries are generally wary of globalisation, because of the perception that they could lose their own culture and identity in the process, including their traditions and language. In addition, there is the perception that increased globalisation may also diminish their control over their own economic and political decisions. Globalisation is also responsible for introducing American pop culture, as well as political and economic influence, to the rest of the world, and this is especially prevalent in the majority of developing countries.

African countries have benefitted relatively less from the positive effects of globalisation than have other parts of the world in terms of economic growth and development, due to mindsets focused on exploitation and corruption (Igwe, 2011). The reason for the exploitation is that Africa is very rich in mineral and other natural resources, and that is attracting investment from international economies. Colonisation stripped African countries of their intellectual and moral leaders, a situation that continues to undermine local efforts to regain mastery of their own destinies in their own countries,
and today even after political independence, Africans are struggling to (re)define their own identity. In addition, the continent faces a new colonisation struggle under the guise of globalisation, led by China (Langmia, 2011).

Globalisation has not treated the labour and long-term capital markets positively either. With regard to the labour market, this is apparent in that the number of people living in countries other than their country of birth has declined from about 10% in the late nineteenth century to 3% percent now. There has also been an enormous growth in the disparity in real wages across the planet for people with similar skills (Wolf, 2005). There has also been a drop in real wages in the developed world, and this has contributed to the drop in large net capital flows from developed to undeveloped countries. Because of this phenomenon, recent trends show that the net flows have begun to move in the opposite direction, now increasingly from the developing world back to the world’s richest country – a negative aspect of the economic globalisation phenomenon (Wolf, 2005; Rosenberg, 2007).

Inequality between people in different countries in the 19th century can be explained by income differences between workers and capital owners in different countries; however, real income was similar. In the 21st century the situation is different, as 80% of global income disparity is due to large differences in mean incomes between countries, and differences between unskilled workers’ wages in developed and emerging economies vary by a factor of 10 to 1. This is the foundation on which the new global political issue of migration has emerged because the individual benefits accruing to economic migrants can be very large (Milanovic, 2012).

2.2.6.3. The extent of economic globalisation

Globalisation is increasingly being manifest as a complex, dynamic, multifaceted interdependence among countries. Economic globalisation is reflected in the increasing amount of cross border trade in goods and services, the increasing volume of international financial flows, and increasing flows of labour. The post-World War 2 wave of globalisation was initiated and was dominated by the United States, the region least physically devastated by the war. This second wave of globalisation (the industrial revolution being the first global wave of expansion) consisted of two phases. The first phase commenced with the signing of the Bretton Woods agreement (which set out the rules for commercial and financial relations between former allies and enemies), and which resulted in the growth of global output and a drop in poverty as then defined. However, during this phase the world’s economies also experienced the oil price shocks and stagflation of the 1970s. The second phase has seen the liberalisation, deregulation and privatisation of most national economies, as well as the founding of the IMF and the World Bank. Growth was boosted as a consequence, and trading patterns changed, with intermediate goods being traded between different markets. There was a decrease in global poverty and developed economies experienced stagnated growth (Straw & Glennie, 2012). Capital flows did recover in the 1950s, and the recovery intensified through the 1960s, with the demise of
the pegged exchange rate system an inevitability. And finally, by 1973, the Bretton Woods system had to give way to flexible currency exchange rates among major countries (Fischer, 2003; Loots, 2006; Mapuva, 2010).

One of globalisation's body blows is that nation states have seen their sovereignty reduced by way of diminished control over borders, and over the movement of people. Simultaneously, the unrestricted movement of capital across borders has become the norm. This unrestricted movement of capital makes currency speculation possible. The unrestricted movement of capital across borders also hampers national tax authorities' efforts to tax the profits of MNEs, as they now move their domiciliams across borders in search of lowest and most favourable tax regimes. This make the reported profitability of MNEs essentially just a voluntary exercise, their dimensions determined by the jurisdiction in which they have decided to reside and pay taxes (Mann & Head, 2016).

2.2.7. The South African experience of globalisation

South Africa experienced an era of political and economic isolation, during which trade with the rest of the world was increasingly difficult. Firms that were marginalised due to sanctions had to learn new strategies in order to compete globally and become more competitive, by designing their products to resemble those of global players (Mapuva, 2010; Klein & Wöcke, 2007). South African firms were not able to export due to sanctions that were in place from the 1970s through to 1994. This resulted in South African firms not being able to capitalise efficiently on import and export tariff differentials (Bickford-Smith, 2001; Klein & Wöcke, 2007). Furthermore, sanctions meant that the vast majority of production facilities of South African firms become antiquated, requiring, with the lifting of sanctions, that steps be undertaken to modernise plants (Bickford-Smith, 2001). In 1994, South Africa signed an agreement with the World Trade Organisation (WTO) that showed its commitment to trade liberalisation (Calitz, 2000; Edwards, 2001). This was followed by the gradual relaxation of foreign exchange control by the South African government. FDI became possible largely as a result of the dismantling of apartheid that encouraged the cessation of sanctions and generated renewed interest in South Africa as a powerful economy in the African region. However, this made South Africa a late entrant to the globalisation race, and demanded swift actions in order to become compliant with international best practices (Asiedu, 2006).

South African firms embarked on a rapid transition to self-sufficiency in the globalisation arena in the 1990s, by adopting technological change and acknowledging the increasingly global nature of competition. These firms were also challenged to distribute their products globally and efficiently in order to cope with change in the economic environment, and to reduce costs (Anderson, 2005).

South Africa experienced an annual average growth of 6.7% in manufactured exports, and globalisation has allowed South African manufacturers easier access to a wider market base. Post-apartheid sub-Saharan countries have experienced negative growth, particularly those dependent
on exports of energy resources and other primary commodities; a number of African countries therefore have provide further expansion opportunities for various export oriented sectors of the South African economy (IDC, 2016). Regarding South Africa specifically, globalisation still has benefits which have not yet been fully capitalised (Krieger, 2006; Mapuva, 2010). One such benefit is that South Africa has macroeconomic policies that are more robust than many other developing economies. The IMF has adopted fundamental macroeconomic policies (necessitated by the globalisation process), and South Africa has been a relatively early adopter of these sweeping changes (Krieger, 2006). South Africa’s prestigious position as the sole African member of the G8 has also helped focus the world’s attention on economic developments in the Southern African region. South Africa, as the so-called economic powerhouse of Africa, has helped the continent survive the recession (Mapuva, 2010).

However, to benefit fully from globalisation, the previously protectionist attitude of South Africa’s industry had to be revised so that South African commodities and products could become competitive in international markets, and with foreign sourced imports (Mapuva, 2010).

Globalisation has been rather damaging to efforts to alleviate poverty in South Africa, and in particular on efforts to reduce the level of unemployment in the population. Even though the SA government has liberalised the economy and has undertaken to reduce debt (as has been done elsewhere in the world), it also launched programs such as the Expanded Public Works Programme (EPWP) which are supposed to provide poverty and income relief through temporary work for the unemployed. But the EPWP has been unable to achieve its objective: employment and poverty reduction has been at best temporary as most of the unemployed lacked the education and skills needed to find full time employment in today’s market. The liberalisation and opening up of the SA market has not led to the growth of sustainable jobs; instead, economic liberalisation and globalisation has seen rising joblessness and bias in favour of the better-educated members of the workforce (www.poverties.org). The IMF and the World Bank have prescribed that developing nations should open up their economies to allow more imports in, and should export more of their commodities and natural resources. However, globally this has increased poverty and dependency (Buck, Gordon, Hall, Harloe & Kleinman, 2013).

One of the shortcomings of the South African economy is the low level of national savings (both private and business), which directly contributes to a low volume of domestically funded investment. FDI has been needed to help overcome this problem by augmenting local capital with foreign capital in the domestic economy. Globalisation has also brought about a phenomenal increase in speculation and short term transactions in the South African economy, which contributes to the present day foreign capital inflow (and tomorrow’s outflow) which, due to its intensely mobile nature can destabilise an economy at the whim of an international investor (Rodrick, 1997; Asiedu, 2006).
South African MNEs play an important role in the process of SA's globalisation. SA MNEs carry out much of the country's trade, investment, and other international business activity, and their operations also involve the international movement of people, the spread of South African culture and the import, adoption and adaptation of foreign cultures. MNEs are influenced by the international environment and in turn also influence those environments (Harrison, 2011).

2.2.7.1. Evidence of South African globalisation

South Africa has seen an increase in the establishment by foreign multinationals of regional holding companies. South Africa’s network of tax treaties and investment protection agreements provide ready access to other countries in the region, making it a natural gateway into the region for holding companies (Goba & Dachs, 2010). South African products and companies are also in evidence throughout the rest of Africa. Perhaps the most visible presence is that of the cell phone firms, MTN and Vodacom, and consumer groups such as Pepkor and Checkers Hypermarkets. The mining firms such as AnglogoldAshanti and Gold Fields are also increasing their production and exploration efforts across the continent and further afield into Australia and South America. On the banking front, Stanbic operates in 17 African countries. As these few examples show, the forces of globalisation have pushed South African firms to put down roots further and further away from their home bases (Goba & Dachs, 2010).

Other South African mining companies, retailers and engineering firms have also followed the trend into Africa. The General Agreement on Tariffs and Trade signed in 1994, committed South Africa to a one-third reduction in most tariffs. However, globalisation has caused a few casualties in the local economy: for example, cheap imports from Asia have destroyed the local television and radio manufacturing enterprises and the clothing industry. Positively, South Africa has fared better under a free-trade environment than previously, because there is a direct correlation between trade and economic growth, which has been growing at slightly more than 5% in the two years since 2008. African agricultural exports are effectively locked out of the potentially lucrative EU and North American markets due to the powerful protectionist farm lobbies there, that also benefit from substantial financial subsidies from their governments (Ryan, 2007). The outcome is that South African agricultural exports go to the less economically stable and poorer African markets.

Globalisation has prompted developing countries like South Africa to rethink their strategies in order to avoid the “perfidious trade behaviour” of the more developed countries, rather than to disengage from the globalisation process (Ryan, 2007). Globalisation might have been more successful if global trade had been allowed to proceed relatively unhindered (and un-helped) by governments, but this has generally not been the case.

Globalisation has also helped South Africa to embrace newer technology, and to acquire access to unrestricted telecommunications. South Africa has also been able to increase tourism inflows and
manufacturing output, and to improve the supply of essentials needed for the welfare of all South Africans (Ryan, 2007). Globalisation has also permitted South Africa to tackle its more serious domestic problems more effectively (HIV, Aids, crime and corruption), and to take a leadership role on the continent, where it generates about 25% of the continent’s GDP.

2.2.7.2. South African government actions to aid globalisation

The government’s gradual phasing out of foreign exchange control coupled with domestic financial liberalisation has accelerated South Africa’s integration into the global economy.

The South African government has adopted a mix of sound macroeconomic policies, prudent debt management, exchange rate flexibility, the effective management of the capital account and the accumulation of appropriate levels of financial reserves as self-insurance, all of which provide an effective response to large and volatile capital flows into and out of the South African economy (UNCTAD, 2014).

2.2.7.3. Effects of foreign direct investment and globalisation in South Africa

Foreign direct investment is a primary driver, changing both developed and developing economies. Global FDI flows declined in 2014 by 16% to $1.23 trillion, mostly because of the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risk. New investments were also offset by some large disinvestments. However, inward FDI flows to developing economies reached their highest level at $681 bn, a 2% rise over the previous year. Developing economies also extended their gains in global investment inflows (UNCTAD, 2015).

Globalisation is something more than a purely economic phenomenon, manifesting itself equally on the global political, social and culturally stages. Globalisation is thought to erode national cultures due to the pervasiveness of the global media and the information technology revolution; among the more visible manifestations of the globalisation phenomenon are the increasing volumes of goods and services being moved internationally, and in particular financial capital, information and people. Such developments are made easier by the freer trade environment, the greater diversity of more subtly differentiated products, as well as by tourism and immigration, all of which feed the global cultural and social melting pot (Martens, Dreher & Gaston, 2008).

Globalisation has brought about international competition issues that are best explained by looking at the global organisation of industries, and how industries and countries perform within these relationships. In particular, the functioning of global value chains indicate how the new patterns of international trade, production and employment shape prospects for development, and how they may be limited by anti-competitive practices (Martens et al., 2008).
To determine South Africa’s globalisation progress a measure that can be used is the divergence between GDP and GNP. This measure compares payments made to foreign owned factors of production operating domestically with payments received by domestic owned factors of production operating abroad. The divergence for South Africa indicates that it has moved from a situation in the early 1980s where locally owned corporations contributed more to economic output than did foreign owned entities, to the situation a few years later where the more dominant position is now occupied by foreign owned corporations. This was followed by a period of stagnation in the middle nineteen-eighties. In the early 1990s, the change in government in South Africa and the demise of apartheid had the effect of opening South Africa up to FDI (Kearney, 2000; Kuhn, 2011).

2.2.8. Globalisation: Conclusion

Globalisation is associated with the increased cross-border movement of goods, services, capital, and people. It has created an interdependent world characterised by growing networks and is responsible for shaping the external environment of MNEs; for example, transnational strategies encourage the fragmentation of MNE value adding activities, with manufacturing facilities distributed according to the highest value adding location (Rugman, 2010).

It is interesting and important to note that, on the one hand, the process of increasing trade with other countries is experienced as an ‘inside out’ phenomenon of internationalisation, from the MNE country of origin to the country of insertion, while on the other hand, the injection of new trade into the receiving country is experienced as an ‘outside in’ globalising process. Thus, in broad terms, globalisation and internationalisation are essentially opposite sides of the same coin. Internationalisation is the ‘inside out’ perspective of the country originating the trade, while globalisation is an ‘outside in’ perspective of the country receiving the trade insertion. But they both comprise essentially the same phenomenon – an increase in world trade.

Globalisation is inevitable, as globalisation transcends economics: it includes social, cultural and political processes that are enmeshed in a larger global order, with forms of social, political and economic organisation that are beyond the influence of the state. Globalisation presents both opportunities and threats: opportunities in the sense of economic abundance, freedom of political expression, and cultural diversity, and threats in the form of economic and social insecurity, political instability, environmental degradation and cultural decay.

Globalisation is acceptable and embraced if it creates jobs, but if it corrodes local jobs, then it is perceived negatively. The globalisation process or concept is not new – the world has witnessed international economic integration many times through history, and the liberalisation of trade creates both global powers and subjugated states.
The laws of economics and comparative advantage remain dominant players in the globalisation phenomenon. Countries and economies have had to rethink and reform their internal policies in order to re-synchronise their actions with the rapid globalisation process, thereby to protect their citizens from some of the rather more serious repercussions of globalisation, including the large-scale loss of jobs.

2.3. INTERNATIONALISATION: INTRODUCTION

Standard Bank logos appeared all over greater Buenos Aires in April 2007 after South Africa's most internationally represented bank completed its purchase of the Bank of America’s (BoA) BankBoston network in Argentina (Stovin-Bradford, 2007). Standard Bank’s chief executive, Jacko Maree, confirmed that the deal was a test case for the company’s international expansion plans. One of the reasons for entry into the Argentine market was the trade finance upside, as well as the fact that Argentina is a massive exporter of agricultural products. Standard Bank’s strategy, therefore, appears to be to expand its range of products and services globally, with a special emphasis on the agricultural sector, and on raising finance for large corporates. (Stovin-Bradford, 2007).

Argentina is the third largest economy in Latin America, but in 1999, a devaluation of the Brazilian currency impacted negatively on the Argentinean economy. Coupled with a global slowdown, the situation was significantly aggravated and resulted in a serious financial crisis, exacerbated by a $20.7 billion disinvestment by global investors. The only capital inflows during this tumultuous period were made by parent enterprises to support their Argentine subsidiaries (Bonnet, 2011).

The volatility of capital flows during this period resulted in a specific investment culture, unique to this Argentine environment. Investors in the region held mostly short-term assets and tended to withdraw their funds at the first sign of economic distress (Rojas-Suarez & Weisbord, 1996; Wahid & Jalil, 2010). Due to this investment culture, Argentina became highly vulnerable to variations in commodity prices and to international interest rates (Birdsall & Lozada, 1996; Pelling, 2014). A national lack of faith in the banking system remains, and the historically unstable currency has resulted in a small stock market and a limited trust in banks (Webber, 2011). Latin America – a region that is unpredictable at best – must have showed some lucrative incentives in order for Standard Bank to invest in the region.

Root (1994), in his pioneer study explains that companies invest in international markets when they are unable to attain their strategic objectives by remaining in the home market. When the company decides to enter a new foreign market, the process of screening potential markets begins. Information about countries and their markets is collected and analysed in order to select the country with the best potential market.
Selection of an appropriate market for foreign expansion is an important decision because it affects both the efficiency and effectiveness of an investment. Factors such as psychic distance, business atmosphere, government policies, and stage of economic development, are critical considerations and vary substantially between countries and even between different regions within a country.

This chapter will describe factors pertinent to the international development of firms and will provide explanations for the importance of these factors. This chapter will examine the impact of psychic distance on the internationalisation process in particular, as this aspect is important to the internationalisation process and is thus a key focal area of this thesis.

2.3.1. Some conceptual considerations and reasons for foreign expansion

The company becomes a true multinational enterprise when it begins to plan, organise and coordinate production, marketing, R&D, financing and labour on its own in many locations around the world. For each of the company's internationally located operations the company must find the best location, best markets, and best sources of raw materials, in order to bring its overall business plan to full operational efficiency. Companies become multinational because of pull factors, which attract a firm to go global (proactive reasons), or because of push factors (reactive factors such as a stagnant home country economy), which persuade the firm to enter the international market. (Gopal, 2009).

Research shows that the successful MNE has an international vision from the beginning, an innovative product marketed through a strong network and a highly skilled organisation that is geared towards international growth (McDougall, Shane & Oviatt, 1994; Jones et al., 2011).

International expansion helps provide new market opportunities into which a firm can sell its new products, and it allows the firm to leverage its skills and products over a broader spectrum of markets (Kim, Hwang & Burgers, 1993; Jones, Coviello & Tang, 2011), and to increase profitability. Further, international diversification also helps to stabilise the firm's earnings (Caves, 1982; Zahra, Matherne & Carleton, 2003; Lundvall, 2010), and to increase the diversity and density of networks, helping the firm to obtain key resources economically. These networks also provide marketing, technological, cultural and competitive information that gives a firm staying power in international markets (Zahra, Ireland & Hitt, 2000; Hitt, Ireland & Hoskisson, 2012).

2.3.2. The internationalisation process

In examining how international business starts and develops, some researchers use relatively static models. For example, classic studies by Dunning (1981, 1988) and Hymer (1976) all examine a firm's foray into international markets in terms of situation-specific efficiency considerations, and relative transaction costs and benefits.
When first expanding internationally, firms experience liabilities due to their "foreignness", and the absence of any active presence in the market. They are "missing a shared history and a shared social context" (Arenius, 2005; Falize & Coeurderoy, 2012). Research by Hymer (1976), showed that the liability associated with foreignness and the costs of doing business abroad that results in a competitive disadvantage for a MNE subsidiary, has been broadly identified as an additional cost a firm operating in a market overseas incurs, which a local firm does not.

The consensus view in international business asserts that firms will internationalise on the basis of a definable competitive advantage that allows them sufficient return to break even when operating abroad (Caves, 1971).

The eclectic paradigm developed by Dunning (1981, 2001) brings together elements of previous theories that highlight ownership, location and internalisation (OLI) as advantages that motivate internationalisation. The eclectic paradigm helps to explain the determinant factors of FDI under one scheme. This model provides three sets of advantages that would prompt a firm to internationalise its operations; these are:

- **Ownership advantages**, specific to the company and related to the accumulation of intangible assets, technological capacities or product innovations;
- **Internalisation advantages**, stemming from the capacity of the firm to manage and co-ordinate activities in the value added chain, internally, and that are related to the integration of transactions into multinational hierarchies through FDI;
- **Location advantages** which arise from institutional and productive factors which are uniquely present in a particular geographical area, which accrue when it is better to combine products previously manufactured in the home country with the immovable factors and intermediate products of another location.

According to Dunning (1981, 2001), FDI will take place when the above three advantages occur simultaneously.

In terms of the literature review, other researchers have also provided various reasons for the firm to internationalise its operations. Caves (1993) and Van Hoesel (2013) states that a firm that owns certain intangible assets, in the form of technology or goodwill, which it can move internationally, would be more willing to carry out FDI. Ursacki and Vertinsky (1992) found that the size of the firm would be a key determining factor when considering investing across borders, because internationalizing production facilities entails higher fixed costs and higher risks, and therefore only the larger firms are likely to have the capital to invest in such markets. A recent study by Niñerola, Campa-Planas, Hernández-Lara, & Sánchez-Rebull (2016) confirms that the size of the firm is an important push factor for FDI.
Larger firms benefit from economies of scale and therefore make themselves aware of market opportunities abroad. These companies command the attention of potential host government agencies and financial institutions that may facilitate their entry into foreign locations (Tan & Vertinsky, 1996; Ahsan & Musteen, 2011). Also, firms with surplus or under-utilised resources can be expected to internationalise operations more confidently (Oviatt & McDougall, 1994; Johanson & Vahlne, 1990; Johanson & Vahlne, 2009) and to have the ability to manage international communication and transportation efficiently and the exchange of production and market information among different countries (Stopford & Wells, 1972; Oviatt & McDougall, 1994; Cavusgil, Knight, Riesenberger, Rammal & Rose, 2014).

When markets are expanding, it is possible that an MNE may choose to put off capacity increases in one location or market, while increasing its capacity in another market even before the situation in that market justifies such an expansion. The surplus capacity is supplied to the wider international network, and this requires strong integration of the firm (Holm, Forsgren & Johanson, 2015).

Tan and Vertinsky (1996) found that firms with technological advantages and high research and development intensities carry out FDI in order to compete with rival firms in foreign locations. Technological competencies include superior production processes, and the manufacturing of quality products.

Empirical analyses have also shown that advertising is one of the key determinants firms use when deciding on whether to invest abroad: i.e., firms whose advertising is a source of strategic advantage will allow the firm to retain product differentiation through registered trademarks and brand names and thereby maintain the demand for its products (Caves & Mehra, 1986; Tan & Vertinsky, 1996; Gopal, 2009), which allows the firm to make the internationalisation transition more easily.

The possession of certain key management skills also helps firms to replicate intangible assets in a foreign location, thereby providing the firm with an advantage (Tan & Vertinsky, 1996; Kumar, 1982; Mushkat & Mushkat, 2011). Classical theories have emphasised that the existence of intangible assets and competitive advantages of the investing firms (Caves, 1971; Hymer, 1976; Dunning, 1977) can more than offset the disadvantages of operating in a foreign country. Another consistent finding has been the importance of intangible assets in technological capabilities that supports a firm's competitive advantage over rivals in foreign markets. This advantage permits a firm to engage more effectively in direct investment overseas by transferring these intangible and technological assets to new markets. Such assets reflect a firm's “ownership advantages” (Dunning, 1977).

There is also a propensity for a firm to invest abroad that is associated with its degree of vertical integration, or the ability of a firm to manage and integrate new assets into its existing operations (Tan & Vertinsky, 1996). The incentive also obtains in that internalisation costs are generally lower
for firms with high vertical integration. The theory of vertical integration explains the advantages and disadvantages of an internalised market. It is concerned with the coordination of two sequential stages of production (an upstream activity and a downstream activity), which are connected by the flow of an intermediate product. When the two activities are located in different countries, vertical integration leads to intra firm international trade (Casson, 2012). Vertical integration is desirable in some industries such as mining, whereas with other industries, integration of production in foreign locations can become complicated and cause delays in FDI.

The existence of oligopolies has also been found to be a determinant for foreign investments. Hennart and Park (1993) found that such firms may invest abroad as retaliation against foreign firms that invade their domestic markets, or they may carry out FDI to follow rivals abroad. Cantwell (1995) has confirmed that MNEs are active in developing new capabilities abroad so as to better exploit the locationally differentiated potentials of foreign resources and opportunities (Luo, 2002). A recent study by Hanni, Van Giffen, Krüger and Mirza (2011) and Narula and Pineli (2016) found this to be the case with companies in the renewable energy sector.

Historically, the interface between trade theory and macroeconomics is based on factor price equalisation. General equilibrium models based on the Heckscher–Ohlin framework concentrate on the relation between trade, capital mobility and relative factor endowments (Barrell & Pain, 1998). If barriers to trade generally prevent equalisation of factor prices, then it is expected that profit opportunities are exploited and “the stronger the barriers to trade and migration, and the greater the difference between capital rich and capital poor countries, the greater the incentives for capital flows” (Barrell & Pain, 1998:154).

Zahra, Korri and Yu (2005) showed that institutional and organisational factors prompt international expansion by new venture firms. International expansion helps new ventures achieve growth by capitalising on their unique resources and capabilities, and by helping to acquire new knowledge that gives the company a competitive advantage. Such firms exploit knowledge to create competitive advantages.

Ghoshal (1987) showed that learning or acquiring knowledge is an important objective for firms in their quest for international expansion. Ogasavara and Hoshino (2009) emphasised the same point in their more recent study. However, international diversity can affect technological learning, because variations in competitive, scientific, technological and regulatory environments influence a new ventures’ technological learning (Zahra et al., 2003; Rosenbusch, Brinckmann & Bausch, 2011).

2.3.3. Internationalisation as a sequence of stages

Two frequently cited models describe the internationalisation process as a gradual development, taking place in different stages and over a longer period of time. The models are Vernon’s (1966)
Two seminal pieces by Vernon (1966, 1974) explained the dynamic nature of international trade and investment by creating a product life cycle model. This model hypothesised that new products are introduced and produced in developed countries. As the product reaches maturity and a sustainable standardisation level is reached, the location of production is moved to a less developed country in order to take advantage of the lower labour costs. Vernon (1979) emphasised the role of product innovation, the effects of economies of scale and the role of uncertainty in influencing trade patterns across national borders. He identified different stages in the life cycle of a product, each of which has different implications for the internationalisation of a company and the product itself. Thus, the introduction stage is local, because that is where the product is developed. The company then exports to other industrial countries to achieve production economies of scale. As the company experiences growth, export activities increase and it then invests in manufacturing facilities in countries with an increasing demand for the product, which occurs in parallel with its local (home) market’s reaching the stage of maturity, market saturation, and product standardisation. In the final, declining, stage both manufacturing and demand have ceased to exist in the country of original development and is in decline in the countries in which the parent company had invested.

The Uppsala model by Johanson and Widersheim-Paul (1975) explains that the different steps taken by a firm to internationalise production are based on knowledge acquisition, and learning about the foreign market, which happen before a firm shifts its production to a new location. According to the Uppsala model, the firm will export to the new foreign location using an independent representative company. This is followed by the establishment of a subsidiary, which would be responsible for sales, and finally the firm might eventually establish a production facility in the new location. The assumption is that the internationalisation of a firm develops according to a process of gradually deepening the commitment to the foreign location, and was originally supported by evidence from a case study of four Swedish firms. Thus, the sequence of stages was derived from a restricted set of companies from one specific country’s market. To explain the internationalisation across markets in a variety of countries, it was hypothesised that firms would enter new markets of increasingly greater psychic distance. Johanson and Vahlne (1977) formulated the dynamic model in which the outcome of one cycle of events constitutes the input to the next. The key constructs in the dynamic model are the market commitments and knowledge about foreign markets and operations.

Johanson and Vahlne (2009) revised their Uppsala model by hypothesizing that the traditional view of entry (of overcoming various barriers), is now less important than internationalisation undertaken to strengthen a firm’s position in a network of existing business relationships. Such networks make it possible to identify and exploit business opportunities, and have a considerable impact on the particular geographical market a firm decides to enter (Johanson & Vahlne, 2009).
Johanson and Vahlne (2009) also believe that learning and commitment are strongly related in identifying and exploring opportunities. In their view, the internationalisation process is pursued within a network (Buckley & Ghauri, 2015).

The International Marketing and Purchasing group (IMP) project carried out in the 1970s and concerning international marketing and purchasing of industrial products, used the interaction approach (Hakansson, 1982; Johanson & Vahlne, 2009) which showed that close and lasting business relationships between suppliers and customers are indeed important in internationalisation, and studies by Erramilli and Rao (1990) and Buckley and Ghauri (2015) concur with this finding. A difference between the IMP project and the Uppsala model is that relationship development is a bilateral process that involves two parties who learn interactively and make a mutual commitment to the relationship (Johanson & Vahlne, 2009; Buckley & Ghauri, 2015).

Internationalisation is a linear, sequential process of increasing involvement from a management perspective. The speed at which to expand internationally is a key aspect of a firm's international strategy. Some authors have found that firms are motivated to take a gradual, staged and usually export oriented approach; others undertake a quicker internationalisation path using modes of entry such as joint ventures, subsidiaries and acquisitions, in addition to the more commonly used export oriented approach (Ghauri & Kirpalani, 2015).

Additionally, firms that have previously exported to a specific country are able to capture rents and thereby increase the propensity for the firm to carry out FDI, because by exporting initially to a foreign market the firm is able to gather sufficient information about the market and to determine whether there is sufficient demand for its products to make local manufacture a viable option (Ellis, 2000; Ghauri & Kirpalani, 2015).

The benefits of learning and experience from prior FDI by a firm cannot be underestimated because it realises lower transaction costs and less internal organisational barriers for the firm when embarking on new FDI, and because of the advantage of scope and network economies. (Tan & Vertinsky, 1996; Ogasavara & Hoshino, 2009).

2.3.4. Psychic distance

The link between psychic distance and the internationalisation process was generated by Johanson and Wiedersheim-Paul (1975). As previously mentioned, the Uppsala model proposed the role of psychic distance in the internationalisation behaviour of a firm. Briefly, the more distant the market, the more difficult it is for new firms to learn new roles and to fit into the foreign network. Thus the higher the risk faced by the internationalisation venture on entering the market, the higher the psychic distance experienced (Arenius, 2005). Zaheer (1995) lists four sources of foreignness risk:
• General costs, such as the costs of travel, transportation and co-ordination over distance and across time zones;
• Firm-specific costs based on a particular company's unfamiliarity with a foreign environment;
• Costs arising from the host country's environment, such as tax and registration surcharges (arising from the lack of trust of foreign firms), and from economic nationalism;
• Costs present in the home country environment, such as economic nationalisation, and new government restrictions on foreign investment.

Psychic distance is defined by Vahlne and Wiedersheim-Paul (1977:24) as those “factors preventing or disturbing the flow of information between potential and actual suppliers and customers”. Vahlne and Wiedersheim-Paul (1994) redefined psychic distance as “factors preventing or disturbing [a] firm’s learning about and understanding [of] a foreign environment” (Nordstrom & Vahlne, 1994:42).

The psychic distance concept has been a key factor in explaining expansion strategies of firms (Stöttinger & Schlegelmilch, 1998; Lee & Chang, 2009; Bai & Sarkis, 2010; Covin & Miller, 2014). A sequence of foreign expansion described by various pioneering researchers in the field supports the assumption that companies perform best in foreign markets that resemble their domestic markets most closely. The negative relationship between psychic distance and organisational performance is attributed to the fact that psychically close countries are easier to understand (Cavusgil, 1980; Nordström & Vahlne, 1994; Evans, Treadgold & Mavondo, 2000; Campbell, Eden & Miller, 2012) and therefore the level of uncertainty faced by companies entering such foreign countries is reduced.

Asian firms appear to follow the psychic route in their internationalisation process. This is seen by the growth of the Asian MNE's in the 1980s and 1990s, which resulted in increased inter-regional direct investments (Sim & Pandian, 2003; Dent, 2016; Kotabe, Jiang & Murray, 2011). Sometimes described as the “wild flying geese pattern”, FDI is transferred from one level of Asia’s economy to another, from Japan, to the NICs (Korea, Taiwan, Hong Kong and Singapore), and then to the rapidly growing economies such as Indonesia, Malaysia and Thailand.

Recently, a study by Amighini, Rabellotti and Sanfilippo (2013), found that international guanxi (the system of social networks and influential relationships which facilitate business and other dealings) among the Chinese diaspora seems to be a recognised attraction factor in location decisions; exploitation of relational assets reduces psychic distance with institutionally different countries. Local networks of overseas Chinese nationals are considered a crucial source of information and inherently trustworthy for Chinese companies in a psychically distant market, and their presence or absence can determine the success or failure of the investment or business. Another study by Blomkvist and Drogendijk (2013) found that Chinese outward FDI is influenced by an aggregate construct of psychic distance and other psychic distance factors related to similarities or differences
with regard to language and culture, the level of industrialisation and the level and strength of local
democratic proclivities. These relate to Chinese firms’ internationalisation decisions and processes.

A number of researchers have empirically shown that companies actually perform better in foreign
markets which are similar to their own domestic markets, because being psychically close, such
countries are easier to understand, thus building knowledge and forming networks is easier (Evans
et al., 2000; Campbell et al., 2012) and this reduces the risks associated with entering a foreign
country and in setting up operations (Evans et al., 2000; Nordström & Vahlne, 1994; Cavusgil, 1980;
Johanson & Vahlne, 1977; Nordström & Vahlne, 1994; Evans et al., 2000; Rugman, Verbeke &

Recent findings by Holm et al. (2015) and Ekroos and Sjöberg (2012) confirm that companies
perform better in psychically close countries.

Cultural characteristics and differences have been found by different researchers to have an
influence on different aspects of the internationalisation strategy of individual firms (Johanson &
Morschett, Schramm-Klein & Swoboda, 2010). Similarity in terms of language, education, business
practices, culture and industrial development, results in a reduction in psychic distance and
encourages the internationalisation process. A firm will enter a foreign market that is closer to it in
terms of psychic distance initially, and then expand into markets set at greater psychic distances.

Li and Guisinger (1992) found that the failure of US affiliates was significantly higher when the parent
company was based in a culturally distant country in comparison with those situations where the
parent company was in a culturally similar country. The degree of adaptation achieved by an MNE
is an important factor in determining the MNE’s performance in a foreign location (Evans et al., 2000;
Johanson & Vahlne, 2009). Thus, psychic distance provides a basis from which to explain variations
in the performance of certain MNEs in certain foreign locations by virtue of the fact that lower psychic
distance FDI is associated with greater adaptive capacity.

However, Benito and Gröpsrud (1992), in a study of Norwegian companies, did not find support for
the notion that the first FDI generally undertaken by the Norwegian MNEs takes place in culturally
closer countries. They found that the selection of location by Norwegian MNEs seemed to be based
on rational economic considerations rather than cultural similarities. Also O’Grady and Lane (1996)
found that many Canadian retail companies did not function successfully in the culturally close
environment of the United States, resulting in conflicting views of psychic distance as a pertinent
independent variable in the explanation of FDI.

Although rational economic considerations obviously remain critical in FDI, the larger the psychic
distance, the harder it is to build new relationships in a foreign country, and such relationships are
an important resource for an MNE to function successfully in a foreign locale. (Johanson & Vahlne, 2009). A firm also creates new knowledge through exchanges in its network of relationships, which in turn extends the firm's knowledge base and enhances the probability of success of their FDI (Kogut, 2000; Johanson & Vahlne, 2009).

2.3.5. Market selection

The foreign market entry process requires a number of important decisions to be made, and the selection of a market is a key decision when internationalising. Ideally, the market has to offer more sales prospects than the domestic market. A review of the literature has identified some of the factors that influence the decision to enter a new market. There is, however, no consensus on a complete set of variables that can explain why firms choose to enter or why they reject specific non-domestic markets (Whitelock & Jobber, 2004; Muller, 2007; Lautier & Moreau, 2012).

The elements of a potential host country's location as provided by the classic theories on internationalisation, can be broadly classified into two types. First, there are Ricardian-type endowments - mainly natural resources, labour, and proximity to markets. Second, there exists a range of environmental endowments or variables such as the political, economic, legal and infrastructural circumstances of a host country. Both types of factors play a crucial role in a firm's decision to enter a host country (Kobrin, 1976). The sub-themes concerning the host country's location factors are: market size and economic growth (Aharoni, 1966; Kobrin, 1979; Root, 1987), raw materials and labour supply (Buckley & Casson, 1985); political and legal environment (Kobrin, 1979); host government policies (Goodnow, 1985); level of industry competition in the host country market (Goodnow, 1985), and geographic proximity and transportation costs (Goodnow & Hansz, 1972).

Galan and Gonzalez-Benito (2001), in a survey of Spanish companies, found that two interconnected factors are dominant in market selection: the size of the host market and its potential for growth. Galan and Gonzalez-Benito (2001) found that classical factors such as labour and transportation costs, which are frequently referred to in location theory, appear to hold a certain degree of relevance as regards to market selection. Other factors relevant to market selection are infrastructure, industrial concentration, and availability of workforce, political stability and cultural affinity. A similar study by Alexander, Rhodes and Myers (2011) found that MNEs generally look at host country market growth and home country market size when contemplating international expansion activities and making market selection decisions. However, Papadopoulus (1988) and more recently Yin (2015) (for Chinese firms) came to the same conclusion: both studies found that firms often make their choices of international market on the basis of non-systematic and ad hoc procedures, and do not follow a purely logical approach to identifying key determining factors.
The literature review of external factors affecting decisions to enter a new, non-domestic market for the first time exposed psychic distance as an important explanatory variable, which has been discussed earlier.

A study by Nicholas, Purcell, Whitwell and Kimberley (1996) indicates that the following factors are considered during the process of entering a new market:

- Market characteristics (size and growth)
- Socio-political factors (stability and risk)
- Cultural distance
- Tariffs and trade barriers, and government incentive policies.

Other essential factors, such as reducing the costs of production, distribution and transportation, are a further objectives and motivators for shifting to a foreign country. Risk (political risk, economic risk and social risk) is also an important factor. Most MNEs will not shift to a foreign location that has a high risk profile, but some MNEs will shift production to a foreign location in spite of its risk profile, in order to mitigate their purely economic risk (Foster, Stehrer & Timmer, 2013; Lee, Kuse & Castro, 2005).

Infrastructure availability has to be considered when companies move to a foreign country. There are instances when MNEs will move production to a foreign location to take advantage of preferential treatment, to initiate research and to gather information, or even to establish an international distribution centre in that foreign location (Lee, Kuse, Castro, 2005; Bhat, Paleti & Singh, 2014).

How a company responds to such external factors will also be influenced by the company’s internal factors, including:

- Degree of control;
- resources and human and financial management commitments, and
- the product itself.

The internal factors indicated above overlap each other. The degree of resources and commitment a company is willing to assign to a foreign operation influences the degree of control it will have. If a company wants to protect their product, they will need to assign more resources and demonstrate greater commitment to the enterprise, in combination with appropriate responses to the external factors. Such internal factors also influence the choice of entry mode and strategy used (Foster et al, 2013).

Some of the key factors, which are commonly regarded by firms when entering a new market, are:

- Market size
• Real GDP
• Real Exchange rate
• Psychic Distance
• GDP deflators
• Political and Legal factors
• Natural Resources
• Competitive forces
• Non Market factors, e.g. technology
• Risk
• Infrastructure.

2.3.5.1. Market size

The market is classified as either a “recipient” or an “export” market. A recipient market is one where the demand for products and services is from within the local area to which the firm has moved its production. An export market is one where the demand for products and services is from outside the recipient country, and includes the firm’s country of origin. Sales in the foreign location have to meet expectations (Lee et al, 2005), failing which a firm will move production to another foreign location.

There is general consensus in the research indicating that market size and FDI are causally linked: in other words, the larger the market size, the better the incentive for the firm to invest in the market (Wheeler & Mody, 1992; Svetličič, 2004; Kohler, Zweimüller & Zilibotti, 2013). Recent studies by Dunning (2015) and Kohler et al (2013) found that FDI and market size are causally linked. A larger market also generally enables a more efficient utilisation of resources and affords greater economies of scale (Chakrabarti, 2001; Anwar, Hasse & Rabbi, 2008). However, in spite of these observations, some smaller markets (including Singapore and Hong Kong), have been able to attract significant amounts of FDI because of their developed infrastructure (Dunning & Narula, 1996; Ramamurti & Singh, 2009). Narula and Dunning (2010) found that firms invest in larger markets because the larger market generates higher expectations of fulfilling their desire to capitalise on the resources of the new location, as well as their perceptions that the market opportunities are greater and production cost lower than at home. Ramkishen and Rabin (2009) found that Hong Kong, Singapore, Taiwan and Korea all attracted FDI because of their faster growth rates and developed infrastructure. Firms generally also invest in larger markets in order to benefit from new technology and management styles, and in so doing make their products more marketable globally (Buckley, Devinney & Louviere, 2007).

2.3.5.2. Real GDP

Stopford (1980) hypothesised that a growing number of MNEs show a propensity to invest in countries with per capita incomes higher than that of their home countries. This is because the higher
income also generally indicates a higher propensity to spend. This was confirmed in recent studies by Alfaro and Chen (2014) and Narula and Guimon (2010).

Real GDP growth, indicating that markets are developing and are able to absorb FDI, also influences market selection. Markets that develop rapidly are able to provide more opportunities (Tan & Meyer, 2010). A study by Gastanaga, Nugent and Pashamova (1998), in which data from 49 less developed countries was collected, showed that the GDP growth in these 49 countries over the period of the study was a highly significant determinant in attracting FDI. Similar studies were carried out by Szkorupová (2014), Abbes, Mostéfa, Seghir and Zakarya (2015) and by Tiwari and Mutascu (2011), who concurred that the relationship between growth rate and FDI is significant and positively correlated to market development. However, in contrast Fillipaos and Papanastassiou (2003) found the opposite to hold. In their study of US FDI into the Pacific region of the OECD, they showed that even though the OECD region showed tremendous growth, it was negatively correlated to FDI, because their growing markets provided equally dynamic microeconomic environments for their own companies' products and services, which generally discourages FDI.

2.3.5.3. Real exchange rate

A stable exchange rate is also a pulling factor for foreign investments. Depreciation or appreciation of the currency affects not only FDI but also influences exports and imports. Levinsohn (1996) showed in his pioneering study that exports from Japan increased in response to the devaluation of the yen, and that simultaneously imports were negatively affected, because they were more costly. Therefore, a devaluation of the foreign country's currency promotes exports because of the relatively lower prices of the host country's products, which then stimulates FDI (Lily, Kogid, Mulok, Sang & Asid, 2014; Chen, Rau & Lin, 2006).

Other studies (Takagi & Shi, 2011; Schiavo, 2007) have also proved that FDI increases when the local currency depreciates. Recent studies by Huang, Jiang and Qian (2013), found that the depreciation of China's currency promoted the inflow of FDI. Bilawal, Ibrahim, Abbas, Shuaib, Ahmed et al. (2014) found a similar result associated with the depreciation of Pakistan's currency - an increase in FDI. However, a study by Lily et al. (2014) found that an appreciation of the currency of the ASEAN economies also had a positive impact on FDI inflows. Conversely, when the currency in the foreign market is stronger, it makes the location less attractive for foreign direct investment. However, contradicting the majority of the research results, Gastanaga et al. (1998) showed that exchange rate fluctuations in the host country do not significantly impact the FDI inflows into the country.

And finally, Buckley et al. (2007) found that exchange rate differences only produced a slight difference in preferences for FDI in developing and developed countries: i.e., the exchange rate was
considered insignificant in Chinese outward foreign direct investment to developing countries, but significant when the destination for FDI was a developed country.

2.3.5.4. Psychic distance

Firms prefer investing in locations that are closer to the home market. This principle is supported theoretically by Johanson and Vahlne (1977; 2009), who consider the psychic distance to be the total of all barriers created by geographical separation, cultural disparities between the home country and the host country, and problems of communication resulting from differences in social perspectives, attitudes and language (Johanson & Vahlne, 1977; 2009).

Svetličić (2004) concurred with the above findings with regard to firms from Central Europe, which tended to invest in neighbouring countries that had similar cultural and historical ties. Lau (2013) found a similar trend with MNEs from Hong Kong, and Pradhan (2005) found that Indian MNEs also follow a similar pattern. Kuo and Fang (2009) found that psychic, administrative, and geographic distances were negatively related to location choice by Taiwanese companies, owing to smaller perceived uncertainties associated with investing in mainland China. They also found the influence of psychic distance on location choice reduces with increasing international experience of top management.

Galan and Gonzalez-Benito (2001) also found that there is a propensity for Spanish companies to invest in the European community and in Latin America, which supports the importance of psychic distance or cultural affinity in internationalisation. However, current assessments of and expectations generated by market characteristics also significantly influence decisions to invest. Other features such as the availability of infrastructure or capabilities of local workforce, transportation costs, or political stability, are also relevant but remain secondary to cultural affinity, which remains one of the most important underlying factors (Galan & Gonzalez-Benito, 2001).

NAFTA and the European Union (EU) also attract FDI because of closer networks and better FDI integrations from both forward and backward vertical FDI. Again, EU and Japanese MNEs tend to invest in the United States even though neither is geographically close to the United States, nor do they have recent historical ties. However, English is the dominant language of worldwide commerce and this has generated a degree of cultural commonality.

2.3.5.5. GDP deflators

Fluctuating inflation rates in a market creates an uncertain future for the MNE. A high inflation rate can devalue the local currency and in turn the real value of earning in the local currency. Buckley et al. (2007) and Asiedu (2006) found that low inflation in a foreign market does attract FDI inflows into that market.
2.3.5.6. Political and legal factors

One of the critical issues for managers of MNEs, when investing in countries that are less developed in terms of the IDP model, is the assessment of risk (Wells, 1998; Khan & Akbar, 2013). Wells presents anecdotal evidence that shows that firms are having a great deal of difficulty managing the evaluation of risks and designing appropriate policies for dealing with them.

In terms of the financing of an affiliate in a developing country, the MNE has to consider currency instability, exchange controls, the development of local capital markets, rules on collateral, and the peculiar tax institutions and administrative capabilities of the host country (Kesternich & Schnitzer, 2010).

Production decisions would be influenced by political tensions and the degree of local vertical integration, due to the risk of possible nationalisation of production facilities. Production decisions would also be influenced by the availability of a skilled work force and the propensity (or otherwise) of the workforce to improve its skills.

In countries where the political risk is high, MNEs would rather export to that market (Buckley & Casson, 1981, 2009; Svetlić, 2004) than to invest directly in those countries. Some MNEs from developing countries are more prone to instability because they are exposed to political and economic instability in their domestic markets. A recent study by Haksoon (2010) found that countries with well-defined and protected political rights have higher FDI outflows. Also, countries with high levels of government corruption and low levels of democracy have higher FDI inflows.

Most locations provide several types of tax incentives in order to attract FDI, such as reduced rates or tax holidays on corporate profits, taxes and income taxes. Barrel and Pain (1998) found corporate taxes to have significant negative effects on FDI inflows. Because taxes are controlled by governments, they can be changed very easily, putting MNEs in a difficult position if they set up on the basis of tax incentives alone. A recent study by Nita and Dura (2011) found that the macroeconomic environment's tax factor is able to attract FDI: the tax regime is considered to be important for MNEs when deciding the location for FDI because it has the potential to provide cost savings where income tax exemptions are offered. Researchers Jones and Temouri (2016) found that tax competition between countries is unlikely to deter MNEs from using tax haven-based subsidiaries so long as a large enough differential in corporate tax rates persists.

Jones and Temouri (2016) found that MNEs from the high technology manufacturing and services sectors, with their high levels of intangible assets, are more likely to seek tax havens. Hong and Smart (2010) found that if tax rates are not too high, this results in an increase in tax planning activity, which causes a rise in optimal corporate tax rates, and a decline in FDI by multinationals.
Foreign exchange controls, profit repatriation restrictions, import duty concessions, income tax holidays and exemption from foreign exchange restrictions, longer tax holidays and larger free trade zones are all elements of the FDI decision making process that increase the attractiveness of a location for FDI for the MNE (Li, Qian & Yao, 2015; Rolfe & White, 1992). Trade agreements applicable to certain economic regions can also make a location attractive.

2.3.5.7. Natural resources

Natural resources are an important pulling factor for MNEs that require natural resources. The extant literature is extensive in showing how the availability of natural resources motivates an MNE to invest in a new market.

Dunning (1979) explains that firms undertake FDI in a particular market in order to exploit the natural resources available in the host market. Therefore, countries that have an abundance of natural resources experience a greater inflow of FDI than do less well-endowed countries (Dunning & Narula, 1996; Ramamurti, 2012).

2.3.5.8. Competitive forces

Behrman (1969) showed in his seminal research that firms' investment strategies were affected by the appearance of competitors in the foreign market, in addition to legal, political, economic and cultural environmental influences, which he also tested in his study. Goodnow and Hansz (1972) also showed that the degree of competition from local manufacturers in the market may have an impact on market entry and that the strength of competition from rivals in the host country was a key determinant for MNEs considering entry into a new market (Whitelock & Jobber, 2004).

Industries with high levels of competition and concentration may discourage MNEs from choosing to enter a foreign market, as they may not be able to compete against other well-established MNEs and local producers (Laufs, 2015).

During the screening phase, competition remains an important determinant of the potential market, as are the possible competition and other competitive forces inherent in the market. These include:

- The number, size, and financial strength of the competitors;
- market share of the competitors;
- marketing strategies of the competitors;
- the effectiveness of the competitors’ promotional programs;
- the quality levels of product lines of competitors;
- product source of the competitors;
- pricing policies of the competitors;
- after-sales service of the competitors;
2. Market penetration by the competitors.

2.3.5.9. Non-market factors

Location factors as key determinants of FDI have changed as a result of technological advances, and economic development, and changes in government policies both locally and in host countries. Labour and material, as well as intra-firm communication have become lower priority costs, whereas technology has increased its importance as a driving factor in FDI (Dunning & Archer, 1987), creating a trend for MNE’s to establish a presence in the major centers of technological excellence, to be able to be at the forefront of growing global competition (Dunning & Archer, 1987).

However due to recent developments in world economies and different trends in FDI, the comparative advantage principle as the explanation for FDI has now been replaced by the acknowledgement that other factors are also important (Dunning, 2000; Hosseini, 2005; Galan, González-Benito & Zuñiga-Vincente, 2007). A study by Schotter and Beamish (2013) found that beside the traditional location choice criteria, foreign location decisions by MNEs are influenced by how difficult it is for managers to travel to or live in those foreign locations. Researchers have also found that the location of economic activities will also have a significant effect on longer-term economic prospects. For example, returns relative to scale of investment, and sunk costs can result in an idiosyncratic location choice becoming firmly embedded in the MNI’s global structure. Similarly, externalities between firms and trade liberalisation regimes can change, having an impact on costs that render locations alternately attractive or unattractive (Krugman & Venables, 1993).

2.3.5.10. Risk

Risk is an important factor in market selection, because risk comprises political risk, economic risk and social risk. Political risk is typically the possibility of war or of politically motivated labour strikes. Economic risk includes the probability of changes in the economic conditions, such as exchange rate fluctuation, and the possibility of disruption of financial markets and investments. Social risk includes the probability of societal problems, such as crime, disease, accidents and natural disasters, affecting labour’s ability or willingness to work.

Firms are reluctant to shift production to a foreign location with high-risk profiles. For firms to enter a foreign market and to be successful in that market, Lee et al. (2005) hypothesise that risk, as well as infrastructure, has to be considered as part of the international location selection strategy. Most firms consider moving production to a foreign location to provide themselves with positive economic and business benefits. A study by Nor’ Aznin, Siti Hadija & Mukaramah (2012) found that FDI determinants (i.e., market size, trade openness and human capital) still play a significant role in determining FDI inflows to Malaysia. The availability of infrastructure is an important attractor for FDI.
2.3.5.11. **Infrastructure**

When a firm decides to locate its operational sites in foreign locations, this causes a change in its current logistics processes: they also have to become globalised. This occurs when the firm has to consider the availability and quality of infrastructure in the foreign country before making a decision to move the production to that location (Lee *et al.*, 2005). Logistics is defined as “that part of the supply chain that plans, implements, and controls the efficient and effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers' requirements”. In other words, it is a company’s chain of processes linking procurement to sales (Lee *et al.*, 2005).

A study by Blyde and Molina (2015) found that MNEs look for places with adequate transport and logistics infrastructures in which to locate subsidiaries for manufacturing, and found that countries with efficient and functional logistics infrastructure positively impacts on vertical FDI.

Countries with adequate logistics infrastructures allow for an efficient international distribution network to be maintained, and would include ports as nodes for international transportation, a good system of roads, and easy customs clearance and international distribution operational procedures (Blyde & Molina, 2015). Logistics technologies such as unit load systems and intermodal transportation systems, are all factors considered by firms when moving production to foreign locations (Lee *et al.*, 2005).

Infrastructure, according to Lee *et al.* (2005), refers to institutional, facility and technological infrastructures. Institutional infrastructure includes the rules and regulations of the country, such as its legal system and FDI and trade policies, its taxation system and the effectiveness of its contract law. Facility infrastructure refers to the transportation system (made up of nodes, modes and links), hardware infrastructure, and operation and control as software infrastructure. Technological infrastructure refers to the level of handling skills or automation in use, and includes human skills, logistics expertise and available information technologies. If a firm finds the infrastructure too weak to support its operations, this will be an incentive either not to invest or to move its production to a different location that does have the required infrastructure.

2.3.5.12. **Emerging markets**

MNEs remain wary of emerging markets due to the constant recurrence of the issues of political and economic (in)stability and uncertainty. (Kumar, 1982). Another generally negative factor regarding emerging markets is that they are plagued by corruption and red tape, and are considered to be "slow reformers" (Prasad Kodiyat, 2009).

However, a positive aspect of emerging markets is that they appear to have been relatively well insulated from the effects of the financial crisis in 2007 (IMF, 2008; Prasad Kodiyat, 2009). This
suggests that emerging markets can play a role as target markets for goods produced in industrialised countries, both as manufacturing bases and as destinations (Prasad Kodiyat, 2009) that act as buffers during turmoil in developed markets.

Emerging markets have become the location of choice for FDI for many MNIs because they are fast growing, and they have adequate raw material and labour resources, which tend to be scarce and more expensive in developed economies. However, parallel to the benefits inherent in developing or emerging markets, there are certain challenges, due to weaknesses in the institutional environment, such as their legal frameworks, and commercial law that is not applied consistently or correctly, due to shortages of qualified accountants and lawyers. There is also a tendency for the laws affecting companies to be continuously subjected to change, which leads to uncertainty (Meyer & Estrin, 2007).

Informal institutions in developing economies are also different from those of their counterparts in more developed economies. Traditional value systems are more prevalent and influential than in developed economies: in developing economies, business is still frequently governed by dictates of religion and family. Relationship-based interaction with business partners is also more common, due to a lack of faith and trust in governments, and a wariness of foreign owned businesses (Meyer & Estrin, 2007; Meyer, 2001).

With emerging markets, there is frequently a lack of an effective market for both capital and skilled labour, due to continuous market failures and because these inherent limitations in emerging economies lead to higher transaction costs. There is normally a shortage of adequate technological innovation and skilled management in emerging economies, which forces foreign owned firms to create solutions to overcome these problems (Meyer & Estrin, 2007; Meyer, 2001).

Most MNEs that seek new markets are interested in large and fast growing economies, which emerging economies are able to offer (Meyer & Estrin, 2007; Meyer, 2001).

2.3.6. Internationalisation: Conclusion

In order to boost operating efficiency and to continue to expand business in an increasingly competitive global market, enterprises must internationalise their operations. To influence a MNE’s decision on the location for their FDI, a market has to provide attractive features for the MNE to exploit. The literature review has provided numerous factors usually considered by the MNE. However, there is no complete explanation on why firms internationalise in the first place, and why they choose a specific location for investment and expansion in the second place.

Economic fundamentals of the host country still remain important determinants of the decision-making process, as the literature review suggested, even though there is no consistency as to which
factors are the most significant. An MNE will respond to factors that it feels are pertinent to its decision to internationalise, and may even make mistakes in the process.

2.4. FOREIGN DIRECT INVESTMENT: INTRODUCTION

In the early twentieth century, the world’s savings flowed from Britain to the developing countries of the time, including the United States. Thus, the vast majority of American railroads were financed by British capital. Britain was the primary global provider of foreign investments in the period 1870–1914. It was able to invest because of the large accumulation of savings amassed during the industrial revolution and first global expansion era. However, all that changed in the aftermath of the First and Second World Wars, with the acceleration of decolonisation and third world socialism (Chen & Messner, 2009).

Over the past decade or so, competition has been fundamentally altered by technological advancements and the globalisation of business. The need to balance simultaneously the dynamic tension between the multiple forces of geography, product, market, and technology has resulted in firms extending their presence all over the world for these and a multitude of other reasons, and in a multitude of different forms. As a direct result, international expansion decisions and strategies have acquired increasingly strategic significance (Luo, 1999b; Chen & Messner, 2009).

During the last few years, there has been renewed interest in foreign direct investment (FDI) brought about and enabled by the changing global economic and political environments. FDI is seen as a means of financing development and of transferring skills, knowledge and technology between regions and countries (Jordaan, 2008). By studying the determinants of FDI as presented in the literature, factors influencing the occurrence of FDI and the decisions on whom the recipients are to be will be examined. This chapter will also attempt to identify the determinants of FDI, give an analysis of its trends, and will outline the determinants of factors attracting FDI. In the second part of the chapter, the factors influencing the choice of entry modes used by MNEs will be discussed.

2.4.1. Definition of foreign direct investment

There is no singular definition of FDI; rather, different international organisations and bodies like the IMF, the OECD, andUNCTAD have attempted to define FDI using a variety of methodologies. FDI is generally referred to as the capital flows from abroad that are invested in the production capacity of the economy. It is a preferred form of finance as it does not create national debt, is non-volatile and the return from FDI depends on the performance of the projects financed by the investors. However, the definition of FDI adopted by most countries is that contained in the IMF’s charter (paragraph 359), which states that “FDI is the category of international investment that reflects the objective of a resident entity in one economy obtaining control in an enterprise resident in another economy”. The IMF has set the threshold at 10% ownership of the ordinary shares or voting power
or the equivalent for unincorporated enterprises in order to be considered FDI (Andersen, Ahmad & Chan, 2014).

Equity modes are differentiated by the equity share held by the foreign investor. Foreign portfolio investment is distinguished form FDI by the 10% equity threshold. However, it is not only the minimum 10% investment that then designates a financial transaction as FDI, rather, it is the objective behind the investment that ultimately defines the action (Hofmann, 2013).

FDI, unlike portfolio investments, has long time horizons, and is not generally done for speculative purposes. Rather, its purposes are to serve domestic markets, exploit natural resources or to provide platforms from which to serve world markets through exports.

The importance of FDI for capital accumulation is already great, and growing. International capital flows have become increasingly dominated by flows of private capital which are invested in foreign production through subsidiaries or associates located in several countries. A key aspect is that direct control is exercised over the policies of the subsidiary or associate, ensuring that it implements business strategies in production, marketing, finance and staffing that transcend national boundaries (Hofmann, 2013).

2.4.2. The international environment for FDI

2.4.2.1. Role of the MNE

FDI occurs when there are market imperfections and the MNE must acquire (or be in possession of) some sort of firm-specific advantage (FSA) in order to compete in the foreign location, because domestic enterprises already operating in the foreign location have the knowledge of the economic, social, legal and business conditions in the foreign market. Therefore, to compete favourably the MNE must have firm-specific advantages such as lower costs, management that is more efficient, operational production facilities, product differentiation, and/or an existing distribution network that it can exploit in the foreign market (Hymer, 1960; Kindleberger, 1970; Caves, 1971; Anwar et al., 2008).

An enterprise becomes a MNE when it serves a foreign market because of its innate ownership advantages in the form of intangible assets. These ownership advantages give the enterprise a competitive edge over other enterprises, and allow the enterprise to exploit the benefits of operating in a foreign location. If such benefits are not attainable, the enterprise has to consider other options instead of FDI, such as exporting or licensing (Caves, 1971; Dunning, 1980; Johanson & Vahlne, 2009).

MNEs have to be able to adapt to market conditions, be able to identify resources (and use them efficiently), and also be able to maintain a competitive advantage. MNEs have to achieve a
successful FDI strategy so as to allow the company some growth during its maturity phase, and to assist the company in gaining and maintaining a profitable and competitive position (Scalera & Dumitrescu, 2012). Yamawaki (1991) showed that exchange rates influenced the Japanese MNEs’ decisions to switch from exports to foreign direct investment. His research studied how Japanese MNEs would initially export and later invest in wholesale distribution channels and marketing efforts to increase brand recognition. However, when the Japanese yen appreciated against the host country’s currency, Japanese MNEs tended to establish manufacturing sites in those foreign countries. A study by Raff and Ryan (2008) found that total factor productivity is a significant determinant of a Japanese firm’s initial and subsequent investment, and that large Japanese firms have more investments (greater in number and turnover) than do smaller firms. Other key Japanese firm-specific characteristics prerequisite for FDI were the high intensity of the R&D aspect of the investment, its intended export share and Keiretsu membership (Raff & Ryan, 2008).

Casadesus-Masanell and Zhu (2010) and Acemoglu and Robinson (2008) showed that firms enter a country when the real exchange rate is favourable, and then develop valuable intangible assets specific to the location. However, even if the exchange rate subsequently reverses the previous advantage, the firm will be reluctant to exit unless the depreciation in the exchange rate takes the firm below the rate at which they entered that specific foreign market. Foreign investors may gain or lose from a depreciating exchange rate: the fluctuations may as easily boost exports and provide gains from FDI investments as they may cause input costs to escalate, and profits to diminish.

Thus, foreign MNEs lose profitability when they endeavour to prevent transaction and translation losses when currencies depreciate. If an MNE believes that depreciation will continue after they enter a country, they may conclude that the costs are going to become too high to justify their investments (Dhakal, Nag, Pradhan & Upadhyaya, 2010), and then withdraw/disinvest.

Technology-intensive manufacturing MNEs with significant levels of intangible assets have a higher likelihood of owning subsidiaries in tax havens. MNEs in service industries are in general also more likely to invest (and be based) in tax havens. There are strong incentives for technology-intensive firms to transfer the ownership of their intellectual property to tax havens in order to minimise tax payments at home (Jones & Temouri, 2016).

A paper by Greenaway, Guariglia & Yu (2014) investigated the responsiveness of exports of UK firms to exchange rate uncertainties, and found that the fluctuations had no effect on the decision to participate in export markets; however, the direction of uncertainty, whether an appreciation or depreciation, was expected to be important for exports.
2.4.2.2. Globalisation and FDI

Globalisation has introduced new incentives for MNEs to carry out FDI; particularly technology and knowledge transfers, as well as the rapid adoption of IT and telecommunications innovations have reduced the impact of distance on effective management. Simultaneously, the regulatory liberalisation of previously closed and autocratic regimes has greatly reduced barriers to entry for MNEs (Athukorala, 2002; Yusuf, 2003). An enterprise undertakes direct investment in a foreign location primarily to better serve the local market, and secondly to have access to lower cost inputs (i.e., to get better service from the local market) (Shatz & Venables, 2000; Alfaro & Chen, 2014).

In the former case (to better serve the local market), direct investment is called “horizontal” or “market seeking” since it implies a duplication of production plants that exist in the home market. However, the underlying motive is to economise on tariffs and transport costs. In the latter case, the purpose is to have access to those lower-cost inputs. This kind of direct investment is called “vertical” or “production cost-minimisation” since there is market fragmentation, and the motivation is to economise on production factors so as to maximise profits on each part of the good’s production process (Shatz & Venables, 2000; Christiansen, 2014).

Worldwide FDI is horizontal in nature because it is driven by the motive to increase market share and market size (Shatz & Venables, 2000; Artige & Nicolini, 2005; Christiansen, 2014). A common rationalisation for the existence of firms and their activities, according to neoclassical economic theory, can be found in profit maximisation, expressed as the rate of return on their investments. Investing in international markets helps the enterprise to achieve profit maximisation (Jaklic & Svetlicic, Jaklič & Burger, 2007).

The specific choice of location for FDI abroad will depend on the location’s advantages, including economic determinants, policy frameworks, business facilitation measures and general business conditions (Sikharulidze & Kikutadze, 2013).

Market characteristics such as size, are also found to be important determinants of FDI flows. As markets increase in size, so do opportunities for the more efficient use of resources and the exploitation of economies of scale and scope through FDI. Researchers have shown that FDI flows and market size are associated positively; that is, market orientated, horizontal FDI will be associated positively with growth in demand (Buckley & Ghauri, 2015).

FDI patterns have moved towards a more strategic orientation, requiring a more cross-cultural and globalised approach. The changing trend of FDI has created gaps in empirical academic research work because, as Sethi, Guisinger, Phelan and Berg (2003) observe: “FDI has seldom been envisioned holistically since researchers have often taken different snapshots of the phenomenon, through respective theoretical lenses. Combining two or more perspectives can thus be useful, as
this could yield a more realistic conceptualisation, which offers better explanations for the changes in the determinants and destinations of FDI flows. However the sheer complexity of the international business environment (IBE) does not allow a single model to fully incorporate all FDI factors through time, for all MNEs and for all countries” (Sethi et al., 2003:315).

2.4.3. Historical development and classification of theories on FDI

Contributions to the research base on FDI have emerged from both the classical and neoclassical economic theorists. However, neither school has contributed effectively to advancing FDI theory because classical theory starts by assuming factors of production are internationally immobile, while neoclassical theory uses the paradigm of perfect competition when building models of trade in goods and factors of production. Both aspects have been found to be unworkable in the face of empirical evidence. There are however, key theories that are often cited by more recent researchers. These classic research studies include those by Hymer (1960) into international operations of national firms; by Vernon (1966) discussing product life cycle theory; Caves’ (1971) horizontal and vertical integration] theories; Buckley and Casson’s (1976) internationalisation theory, and Dunning’s (1977) eclectic theory. These theories collectively provide the substance of internationalisation theory of firms, and explain more effectively than others the different reasons for internationalisation.

A pioneering study on FDI is that of Stephen Hymer (1960) in which he described FDI as the transfer of assets by forming subsidiaries or by appointing associates abroad, without losing control of these assets. He also explained that the selection of industries for FDI is not arbitrary or random: gaps in the product and service markets exist, that then encourage specific FDI in a foreign location.

Hymers’ subsequent (1976) study posed two important research questions:

- How does a firm engage in foreign production successfully, given the assumed competitive advantages of local firms in the host country, and
- Why does a firm engage in foreign production instead of selling or licensing to a host-country’s firm the patent or technology or other asset underlying the final product it wishes to sell in the foreign country? (Hymer 1976 as cited in Kapler, 2006:8).

In response to the first question, Hymer (1976) showed that certain firms develop firm-specific advantages (e.g., economies of scale, brand names, or patents), which helped to minimise the international factor when competing against the local firms (Hymer, 1976; Buckley & Brooke, 1992).

The response to the second question is that imperfections in markets lead firms in concentrated (overtraded) industries to engage in foreign production to achieve either or both of the following goals:

- To remain competitive among enterprises located in different countries, and/or
Another early model of FDI is the product life cycle model introduced by Vernon (1966). He suggested that there are three stages for a product: introduction and growth, maturity, and decline (Vernon, 1966). The first stage (introduction) is domestic in nature, because the firm solely serves the local market. As the product becomes popular, the enterprise exports to international markets that are developing, and in so doing, achieve economies of scale. In the second stage (maturity), production is transferred to a location where the enterprise can exploit lower labour and production costs, because, the product having reached a stage of maturity, the enterprise does not need highly skilled personnel for research or development of the product. During the third stage (decline), the product reaches saturation levels and the market becomes very competitive, with production technology being available to and in use by rival companies. The enterprise therefore has a strong inducement to reduce costs and thus moving the manufacturing to a location with lower labour costs makes financial sense (Vernon, 1966).

Kindleberger (1969), and Gokhale and Sinha (2012) showed that imperfect market conditions in competition determine the FDI behaviour of the MNE. The authors identified several areas of market imperfection where firm-specific advantages can provide a competitive edge over local firms by relocating its production to the new host country. Caves, in his 1971 study presented a similar view, in which he defined a market structure that steered enterprise behaviour. Caves (1971) concluded that sectors dominated by oligopolies would attract the most FDI. If an enterprise enjoys product differentiation it will make horizontal investment in the same sector in which it operates, whereas without this differentiation it will opt for vertical investment in sectors that are lagging in output.

Johanson and Wiedersheim-Paul (1975) presented a four-stage process to explain FDI for MNEs, beginning with exports via independent representatives and ending with direct manufacturing in a foreign location. The so-called Uppsala Model posits that firms start their internationalisation process by investing in psychologically close markets, and gradually increase their commitment and geographical reach through a process empowered by experiential learning (Johanson & Vahlne, 1997, 1990; Eriksson, Johanson, Majkgard & Sharma, 1997; Simoes & Crespo, 2002). Luostarinen (1979) argues that internationalisation of an MNE often starts at home, and then through cooperative arrangements with foreign companies, addresses the foreign local firm's domestic market (Luostarinen, 1979; Korhonen, Luostarinen & Welch, 1996).

Markusen (1995, 2002) showed through his research that a firm with firm-specific advantages becomes a multinational rather than a licensor when knowledge capital is easily appropriable by a licensee. Williamson (1981) concurred with Hymer's (1976) theory, suggesting that the firm has the option of choosing internalisation in order to minimise competition rather than promoting transactional efficiency. He also explained that firms opted for international production in industries
that have experienced technological advancement, and because the markets for transferring knowledge have their limitations.

2.4.4. **Dunning's eclectic paradigm**

Dunning incorporated all the pioneering theories discussed in section 3.4 into one model. Dunning's so-called Eclectic Theory (Dunning, 1980) contributes to the theory of FDI by describing a set of conditions which influences the firm's decision to invest directly rather than to export or use licensing. As did Hymer (1976), Dunning maintained that the influencing factors to consider in preferring direct investment over licensing are the oligopolists' motives to maintain market share and to restrain competition, rather than cost considerations.

The eclectic theory (Dunning, 1980) states that a firm will engage in FDI when three conditions are satisfied:

- The firm has ownership of specific advantages in operating in particular foreign markets that allow it to compete in those markets against local firms in the host market.
- The firm is confident that these ownership advantages can be best utilised internally rather than ceded to other firms by means of non-equity transactions.
- There is an advantage in the foreign market with regard to production, and therefore the firm would be keen to exploit these advantages in the host market, rather than to export to the said market.

The eclectic paradigm is a popular analytical framework used by many researchers for studying the determinants of FDI. It postulates that the extent, geography and industrial composition of foreign production undertaken by MNEs is determined by the interaction of three sets of interdependent variables: ownership, location and internalisation (Dunning, 2000).

Ownership advantages of the MNE are realised when the MNE has rights to certain intangible assets such as patents and trademarks, or has unique entrepreneurial skills. These advantages are firm specific and give them the ability to operate in and to overcome other disadvantages in foreign markets. There are three kinds of ownership-specific competitive advantages:

- Those relating to the possession and exploitation of monopoly power, and the industrial organisation;
- Those relating to the possession of a bundle of scarce, unique and sustainable resources and capabilities; and
- Those relating to core competencies of firms such as technological know-how, managerial skills and intellectual property rights (Dunning, 2000).
However, over the last decade there has been a shift in focus and motivation, with MNEs leaning towards knowledge-intensive assets such as innovation and expertise (Dunning, 2000; Liu et al. 2005; Astakhova, DuBois & Hogue, 2010; Anwar et al., 2008). MNEs need to harness, leverage, and process and deploy knowledge-based assets as their core competencies (Liu, Huang & Zhou, 2005; Ghoshal, 1989, 1993). The internalisation component of the ownership, location and internalisation (OLI) paradigm as created by Dunning (2000) suggests that it is more advantageous for an MNE to exploit its ownership and location advantages through internalisation in cases of existing market imperfection (Dunning, 2000; Astakhova et al., 2010; Liu et al. 2005). The need for firms to improve the diversity of the areas of their scientific and technological advantages in order to remain competitive, have shifted the focus and motivation for internationalisation. The firm has to exploit and generate knowledge that occurs through informal and formal collaborations, and via expatriation, scientific alliances and conferences. This has resulted in an increasing number of collaborative agreements between countries and certain firms in endeavours requiring high levels of capital investment as well as knowledge of the use of and investment in technology (Narula & Martinez-Noya, 2014).

MNEs will pursue foreign production when they find that they have distinctive competitive or ownership advantages gained from a number of sources they own or collaborate with, and certain internalisation gains arising from their production facilities in another country. The choice of a location for production will therefore depend on the presence of location advantages which would include economic determinants and certain business conditions deemed conducive for investment. The choice of FDI location ultimately depends on the motivation for undertaking the investment activity (Sikharulidze & Kikutadze, 2013).

Based on the OLI eclectic paradigm, Dunning (2009) explains that the relative attractiveness of FDI locations is determined by investment motivations, which he classifies into four categories: resource seeking, market seeking, efficiency seeking and strategic asset seeking. Different kinds and combinations of investment attractors are needed to attract MNEs to a country (Dunning, 2009).

Dunning’s (1977, 1979, 1980, 1993) eclectic theory of foreign direct investment has linked the firm’s specific advantages and the country-specific advantages. It further provides a general framework for the economic rationale for international production by MNEs. However, the question remains: what are the primary reasons for an MNE to invest in a foreign location? Dunning (1976) attempts to answer this question by identifying three basic reasons: for resources (resource seeking); for markets (market seeking), and for new strategic assets (strategic asset-seeking) (Anwar et al., 2008). These motives are interlinked, and in most cases it is difficult to isolate a single motive for FDI by an MNE because most motives are inextricably entwined with the MNE’s specific advantages (Anwar et al., 2008).
Dunning (1995, 1998) addresses the question of why (and how) firms of a given nationality are motivated to expand their territorial boundaries and to penetrate, by FDI, the territory of firms in another country. He also addresses the question of why firms engage in FDI rather than expanding trade, and attempts to identify their reasons for deciding on a particular location.

In Dunning’s eclectic paradigm (1981, 1988), host country-specific advantages are one of the three types of inducement that prompt international expansion. International expansion is a way of reducing costs and of gaining entrance to a foreign market. Access to international markets allows increased scale of production, resulting in lower unit costs and thereby increased profitability (Harrison, 2011). Technological firms are generally drawn to the same locations in order to benefit from the economies afforded by agglomeration effects.

Agglomeration effects include the provision of a pool of skilled workers, a certain knowledge base which allows the firm to exchange knowledge and technology, and benefits that accrue from technology spillovers. Agglomeration economies are a major motive for FDI (Zvirgzde, Schiller & Revilla-Diez, 2013).

As we have seen earlier, Dunning (1993) proposes three key motivations for MNEs to carry out FDI:

- To seek natural resources
- To seek new markets
- To seek strategic assets

However, empirical and circumstantial evidence (Dunning, 1995, 1998) suggests that the underlying reasons for FDI are of four types:

- Efficiency seeking
- Market seeking
- Resource seeking
- Strategic asset seeking

Dunning (1995, 1998), using his eclectic theory, argues that asset-seeking FDI has become the objective of firms and that efficiency-seeking FDI has increased in relation to other types of FDI in developing countries. Technological capabilities and subsidiaries with an emphasis on special research and development capacity have become vital location factors in developed countries, whereas associates and subsidiaries or special links with suppliers, and other efficiency-seeking FDI motives have become popular in developing countries. Technology has taken centre stage with regard to new developments contributing to FDI types (Dunning, 1995, 1998). Technology has increased the number of asset-seeking FDI events, and contributes to the agglomeration occurring
amongst businesses in the technology sector. Tax incentives remain a crucial incentive for efficiency-seeking FDI (Streak & Dinkelman, 2000; Zheng, 2013).

Market-seeking FDI will be undertaken/permitted by emerging economies for traditional trade-supporting reasons such as accessing distribution networks, facilitating exports of domestic products, and enhancing products from the host country for export to other large and rapidly growing markets (Buckley et al., 2007). Efficiency-seeking FDI will occur when outward investors seek lower-cost locations for operations, in particular in the search for lower cost labour. Resource-seeking FDI from emerging economies occurs to acquire or secure the supply of raw materials and energy sources that are in short supply at home (Buckley et al., 2007).

The study of FDI's exploitation of assets generalises that an enterprise that possesses firm-specific advantages utilises these advantages to invest in new markets to exploit low-cost natural resources or labour. Countries with faster economic growth attract more market oriented FDI, and the size of a host country's markets is the most popular measure used by outsider investors when deciding to invest in that country (Wadhwa & Reddy, 2011). Dunning (1993, 1996) suggested that enterprises seek new markets through FDI for different reasons, including: to expand the existing domestic buyer-supplier relationships in host countries; to pre-empt a competitor in a particular location; to manufacture products close to the domestic market, or to benefit from incentives provided in the host market (Makino, Lau & Yeh, 2002). However, researchers have not been able to identify a definite pattern of motivators for market-seeking FDI in developed or developing countries. Two pioneering studies are relevant here: Lecraw's (1991) study showed that FDI in search of new markets was favoured in developing countries, whereas Kumar (1998), using Korean firms as examples, showed that market-seeking opportunities were sought in developed countries.

Dunning's (1996) four motives for FDI by an MNE are resource seeking, market seeking, efficiency seeking and strategic asset seeking (or capability seeking). These are basically economic determinants and work in conjunction with two infrastructural elements: the host country's policy framework, and business facilitation infrastructure. Unctad's 2015 World Investment Report explains the Unctad policy framework for investments, which include the principles of openness to investment, investment protection and treatment, as well as principles such as the right to regulate and balanced rights and obligations (UNCTAD, 2015).

2.4.5. MNEs FDI in developing countries

The foregoing testifies to the large number of empirical studies that have been conducted on factors that influence foreign direct investment. The literature is extensive in this regard, but also conflicting, with no real consensus having been reached. Most of the researchers use their own individual hypotheses to investigate empirical linkages between FDI and economic variables. The lack of consensus in the conclusions drawn by these empirical studies has resulted in a wide range of
approaches being adopted by researchers attempting to answer the question: why do firms locate production facilities in a foreign location.

Research on MNEs in developing countries has shown that numbers of MNEs' FDI efforts have been motivated by their search for strategic assets. Recent studies have shown that when emerging market MNEs do not have specific advantages and the advantages arising from locally available assets are not significant, they tend to engage in strategic asset-seeking FDI (Li, Li & Shapiro, 2012; Cui, Meyer & Hu, 2014). Research on the rapid growth of Chinese MNEs over the past decade has found that Chinese MNEs pursue FDI with the intention of acquiring strategic assets rather than exploiting existing resources (Liu & Woywode, 2013). The risks posed by geographic distance, as explained in the international business literature, is mitigated by the concept of foreignness, which itself can be minimised through sequential learning about more risky locations; in general the least risky markets are those in neighbouring countries.

This phenomenon correlates with the Uppsala Model, discussed earlier. Research on MNEs from developing countries has shown that they tend to invest regionally, initially: i.e. the investment is normally just across the border, or in countries with which they share cultural ties, and where the psychic distance phenomenon is relatively small (Johanson & Vahlne, 2003; Aykut & Goldstein, 2006; Rugman, 2010). Russia has primarily invested in the countries of the former Soviet Union, and Turkey has invested in both Western and Central Asia. MNEs from both India and China have invested in other Asian countries (Aykut & Goldstein, 2006; Khanna & Palepu, 2006). South African MNEs have displayed similar traits (UNCTAD, 2005). For instance, a long familiarity with the business environment in Europe and strong personal and historical ties with Europe were key reasons for South African MNEs to invest there. However, the revised policy direction of the South African government after 1994 (aimed at strengthening regional cooperation) has led South African MNEs to invest in the region and to show support for the long-held vision of an African Renaissance. FDI in the SADC region was also influenced by the subsequent relaxation of exchange controls.

A pioneering study by Kumar (1982) explains how Hong Kong and Taiwanese enterprises have been setting up joint ventures in member states of the ASEAN region in order to obtain or grow some form of market share in that growing market. Lower production costs as well as availability of natural resources have been attractors for most MNEs from developing countries. For example, Hong Kong firms have invested in both Indonesia and Malaysia to take advantage of the abundance of those regions' raw materials (Kumar, 1982). MNEs from developing countries also favour host countries that are both socially and culturally similar (Kumar, 1982). Another important factor that is apparent from the accumulated research database is political stability. Most MNEs from developing countries prefer FDI in locations that are politically more stable (Kumar, 1982). Hong Kong and Taiwan have expanded overseas more vigorously due to political instability at home (Kumar, 1982). South African trends seem to confirm this notion, with South African industrial and mining conglomerates moving
their headquarters and primary stock exchange listings from Johannesburg to London, looking for long-term political stability (Aykut & Goldstein, 2006).

A report by IMF (2003) stressed that motivation for FDI in developing countries differs from country to country and across economic sectors, although certain general factors are emerging as primary motives for FDI. These factors are:

- Market size and growth prospects of the local market are important determinants, since FDI is undertaken to serve the local market and not to exploit wage differentials.
- Wage-adjusted productivity of labour, rather than the cost of local labour, is the driving motive for MNEs seeking efficiency-driven FDI.
- The availability of infrastructure is important; however, this is not a motive for firms that are able to accept infrastructure limitations.

While tax incentives were not considered a primary FDI factor, a stable tax regime was considered necessary.

2.4.6. Dunning's IDP paradigm model and Ozawa's model

The IDP paradigm introduced by Dunning (1981, 1986) links the net outward investment of a country to its stage of economic development. A country in the first stage of economic development will experience little inward or outward investment. Once a country is in stage two in terms of economic development, it attracts inward investment and engages in outward investment into neighbouring countries that are in stage one, or in other markets that are geographically close to it.

In stage three, net outward investment declines while outward investment increases to countries that are in stage one and stage two, usually to exploit wage differentials and to seek new markets and strategic assets. In stage four of the IDP model, only net outward investment occurs, with local firms now undertaking FDI in foreign locations. In the final stage, a convergence of outward and inward investment flows takes place as firms economise, and shift their focus from factor endowments' advantages to internalising international markets. Dunning and Narula (1996) concede that the IDP pattern may vary depending on country-specific factors, such as resource endowments, home market size, industrialisation strategy, government policy and the organisation of its own economic activities.

Dunning (1986) and Ozawa (1995) describe how both inward and outward FDI adapts to the stage of economic development of the host country. The IDP path (Dunning, 1981) and stages of development (Ozawa, 1992) models indicate that in stage 1, FDI occurs in primary products and labour intensive manufacturing sectors, while in stage 2 of the economic development path, the country attracts FDI in medium to large capital intensive infrastructure sectors. However, these
studies focused only on the linkage between MNEs' FDI motives and the corresponding host countries' stage of development.

Several authors have criticized the IDP model's linkages. For example, Hoesel (1999), Nayyar (2008) and Sim and Pandian (2007) suggest that the IDP concept is vague regarding specific relationships between underlying advantages and patterns of inward and outward FDI, and the stages of IDP.

2.4.7. FDI attractors

A broad range of potential determinants of FDI have been identified by researchers; these include a skilled work force, infrastructure, political stability, free trade, comparative cost advantages in labour costs, taxes and tariffs, and access to natural resources (Nene & Pasholli, 2011).

The cultural and institutional perceptions of a country can influence a firm to internationalise (Buckley et al., 2007). Transparent, consistent and liberal political views towards FDI will encourage FDI, while a discretionary and frequently adjusted policy may do the opposite.

There is an increasing body of research that supports institutional theory (Meyer & Nguyen, 2005). In this theory the firm’s strategy is shaped by local (host) governmental political views (Scott, 2003), and government’s support for granting access to raw materials, both of which help minimise ownership and location disadvantages (Agarwal & Agmon, 1990; Wentzel & Steyn, 2014).

Dunning (1993) identified three common institutional factors that facilitate FDI:

- Liberalisation of the general environment governing trade and investment;
- The presence of incentives intended to attract FDI into specific industries of the host country, and
- Project-specific incentives negotiated with individual MNEs.

Governments have always used tax incentives to influence FDI, and to promote favoured or desired business initiatives. Incentives have also focussed on enhancing positive spillovers form imported technology, which in turn helps to attract other inward FDI flows (Nene & Pasholli, 2011).

2.4.8. Experiential gains

International expansion is challenging, forcing MNEs to reduce their liabilities when operating abroad. But such expansion also provides MNEs with learning opportunities that result in the development of new capabilities. This in turn helps reduce the MNE’s exposure to firm-specific volatilities. Such learning opportunities develop capabilities that are vital for the enterprise's survival and growth in a foreign market (Kogut & Zander, 1992; Luo, 1999a).
Multinational companies are also fertile learning environments, and for cross border knowledge transfer. They also play an important role in knowledge sharing, since mergers and acquisitions provide excellent opportunities for both parent and subsidiary companies to enhance their knowledge bases, as the subsidiary assists in the creation and diffusion of strategically important knowledge (Dobrai, Farkas, Karoliny & Poór, 2012).

Personal experience is important. Marketing managers, or their representatives, should travel to a particular country to experience first-hand the country's culture and business practices. On a first impression basis, at least one can ascertain in what ways a country is similar or dissimilar to your own domestic market or the other countries where an enterprise already trades (Jansson & Johanson, 1988).

Market knowledge is treated as an exogenous variable, since the primary source of that knowledge is exogenous to the MNE (Whitelock & Jobber, 2004). Lack of market knowledge is a critical factor in the decision process to enter a new market (Barua & Chowdhury, 2014). Managers of MNEs rely on their personal assessments rather than on a systematic analysis of a foreign market (Guillén & Garcia-Canal, 2009). This is supported by Johanson and Nonaka (1987) in their research of Japanese enterprises in international markets. They found that managers put more faith on information they obtained directly by visiting the market than they did on results of market research surveys. Ghauri and Cateora (2010) make a similar observation, and state that personal contacts with the anticipated foreign market are cited by many enterprises as the main source of information in international marketing.

Successful MNEs rated personal and own experiences with the foreign market as more influential than objective information (Harrison, 2011). A foreign market strategy prepared by a MNE should incorporate an exchange between groups of people who possess complementary resources and information, and ensure that the economic exchange is preceded by the communication of information regarding the anticipated entrepreneurial opportunity (Dominguez, Lafuente & Poza, 2014). Information is transmitted via the social network theory (Ellis, 2000), i.e., information is spread via social interactions between people, linking them from different groups (Martinez & Allard, 2009; Rogers & Kincaid, 1982; Granovetter, 1973). This grouping generates information benefits, triggering the benefits to the decision-maker (Ellis, 2000), and creates a bridge between individuals with complimentary resources. The literature base provides further evidence of this theory, highlighting the role played by personal contacts with individuals and organisations in going abroad (Liang & Stump, 1996; Reid, 1983; Siu & Martin, 1992). Styles and Ambler (1994) contributed to this theory through their research, where they found that respondents rated interaction and discussion with channel members as their most valuable sources of information. Foreign travel and immigration have also been cited as beneficial in creating awareness of foreign market opportunities (Reid, 1983; Ellis, 2000). Axin (1988) has observed that the decision-maker who is a migrant, and has had prior foreign
work experience, is able to draw upon his personal contacts in foreign markets to facilitate the enterprise’s entry into exporting (Ellis 2000).

2.4.9. Foreign direct investment: Conclusion

Which overall incentives are considered by individual MNEs in their consideration of FDI is not clear. There is an eclectic mix of various measures identified by researchers as reasons for FDI. There is also no individual theory that is able to successfully and holistically explain FDI. The extant research base has shown that MNEs generally avoid countries with poor infrastructure and low levels of political/economic stability. Even if the infrastructure was considered good but the market was smaller than elsewhere, the MNE would apparently be reluctant to entertain such an opportunity. However, an MNE would sometimes exploit a new market even if it was politically unstable and the infrastructure was weak, if their rivals were entering it. Therefore, any holistic approach to understand reasons why MNEs choose specific locations for FDI must include considerations of macro-economic influences, as well as institutional incentives together with the specific MNE’s strategic motives.

2.5. INTRODUCTION: MODES OF ENTRY

Entry mode has been defined as an institutional arrangement for organising and conducting international business transactions, such as contractual transfers, joint ventures, and wholly owned operations. The choice of the correct entry mode into a particular foreign market is one of the most critical international marketing decisions for firms (Andersen, 1977 cited in Youssef, 2007).

International trade involving exporting and importing is the oldest form of international business and is still the dominant activity. Many businesses still prefer to use this form of trade in order to benefit from international markets, even though this form of trade carries significant risks; typically, the firm is dependent on a few international customers or suppliers, and/or on markets with higher levels of risk. Direct exporting and importing involve direct contracts between exporter or importer and the foreign customer or supplier. Exporting and importing are often combined with other modes of entry into new international markets, as MNEs can engage in FDI or a foreign joint venture that then provides an export base for trade with other foreign countries (Harrison, 2011). Strategic decisions dealing with the organisational form of FDI are related to questions of ownership, structure and control (Müller, 2007).

2.5.1. Conceptual background

Emerging world economy dynamics and global competition patterns are now encouraging international investors to use more diverse and creative entry modes (Meyer, Estrin & Bhaumik, 2004). However, Root (1994) contends that entry strategy for international markets is best conceived as part of a comprehensive plan which sets out the objectives, goals resources, and policies that will
guide a company’s international business operations over a future period long enough for it to achieve sustainable growth in world markets.

Once foreign markets have been selected, firms need to choose a mode of entry, as this is critical: the entry decision can affect the success of the firm’s overseas business performance. Firms’ range of choices include exporting, using intermediaries; exporting via integrated channels, or production of their products in the foreign location, either through contractual modes (i.e., licensing or franchising), or via FDI (using joint ventures or wholly owned subsidiaries.) An important consideration when choosing the mode of entry is the level of control that is required. In addition, risk appetite also influences the decision for full control via wholly owned operations, or for shared control (achieved through a contractual arrangement, e.g. a joint venture), and the level of resource commitment the company is prepared to make (Leih & Teece, 2014).

Hill, Hwang and Kim (1990) presented a framework that identified three underlying constructs that would influence the choice of entry mode. These entry modes are classified as non-equity contractual mode (e.g., licensing), equity based cooperative venture (e.g., a joint venture), or a wholly owned subsidiary. Each of these types of entry mode entails different levels of control, which the company can exercise over the foreign operation, the resources required for the foreign operation, and the level of risk experienced (dissemination risk).

The extent to which control, resource commitments and dissemination risk vary with the type of entry mode is summarised in Table 2.1.

Table 2.1: The characteristics of different entry modes

<table>
<thead>
<tr>
<th>Entry mode</th>
<th>Control</th>
<th>Resource commitment</th>
<th>Dissemination risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Joint venture</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Wholly owned subsidiary</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: Hill et al., 1990.

Different entry modes also provide different levels of control over operational and strategic decision making in foreign operations (Luo, 1999b; Morschett et al., 2010), as well as different levels of resource commitment (Hill et al., 1990; Paliwoda & Thomas, 2013).

The choice of foreign entry mode is a difficult decision for senior management; each foreign market entered means a commitment to continuous international expansion, each possibly subject to different levels of control and risk. The choice of entry mode is usually achieved through trade-offs.
A high degree of control can justify an increase in the resource commitment and subsequent profitability, but this is at the expense of increasing risk and reducing flexibility. A low control mode reduces the need to commit resources and increases the level of flexibility, but this is often at the expense of profitability. An intermediate mode (e.g., in the form of a joint venture or through a franchise) may bring a higher degree of control (Ulrich, Boyd & Hollensen, 2012). According to transaction cost theory, firms must select entry modes that reduce overall transaction costs. There are different factors which affect transaction costs when holding companies deal with export partners. These include knowledge spillovers, and the costs of monitoring and enforcing the contract (Ulrich et al., 2012).

2.5.2. Contractual entry modes

Contractual entry modes are long-term, non-equity associations between an international company and an entity in a foreign location that involves the transfer of technology from the host country to the foreign location. The distinguishing characteristic of contractual entry modes is that they are vehicles for the transfer of knowledge and skills to the foreign location. This can lead to the development of possible export opportunities, such as licensing or franchising, later on. However, with contractual entry modes there is no equity investment by the firm.

Firms contemplating expansion into foreign locations have several entry options. These generally include exports, licensing/franchising, joint ventures and wholly owned subsidiaries (including greenfield investments and acquisitions). Each of these modes requires a different level of resource commitment and control, and offers a different return for each risk profile.

Exporting is the process of sending goods across international borders for trade. The firm’s products are manufactured in the domestic market and sent to the host market as direct or indirect exports (Kotabe & Helsen, 2009).

Licensing is a contractual obligation where the firm (the licensor) offers some proprietary assets to a foreign company (the licensee) in exchange for royalty fees (Kotabe & Helsen, 2009). Licensing provides more control than exporting does, as it allows the foreign company the right to produce and sell the firm’s product and returns a royalty fee for every unit that the foreign company sells (Durmaz & Tasdemir, 2014).

A franchising agreement is a contractual agreement between two companies whereby the franchisee pays the franchisor for the right to sell the franchisor’s product and the right to use the franchisor’s trademark, for a contractually determined period of time (Durmaz & Tasdemir, 2014).

Other forms of contractual entry modes involve the transfer of services directly to foreign entities in return for monetary compensation (these could be technical agreements or construction/turnkey
contracts); or in return for products manufactured with such services. Investment entry modes at their simplest involve the ownership by an international company of manufacturing plants or other production units in the foreign location. In terms of the production stage, the foreign subsidiaries can vary from an assembly plant that is dependent on imports of intermediate products from the parent company, to plants that are able to manufacture an entire product (Hill et al., 1990, Harrison, 2011).

Ownership and management control of foreign production subsidiaries may be classified as a sole venture with full ownership and control by the parent company, or as a joint venture with ownership and control shared between the parent company and one or more local partners who are usually local production companies. An international company may also start a sole venture, such as a new establishment, or acquire a local company (acquisition) (Root, 1994; Harrison, 2011).

2.5.3. Greenfield investment vs acquisition

Acquisition is an alternative to a greenfield investment. Acquisition means that a foreign firm (with its head office outside the country) purchases shares of an established firm in the host country, in an amount sufficient to confer an acceptable level of control and return on capital invested. Because difficulties are generally experienced with acquisitions, firms are increasingly looking to greenfield investments, as they provide the investor with space to set up an established and effective operational model. A greenfield investment means the establishment of a new venture in a host country by another firm headquartered outside the country (Kotabe & Helsen, 2009).

Greenfield investments contribute to the local economy and influence competition whereas acquisitions do not; but the existence of competition associated with high rents in greenfield investments makes acquisition a more frequently preferred option. Greenfield is a more costly alternative because an MNE has to bear all costs of entering the new foreign market (Youssef, 2007).

In the hierarchical model of market entry modes, the greenfield entry can be categorised amongst the high equity based entry modes, because it requires a major resource commitment to the overseas location. This usually means setting up a new plant and requires the provision of capital, human resources and the transfer of the firm’s skill and technology. In other words, the MNE uses its own resources and combines them with assets acquired locally. Greenfield entries are categorised under the term of 'wholly owned subsidiaries', because the firm owns 100% of the stock. However, with an acquisition, the firm primarily uses the assets of local firms and combines them with the investors' resources (Youssef, 2007).

FDI creates a stimulus for economic growth as it aids the transfer of technology and skills. This remains the overriding incentive for developing countries to attract FDI, even when a MNE retains full control over its foreign subsidiary. However, there are many developing countries that prefer to retain local control over their domestic firms, and so place certain restrictions on inward FDI. In such
cases, therefore, developing countries prefer greenfield investments rather than acquisitions (Muller, 2007).

The transaction cost theory argues that an acquisition is initially more capital intense an therefore larger firms with access to capital funds will tend to acquire than to undertake greenfield investments. Firm specific technological knowledge e.g. R&D needs to be protected against spillovers. Greenfield investments are more appropriate than acquisitions, as the transaction costs of a greenfield might be lower as the R&D can be installed directly (Kalkbrenner, 2010).

Keil (2013) found that consistent with the prediction of the competitive dynamics research, that acquisition of rivals in a product segment of a firm negatively affects the firms’ performance. A holding company’s acquisition in another segment is the only response to an acquisition by a new entrant that has positive effects. Therefore results of Keil (2013) found that the key response strategies depend on the sources of the competitive pressure and the acquisition response may not be the best strategy.

Diversification is seen as a step into an unfamiliar territory in the same way as the first step abroad. The more unfamiliar the new venture is the greater the uncertainty and the more likely the firm is to play for the greater security of entry by acquisition. Therefore a company which is more diverse will show a higher propensity to use acquisition than other firms (Forsgren, 2015).

Meyer (1998) showed that entry into fast growing industries in transitional economies generally takes place via wholly owned greenfield investments, and not via acquisition, and that it is the most common mode of entry in such circumstances. Buckley and Casson (1998) provided a comprehensive theoretical model which analysed different entry modes, and concluded that both the market structure, as well as the strength of competition in the market, have an important impact on entry decisions.

However, location-specific advantages do play a significant role because, with both acquisition and greenfield modes of entry, MNEs choose to be in the most favourable location (Youssef, 2007).

2.5.4. Knowledge transfer and level of control

Research has shown that agreements between firms almost universally provide opportunities for knowledge transfer. Over the last decade or so, alliances have become a successful form of internationalisation, and an accepted form of creating knowledge, as they provide a conduit for the transfer and exchange of information. The alliance allows a locally established firm to be influenced by the new knowledge and experience of the foreign partner (Khamseh & Jolly, 2014).

Internationalisation theories have shown that MNEs follow a simple-to-complex evolutionary progression when expanding abroad. The tendency in the past was for MNEs to start with exporting
and licensing (Vernon, 1966). More recently, MNEs undertake transactions that involve higher levels of control and require closer interaction with different stakeholders (Oviatt & McDougall, 1994) than required for exports and licensing entrance modes.

In the process of internationalisation, MNEs face uncertainty in the new foreign location, a risk that is associated with the cost of doing business in a foreign country. As the firm gains knowledge through experience and as it builds its own networks, the uncertainty reduces (the firm becomes more familiar with the new market.) This in turn makes subsequent expansion of operations easier to contemplate and achieve, as is increasing resource commitments in other foreign locations. The past experience in a specific location (if favourable) will increase the probability that the firm will choose the same location for further FDI. Previous research has shown a positive relationship to exist between experiential knowledge and the profitability of a firm using past performance at the corporate level as its motivator for further investment (Ogasavara & Hoshino, 2009).

FDI requires capital, technology and experience, and allows for possible spillovers from which the host country can benefit, but there are also trade-offs for the MNE. The spillover could include direct knowledge transfer to local enterprises though partnerships, affording these partners the opportunity to learn from the innovation and experience of foreign firms (and possibly become direct competitors). In addition, the interactions and movements within the labour market also facilitates this knowledge transfer. Domestic firms can also benefit by simply observing foreign firms, and technology diffusion can occur as domestic employees move from foreign-owned to domestic firms. There is also the potential to create alliances between the foreign and domestic firms (Alfaro & Chen, 2014).

If the domestic market for tangible or intangible resources is imperfect, it is often more efficient for an MNE to enter a new market by way of a JV with a local firm. That way, the MNE has almost instant access to some or all of the relevant resources and networks, thus reducing the transaction cost of doing business (Bhaumik, Driffield & Pal, 2010).

MNEs are generally inclined to exercise a high level of control over foreign operations. High control enhances an MNE’s ability to ensure that strategic actions taken by a subsidiary in one national market do not produce negative ramifications in other national markets. At the same time, a high level of control enhances a multinational’s ability to call on its subsidiary located in one market to assist in a competitive battle being fought in another market for the benefit of the entire organisation. Altogether, this suggests that, other things being equal, when a global industry is highly concentrated, MNEs will favour high control entry modes (Kim & Hwang, 1992; Paliwoda & Thomas, 2013).
Different entry modes require different levels of control over the foreign operation, such as the authority over operational and strategic decision-making. If an MNE enters a foreign market via a licensing agreement, the required level of control is low because control over strategy and operations is granted to the licensee in exchange for a balloon payment and follow-up royalty fees, and a commitment to abide by the terms set out in the licensing contract. This is in contrast with a wholly owned subsidiary where control is high because daily operational and strategic decisions are delegated to the foreign subsidiary from the MNE’s corporate head office. With regard to joint ventures, the level of control depends on the terms of the contract that specifies how control is to be shared between the parties (Hill et al., 1990; Paliwoda & Thomas, 2013).

2.5.5. Risk and choice of entry mode

An MNE's foreign entry strategy, whether by establishing a new subsidiary (greenfield investment), by creating a joint venture with another firm, or by acquiring an existing company, is important since an appropriate entry strategy is a critical determinant of the performance and survival of foreign operations (Root, 1994; Johanson & Vahlne, 2009).

Research has shown that the choice of foreign market entry modes should be based on a trade-off between risks and returns. An MNE has to select the entry mode that will provide the best risk-adjusted return on investment. This choice is however influenced by the resources available in the host country, and the firm’s own need for control (Hu, Ma & Zen, 2012).

Country-specific risk refers to the possibility of an economic loss due to the change of political, legal, economic and other environmental factors in the host country. Since an increase in country risk shows greater uncertainty of the host country's environment, there are more possibilities of losses for industrial (manufacturing) firms and thus a higher risk premium is required for entry into the market to become acceptable. Therefore, in recent years international firms have relied on mergers and acquisitions rather than greenfield investments when contemplating this type of FDI. However, when markets fail, the foreign firms encounter losses, as they do not have access to complementary assets; by way of contrast, with greenfield investments, the company is subject to lower risk as the host government considers this form of FDI as a way of increasing employment (Hu et al., 2012).

Entering a new market successfully usually requires considerably more than simply tweaking the home-market formula. Often companies lack the expertise needed to tailor the product or strategy to meet the needs of the new environment. Therefore, many emerging multinationals try to take an easy route to learning by entering into a partnership with a foreign company. But, while some of these international partnerships become successful long-term ventures, more fall apart due to a misalignment of interests or a shift in the partners’ power balance. When that happens, the emergent multinational, as a new and small player, is often left at a serious disadvantage (Bartlett & Ghoshal, 2000; Shenkar, Luo & Chi, 2014).
MNEs are exposed to dissemination risk with different entry modes. This is the risk that firm-specific advantages in know-how will be expropriated by a licensing or joint venture partner (Hill et al., 1990; Paliwoda & Thomas, 2013; Shenkar et al., 2014) leading to a loss of quasi-rents which are earned from such know-how advantages. The dissemination risk is lowest with a wholly owned subsidiary because the subsidiary has the same objectives as the parent which helps in achieving the overall objectives of the organisation (Hill et al., 1990; Paliwoda & Thomas, 2013; Shenkar et al., 2014).

2.5.6. Factors which impact on entry modes

The research base has identified three broad groups of variables that influence the entry mode decision: strategic variables, environmental variables, and transaction-specific variables (Hill et al., 1990; Shenkar et al., 2014). If a global strategy is adopted, the MNE will have to configure the firm’s value chain in such a way that value added at each stage is maximised. If the MNE adopts a global strategy, the strategic objective would include choosing the most efficient entry mode for that particular market (Hill, Hwang & Kim, 1990; Shenkar et al., 2014).

A number of exogenous environmental variables influence the MNE’s choice of entry mode. These include political and operations risks, psychic distance, demand, and competitive conditions that exist in the host market, and that impact upon the resource commitments that the MNE would be required to undertake. If the MNE perceives such environmental risks to be high, it will limit its exposure through limiting ownership in foreign ventures (Hill et al., 1990; Blanco, Wooster & Sawyer, 2014).

The perceived distance between the home and host country in terms of culture, economic systems and business practices determines location familiarity. The greater the perceived distance between home and host countries, the higher the probability that the MNE will favour licensing or a joint venture over a wholly owned subsidiary (Johanson & Vahlne, 1977, 2009; Hill et al., 2014).

Demand conditions also influence the mode of entry. When a host country is in its developing or declining stage, the MNE will opt for licensing. When demand is stable, an MNE will be more willing to commit resources and opt for a wholly owned subsidiary. Competitive environment is another influencing factor in determining which mode of entry would give the MNE optimal benefits.

Harrigan (1988) and Hill et al. (1990) showed in their research that MNEs favour entry modes involving low resource commitments when competitive pressures in the host market are intense. This is further explained by a more recent study by Tang and Liu (2011), who also found that entry into a very competitive market would be best achieved via a joint venture rather than a greenfield investment.
Dunning’s (1981) internalisation theory stresses the importance of firm-specific advantages in know-how when explaining MNEs competitive advantage relative to host country enterprises (Dunning, 1981). If an MNE does not possess firm-specific advantages, an MNE prefers licensing to enter a new market. However, there is the risk of the licensee disseminating that know-how or using it for purposes other than those originally intended, thus reducing the MNE’s quasi rent (Dunning, 2014a). The factors that determine the inherent risk of a licensee to act unethically and to expropriate a MNE’s proprietary know-how are of critical importance. The greater the inherent risk that a licensee will expropriate, the greater the transaction cost the MNE must bear, and the more likely it is that the MNE will favour a wholly owned subsidiary as an entry mode.

Empirical evidence has suggested that wholly owned subsidiaries are the preferred entry mode in R&D-intensive industries where the role of technical know-how in establishing firm-specific advantages is critical. Furthermore, high control is also preferred when there is a more oligopolistic interdependence between local companies (Dunning, 1981, 2014b; Caves, 1982; Shenkar et al., 2014).

2.5.7. Emerging markets and mode of entry

Market penetration in emerging markets is a popular field of investigation for researchers. Most emerging markets, however, require MNEs to both create a both a product and a brand portfolio that are best suited for emerging economies. Important deterrents are the institutional obstacles and the structural weaknesses of local businesses which often inhibit direct acquisitions of such enterprises. Foreign investors have to then pursue unconventional strategies such as brownfield acquisitions in order to acquire local resources.

The brownfield concept is motivated by studies by Tan and Meyer (2010), London and Hart (2003), and substantiated by Estrin and Meyer (2011), who show that developing markets pose both tremendous opportunities and unique challenges for MNEs because conventional wisdom about specific MNEs’ global capabilities and appropriate subsidiary strategy in these emerging markets may be flawed. Further research by these authors clearly indicates that the success of initiatives targeting low-income markets is enhanced by recognising that conventional patterns for developing markets may not occur in such developing business environments.

Strategies that might be more suitable for such markets include developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity (London & Hart, 2003, Estrin & Meyer, 2011).

2.5.8. Conclusion: Modes of entry

The FDI decision primarily concerns the choice of which country to enter. The second decision is what to produce in the foreign market and third, the choice of the mode of entry into the foreign
Market entry is problematic because, from the outside looking in, local business networks are opaque and relationships generally invisible (Johanson & Vahlne, 1992, 2009; Shen, 2015). Success usually goes to those firms that commit themselves to the country they select for FDI and to those that build local operations in response to contextual changes and strategic needs. This commitment ameliorates the liability posed by foreignness and promotes growth in economies that are characterised by tremendous opportunity, pent-up demand, first mover advantages, rapid economic growth, and large market size. This is in spite of the enormous risks, high transaction costs, operational uncertainty, cultural specificity, institutional unpredictability, low information transparency, and low intellectual property rights protection usually encountered in these locations. Such FDI ventures are often embarked on because they present an MNE with the opportunity to become a market leader (Wu, 2014).

2.6. PSYCHIC DISTANCE: INTRODUCTION

When a firm decides to invest in a foreign market it has to first decide which foreign market it will select for its foreign expansion (Sousa & Filipe Lages, 2011), because the international market selection process is an important factor in the internationalisation of the business. It is also one of the most important decisions for managers of MNEs, since getting it right ensures the continued success of the firm (Malhotra, Sivakumar & Zhu 2009; Sousa & Filipe Lages, 2011). Managers therefore have to feel that they understand a market, and are comfortable operating in it in order to justify a foreign direct investment (Johanson & Vahlne, 1977, 2009).

The Uppsala internationalisation process model, which was developed by Johanson and Wiedersheim-Paul and first published in 1975, argues that firms tend to select foreign markets in accordance with their psychic proximity to the home market (Johanson & Wiedersheim-Paul, 1975). The term psychic distance was originally introduced by Beckerman (1956) who explained that firms are dependent for their survival and success on relationships developed with their suppliers amongst others, and through personal contacts. Therefore, even though for example, an Italian supplier could obtain raw materials from either Switzerland or Turkey, he will usually opt to trade with the supplier in Switzerland due to the psychic closeness of Switzerland in terms of language and culture, in addition to the favourably shorter distance.

Johanson and Wierdersheim-Paul (1975) formally defined psychic distance as “the sum of factors preventing or disturbing the flows of information between firms and markets” (Johanson & Wiedersheim-Paul, 1975:308), to explain how managers of MNEs will generally tend towards those countries with which they are familiar, and only then, as they gain experience, will investment be made in markets which are unfamiliar. Psychic distance is therefore the result of perceived differences between the MNE’s home environment and that of the foreign market (Ekroos & Sjöberg,
2012; Azar, 2013), and is therefore considered to be a significant predictor of international market selection (Azar, 2013).

South African firms have evolved rapidly in the new democratic business environment, as they face new challenges. During the apartheid years under the National Party government, South African enterprises stayed home (due to sanctions), a tendency that was reinforced as international controversy about apartheid intensified. Sanctions created an economic quarantine, whereby South African enterprises had to focus their energy on their modest domestic market. The resulting corporate inbreeding spawned an economy dominated by a small number of large corporations (Lynch, 2006; Luiz & Charalambos, 2009). The market limitations in South Africa resulted in a dual economy, i.e. sophisticated capital intensive production processes and capital export dually existed with growing structural unemployment and other features of underdevelopment (Turok & Turok, 2015).

Häkanson and Ambos (2010) investigated potential drivers of perceived psychic distances to foreign locations. They found that these perceptions are influenced by a range of cultural, geographical, political and economic factors, and that the absolute geographic distance accounts for the largest share of the explained variance. This suggested that physical distance should be given a more prominent role when it comes to investigating international business location decisions.

As trade barriers fell, South African enterprises faced new competition in their previously protected home market. They therefore had to explore new markets. FDI in Asia was already reaching its limit as far as North American and European multinationals were concerned. With established markets becoming saturated, multinational enterprises (MNEs) steered towards emerging markets, i.e., markets that are considered to be at the bottom of the pyramid. These markets provided new opportunities and unique challenges (London & Hart, 2003; Luiz & Charalambous, 2009). Africa remained an untapped market, in that economies were so weak that the governments of these countries – desperate to reverse an economic slide – enticed potential investors with attractive incentives, and South African enterprises desperate for new sales responded eagerly (Luiz & Charalambous, 2009; Papadopoulos & Martin Martin, 2011).

Geographically, South Africa is an intrinsic part of ‘the rest of Africa’. Africa thus falls within the realm of comfortable psychic distance, which is defined as those factors, such as differences in language, culture and business practices, that prevent and disturb the flow of information between the enterprise and the world (Arenius, 2005). When borders were opened with the rest of Africa, and trade barriers were removed, it was a perfect opportunity for a country with a developed infrastructure to invest in Africa. Johanson and Valhne (1977) contend that psychic distance influences the internationalisation of an enterprise. The perceived distance in terms of location familiarity (i.e., the shorter the perceived distance, the greater the location familiarity), is the first aspect of the concept
of psychic distance. Perceived distance is also influenced by the level of prior experience in and of that culture (Hill et al., 1990; Ekroos & Sjöberg, 2012). Johanson and Valhne (1977) also provide evidence of the assumption that enterprises perform best in foreign markets most similar to the domestic markets. Physical proximity to countries makes it easier for enterprises to understand the culture and business practices, and reduces the uncertainty and diminishes the risk of the new market (Nordström & Valhne, 1992).

However, South African firms also have extensive investment in Europe, and this can be explained by the fact that Europe is psycho-culturally closer to South Africa than it is to other African countries, as most directors of SA MNEs have cultural roots in Europe (Johanson & Vahlne, 1977; Dow & Ferencikova, 2010).

The end of official apartheid in South Africa in 1994 opened up a new regional movement and space, where the "definition of the possible" for Southern Africa changed and South Africa was reintegrated into the region (Saunders, Lewis & Thornhill, 2009; Vellema & Van Wijk, 2015). New management at some of the South African multinationals, post 1994, were now black, conforming to legislated black empowerment requirements (Miller, 2005; Soderbaum, 2002). The expansion of South African multinationals into other parts of Africa provided opportunities for new regional solidarities. (Miller, 2005; Soderbaum, 2002). The UNCTAD (2015) World Investment Report states that South Africa is the leading African source of FDI (Itano, 2003, Vellema & Van Wijk, 2015).

In this study, we explore the psychic distance concept in a South African context as we focus on whether psychic aspects have influenced the strategic location decision of South African firms in Africa and Europe. Although the general strategic management literature widely acknowledges that top management characteristics influence the firm’s strategic decisions, little is known about how individual South African management’s ethnic background affect strategic location decisions. In this study an attempt is made to develop and test the general thesis that psychic factors as well as the manager’s background influences the location decision of the firm in conformance with the psychic distance concept in that the firm is most likely to enter a foreign location which the manager of the firm would be most familiar with, and then move on to less familiar locations (Dunning & Narula, 2003).

2.6.1. Location – The dependent variable

An intricate part of identifying different locations and identifying the influencing factors of these locations is to pay homage to Dunning’s OLI paradigm or the eclectic paradigm, as it is commonly known, in foreign direct investment literature (Dunning & Narula, 2003). Dunning’s OLI paradigm provides a framework for determining factors which influence the MNE’s FDI decision. In terms of Dunning’s OLI paradigm location factors (L), which become a draw card for MNEs to invest in a specific country, must form part of the MNE’s decision process, because they are an integral part of
the decision process of an MNE. As Dunning emphasises, the "locational configuration of an enterprise's activities may itself be an ownership-specific advantage as well as affect the modality by which it augments, or exploits, its existing ownership advantages" (Dunning, 1998:48).

The motivations for the enterprise to expand beyond borders can be grouped into resource-seeking, market-seeking, and strategic asset-seeking (Dunning, 1993). Host country specific advantages are one of the three types of dominant forces that trigger international expansion. Enterprises are prompted to invest abroad to acquire particular and specific resources at lower real costs than could be obtained in their home country. The motivation for expansion internationally is to make the investing enterprise more profitable and competitive in the markets it serves or intends to serve (Dunning, 1993; Vlysidis, 2008).

MNEs have different strategic objectives for international expansion, and individually all have peculiar purposes for expanding across borders. An important aspect of the investment strategy of MNEs is the location selection, which is the dependent variable when realising the enterprise's strategic goals when expanding internationally. The question is whether the psychic distance is an intrinsic part of the location selection, and whether management’s familiarity with the location is also an influencing factor.

<table>
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<tr>
<th>Psychic factors:</th>
<th>Attitudinal factors plus management's perception</th>
<th>Location decision</th>
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<tbody>
<tr>
<td>Commercial ties</td>
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<td>Political ties</td>
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<td>Geographic distance</td>
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<td>Social ties</td>
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<td>Information availability</td>
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<td>Historic ties</td>
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<td>Level of socio-economic development</td>
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Figure 2.1: The location decision process

2.6.2. Determinants of psychic distance

Johanson and Wiedersheim-Paul (1975) developed the initial concept and proposed the first formal definition for psychic distance. In their efforts to test and measure the construct, Johanson and Vahline (1977) expanded on the original definition to recognise differences in language, education, business practices, culture and industrial development as equally significant, and measured psychic distance by surveys of managements' perceptions (Evans & Mavondo, 2002; Dow & Larimo, 2009). They also expanded on Hofstede's (1980) cultural difference dimensions as surrogate indicators model to explain the concept of psychic distance.

Different researchers have criticized the above model's practical application (Andersen, Ahmad & Chan, 2014), and concur that each individual MNE probably follows its own unique strategy based on its own market research. This suggests that what really drives the foreign direct investment is the
MNE, without conforming to some standard or prescribed set of assumptions. Yet researchers still seem determined to give the concept a practical, operational basis (Prime, Blaikie, Evans, Nadtochiy, James, Dahm & Murphy, 2009), each researcher bringing conflicting findings to the research table, which has lead other researchers to question the empirical usefulness of the concept.

There are two distinct views on how psychic distance should be measured. One school of thought suggests the use of national-level differences to calculate psychic distance. A second school uses individual perceptions as their unit of analysis (Ekroos & Sjöberg, 2012). However, Dow and Karunaratna (2006) found that both national differences and personal characteristics determine the perception of psychic distance, because the two measures are not mutually exclusive.

A wider conceptualization of psychic distance incorporates both national and individual level factors within its framework. In this approach real differences between countries at a national level are regarded as an important reference point for the level of psychic distance experienced by a business person. The research literature shows that these modifying attributes can be either objective characteristics, or subjective characteristics, such as an (Dichtl, Haussteiner, Popenberger, Steinacher & Buchegger, 2011). Therefore, even though the obvious unit of analysis when measuring psychic distance is the individual, the determinants of psychic distance include both national- and individual-level factors.

Due to the limitation of using national differences in determining psychic distance at the individual level, Dow and Karunaratna (2006) propose that such factors be termed “psychic distance stimuli”, because these factors are likely to affect levels of psychic distance held by individual managers, but are not the sole determinants or drivers. The national-level items that Dow and Karunaratna (2006) consider to be important stimuli to psychic distance are:

- Differences in national culture
- Different languages
- Different education levels
- Different level of industrial development
- Different political systems
- Different religions
- Different time zones
- Absence of colonial links.

The above factors are considered likely to increase the uncertainty associated with operating in foreign markets. Therefore, large differences between the home nation and a particular foreign market in these areas can be considered salient because they stimulate higher levels of psychic distance between that market and the home market (Dichtl et al., 2011).
Psychic distance in the Uppsala model presented the following as key indicators of psychic distance:

- The difference in the level of economic development between Sweden and the host countries;
- The difference in the level of education between Sweden and the host countries;
- The difference in business language between Sweden and the host country;
- The differences in cultures and languages;
- The absence of previous trading channels between Sweden and the prospective host countries. Clearly, psychic distance has the potential to influence FDI decisions made by the firm’s management.

2.6.3. The psychic distance concept

Psychic distance, as a term, has been used intermittently by different researchers, because it is a key variable in predicting and managing international business expansion. However, there has never been a consistent measurement of the concept by any of the researchers as can be seen from 5.3 above. Rather, any attempt at measuring psychic distance is littered with results borrowed from different studies that have each attempted to give concrete form to the concept. Both Hofstede (1980) and Sethi (1971) feature prominently across the research base, but Hofstede is generally considered the more authoritative author.

Hofstede (1980) conducted a survey of IBM employees worldwide, in order to try and give the psychic distance concept physical world relevance. Hofstede’s study identified 4 dimensions that showed significant differences. Although Hofstede has in 2011 increased the number of dimensions to six, these are less well substantiated than the original four and require further corroboration. These dimensions are uncertainty-avoidance, individuality, tolerance of power distance, and masculinity-femininity. Hofstede (1980) created ordinal scales for each of these dimensions using standardized factor analysis for each foreign market, based on a longitudinal survey of IBM employees. However, Hofstede’s (1980) study had certain inherent limitations, because assumptions were made regarding cultural distance, particularly that it was stable and symmetrical between countries (Ellis, 2007). Furthermore, his measures did not deal with differences in language, education, political and legal systems or levels of industrial development, thus making it very limiting, and according to some researchers, this challenges the appropriateness of the measure (Khairullah & Khairullah, 2013; Dow, 2000).

Sethi (1971) used cluster analysis on 29 interval and ratio scaled variables for 91 countries. The variables related to politics, economics, trade, transportation, health and education.

Boyacigiller (1990) contributed to the operationalisation of psychic distance by introducing other factors that should be included in the measure of psychic distance. He suggested factors such as
dominant religion, business language, form of government, economic development and levels of emigration, whereas Evans et al. (2000) and Dow and Karunaratna (2006) suggested that language, business practices, political and legal systems, education, economic development, marketing infrastructure, and industry structure should all be considered when trying to establish the psychic distance measure between countries.

A study by Brewer (2007) is unique because he made use of a more comprehensive approach to measure psychic distance and thereby to test the validity of the psychic distance theory. Brewer (2007) suggests the use of key elements that can be applied to measure the psychic distance between the country making FDI and the intended host country. To test the instrument, psychic distance values were compared with actual market selections made by a group of Australian exporters. The results supported Brewer's (2007) psychic distance index, as a valid prediction of location choice.

Brewer (2007) also introduced an index that can help measure the “information flows” (Johanson & Vahlne, 1977). Following on Lockwood's (2004: 507) suggestion, that variables for the psychic distance index be based on “subjective judgement plus data availability”, Brewer (2007), in his attempt to create the index, took cognisance of different factors in the country of origin of the MNE, as well as other relevant variables.

Brewer (2007) proposes the following measures for his psychic distance index:

<table>
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<tr>
<th>Measure</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Commercial ties</td>
<td>The existing commercial relationship between countries based on exchange of both goods and services. Where there are existing commercial exchanges, these will add to the overall knowledge of such countries and the MNEs operating in these countries.</td>
</tr>
<tr>
<td>Political ties</td>
<td>These can enhance relationships between countries and thereby reduce the psychic distance for MNEs.</td>
</tr>
<tr>
<td>Information availability, trade agreements, defence treaties, levels of diplomatic exchange and aid programmes</td>
<td>Because they create awareness between countries, and add to the flow of information.</td>
</tr>
<tr>
<td>Historic ties</td>
<td>Because countries that share historical ties (for example a colonial relationship), tend to be close psychically; the countries are mutually familiar.</td>
</tr>
<tr>
<td>Geographic ties</td>
<td>The actual geographic distance between two countries – the further the distance, the greater the psychic distance. Beckerman (1956) found that geography has a favourable effect on commercial exchange between countries. The geographic distance, as suggested by Brewer (2007), is measured by the distance between ports of the two trading countries</td>
</tr>
<tr>
<td>Development of the country</td>
<td>A country, which is highly developed, will have more information.</td>
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Using the above measures, Brewer (2007) created an index measuring psychic distance between Australia and twenty-five other countries. Brewer (2007) tested his psychic distance index empirically, by comparing statistics on the number of Australian exporters selling into each of the twenty-five selected countries, and found a significant level of predictive accuracy.

Dow (2000) provided a different perspective on some of the aspects of the above studies by asking a sample of 315 Australian exporters to rank the first five foreign markets to which they had exported products. A confirmatory factor analysis was then used to validate the response on a single item scale. This was then given to ten senior trade commissioners from Australia’s government trade organisation (Austrade). The single item scale was rated on a ten-point scale using the psychological distance between Australia and the 25 other foreign locations.

Two other measures, which are commonly used as predictors of market selection, the size of the target market (using GDP of the country), and the growth rate (calculated using the compound annual real growth rate in GDP), were also used for each country. A multiple regression model was used to predict which market would be selected. Dow (2000) used the perceptions of the 10 Australian Trade commissioners, and their results were compared with an instrument based on Hofstede’s (1980) cultural dimensions, which measured the cultural distance from Australia to the 25 selected countries. The panel-based result was also compared to Sethi’s (1971) market similarity study. The result confirmed that psychic distance is an important predictor of international market selection.

Dow (2000) also tried to test whether cultural learning shortens the psychic distance between countries, by hypothesising that that the selection from the expert panel of Australian trade commissioners should show a lower distance than that of markets not selected by the panel. Dow (2000) concluded in his study that both the results of the panel of Australian exporters and the actual geographic distance as measured from port to port in kilometres are significant predictors.

Ellis (2007) also attempted to measure the psychic distance to a potential market by examining the effects of distance on the internationalisation strategy of Chinese exporters. Ellis’s (2007) study was used to determine the costs of distance, which included the cost of shipping goods to foreign markets and the cost of learning about the markets. These two factors translate into the geographic distance and the cultural psychic distance. Geographic distance is the cost of transporting goods to new

<table>
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<th>Measure</th>
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<tr>
<td>Social ties</td>
<td>Differences in language and culture affect the inflow of knowledge and therefore increases the psychic distance between countries</td>
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<th>Measure</th>
<th>Explanation</th>
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<td>about it available, because it has “available sources of commercial intelligence” and it will therefore be psychically close to all other countries. A more developed country also tends to have a more conducive business environment, and less corruption</td>
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markets plus the depreciation of the goods in transit (Limão & Venables, 2001; Ellis, 2007). Hummels’s (2000) study helps to understand these costs by providing estimates of the costs of delays in shipping, which he showed could lead to a decrease in trade profitability by 1.5%.

In terms of learning about markets, Ellis (2007) found that some MNEs have measured distance in terms of culture rather than kilometres (Benito & Gripsrud, 1992, Dow, 2000; Ellis, 2007). Confirming Johanson and Wiedersheim-Paul’s study (1975), Ellis (2007) found that the greater the psychic distance to a market, the greater the uncertainty. International researchers including Ellis (2007) used data from Hofstede's (1980) study to measure the psychic distance from a cultural perspective.

Recently, researchers have attempted to operationalise the psychic distance aspect of the process. Sousa and Filipe Lages (2011) developed a new measurement scale to assess psychic distances, and to investigate the impact of the psychic distance scale on the adaptation of international marketing strategies. They found that psychic distance is generally based on two dimensions (country distance and people distance), and that these were positively associated with cultural distance. Another study by Nebus and Chai (2014) emphasised that psychic distance must be centred on the firm’s managers, and must explain how their cognitive limitations and perceptions interact with the foreign location to influence their decision making. A study by Hutzschenreuter, Kleindienst and Lange (2014) demonstrated that psychic distance factors have a significant effect on the firm’s performance, and as a result, impact on the firm’s international expansion decisions. They also found that governance, cultural and geographic distances all have a negative effect on a firm’s performance.

2.6.4. Management’s perception

Different researchers have used different measures for psychic distance, while using similar macro-variables, creating ambiguity by the overlap of the macro-variables. This has highlighted the need to create a set of variables that can be consistently used because of its high validity aspect, and because it includes management’s perceptions. Culture, language, education levels, industrial development, political systems, religions, time zones and past colonial links have all been used to measure management's perceptions (Dow & Karunaratna, 2006; Evans et al., 2000).

Dow and Karunaratna (2006) attempted to resolve this problem by suggesting a different way of measuring psychic distance. They proposed dividing psychic distance into two distinct measures. The first uses the macro-level indicators, such as language, culture religion, as suggested by previous researchers (Johanson & Vahlne, 1977; Evans et al., 2000). The second measure uses management’s perception of psychic distance, using cognitive mapping (Dow & Karunaratna, 2006). They also used a multiple regression model, based on experiences/perceptions of enterprise managers from 38 countries, and then tested Hofstede’s dimensions (as indicators of psychic distance measures), against a dependent variable which was the machinery export trade flows
between Australia and the other countries during the period 1993-1998. Dow and Karunaratna's (2006) study showed that a single composite measure using Hofstede's cultural dimensions can be a minor component of the effective measure of psychic distance stimuli and that geographic distance is still the most influential trade inhibitor.

Prior international research with regard to the internationalisation of the firm highlights the importance of the manager and of his perceptions of foreign direct investment (Sousa & Filipe Lages, 2011). Managers' perceptions of the advantages or complexity of the foreign market will influence the strategic decision-making process for the firm with regard to its foreign direct investment. Managers' perceptions of the differences between the home and foreign markets help explain the degree of investment and control of partners and subsidiaries in the foreign market (Sousa & Filipe Lages, 2011). Therefore, managers' perceptions of the psychic distance to a foreign market will impact on the level of their investment (Aggarwal et al., 2012).

Management's perceptions of cultural and business differences that add to psychic difference are important because they are the perceptions which will shape the final decision on whether to invest in a foreign market or not (Ekroos & Sjöberg, 2012), confirming in the process that perceptual measures of psychic distance are also key predictors of FDI, over and above macro level variables (Sousa & Filipe Lages, 2011; Zhao, Luo & Suh, 2004; Dow & Karunaratna, 2006).

However, the question now is how to operationalise management's perceptions. Most researcher used Hofstede's (1980) cultural index as the indicator of psychic distance (Child & Rodrigues, 2005; Dow & Ferencikova, 2010; Dow & Larimo, 2009).

Brewer (2007) measured psychic distance by using mostly national level indicators from publicly available data sources, and did not consider subjective differences and individual-level perceptions in the decision-making process (Sousa & Filipe Lages, 2011; Whitelock & Jobber, 2004). In so doing, he was ignoring the perceptual nature of the psychic distance construct (Sousa & Filipe Lages, 2011). It seems reasonable, however, to operationalise psychic distance for investment purposes, in terms of management's perception of the psychic distance of a foreign location.

Fletcher and Bohn (1998) explained the concept of psychic distance further by determining what influences management's perception of which market to enter. Barret and Wilkinson (1985) found that the age and internationalisation experience of senior executives was an influencing factor, as well as their education background (Barret & Wilkinson, 1985; Fletcher & Bohn, 1998). Internationalisation experience, country of birth, and frequency of business trips were other key influences described by Fletcher and Bohn (1998) and by Barret and Wilkinson (1985).

Knowledge of the international market, with previous exposure to and experience with international transactions, was also a prominent factor in driving senior executives to undertake foreign direct
investment (Fletcher & Bohn, 1998). Reid (1981) showed that management's choice of a foreign location is influenced by their knowledge of the foreign language, previous overseas travel, being a foreign national and their level of education. A company generates more foreign direct investment if management possesses the above characteristics. Management’s characteristics help to reduce the degree of psychic distance because they are familiar with the risks facing a company in a foreign location (Fletcher & Bohn, 1998).

Greve, Nielsen and Ruigrok (2009) found that firms entered new international destinations because their top management had international profiles and international business experience. Another paper by Clarke, Tamaschke and Liesch (2013) found that firms that had already gained international experience were better able to internationalise, and the presence of management that had been exposed to international business impacted on the international strategy of the firm. Nielsen (2010) echoes this sentiment in her study, as she also found that top management’s international business experience leads to subsequent foreign market entries, which in turn are positively related to the firm’s performance.

2.6.5. Conclusion: Psychic distance

In order to measure psychic distance, a uni-dimensional construct is generally used by most researchers, with a limited number of items and without any empirical measure (Dow, 2000). The literature does support a multi-dimensional interpretation, even though a uni-dimensional construct is still favoured (Sousa & Filipe Lages, 2011; Dow & Ferencikova, 2010).

This study is intended to expand on the current situation by testing indicators developed by Brewer (2007), which include differences in language, religion and political systems and adding positive indicators. These factors influence management’s perception of psychic distance, and strongly influence which markets are selected for foreign direct investment, and will thus be the first dimension of the measure.

The second dimension will consist of consumers’ characteristics in the foreign market (Sousa & Filipe Lages, 2011; Evans & Mavondo, 2002). Katsikeas, Samiee and Theodosiou (2006) recommend using a two dimensional measure of the psychic distance concept, using both macro-environmental factors (that consist of economic and legal characteristics), and micro-environmental factors (that consist of customer characteristics such as lifestyle, consumer preferences and customer attitudes and traditions). By incorporating a two dimensional measure of the psychic distance concept, the influence of both the country’s and the people’s characteristics are addressed, and this is consistent with the psychic distance definition.

A third dimension to be included in the measure is management’s profile (age, cultural background, education, and work secondments in a foreign country). This index is discussed in Chapter 4.
It is these characteristics of management that are key drivers of the FDI of a multinational enterprise.

2.7. FORMULATION OF HYPOTHESES

The challenge is to identify a set of relevant and empirically significant determinants of FDI that can be generally (or holistically), applied across the board.

MNEs have different strategic objectives for international expansion. MNEs all have peculiar and individual purposes for expanding across borders. An important aspect of the investment strategy of MNEs is the location selection, which is the dependent variable when realising the enterprise's strategic goals when expanding internationally.

Based on the above, the following hypotheses are therefore proposed:

- H10 There is an association between South African multinational enterprises' FDI strategy and perceptions of the salience of specific pertinent factors by senior executives when choosing a country to invest in.
- H1\textsubscript{a} There is no association between South African multinational enterprises' FDI strategy and perceptions of the salience of specific pertinent factors by senior executives when choosing a country to invest in.
- H20 The primary FDI strategic goal of South African multinational senior executives is strategic asset seeking.
- H2\textsubscript{a} The primary FDI strategic goal of South African multinational senior executives is not strategic asset seeking.
- H30 Senior executives of South African multinational enterprises prefer primary information obtained through personal contact with the FDI object market than information obtained from secondary sources.
- H3\textsubscript{a} Senior executives of South African multinational enterprises do not prefer primary information obtained through personal contact with the FDI object market than information obtained from secondary sources.

Whether it is Africa or Europe, the location decision is the most complex decision that managers must consider. Each location presents unique factors, which can influence the decision of the MNEs' internationalisation process (Dunning, 1988; Dunning & Narula, 1996). South African MNEs' predominant FDI is in Africa and the European Union, two continents that are economically highly divergent.

The psychic distance concept maintains that enterprises start their internationalisation strategies in markets that are geographically and culturally close to the MNE (Johanson & Vahlne, 1977; Arenius,
However, enterprises change entry modes and structures as they gain experiential knowledge in a particular market (Meyer, 2005b). They then gradually also move to other markets at successively greater distances (Arenius, 2005). Psychic distance is defined as factors, such as differences in language, cultures and business practices, which prevent and disturb the flow of information between the enterprise and the market. As the psychic distance increases, the information flows become more problematic. Only through experiential learning can enterprises overcome the psychic distance, and, because learning takes time, the internationalisation process of new enterprises tends to be gradual and incremental (Arenius, 2005).

Several authors contend that there are many factors that nudge an enterprise to internationalise; however, both proactive and intuitive factors play a decisive role (Peiris, Akoorie & Sinha, 2012; Liu, 2012; Papadopoulos & Denis, 1988). In an overwhelming number of cases, there is a general tendency to favour the MNE's immediate neighbours, because geographic proximity is also likely to reflect cultural similarity. A clear indication of this phenomenon is that enterprises from both the US and Canada who started to export to each other without considering other factors (Crookell & Graham, 1979).

Previous studies have suggested that location familiarity is significantly related to the choice of market entry mode. Enterprises with greater location familiarity are more likely to invest directly in a familiar market (Hill et al., 1990; Ekroos & Sjöberg, 2012). Location familiarity will reduce the perceived distance between the home and host markets. Studies have shown that enterprises that enter a country that is culturally different from the home country tend to be reluctant to adopt a FDI mode. Therefore, experience with the host market is likely to be an important factor influencing the choice of market servicing mode (Hill et al., 1990; Ekroos & Sjöberg, 2012).

Extending the above findings with regard to psychic distance – which has a special relevance in this study – is the concentrated FDI by SA MNEs in Africa and Europe. An important factor, in which all previous studies have converged, deals with the basic principle that management feel more comfortable when the psychic distance is shorter; that is, enterprises generally wish to expand to a country that is geographically and socio-culturally closest to their own. This will help explain the investment in Africa and Europe: Africa, because it is geographically closer, and Europe, because it is socio-culturally closer to South Africa. However, over time and with experience, the geographic scope can be expanded (Arenius, 2005; Johanson & Vahlne, 1977; 2009).

Kaplan (1983), Muritiba et al. (2010) and Harrison (2011) carried out research on MNEs from Argentina and India – both of which are developing countries – and showed that both countries have a tendency to follow the entrenched principles of the psychic distance phenomena of investing close to the home markets. However, SA MNEs established before 1994, which are therefore older and more developed, have shown a tendency to invest in the advanced capitalist countries, particularly
in the UK and Europe (Mtigwe, 2004; Chabane, Roberts & Goldstein, 2006). The new SA MNEs favour the geographically closer markets, i.e. Africa (WIR, 2015), due to changing dynamics (cultural origins) of management, influenced by the Black Economic Empowerment Act no 53 of 2003, which legislates certain requirements for transformation. There is also an important influence, in the form of the King III report (2009), which prescribes racial and cultural diversity with regard to the composition of the board of directors. Compliance with King III is compulsory for listed companies; otherwise they will be transgressing Johannesburg Stock Exchange requirements, and could be delisted.

Based on the above considerations, the following hypothesis is presented:

H4_0. Senior executives of South African MNEs consider psychic distance as important in their choice of country for FDI.

H4_A. Senior executives of South African MNEs do not consider psychic distance as important in their choice of country for FDI.
CHAPTER 3
RESEARCH METHODOLOGY

3.1. INTRODUCTION

This study is concerned with the critical decision facing multinationals regarding choice of foreign location for their investments. While published studies have identified different variables and factors which can impact on the choice of location, this study attempts to examine the process from a psychic distance perspective, and to show that there are other significant variables that can influence multinational companies in their decision-making processes.

Environmental and transition-specific factors play a central role in a multinational’s location choice. However, psychic distance from a possible foreign location and management’s collective psychographic profile are the key constituents of the strategic decision to set up their own wholly owned subsidiary organisation overseas.

The approach for this investigation is explanatory and comprises a quantitative (nomothetic) research tool, and for further conceptual validation, qualitative (idiographic) information has been gathered so as to generate validating insights into the process followed by management when choosing a location for FDI. Accordingly, the study employs a mixed method study. "Mixed methods research…. [is] broadly defined to include research in which more than one paradigmatic or methodological approach, method of data collection, and/or type of analysis strategy is integrated during the course of undertaking the research, regardless of how those approaches or methods might individually be classified, and with a common purpose that goes beyond that which could be achieved with either method alone” (Bazeley & Kemp, 2012:55).

All too often nomothetic and idiographic research methods have remained mutually exclusive alternatives in business research. This is due to the different skills required of the researchers involved, and their different attitudes towards the validity of the methods used (Coldwell, 2007).

Despite this, it has now become a common phenomenon to combine both nomothetic and idiographic techniques within a single research approach (Coldwell, 2007; Strauss & Corbin, 1990) by using a triangulated methodological synthesis to find explanations that are both causally adequate and adequate on the level of meaning. The triangulation combines the nomothetic and idiographic approaches by providing a methodological (provisional) synthesis and an explanation of the interrelations between these paradigms that would be causally and meaningfully adequate (Coldwell, 2007). Triangulation thus enriches the quantitative output with input from the qualitative interview data, thus allowing researchers to combine possibly disparate research results, thereby delivering an output that is more insightful.
This chapter begins with a brief explanation of the research design used. The overall methodology is then explained. The chapter also addresses the methods adopted for gathering data and analysing the results, and explains the rationale for the chosen approach. The purpose of this chapter is to demonstrate that comprehensive, systematic consideration has been given to the research method employed, as well as illustrating how the research was designed, in order to achieve validity.

3.2. RESEARCH DESIGN

Research design is the plan and structure of an investigation, so conceived as to obtain answers to research questions. It shows both the structure of the research problem and the plan of investigation used to obtain empirical evidence on aspects of the problem (Cooper & Schindler, 2011). A successful research design will therefore accurately address the central research questions. According to Kawulich (2009), the research design is the structure of the research project, created so as to solve a particular problem. Design is largely concerned with controlling potential sources of error in a study. The research design used to conduct this research is discussed next.

For the purposes of this study, the researcher conducted an empirical study, involving a survey instrument and personal interviews, and validated by triangulation to gain insights into the factors considered by senior management at South African MNEs, in order to arrive at sound conclusions.

This study used both a literature study (review) and empirical research. The nature of the research question called for a purposive research design to help answer the research question. A mixed method research design was adopted in which qualitative and quantitative data were collected and analysed. The development of mixed method research theory has allowed for a dynamic interplay between practical research and disciplined theoretical (traditional) research designs (Greene, 2008). For this study, a mixed method sequential explanatory design was adopted.

The mixed-methods sequential explanatory design consists of two distinct phases: quantitative data collection and analysis, followed by qualitative data collection and analysis (Creswell & Clark, 2007). Using this approach, a researcher first collects and analyses the quantitative data and then the qualitative data are collected and analysed: the qualitative results elaborate on the quantitative results obtained in the first phase. The interplay between the first (quantitative) and second (qualitative) phases during the intermediate stage is resolved by using triangulation. The rationale for this approach is that the quantitative data and their initial analysis provide a general understanding of the research problem. The qualitative data and their analysis refine and explain those initial statistical results by exploring participants' views in more depth (Marshall & Rossman 2014; Tashakkori & Teddlie 1998; Creswell& Clark, 2007). Table 3.1 below provides an overview of the mixed method sequential explanatory design discussed above.
Table 3.1: Sequential explanatory design

<table>
<thead>
<tr>
<th>Phase</th>
<th>Procedure</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative data collection</td>
<td>Cross sectional web based survey</td>
<td>Numeric data</td>
</tr>
<tr>
<td>Quantitative data analysis</td>
<td>Analysis using SPSS</td>
<td>Descriptive statistics</td>
</tr>
<tr>
<td>Qualitative data collection</td>
<td>In depth interviews</td>
<td>Interview transcripts</td>
</tr>
<tr>
<td>Qualitative data analysis</td>
<td>Thematic and content analysis</td>
<td>Themes and commonalities</td>
</tr>
<tr>
<td>Integration of the qualitative and quantitative results</td>
<td>Triangulation</td>
<td>Diversions</td>
</tr>
</tbody>
</table>

Source: Adapted from Ivankova, Creswell and Stick, 2006.

For this mixed method study, a formal quantitative research study was used that incorporates a formal research design to test hypotheses. The hypothesis testing used a systematic method to evaluate data and aid the decision-making process/arrival at logical conclusions. The statistical hypothesis testing was based on the various characteristics of the sample population of interest, including both its size and its distribution (Blumberg et al, 2014). Using quantitative research initially, allows for the use of “time honoured inquiry logic”, which is done using survey instruments. Survey research provides a basis for answering questions about incidence frequency and co-occurrence of social phenomena for a given population (distinguished by vital parameters), thereby adding to the quality of the survey research (Greene, 2008).

In order to complement the formal research basis, qualitative data is gathered. Conventionally, hypothesis-testing research requires qualitative methods to be used in conjunction with quantitative methods within a study design/framework that itself incorporates each of the key elements. These elements include careful reviews of relevant theoretical and empirical research, derivation or development of formal hypotheses within an explicit theoretical framework, and a priori specification of variables and measures (Glaser & Strauss, 1967; Flick, 2009).

The qualitative aspect of this research uses in depth interviews with senior management that provide views on basic ideas related to strategy and identify key FDI location factors from senior management’s perspectives (managers were believed to be best positioned to provide a comprehensive picture of strategies used by SA MNEs with regard to FDI location decisions).

Combining quantitative and qualitative approaches also has the potential to overcome the limitations inherent in using a single method. The qualitative and quantitative research was designed using similar ideas, thus allowing the two paradigms to be connected and compared under an overall conceptual frame. The mixed method is still a relatively novel form of social inquiry that analyses the different foundations of ‘seeing and hearing’ (Greene, 2008). It allows for the making of assumptions that “there are legitimate approaches to social inquiry” (Greene, 2008:20). A mixed method further
helps understand the different and often difficult-to-isolate aspects of social phenomena, by using multiple forms of inquiry, thereby successfully obtaining answers.

To achieve validation of the mixed method's data, triangulation is applied. "Once a proposition has been confirmed by two or more independent measurement processes, the uncertainty of its interpretation is greatly reduced. The most persuasive evidence comes through a triangulation of measurement processes. If a proposition can survive the onslaught of a series of imperfect measures with all their irrelevant error, confidence should be placed in it. Of course, this confidence is increased by minimising error in each instrument and by a reasonable belief in the different and divergent effects of the sources of error" (Webb, Campbell, Schwartz & Seacrest, 1966:3).

Other authors supporting the use of triangulation are Marshall and Rossman (2014). They have identified three reasons for combining quantitative and qualitative research. First, the combination of data helps generate mutual corroboration through triangulation. Second, combinations enable extended analysis that provides better insights. Thirdly, combinations can be used to provide new ways of thinking by providing plausible answers to paradoxes created by the separate analyses of the individual data sources.

Triangulation is a way of corroborating and confirming results from both qualitative and quantitative research methods by providing a third paradigm choice that is able to provide the most informative, complete, balanced and useful research results. Triangulation is a strategy of validation which provides "persuasive evidence" (Flick, 2009). The evidence comes from the process of playing quantitative data off against the qualitative data so as to maximise the validity of the fieldwork. Triangulation allows for convergence, validation and legitimation of results thereby allowing for a deeper understanding of an issue under study, thus creating more knowledge, rather than simply validating existing positions or ideas. It therefore provides a broader, deeper understanding of the topic being studied (Denzin, 1989).

Denzin (1989) provides principles on how triangulation is formulated. First, the nature of the research problem and its relevance to the particular methods should be addressed. Second, it must also be remembered that each method has inherent strengths and weaknesses. Third, methods must be selected with an eye to their theoretical relevance (Denzin, 1989:303).

Triangulation will provide evidence of convergence by mixing conceptual ideas and empirical evaluation, making it easier to compare and cross check whether the purposes of triangulation and complementarity have been achieved. This will further enhance the external validity of the research.
This thesis is structured thus: the quantitative component is introduced first; then the qualitative approach is discussed, using a sequential explanatory method (as explained earlier). The integration of the two methods using triangulation, is the final segment of the structure.

Although researchers have lamented the limitations inherent in the process of integrating quantitative and qualitative approaches (Woolley, 2009), the current study provides an example of how qualitative and quantitative methods can be integrated using triangulation. Mixed method studies generally emphasise and promote quantitative data ahead of other forms (Cassel & Lee, 2011). However, this thesis allows equal play for both methods, and does not use the qualitative method as a mere support function for the quantitative, which is contrary to the general trend with mix method studies (Bazeley & Kemp, 2012). The intent behind the qualitative aspect of the study is to explore and corroborate the information obtained from the quantitative data. The qualitative aspect is used to contribute to the extant knowledge of international FDI research by understanding senior managers' perceptions of location factors (interviews were carried out with senior decision makers, that is CEOs and CFOs), and provides evidence of their perceptions. The issues identified (from senior manager's perspective) in the qualitative study are explored so as to be able to interpret certain unusual factors identified by the quantitative study.

3.3. PROCEDURAL STEPS FOLLOWED FOR THE COLLECTION AND ANALYSIS OF THE DATA

The study was conducted in three phases using the sequential explanatory method outlined above. The data was then triangulated in order to determine common elements and to establish validation between different analysis methods.

Phase 1 – A quantitative approach was used.

The following quantitative steps were carried out:

- Questionnaires were emailed to a sample of respondents.
- Sample adequacy and descriptive analysis were carried out.
- Descriptive statistics were used to show the means and standard deviations.

Phase 2 – Qualitative approach was used.

The following qualitative processes were used:

- In-depth interviews were conducted with a sample of respondents.
- Detailed descriptions were obtained of senior management's thinking processes. (A CD containing the complete analysis process is provided with this thesis).
3.4. METHODS

3.4.1. Quantitative methods

The lack of readily available secondary data necessitated the collection of primary data using a survey of South African multinational companies from various sectors of South Africa’s economy. The aim of the survey was to collect information from South African companies that had already carried out foreign direct investments, in order to obtain an understanding of the factors they had considered when making those decisions.

The survey methodology consisted of the following steps:

- Defining the population from which the sample was drawn
- Developing the questionnaire
- Editing and coding of raw data for SPS
- Analysing the data.

3.4.2. Qualitative methods

The aim of this research was to obtain an understanding of the process followed by South African firms when selecting a location for their FDI, and to identify the critical success factors that drive further expansion, thereby to help create a model of the process of selection of FDI locations. In order to achieve this objective it was necessary to carry out an explanatory study (which included a qualitative aspect – the interviewing of senior strategic management), in order to improve understanding of the process followed by successful South African MNEs. Researchers have advocated the use of qualitative methods when carrying out explanatory research (Yin, 2015).

The current research problem and research question are of an explanatory type, and require an in-depth understanding of the decision-making processes followed by key South African firms seeking destinations for their FDI initiatives. An inductive approach, rather than a deductive one, was used when analysing the information gained from the interviews. This was preferred as it adds to the understanding of strategic decision-making processes with regard to international location selection for FDI (Hill et al., 2014).
The selection of the location for FDI is a strategic management decision, made by senior managers. Because it is a complex decision and it affects the success or failure of the firm, it was deemed necessary to conduct face-to-face interviews with the decision-makers in order to understand more fully the process followed, and the factors considered (Hill et al., 2014). (It was believed that this method would produce the best value of information to supplement the quantitative information obtained in the study.) Minzberg (1979:583) explains this rather aptly, stating that “the field of organisation theory has, I believe, paid dearly for the obsession with rigor in the choice of methodology. Too many of the results have been significant only in the statistical sense of the word. In our work, we have always found that simpler, more direct methodologies have yielded more useful results. Like sitting down in a manager’s office and watching what he does, or tracing the flow of decisions in an organisation”.

3.4.3. Triangulation method

Triangulation is a method that helps in validating qualitative research results. Methodological triangulation establishes validity between different analysis methods (Guion, 2002). Triangulation was used to describe the relationship between the data gathered by the quantitative (survey instrument) and qualitative (interview) methods. The statistical data was thus compared to the analysis of the qualitative data. The findings of this triangulated synthetic analysis indicated corroboration of the nomothetic analysis by the idiographic analysis, and that therefore some of the FDI factors could be regarded as valid at both the nomothetic and idiographic levels of analysis. This will be examined in detail in Chapter 6. Triangulation is a technique to generate a learning dialectic which goes beyond the mere validation of findings to achieve innovations of original conceptual frameworks (Olsen, 2006). “This is made possible through an ongoing dialectic of investigation. Essentially, this dialectic consists of a ‘bottom-up’ qualitative and ‘top down’ quantitative operationalisation of concepts in a dialectical synthesis that aims to validate existing research constructs and facilitate the emergence of further conceptual innovations” (Coldwell, 2007:7).

3.5.  POPULATION AND SAMPLE

The first step with regard to sampling is to determine the universe (Reynolds et al., 2004). The universe is the total group that is being investigated, and is the average of all elements therein (Blankenship et al., 1998). According to Zikmund (2010), the sample is drawn from a list of population elements; however, there is always the probability that it will be different from the defined target population. The next step is to define the population units (the subsets of population elements): Blumberg et al (2014) provide guidance on defining a unit of analysis as a population element. The combination of the units of analysis, variables and values make up the data under investigation (Diamantopoulos, Schlegelmilch & Paliwawadana, 2011).
3.5.1. Quantitative sample

The population consisted of all South African companies that had operational foreign direct investments on 1 January 2012. All publicly listed companies and private companies were included in the population. However, no generalisations were made about the population: the intention was to collect qualitative information that could substantiate the research findings emanating from the proposed survey. In summary:

- Sample units – all South African multinational companies with FDI
- Sample elements – CEOs, CFOs and other senior directors
- Time – 2012
- Size – South Africa’s business community – both privately owned companies and publicly listed companies.

However, as there is no specific and unified database of private companies that have foreign direct investment interests, this necessitated the use of secondary data to identify those private companies that did in fact have foreign direct investments.

On a closer examination of listed companies, it was discovered that some of the companies were related parties. It was therefore necessary to identify and untangle these clusters of overlapping interests to avoid duplication. In total 378 companies were identified as having made FDI.

3.5.2. Qualitative sample

In this study, a South African firm with a FDI was used as the unit of analysis, and the CEOs of the firms were approached as respondents, since they have the strategic knowledge of how the firm makes decisions and selects new FDI locations. The CEOs’ responses to the variables were recorded and analysed in order to provide the information required for this study.

A non-probability purposive sample is one that has been consciously and often systematically selected from the universe. This is the method that has been used for the qualitative study: the researcher, using personal and professional judgement, subjectively selected firms that were most likely to provide the information that would most effectively help to meet the research objective (Blumberg et al, 2014).

How firms select potential international locations for FDI is regarded as confidential and it is thus an area from which most firms exclude academic and other researchers as a matter of basic policy. The researcher not unexpectedly met with reluctance from most CEOs regarding their participation in the study. This led to participants being selected arbitrarily, based simply on their willingness to participate, and on the shameless exploitation of previously established relationships or introductions.
provided by the researcher’s network of contacts, all the while keeping within the realm prescribed by the criteria purposive sampling defines for the sample elements. The purposive sample was heterogeneous in nature so as to be able to collect data to explain all the key themes. Firms were selected from different sectors and from both private and publicly listed companies. A critical criterion was that the firm should already have some form of FDI. All firms used in the sample can be considered to be successful in their respective industries.

Sixty companies were approached for a possible interview, of which 26 indicated their willingness to participate in the study.

Interviews were held with 26 CEOs or directors involved in strategic decision-making for their firms. Each interviewee was considered to be an informant, as "one asked to provide information about a situation to which he or she has privileged access" (Julian & Ofori-Dankwa, 2008:102).

To enhance the richness of the data it was necessary to use participants from a diversity of industries. These participants represented:

- The cellphone service industry
- The mining industry
- Engineering
- Retailing (food and clothing)
- Paper manufacturers
- Service (legal and audit) industries
- Banking
- Information Technology companies
- Pharmaceutical companies
- Fast food company
- Packaged food industry.

Where possible, two companies from each of the above-mentioned industries were selected.

The interviewees that participated in the interview process included a chairman of the board of directors, numerous senior directors, CEOs, and CFOs, and one company secretary.

3.6. **MEASURING INSTRUMENTS**

3.6.1. **Quantitative measuring instruments**

A questionnaire has to be designed and crafted so as to avoid mistakes and ambiguities, as these will affect the response rate, and the reliability and validity of the data collected. Layout, design and supporting explanations were tested on colleagues, and this was followed by an initial pilot study; all
assisted in achieving a valid and reliable response rate. A covering letter was written to accompany each questionnaire in which the objective of the research was explained, and information for completion of the questionnaire was provided.

The design of the quantitative survey instrument must be judged for credibility by determining whether a similar survey instrument has been used previously. The questionnaire was developed with reference to the literature reviewed in Chapters 2 with parts of the questionnaire being based on studies by Luiz and Charalambous (2009) and Rahman (2003a). However, the sections investigating psychic distance, and the consumer and biographical factors were specifically developed from past studies, moderated by intuition. The operationalisation of a psychic distance index was developed using psychic distance indicators which were suggested in the literature review section of the study.

The questionnaire was developed to solicit responses of general information and specific responses in relation to the views and experiences of the senior managers of South African MNEs. A brief overview of the different questions on the questionnaire is provided next.

The first few questions of the survey were designed to obtain general information about the respondents and their companies. The next set of questions asked the respondents which entry strategy had been preferred for their FDI, as well as the reasons for carrying out FDI in the first place. Question 9 asked the respondents to indicate the key factors which had been considered when deciding on FDI. The next section asked the respondent to select the psychic distance factors they had considered when first pursuing FDI. Question 10 asked the respondents to indicate the importance of consumer aspects of their businesses with regard to FDI, and the last part of the questionnaire was used to gather the respondents' biographical details. Diamantopoulos et al (2011) recommend the following types of measurement scales to be used when designing a questionnaire. A nominal scale (which is the simplest type of scaling), should be used when the numbers have no mathematical properties, but rather serve only as labels for classification. A popular nominal scale is the category scale, in which the number assigned represents mutually exclusive categories. There are three questions in the questionnaire that use nominal scales for their responses. A Likert scale is the usual measurement tool used where a summated rating scale is needed, and consists of statements that express either a favourable or an unfavourable attitude towards a question (Blumberg et al, 2014). In the questionnaire, 13 questions were structured response questions using a 10-point Likert scale. Finally, for measurement of psychic distances, ratio scales were utilised.

Cooper and Schindler (2003) recommend the use of both structured and unstructured responses in a questionnaire, and this advice was followed, thus enabling all possible areas to be covered.
Reliability and external validity of the quantitative measuring instrument:

A pilot test is a vital step before finalising and distributing a questionnaire, as it tests the questionnaire for any errors, and identifies questions that might be unclear, ambiguous or insensitive. It also enables the researcher to provide an estimate of the time it should take to complete, so that respondents can budget an appropriate time period to complete it in an efficient manner (Blumberg et al., 2014). The pilot study was conducted with the help of five academics from the University of the Witwatersrand. Based on the results of the pilot study, and the technical feedback provided, the questionnaire was refined and adjusted before distribution to the database. Questionnaires were sent to all firms known to have FDIs, and no attempt was made to control or manipulate any variable in the study. Only data on the process followed by firms with regard to their FDI location selection was collected, resulting in an ex-post facto design, and a descriptive study. It was also a cross-sectional study, as the FDI decision-making processes of multiple firms in a wide variety of industries and business sectors were surveyed.

The objective of validity testing for a quantitative research method is to determine whether we are testing what we think we are testing, and reliability testing is used to determine whether the results from the measures used are consistent (Diamantopoulos et al, 2011). Reliability is affected by either or both of respondent bias or researcher bias (Saunders et al., 2009), and therefore, if a measure is not reliable, it is not valid. However, if a measure is reliable, it may or may not be valid (Diamantopoulos et al, 2011).

The operationalisation of a psychic distance index was developed for this study. An index, rather than a scale, is considered the appropriate vehicle for the operationalisation of psychic distance because it builds on the items that are directly responsible for the ease of information flows between a country and a firm. Measuring a concept through formative indicators is best accomplished through index construction (Brewer, 2007; Diamantopoulos & Winklhofer 2001; Bryman & Bell, 2015), and this also provides some degree of validation.

3.6.2. Qualitative measuring instrument

There are distinct advantages and obvious limitations when using a personal interview: however, the value therein is the depth of information and the detail that can be obtained. It remains a very effective sampling tool, even though it is a costly and very time-consuming exercise (Bumberg et al, 2014).

The interview is the popular methodological tool of choice for the qualitative researcher. According to Fontana and Frey (1994:361), "... interviewing is one of the most common and most powerful ways we use to try to understand our fellow human beings". In-depth interviews were conducted with CEOs, CFOs and senior directors of the various MNEs in the selected sample. The interviews were
semi-structured, and varied in length from 20 minutes to one hour 30 minutes. Interviews are an important source of data collection for qualitative research, as was pointed out by Saldana (2015), and they are used to supplement the data obtained using a quantitative methodology. Both methodologies worked in tandem in this research, to help understand the process followed when companies selected locations for their FDIs.

Patton (2008) further substantiates the benefits of an interview by explaining that an interview allows a researcher to enter the world of the CEO of a company; by asking questions some insight is gained into the basis upon which strategic decision-making occurs. Most researchers support this view because qualitative research is mainly concerned with seeing and understanding how a decision is made, and interviews are particularly effective at achieving this objective (Denzin & Lincoln, 2009). Other theorists have shown in their research that in-depth interviews, as a participant recall method, are unarguably the most effective, and thus the principal method for examining strategic decision-making processes (Jarzabkowski, Balogun & Seidl, 2007). Mintzberg, Quinn and Ghosh (2003) and Bernhard and Driscoll (2011), also support the use of an interview, stating that the strategic decision process may be researched effectively by observation, by study of organisational records, and by interview or questionnaire.

Investigation of records is often impossible because the strategic decision-making process seldom leaves reliable traces in the files of the organisation. In fact, "....observation is certainly a powerful and reliable method, but extremely demanding of research resources because strategic decision processes typically span periods of years, and researchers are often forced to study the process after completion, therefore, the researcher is obliged to rely heavily on interviewing as the best trace of the completed process remains in the minds of those people who carried it out" (Mintzberg, Raisinghani & Theoret, 1976:248). In order to understand the decision-making process followed prior to FDI, an interview provides the best means of obtaining data, because it allows the real-life experiences of senior management involved in strategic management, to "come alive" and this brings richness to the data (Yeung, 1995; Pangarkar & Klein, 2004).

The interviews conducted were semi-structured in format, and thus frequently conversational, using questions and answers to gather information about a topic of interest, in a free-flowing manner. A synonym for a semi-structured interview is a non-standardised interview or unstructured interview (Denzin, 1989; Ponterotto, 2006). In an unstructured interview, while set questions are used, they are all open ended, thus allowing the interviewees to volunteer/express other insights about making strategic decisions for the firm. A semi-structured interview, while more formal, also allows both the interviewer and interviewee the opportunity to discuss the topic in more detail, thereby revealing valuable insights that would not otherwise have emerged (Manning & Kunkel, 2014).
A semi-structured interview also allows the interviewer the latitude to modify or change the interview questions, depending on the pace of the interview (Manning & Kunkel, 2014). An interview is, after all, an interaction similar to a conversation. The conversation-style interview (which is also referred to as a semi-structured interview), falls comfortably within the realm of qualitative research. Rubin and Rubin (2011) and Manning and Kunkel (2014), explain that “qualitative interviewing is more than a set of skills; it is also a philosophy, an approach to learning”. They also explain that to conduct a qualitative interview and to truly hear what people say … “requires skills beyond those of ordinary conversation and takes considerable practice”. Interviewers need to follow either of the following two listening techniques:

- Active listening – listening with full attention to the participant; interacting and engaging with them; providing feedback regarding that engagement.
- Interpretive listening – seeking clarification of terms that are socially acceptable in conversation, such as the “experience was interesting”, but that lack scientific specificity.

An important objective of this research was to try and interview the CEOs of the companies. Papoutsakis (2008) supports this objective, observing that “… it is crucial that researchers collect their data from the most appropriate person in the organisation”.

Reliability and validity of the qualitative instrument:

In quantitative research, reliability refers to exact replicability of the processes and the results. In qualitative research the definition of reliability is more challenging. The essence of reliability for qualitative research lies in consistency. A margin of variability for results is tolerated in qualitative research provided the methodology consistently yields data that are ontologically similar but may differ in richness and ambience within similar dimensions. As data are extracted from the original sources, researchers must verify their accuracy in terms of form and context, and with constant comparison (a form of triangulation). Triangulation is used to formally verify accuracy of all data in this study.

The robustness of a study is dependent on the validity of the research, the reliability of the findings, and the use of triangulation in data collection (Trochim & Donnelly, 2006) to support the research. Trochim and Donnelly (2006) explain that validity refers to the best estimate of the meaning of a statement or inference described in the research. Validity is used to assess the quality of the conclusions reached in the research. The internal and external validity of the research is evaluated to determine the presence and depth of any cause-and-effect relationships between the variables identified in the hypotheses, by confirming that the data collected is valid and reliable (Struwig & Stead, 2004). Internal validity refers to the extent to which similarities in the attributes exist between the responses from the interviewees (Fink, 2005). Reliability refers to the measurement of the quality
of the data collected in any research (Behling & Law, 2000), by measuring the suitability of the data for analysis (Saunders, 2008).

While reliability and validity are important factors in establishing the quality of quantitative research, they are not that relevant for qualitative research (Bryman & Bell, 2015). However, researchers have provided various checklists against which to validate qualitative data. Guba (1981), in his seminal research, provides four criteria which can be used to determine the trustworthy of the study:

Credibility – (in preference to internal validity). The idea is to test how congruent the findings are with reality (Merriam, 1998; Marshall & Rossman, 2014). Triangulation is another method which adds credibility to the research by the use of different methods in tandem, which compensates for their individual limitations and enhances their respective benefits (Brewer & Hunter, 1989; Creswell, 2013).

Transferability – (in preference to external validity). In this second concept, transferability is seen in regard to external validity; the idea is concerned with the extent to which the findings of one study can be applied to other situations (Merriam, 1998; Marshall & Rossman, 2014). To achieve transferability, background data must be provided to establish the context of the study, and a detailed description of the phenomenon in question must be available to allow comparisons to be made.

Dependability – in preference to reliability – the use of an overlapping method, that is, an in-depth methodological description to allow a study to be repeated.

Confirmability – in preference to objectivity – to use a third paradigm in the form of triangulation to reduce the effects of research bias.

3.7. DATA COLLECTION

3.7.1. Quantitative data collection

The data was gathered using an extensive survey questionnaire that was emailed to a total of 378 South Africa-based multinational companies. The questionnaire has three parts, addressing three key determinants of the decision to invest: environmental and transaction-specific factors, psychic distance factors, and the characteristics of management. In an effort to focus on the previously presented hypotheses, an attempt was made to compile a list of all companies that had foreign direct investments.

A funnel approach was used to finalise details of each of the companies in the population. Figure 3.1 shows the approach followed.
An email was sent by the survey company to all CEOs and/or CFOs of the eligible companies. The reason for adopting this communications channel is that all company CEOs and CFOs and directors have access to the internet. This calibre of preferred respondent is generally reluctant to participate in research, and even more reluctant when the traditional research methodology is used (print out, check boxes, write paragraphs in response to questions etc.). It was assumed that using online technology's universal accessibility would improve response rates, as the respondents could complete the survey during otherwise unscheduled time.

The emailed questionnaires were sent directly to the respondents, with a request that they complete them themselves, and return them, also by email. The emailed questionnaire used a specific software programme that allowed automatic distribution, and repatriated the returned questionnaires to a specific list of email respondents.

A survey company was employed to convert the questionnaire into a form that maximises the efficiencies of the internet, and essentially automates the capture of survey responses. The advantages hinted at above include the speed with which a questionnaire can be designed and distributed, without hindrance of geographical borders or time zones. Another key advantage is the associated automated data capture, making it accurate, and easily and rapidly accessible for data analysis (Gelder, Bretveld & Roeleveld, 2010).

Once the list of possible South African multination companies had been compiled, the next step was to determine the contact details of the companies and their preferred respondents. This was done by searching each company's webpage for at least an email address, as some of the webpages did
not provide contact details of the directors. Those companies that were short on director details were contacted telephonically and requested to provide an email address for their CEO, CFO and/or directors who would have been involved in strategic management and foreign direct investment decisions. However, in most instances the receptionist or personal assistant was not willing to provide contact details of any director. Additional phone calls were then made during business hours, sometimes resulting in the call being forwarded directly to one of the directors. However, the director still had to be persuaded to provide an email address, to which the survey could be sent, as a first step in gathering the desired data.

This process was followed until contact details for all directors of the 378 companies had been obtained, that is for both listed and private companies with FDI interests.

Once the complete list of company names and contact email addresses had been collated, this was forwarded to the specialist survey company that then electronically forwarded the questionnaire to the list of all the companies' directors.

Only one director was required to provide information on the foreign direct investment strategies of the company. However, certain factors still contributed to low participation rates. These were:

- High level of confidentiality attached to investment strategies of multinational companies
- The time schedules and other commitments of directors
- The length of the questionnaire (even with all information at a director's fingertips, it was estimated that the questionnaire would take 35 minutes to complete).

Eventually, telephone follow-ups had to be carried out in an attempt to persuade reluctant respondents to complete the survey. With the advent of the internet and the subsequent rise in spam mail there is a tendency for companies' internet firewalls and other security measures to robustly exclude unsolicited emails, particularly if they have attachments and/or links to other parts of cyberspace. The telephonic follow-up calls helped to overcome these challenges, and allowed the researcher to explain the purpose of the study and to encourage participation.

After the survey company had emailed all companies on the list, a follow-up phone call was then made to those companies whose directors had not completed the survey. The purpose of the follow up phone call was to encourage and convince the directors to complete the survey. Whenever a selected company declined to complete the survey, it was substituted with the next company on the list. Subsequent analysis of results suggests that where the phone call was made prior to the questionnaire being sent, a better response rate for the survey was obtained. Another method that helped to get the survey answered was to offer to complete the survey with the director or CEO via telephone.
Anonymity remained a major hurdle because of the intensified competition in the market as a result of the global economic slow-down. The probability of numerous non-responses was the justification for setting the target at 120 companies giving usable responses – a 32% desired minimum response.

Zikmund (2010) suggest calculating the response rate as follows: count the number of questionnaires returned and divide that by the number of eligible firms that were invited to participate in the survey. In total 105 responses were received (n=105), making this a response rate of 27.78%, which was considered acceptable.

3.7.2. Qualitative data collection

Prior to conducting the interviews, an ethical clearance application was completed and handed to the researcher’s supervising university, and an ethics clearance certificate was thereafter obtained. The interview process recommended by Dick (1999) was then followed:

1. Interviewees were contacted
2. The purpose of the research was explained
3. Unbiased relationship was maintained
4. An interview date was set

Because most of the interviewees were CEOs, it was important to keep the interview time short. All arrangements for the interviews were made through the CEOs' professional assistants, who confirmed a time and date (and other details) for the interviews via email.

All in-depth interviews were conducted over a period of three months. Recording the interviews allowed for a more accurate interpretation of the interviews and helped to reinforce the accuracy of interviewer's recall of the interviewees' response to the interview questions (Yin, 2015; Given et al, 2004). In addition, the transcriptions of the recorded interviews were used for the analysis of interview data using the computer software program, Atlas Ti (Veal, 2006; Klenk et al, 2008), and for good measure, handwritten field notes were also taken during the interview sessions, and referred to when appropriate.

Removing researcher bias helps to reduce and (hopefully) eliminate any undue personal perspectives that could influence the results of the research study. When interviewing, one's personality can affect the responses of the interviewee, that is "... the tone of the one’s voice and inflection within the sentence can influence how a respondent replies". It is impossible for data not to be contaminated by bias in some way, because bias is "omnipresent" (Leedy, 1989:148). However, Marshall and Rossman (2014) state that to conduct a study, as far as possible free of preconceptions and beliefs, is to try and see things without any prejudgement and preconception, and this is achieved by including personal narratives from the interviews that help to identify, frame and to
suspend any personal judgements, thus allowing the identification of those invariant themes that might be present (Marshall & Rossman, 2014).

Data management methods (such as formatting, cross-referencing, indexing, abstracting and pagination), were utilised during the qualitative study in order to ensure the efficient collection of data, its storage and later retrieval, as was recommended by De Massis and Kotlar (2014). Atlas ti (a software program used for content analysis), was used to execute the above mentioned storage, retrieval and analysis functions.

Responses were recorded using iTalk, an application on the Apple iPAD, and later transcribed and analysed. The raw empirical data was interpreted against the criteria of credibility, transferability and dependability. The results were then transcribed into an MS Word document. The recordings helped by providing an iterative analysis process to achieve accuracy, meaning, and understanding of participant responses (Silvestor & Anderson, 2003).

3.8. ANALYTICAL PROCEDURES

3.8.1. Quantitative analytical procedures

The survey data was captured and analysed using SPSS Version 16.0. The SPSS package was chosen because of its statistical capabilities and popularity in social sciences research (Field, 2009). It was necessary to code the data collected using popular statistical software, to enable ease of future retrieval, and to facilitate its use by other researchers. SPSS was also chosen because the researcher is familiar with the statistical functions and capabilities of the software package. SPSS has statistical tools that include the production of descriptive statistics, such as frequency tables, and to generate cross-tabulation analyses, custom tables, and correlation analysis on both bivariate and multivariate analyses, using Pearson correlation and exploratory factor analysis respectively. For data analysis purposes, respondents were asked to rank their responses to

the questions in a Likert scale format. During the codification process unique numerical codes were assigned to each response. All incomplete surveys were discarded from the analysis. All the data were then turned into a series of numbers for data capture using SPSS, and for further statistical analyses. Data analysis was done mainly through the use of descriptive statistics and correlation analysis. The analysis of one variable at a time (univariate analysis) was done by producing frequency tables, where after bivariate and multivariate correlations were carried out.

3.8.2. Qualitative analytical procedures

The specific intent of the research was to identify and analyse emergent themes related to strategic decision-making around FDI by senior executives.
Content analysis is used to discover "... patterns and coherent themes, meaningful categories and new ideas, and in general uncovers better understanding of a phenomenon or process" (Suter, 2006:327). Newman (2003) explains that the process of data analysis helps to identify patterns that contribute to achieving the goal of understanding the studied phenomena. This study used an open-coding system to analyse transcripts of the interviewees' narrative responses, line by line, phrase by phrase, and word by word (Creswell, 2013; Suter, 2006), using Atlas ti version 6 qualitative data analysis software. The software assisted in coding, identifying and establishing emergent meaningful themes, linkages and relationships based on common attributes (Richards, 2002).

"Emergent themes" are the push and pull factors that drove the international expansion and determined the entry strategy used in that process by each respondent organisation. Polkinghorne (2005) explains that in qualitative research the collection of data must provide evidence of the perspective under investigation, which additionally provides an opportunity to explore the themes arising throughout the data. Atlas ti version 6 was used to collect and store the data from the transcribed worksheets, and was the data system used to organise all primary documents associated with this research paper. The researcher's own judgement and intuition were utilised in the performance of the coding of the data, and in the actual content analysis.

The objective was to identify any patterns representing concepts that the interviewees projected during the interviews. Data from the interviews was organised into logical categories that helped to clarify larger patterns and to bring understanding to the transcribed notes. Creswell (2013) suggests that content analysis helps to categorise, synthesise and interpret qualitative text data. Specific codes were developed (using the researcher's own judgement), in order to categorise the responses under the specific constructs, which were represented by the questions used during the interviews. The questions were defined in the initial phase of the research.

3.8.3. Triangulation analytical procedures

The aim of triangulation is to draw from both the qualitative and the quantitative analyses of the foreign investment decision-making process some broader theoretical implications, especially for that body of economic theory which explains and predicts investment behaviour. A particular effort was made in this research to determine the factors in an organisational system that influence the behaviour of the decision-makers, and to identify the important variables in the decision-making process, in order to suggest a way to explain and predict investment behaviour and to provide effective ways of determining the probable reaction of firms to stimuli of various kinds.

The mix of the two methods (that is, the structured surveys and the in-depth interviews), comprises the mixed research method. Triangulation assumes a probability of convergence thus justifying the mixing of conceptual ideas and empirical evaluation, and it was easier to compare and perform cross checks to achieve the purposes of triangulation and complementarity. This enhanced the external
validity of the research. However, the mixing happens only at the point of making inferences and thereby offsetting differences arising from possible bias and perspective. Triangulation allows for a clearer view which leans towards the “truth”, thereby justifying the use of triangulation (Greene, 2008).

3.9. RESEARCH ETHICS

General ethical issues were applied to all respondents during the data collection stage by obtaining their informed consent, and keeping their identities anonymous and their answers strictly confidential (Saunders et al., 2009). Further no incentives were provided to the participants.

The application for ethical clearance was presented to the Ethics Committee of the University of the Witwatersrand for approval before distributing the questionnaire into the field. Approval was granted.

General ethical protocols were applied during interactions with all respondents during the data collection stage: respondents gave their informed consent, and were assured that their identities would not be divulged. Thus responses, if quoted, would be anonymous, and their answers would remain strictly confidential (Saunders et al., 2009). Furthermore, no incentives were offered or provided to the participants to induce them to participate in the research.

The application for ethical clearance was presented to the Ethics Committee of the University of the Witwatersrand for approval before conducting the interviews and distributing the questionnaire to intended respondents. Approval was granted.

3.10. CONCLUSION

This chapter explained the methodology applied to obtain the primary data relating to the factors influencing the decision-making process followed by South African MNEs when investing abroad. The sampling methodology used in both the choice of research methods and in the selection of sample elements used as information sources on the various factors influencing the FDI decision was also discussed and explained.

The development of the survey instrument used to collect the data used in the FDI decision was also explained: in particular, the different types of questions and response types used in the questionnaires were described and explained. The qualitative method was also described, and was complemented by a detailed explanation of the editing and coding process used to identify omissions and errors during the collection of data, and coding mistakes, and the transformation of the data into a Word document: this data was then analysed using the Atlas ti software package.

The chapter concluded with a description of the triangulation method used to validate the qualitative data. Methodological triangulation is applied to a mixed method study by describing the relationship
between the quantitative and qualitative analysis methods by referring to the different factors that influence the FDI decision. This process involves comparing the statistical data with associated details from the Atlas ti records.

Results will be presented and elaborated on in an explanatory scheme presented in Chapter 4.
CHAPTER 4
FINDINGS – QUANTITATIVE AND QUALITATIVE:
QUANTITATIVE FINDING AND DISCUSSION

4.1. INTRODUCTION

A web based semi structured survey was used to obtain some of the data on the FDI decision-making process in selected South African JSE-listed entities (the balance of the data was collected during personal interviews with selected respondents). A total of 105 usable questionnaires were returned, which was 22% of the target population. This is considered a good response rate when compared to similar studies conducted throughout the world.

The factors considered in this study were identified in the conceptual framework, and divided into four categories:

- Biographical factors
- Business factors
- Psychic distance
- Behavioural factors.

The support for and relevance of each of the above variables is found in the literature. Respondents were asked to identify each of the factors they considered relevant to their decision-making process, and to rank them on a scale from 1 (not considered) to 10 (vitally important) according to the importance they had for their FDI decisions.

The analysis of data was preceded by an inspection of missing values. In this study, it was decided not to report the 'Not answered'. In most instances, the respondents did not answer the question because it was inapplicable. There were a few cases where the respondent did not answer the question because they did not understand the question. (These assumptions were confirmed during the personal interviews.) The occurrence of missing values was, however, deemed minimal and random, supporting the decision to exclude them from the analysis on a paired variable basis. The percentage ratings were calculated excluding the non-respondents as well as any descriptive statistics.

4.2. RESULTS

Firstly, a biographical and descriptive analysis was used to identify and analyse the main characteristics of the sample. This is discussed first. Thereafter, an analysis of the factors influencing and explaining the decision making processes of South African firms with regards to FDI are commented upon.
4.3. BIOGRAPHICAL ANALYSIS

Descriptive statistics were used to establish the primary characteristics of the sample – the form the FDI took, its geographical destination, and the parent company's primary activity. Descriptive analysis provides a very useful first step in data analysis, and its application took the form of frequency distributions to determine the value of the different parameters present in the sample (Diamantopoulos & Schlegelmilch, 2000). A descriptive analysis of the biographical information obtained from the questionnaire, follows: this records respondents' positions in their organisations, and the industry focus of their organisations.

The first question requested the name of the respondent and the position held in the company. (Names are protected by a confidentiality undertaking given by the researcher, and have therefore not been disclosed in the thesis.) From Table 4.1 it can be seen that 26% of the respondents were CEOs, 10% were CFOs, 11% are COOs, and 40% are directors; thus 76% of respondents are in a top management position. The use of senior and top management in this research is in line with international research practice (Rahman, 2007) because foreign direct investment decisions are normally undertaken by at least senior management. The following table provides an overview of the positions held by the senior executives responding to the survey.

Table 4.1: Number of respondents holding positions of CEO, CFO, COO and other senior management positions

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative frequency</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>41</td>
<td>40</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>Chief executive officer (CEO)</td>
<td>27</td>
<td>26</td>
<td>68</td>
<td>66</td>
</tr>
<tr>
<td>Chief operating officer (COO)</td>
<td>12</td>
<td>11</td>
<td>80</td>
<td>77</td>
</tr>
<tr>
<td>Chief financial officer (CFO)</td>
<td>11</td>
<td>10</td>
<td>91</td>
<td>87</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>7</td>
<td>6</td>
<td>98</td>
<td>93</td>
</tr>
<tr>
<td>Auditor</td>
<td>4</td>
<td>4</td>
<td>102</td>
<td>97</td>
</tr>
<tr>
<td>Accountant</td>
<td>3</td>
<td>3</td>
<td>105</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3.1. Company activity

Respondents' companies operate in a wide range of sectors on the JSE. Table 4.2 records the detail: the service industry (financial and non-financial) accounts for 35% of the sample, followed by the manufacturing sector (31%) and the mining industry (12%). FMCG (8.6%), and Oil and Gas (2.9%) had the smallest presence.
Table 4.2: Economic activities of the respondents’ firms.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
<td>35</td>
<td>33.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>31</td>
<td>29.5</td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
<td>14.3</td>
</tr>
<tr>
<td>Mining</td>
<td>12</td>
<td>11.4</td>
</tr>
<tr>
<td>Fast moving consumer goods- FMCG</td>
<td>9</td>
<td>8.6</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>3</td>
<td>2.9</td>
</tr>
</tbody>
</table>

4.3.2. Ownership category

Table 4.3 provides an overview of the types of ownership applicable to the South African firms responding to the survey, while Table 4.4 provides an analysis of the degree of representation of the various types of ownership within each industry represented in this study.

Table 4.3: Types of ownership of the firms participating in the survey

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>South African public company</td>
<td>51</td>
<td>48.6</td>
</tr>
<tr>
<td>Subsidiary of a foreign multinational</td>
<td>26</td>
<td>24.8</td>
</tr>
<tr>
<td>South African owned proprietary company</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>3.8</td>
</tr>
<tr>
<td>South African owned sole trade/partnership</td>
<td>3</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Using cross factor analysis, with the industry as a dependent variable, an analysis was carried out examining type of industry and the type of ownership structure. Table 4.4 gives an overview of the results of this analysis, and indicates that there are certain ownership preferences apparently defined by the industry in which the firm operates. For example only 3 (8.6%) of the parent firms from the service industry are South African owned sole traders or partnerships, whereas South African proprietary (private) companies own 9 of the firms in manufacturing, 7 firms from services industries, and 2 from the mining sector. Eighteen of the firms from the services sector are South African public companies, as are 13 firms from manufacturing, 7 firms from fast moving consumer goods and 5 firms from the mining sectors. There are 26 firms that are subsidiaries of foreign multinational companies, comprising 9 firms from manufacturing, 5 firms from mining, 4 firms from the services industries, 2 firms from the oil and gas industries and 5 firms from "other industries".
Table 4.4: Ownership structures within each industry (percentage)

<table>
<thead>
<tr>
<th>Ownership structure</th>
<th>Mining</th>
<th>Oil and gas</th>
<th>Service</th>
<th>Manufacturing</th>
<th>FMCG</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA Owned Sole trader/partnership</td>
<td></td>
<td></td>
<td>8.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA owned proprietary company</td>
<td>16.7</td>
<td>33.35</td>
<td>20</td>
<td>29</td>
<td>11.1</td>
<td>6.7</td>
</tr>
<tr>
<td>SA public company</td>
<td>41.7</td>
<td>51.4</td>
<td>41.9</td>
<td>77.8</td>
<td>53.3</td>
<td></td>
</tr>
<tr>
<td>Subsidiary of a foreign multinational</td>
<td>41.7</td>
<td>66.7</td>
<td>11.4</td>
<td>29</td>
<td>11.1</td>
<td>33.3</td>
</tr>
<tr>
<td>Other</td>
<td>8.6</td>
<td>6.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3.3. Geographical destination for FDI by South African firms

The South African firms participating in this survey showed strong preferences for only six geographical areas. These were the wider European Community (including the United Kingdom and Eastern Europe), North America, Asia, Africa, Australia and New Zealand, and South America. The firms that participated in the research were asked to list the countries in which they had already made FDI, and to provide the relative FDI revenues from those regions. Table 4.5, shows the number of firms that chose to pursue their FDI interests in each of the regions. The analysis indicates that South African firms prefer Africa, the United Kingdom and the European Community as their prime destinations. The other destinations (South America, Australia, New Zealand and Asia) are not that popular with South African firms. A possible explanation for this is contained in the concept of psychic distance.

Table 4.5: Popular FDI destinations of the firms in the sample

<table>
<thead>
<tr>
<th>Continent/country</th>
<th>Prime destination</th>
<th>Second destination</th>
<th>Third destination</th>
<th>Fourth destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>105</td>
<td>40</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Europe/UK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including Russia and Eastern Europe</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South America</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.3.4. Product life cycle

The next question in the survey was designed to determine the stage at which the company’s best-selling product was at in the product’s life cycle. This question however was not answered by the respondents in mining, oil and gas, and service industries, presumably because the question was deemed irrelevant to their industries and markets. Table 4.6 gives a summary of the respondents’ primary products’ life cycle stages.

Table 4.6: Product life cycle

<table>
<thead>
<tr>
<th>Product phase</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory phase</td>
<td>4</td>
<td>3.8</td>
</tr>
<tr>
<td>Growth phase</td>
<td>45</td>
<td>42.9</td>
</tr>
<tr>
<td>Mature phase</td>
<td>56</td>
<td>53.3</td>
</tr>
</tbody>
</table>

Using the industry as the dependent variable, an analysis was carried out to determine the relationship between industry and product phase. The tendencies/trends are apparent in Table 4.7 below, and are commented on thereafter.

Table 4.7: Respondents’ product phase, by industrial sector (percentage)

<table>
<thead>
<tr>
<th>Product phase</th>
<th>Mining</th>
<th>Oil and gas</th>
<th>Service</th>
<th>Manufacturing</th>
<th>FMCG</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory phase</td>
<td>16.7</td>
<td>66.7</td>
<td>2.9</td>
<td>3.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth phase</td>
<td>41.7</td>
<td>66.7</td>
<td>51.4</td>
<td>29</td>
<td>66.7</td>
<td>33.3</td>
</tr>
<tr>
<td>Mature phase</td>
<td>41.7</td>
<td>33.3</td>
<td>45.7</td>
<td>67.7</td>
<td>33.3</td>
<td>66.7</td>
</tr>
</tbody>
</table>

Table 4.7 shows the results of cross factor analysis of the data. This analysis determined the development phase in which the respondents placed their firms’ products, and grouped by industry. Of those companies whose products are in the introductory phase, 2 are in the mining sector, and 1 each in the service and the manufacturing sectors. Of the firms that have products in the growth phase, 5 are from the mining industry, 18 from the service industry, 9 from the manufacturing industry, 6 from the fast moving consumer goods sector, 2 from oil and gas, and 5 from “other industries”. There are 21 firms in the manufacturing industry that see their primary product as being in a mature phase, 16 in the service industry, 5 in mining, 3 in fast moving consumer goods, 10 in other industries, and 1 in oil and gas.
4.4. BUSINESS FACTORS

4.4.1. Preferred method of entry

The respondents were asked, as part of the survey, for their preferred entry method when investing in foreign locations. Table 4.8 presents a summary of these results. Most investors stated a preference for a greenfield-type investment (60% have used this method). This investment type's popularity arises because of the absence of certain basic services and support businesses, especially in Africa. A greenfield approach allows them to install infrastructure to meet their exact needs, ultimately reducing operating costs. The perception held by most South African companies investing in Africa is that greenfield investments provide a higher return on investment than that achieved through joint ventures, mergers or acquisitions. Greenfield investments also provide another benefit in that a company is then able to maintain its own identity, and most importantly, control of operations and policy. However, one of the negative aspects of a greenfield investment is that it takes significantly longer to establish the business and to generate market share.

Joint ventures with a majority stake-holding in the entity are also popular choices for FDI in unfamiliar (psychically distant) locations. Entering into a joint venture with a well-established local partner also bring into the relationship an existing network of distribution points and infrastructure, both important requirements when doing business in Africa. Another distinct advantage of a joint venture (regardless of relative share-holding) is the access it gives to an existing client base and a ready-made market share.

A joint venture with a majority shareholding was preferred by 36% of respondents, and a joint venture with minority shareholding was preferred by 9.5% of respondents; a 50-50 alliance with a foreign partner was preferred by 20% of the respondents.

Table 4.8: Preferred methods of entry for FDI

<table>
<thead>
<tr>
<th>FDI form</th>
<th>Number of firms</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Investment (greenfield investment)</td>
<td>63</td>
<td>60</td>
</tr>
<tr>
<td>Mergers and acquisitions</td>
<td>53</td>
<td>50</td>
</tr>
<tr>
<td>Joint venture – majority shareholding &gt; 50%</td>
<td>38</td>
<td>36</td>
</tr>
<tr>
<td>Alliance or partnership</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Joint venture – minority shareholding &lt; 50%</td>
<td>10</td>
<td>9.5</td>
</tr>
</tbody>
</table>

Underlying the choice of entry method (type of business entity and relationship with local residents) was the degree of familiarity the entity’s key personnel had with the intended location, and the psychic distance involved.
Table 4.9 shows the results of a cross factor analysis, using the industry as a dependent variable, and the method of entry as the independent variable. It can be seen from the table that some industries have distinct preferences for a specific mode of entry into the foreign market.

4.4.2. Motive for entry

4.4.2.1. Market-seeking

The majority of the respondents (97%) admitted that the reason for entry into a foreign location was part of their quest for new markets. The need to be in multiple markets had many underlying reasons, but for many, it was a response to the perceived high risks posed by political instability in South Africa. Another motive was the company's need to be close to its foreign local customer base, in order to address its needs more effectively. Especially where companies were invested in countries in Africa, some of the respondents felt that their ability to exploit the existing gaps in these markets, and in order to attract new local customers, required their businesses to be physically present in that country. They also identified one primary additional benefit accruing to being close to the consumers: the costs associated with serving a market from a distance are significantly reduced. The final significant reason offered for engaging in FDI was as a response to the actions of competitors. Nineteen percent of the respondents gave this as a reason for carrying out FDI.

When investing in a foreign location, the firm experiences not only competition from their (new) local rivals (who had previously monopolised their market), but also from an influx of other competitors from both their country of origin, and from other countries. Due to the hyper-competitive nature of local markets, South African firms believed they had to seek new markets.
Again, Africa was a popular choice because of the untapped growth potential of its markets, and most importantly because there is a lack of local rival firms. As is evident from the responses, 20% indicated that their motivation for FDI was to discourage potential competitors by occupying and then defending the market. Conversely, the FDI was in response to rivals who were entering new markets, in an effort to capture some of that new market potential pre-emptively, before their rivals could fully capitalise on their advantage. Another reason for seeking new markets is agglomeration. However, this is not a popular motivator for South African firms: only 8% of the responding firms expand because their knowledge-intensive innovative or entrepreneurial activities are geographically concentrated in order to tap into network externalities (Cantwell, 1995). Firms will also lean towards agglomeration in order to benefit from ideas in agglomeration clusters, and in order to gain legitimacy for internationalisation (Suchman, 1995).

For many products and services South Africa is a very small market, and firms that have outgrown the local (South African) market believe they need to expand (establish a global presence) in order remain profitable. 33% of the firms responding to this survey indicated that their having saturated the local market was a reason for seeking new markets. In certain sectors of the economy and in some industries saturation has come about because of aggressive competition. In order to maintain profitability and achieve growth they had to expand abroad.

4.4.2.2. Efficiency-seeking

Efficiency-seeking can be regarded as a way to fragment production in such a way that labour-intensive aspects of the business can benefit from the lower cost of labour in less developed countries. However, the responses were varied. Only 7% of the firms found incentives (specifically in the form of tax breaks or reduced administration costs) to be a pulling factor. Contrastingly, FDI in the SADC region was given impetus by the relaxation of exchange controls and by the lower cost of labour, and 29% percent of the respondents indicated that this was in fact a key reason for their expansion into new markets in the SADC region. Another efficiency-seeking factor offered for FDI relates to the need for affordable yet skilled labour, rather than exploitation of unskilled, cheap available labour, and 11% of the respondent gave this as a reason for expansion across borders. Another very popular efficiency-seeking reason offered by 50% of the firms as a motive for their entry and expansion into new foreign markets was the availability of capital.

4.4.2.3. Diversification of risk

South African firms have been acquiring assets internationally as part of their strategy to diversify risk and to internationalise. Mergers and acquisition purchases are generally undertaken for financial motives, to access new/wider markets, and to seek resources; but underlying these motives is a need to diversify risk. FDI is negatively correlated with policy changes that result in more restrictive trade barriers, and higher taxation. Countries in the southern African region, which is a popular FDI
destination for South African firms, have during the past decade liberalised their national policies to establish a more accommodating regulatory framework for FDI. Rules regarding market entry and foreign ownership have been re-negotiated and an increasing number of bilateral investment treaties and double-tax treaties have come into effect. FDI policy frameworks have also helped to pull investment into the region. 7% of the respondents have diversified into the southern African region because the trade agreements now in place take the “hassle” out of doing business in the region.

Another means of diversifying risk is by expanding abroad through strategic alliances in a region. This is definitely a very popular approach: 74% of the respondents favour this as a strategy for expansion as it minimises the risk that exists in exposure to just one location.

4.4.2.4. Other reasons

Twenty-one percent of the respondents indicated that their entry into foreign locations (especially Africa) was motivated by a need for access to natural resources, which are abundant in Africa. (Access to natural resources globally, remains an important motivation for FDI.) The respondents were asked for any other motive they had identified for entry into a foreign country’s economy. The full list of reasons for FDI is presented in Table 4.10 below.

<table>
<thead>
<tr>
<th>Reason for entry</th>
<th>Number of firms</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market seeking – profit motive</td>
<td>97</td>
<td>92.4</td>
</tr>
<tr>
<td>Diversification of risk – enter partnerships with local entities to increase market share</td>
<td>74</td>
<td>70.5</td>
</tr>
<tr>
<td>Efficiency-seeking – other</td>
<td>52</td>
<td>49.5</td>
</tr>
<tr>
<td>Market-seeking – to avoid costs of serving a market from a distance</td>
<td>48</td>
<td>45.7</td>
</tr>
<tr>
<td>Market-seeking – saturation of local market</td>
<td>33</td>
<td>31.4</td>
</tr>
<tr>
<td>Efficiency-seeking – resource seeking</td>
<td>29</td>
<td>27.6</td>
</tr>
<tr>
<td>Other motives</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Market-seeking – discourage potential competitors</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Efficiency-seeking – availability of capital</td>
<td>11</td>
<td>10.5</td>
</tr>
<tr>
<td>Efficiency-seeking – availability of skilled labour</td>
<td>10</td>
<td>9.5</td>
</tr>
<tr>
<td>Market-seeking – agglomeration</td>
<td>8</td>
<td>7.6</td>
</tr>
<tr>
<td>Efficiency-seeking – local incentives</td>
<td>7</td>
<td>6.7</td>
</tr>
<tr>
<td>Diversification of risk – socio-political reasons</td>
<td>7</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Note: Respondents were encouraged to record all applicable reasons.

The most important economic considerations, according to respondents to this survey, remain resources, market size, and cost advantages related to production. Trade liberalisation, and
technology (in terms of agglomeration), combined with deregulation, also provide impetus for investment across borders.

As multinational firms create a portfolio of foreign operations by developing locational assets (that is skilled human resources, infrastructure, and market access), they become stronger and more competitive. Traditional motives remain an incentive, but are complemented by the firms' broader strategies, all intended to enhance their competitiveness.

*Cross Factor analysis* – using the industry as the dependent variable, an analysis was carried out to determine whether there were industry-specific motivating factors. The results are tabulated below in Table 4.11.

**Table 4.11: Reasons for entry into foreign markets by industry (percentage)**

<table>
<thead>
<tr>
<th>Reason for entry</th>
<th>Mining</th>
<th>Oil and gas</th>
<th>Service</th>
<th>Manufacturing</th>
<th>FMCG</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/growth</td>
<td>91.7</td>
<td>100</td>
<td>88.6</td>
<td>96.8</td>
<td>88.9</td>
<td>93.3</td>
</tr>
<tr>
<td>Closeness to local customers</td>
<td>8.3</td>
<td>66.7</td>
<td>45.7</td>
<td>48.4</td>
<td>44.4</td>
<td>66.7</td>
</tr>
<tr>
<td>Responding to competitors</td>
<td>25</td>
<td>17.1</td>
<td>16.1</td>
<td>11.1</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>Agglomeration</td>
<td>16.7</td>
<td>8.6</td>
<td>6.5</td>
<td>6.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saturation of competitive local markets</td>
<td>33.3</td>
<td>42.9</td>
<td>22.6</td>
<td>55.6</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>Local incentives</td>
<td></td>
<td>66.7</td>
<td>2.9</td>
<td>9.7</td>
<td>11.1</td>
<td></td>
</tr>
<tr>
<td>Resource-seeking</td>
<td>91.7</td>
<td>33.3</td>
<td>5.7</td>
<td>25.8</td>
<td>11.1</td>
<td>40</td>
</tr>
<tr>
<td>Skilled labour</td>
<td></td>
<td>33.3</td>
<td>14.3</td>
<td>3.2</td>
<td>11.1</td>
<td>13.3</td>
</tr>
<tr>
<td>Capital-seeking</td>
<td>8.3</td>
<td>33.3</td>
<td>8.6</td>
<td>9.7</td>
<td>11.1</td>
<td>13.3</td>
</tr>
<tr>
<td>Socio-political motives</td>
<td>8.</td>
<td>33.3</td>
<td>2.9</td>
<td>3.2</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Local alliances</td>
<td>83.3</td>
<td>66.7</td>
<td>62.9</td>
<td>74.2</td>
<td>88.9</td>
<td>60</td>
</tr>
</tbody>
</table>

Note: Respondents were encouraged to record all applicable reasons

**4.4.3. International turnover**

The respondents had to indicate how much of their entities' turnover was due to FDI. From the data in Table 4.12, it can be seen that the majority of the firms in the sample are very large, as indicated by reported turnovers.
Table 4.12: FDI turnover generated by the firms in the sample

<table>
<thead>
<tr>
<th>FDI turnover</th>
<th>Number of companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than R300 million</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>R300 – R900 million</td>
<td>31</td>
<td>29.5</td>
</tr>
<tr>
<td>More than R900 million</td>
<td>49</td>
<td>46.7</td>
</tr>
<tr>
<td>Not specified</td>
<td>4</td>
<td>3.8</td>
</tr>
</tbody>
</table>

FDI flows from South Africa have grown in volume across a widely dispersed set of host countries. In the process, FDI has become an important source of externally generated revenue (and thus, accessible finance for further local investment) for South African parent firms. As can be seen from Table 4.12, these levels of finance are motivation for South African firms to continue making long-term direct investments that they control. While 21% earn less than R300 million per annum from their FDI, an impressive 49% earn more than R900 million per annum from FDI. As South African firms become more accomplished with regard to international business, so these numbers should increase.

4.4.4. Length of time operating as a multinational firm

Table 4.13 indicates that 83% of the firms have been operating internationally for more than 5 years. This level of experience should correlate with an increasing level of confidence that allows and motivates them to continue existing FDI operations, and to expand internationally.

Table 4.13: Length of time operating as multinationals

<table>
<thead>
<tr>
<th>Length of time</th>
<th>Number of companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>3</td>
<td>2.9</td>
</tr>
<tr>
<td>1-3 years</td>
<td>15</td>
<td>14.3</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>83</td>
<td>79</td>
</tr>
<tr>
<td>Not specified</td>
<td>4</td>
<td>3.8</td>
</tr>
</tbody>
</table>

4.4.5. International involvement

The idea behind the question was to determine the firms' preferred style of involvement in their international businesses. Table 4.14 provides an overview of the level of business commitment/involvement of South African firms responding to this research questionnaire. There is still a fairly large percentage of the firms for whom FDI means simply exporting goods and services to international locations. However, an impressive majority of the respondents have embraced the fullest meaning of foreign direct investment and have become involved in the widest range of
business activities available in the host countries. South African firms now have the appearance of well-established multinational firms as they venture into new markets via foreign direct investments.

Table 4.14: International involvement of the firms in the sample

<table>
<thead>
<tr>
<th>International involvement</th>
<th>Number of companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct investment</td>
<td>82</td>
<td>78.1</td>
</tr>
<tr>
<td>Exporting</td>
<td>25</td>
<td>23.8</td>
</tr>
<tr>
<td>Joint venture</td>
<td>25</td>
<td>23.8</td>
</tr>
<tr>
<td>Licensing/franchising</td>
<td>11</td>
<td>10.5</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>5.7</td>
</tr>
</tbody>
</table>

It should be obvious from the above results that the individual companies do not use a single strategy or business vehicle for all their FDI: all styles of business, from a simple export effort to a fully committed direct investment, joint venture or licensing, are represented. However, the most popular choice for South African firms is direct investment. This is supported by the literature, which is best summed up by Vernon’s (1966) product cycle hypothesis: firms go through an exporting phase before changing initially to market-seeking FDI, and then to cost-oriented (direct investment) FDI. Because some of the respondents are in the fast moving consumer goods and fast foods categories, licensing (as recorded in Table 4.14), is the preferred strategy and approach for 11% of the respondents.

4.4.6. Investment factors

An important objective of the research was to determine which key factors South African firms consider important when making FDI decisions. A ten-point Likert scale (from very unimportant to very important), was used to gather data on the perceived importance of the given factors.

4.4.6.1. Political stability and governance

Political stability is an important factor considered by respondents, because it impacts on a location, its economy, and the sustainability of the investor’s investment. Political risk is defined by Butler and Joaquin (2002) as “…the risk that a sovereign host government will unexpectedly change the ‘rules of the game’ under which businesses operate, and this affects a firm’s assessment of the viability of FDI in that country. Assessment of political risk changes as a result of political changes due to elections, revolts, recessions, or wars, as these events can typically lead to expropriation, increased taxes, reduced or cancelled FDI incentives, changes to local ownership requirements, local content requirements, and currency volatility issues. The net effect is that firms experience losses through loss of assets or of income generating operations, and most importantly, they typically lose the ability and right to repatriate funds (Bhalla, 1983).
A low level of political risk is desirable for any multinational firms (except those providing "protective services"). Thirty-two of the responding South African firms consider political stability and governance to be an important factor (scored as an 8 on the 10-point Likert scale), whereas 17 of the firms consider it to be very important. 18 of the respondents scored it as 7 on the 10-point Likert scale, and 8 considered it to be relatively unimportant. Out of total of 105 respondents, 85 consider political stability and governance to be an important factor (scored 6 or higher). Transparency within the judicial system of the intended host country is also an important consideration for firms contemplating FDI. Because of the unfamiliarity with local laws and customs, firms anticipate higher than normal encounters with the local legal system.

### Table 4.15: Political stability and governance as a factor considered by responding firms

<table>
<thead>
<tr>
<th>Factor: Political stability</th>
<th>Very unimportant</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>Frequency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very unimportant</td>
<td></td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>8</td>
<td>9</td>
<td>18</td>
<td>32</td>
<td>9</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Very important</td>
<td></td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>8.2</td>
<td>9.2</td>
<td>18.4</td>
<td>32.7</td>
<td>9.2</td>
<td>17.3</td>
<td>4</td>
</tr>
</tbody>
</table>

#### 4.4.6.2. General macroeconomic stability

The size and growth prospects of the domestic market and the financial stability of the market are important elements of FDI decision-making. In addition, factors such as GDP growth, interest rate fluctuations, inflation, and other macroeconomic policies are all considered important factors when considering FDI – both from the point of view of assessing the attractiveness of the overseas option, and the push aspect of the home market. The literature reviewed has shown how current and anticipated GDP influences companies considering FDI, and that relative wealth significantly affects inward FDI. Real income (measured in inflation- and exchange rate fluctuation-adjusted currency) is an additional significant factor determining the inflow of FDI (Klein & Rosengren, 1994). Inflation (as a measure for economic instability), has been found to negatively affect FDI inflows, while fewer trade barriers correlates positively with FDI inflows. South African firms are apparently following the trends identified in the literature, because 80 of the responding firms considered this factor (general macroeconomic stability) to lie within the important to very important range (12 of the responding companies consider this to be a very important factor).
Table 4.16: General macroeconomic stability as a decision-making factor for firms considering FDI

<table>
<thead>
<tr>
<th>Rating</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>7</td>
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<tr>
<td></td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

| Frequency | 2 | 1 | 2 | 4 | 9 | 11 | 19 | 28 | 10 | 12 |
| Percentage| 2 | 1 | 2 | 4 | 9.2 | 11.2 | 19.4 | 28.6 | 10.2 | 12.2 |

4.4.6.3. Exchange rate stability

The long-term outlook of any country with regards to its economy, especially its GDP growth, is an important factor for any firm wanting to invest in that country. The literature review has shown diverse and seemingly contradictory results when analysing the influence of foreign exchange fluctuations on FDI inflows. However, a few studies have indicated that the more volatile the real exchange rate is, the greater the negative influence on FDI (Jeon & Rhee, 2008). Similarly, exchange control policies that are erratic and unpredictable can make hedging strategies and expansion decisions difficult, and also negatively impact the FDI decision-making process.

Contrary-wise, depreciation of the currency in the host country reduces the amount of foreign currency needed to purchase the assets; but if it continues, it also decreases the nominal return a firm would receive when repatriating the foreign currency profits, thus effectively maintaining the status quo for the rate of return for the foreign investor (Blonigen, 2006). The empirical results show that for 53 of the responding South African firms, exchange rate stability is an important factor. However, 45 of the respondents considered this to be an unimportant to very unimportant factor in their decision-making processes. There was one key concern raised by the majority of respondents that related to the host country’s exchange control legislation: all foreign firms desire the repatriation of profits and dividends process to be a mundane and efficient process.

Table 4.17: Exchange rate stability as a factor in FDI decision-making

<table>
<thead>
<tr>
<th>Rating</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

| Frequency | 3 | 2 | 8 | 12 | 20 | 6 | 22 | 14 | 9 | 2 |
| Percentage| 3.1 | 2 | 8.2 | 12.2 | 20.4 | 6.1 | 22 | 14.3 | 9.2 | 2 |
4.4.6.4. Trade incentives and trade agreements

Policies on repatriation of capital, the remittance of profit, as well as government regulations and restrictions on equity holdings all have the potential to inhibit FDI inflow (Tarzi, 2005).

Tax policies are another factor that affects FDI inflows. Firms are subject to taxation in both the host and parent countries, and therefore any country that has negotiated bilateral investment treaties that reduce withholding taxes, provides an incentive for firms to invest in that country. The Organisation for Economic Co-operation and Development (OECD) has helped promote bilateral tax agreements in order to help increase FDI. A study by Cleeve (2008) found that tax holidays can be an important factor for positively influencing FDI.

Other regional agreements (like the SADC and Nepad agreements), have also been found to influence FDI. From the responses to this question, 54 companies ranked this at 6 or more on the 10-point Likert scale, identifying trade incentives and trade agreements as serious considerations in their decision-making processes.

Countries that sign investment treaties positively influence FDI inflows. In addition, bilateral treaties and double tax treaties are used as proxies for investment treaties, and these also act as FDI incentives. These treaties are also distinguishable from trade agreements in that they are entirely dependent upon the will and intention of governments; but despite this, they do act as conduits for firms' FDI efforts. The EU's market plan has provided attractive opportunities for FDI from countries outside the EU, and the United States' free trade agreement with Canada has helped to promote exporting and manufacturing from Canada (Rugman, Verbeke & Nguyen, 2011).

Bilateral investment treaties, double tax treaties, and free trade agreements have all helped to promote FDI (UNCTAD, 2005). Regional agreements (for example among ASEAN countries) have encouraged FDI in that region. Tax incentives (another popular tool) are also used to attract FDI. Tax incentives normally take the form of reduced tax rates, tax depreciation, tax credits or tax holidays, and government grants (Kumar, 1982). Tax rates exhibit both negative and linear correlation with FDI (Gastanaga et al., 1998). However, there are studies that have shown that increased taxes encourage FDI inflow into the country (Swenson, 2000). The reasons for this appear to be unique to the time and countries involved.
Table 4.18: Presence of trade incentives and trade agreements as a factor in FDI decision-making

<table>
<thead>
<tr>
<th>Factor: Trade incentives and trade agreements</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>5</td>
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<td></td>
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<td>8</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Frequency</td>
<td>5</td>
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</tr>
<tr>
<td></td>
<td>7</td>
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<td></td>
<td>16</td>
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<td>15</td>
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<td></td>
<td>3</td>
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<tr>
<td>Percentage</td>
<td>5.1</td>
<td>7.1</td>
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<td></td>
<td>7.1</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>16.3</td>
<td>11.22</td>
</tr>
<tr>
<td></td>
<td>22.4</td>
<td>15.3</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

4.4.6.5. **Infrastructure quality**

A key feature of any location’s attractiveness is how well-developed the infrastructure is. Infrastructure includes telecommunications and data networks, transportation, availability of all-weather roads, railways, airports, seaports, electricity and information. All are necessary to achieve better productivity. Literature reviewed is unanimous in its view that infrastructure development is an important factor in the selection of location of FDI in developing countries (Root & Ahmad, 1979; Wheeler & Mody, 1992). An efficient transport and communications network is necessary for markets to function properly. Countries with formal and efficient infrastructures are attractive to firms because they facilitate accelerated market growth through cheaper and better transport, and effective communication networks. Thus, developing countries with poorer infrastructures, as in Africa, Asia or Latin America, are generally less appealing. A study by Clark et al (2013) shows that FDI flows are greatest to countries with better physical infrastructure – infrastructural compatibility is important for successful market entry. Seventy-six (76) respondents identified this factor as an important consideration in their FDI selection processes.

Table 4.19: Quality of infrastructure as a factor in FDI decision-making

<table>
<thead>
<tr>
<th>Factor: Infrastructure quality</th>
<th>Very unimportant</th>
<th>Very important</th>
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<tbody>
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<td>19.4</td>
<td>27.6</td>
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<td></td>
<td>6.1</td>
<td>10.2</td>
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</tbody>
</table>
4.4.6.6. Human infrastructure

Labour cost is an important component of the total production costs of physical product and pure services alike. All else being equal, foreign production will take place when production costs are lower abroad than at home. Labour costs are an important determinant of FDI location decisions, especially for firms in labour-intensive industries. Regional and national wage cost advantages are the driving FDI factor for firms considering their global production and marketing strategies. Despite this, technical developments in production methods can reduce the weighting of direct labour costs in the FDI decision-making process, which in turn could quickly change the firm's strategy.

The presence of skilled labour is another important element, and depending on the firm's requirements, can make a location particularly attractive, over and above its wage rate advantage. Most production-intensive firms require high labour productivity and a skilled labour force. The introduction and development of new, more sophisticated systems and production processes and technologies are additionally creating a need for a more educated workforce capable of learning new techniques quickly. Just-in-time and total quality management (TQM) production systems place more importance on the ability of the workforce to operate independently than on their relatively low cost. Labour productivity drives production innovation, and technical expertise influences production differentiation, because they are important variables in gaining a competitive advantage in a specific location (Luo, 1999a).

The South African approach to FDI assessment appears to be in line with international trends as they pursue both skilled and cost-effective human resources: seventy-four (74) of the research respondents ranked human infrastructure as 6 or higher in terms of importance to their decision-making processes.

<table>
<thead>
<tr>
<th>Factor: Human infrastructure</th>
<th>Very unimportant</th>
<th>Very important</th>
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</thead>
<tbody>
<tr>
<td>Rating</td>
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<tr>
<td>Frequency</td>
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<td>2</td>
</tr>
<tr>
<td>Percentage</td>
<td>3.1</td>
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</tbody>
</table>

4.4.6.7. Market size and demand conditions

Market size is an important determinant of FDI. The general consensus from the literature review is that the larger the market size, the greater the FDI inflows (Buckley et al., 2007; Svetličič, 2004). Market size is important for firms in that the larger the market the greater their potential sales
volumes, and the greater the volumes the more efficient is their utilisation of resources and the exploitation of economies of scale (Chakrabarti, 2001). There is also a positive relationship between GDP and FDI. GDP growth is an indicator that the market is growing and is thus able to integrate the FDI into itself. Markets that are growing provide better opportunities for generating profits than those markets that are experiencing a slower growth (Lim, 1993).

When firms realise that an existing market for their products is saturated, they usually decide to pursue international strategies in order to continue to grow. The market size of the host country and the stage and state of development of the economy of the host country both influence FDI decisions (Anwar et al., 2011). At the national level, the size and growth rate of markets indicates the presence of market opportunities. The growth of per capita income is also an appropriate supplementary measure of market growth within a target region. Firms generally try to locate production facilities close to existing customers and buyers, in order to capitalise on cost efficiency and marketing effectiveness. Another key aspect of per capita income growth is that it is usually accompanied by increased customer responsiveness, and a regional presence is necessary to maintain a competitive position.

Eighty (80) of the respondents considered market size and GDP growth to be important to very important with 12 of these respondents indicating that this was very important to them.

Another important aspect of the local market is the extent of the local competitors' presence in a potential location, as it has a direct impact on a firm's market position and gross profit margin from local sales. Firms therefore tend to choose locations where competition is low, unless they have confidence in the superiority of their own internal production, sales and distribution capabilities.

| Table 4.21: Market size and GDP growth as a factor in FDI decision-making |
|---------------------------------|---------------------|---------------------|
| Factor: Market size and GDP growth as a factor in FDI decision-making |
| Very unimportant | Very important |
| Rating | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Frequency | 3 | 3 | 7 | 8 | 11 | 12 | 27 | 16 | 12 |
| Percentage | 3 | 3 | 7.1 | 8.1 | 11.1 | 12.1 | 27.3 | 16.2 | 12.1 |

4.4.6.8. Agglomeration clusters

Agglomeration has been found to be a principle determinant of new investment, and economies arising from agglomeration are decisive and positive location factors. Marshall (1890) explains that agglomeration engenders economies of scale that are external to a firm, but internal to a small
geographic area. These external economies are characterised by specialised labour markets, supplier networks and knowledge spill-overs. The basic rationale behind agglomeration economies is that the greater the number of foreign firms there are in a particular location, the greater the positive externalities they generate, identified as availability of skilled workers, specialised services, intermediate products, and a shared knowledge base. These regional economic concentrations also allow firms to increase productivity while still saving costs. South African firms do not perceive the accumulation of foreign firms from a single industry at one location to be a critical factor, as the majority (61 respondents) saw this as unimportant to very unimportant as a determinant of their FDI. Conversely, only 37 of the respondents gave a response of 6 or more, including 3 who ranked it as very important.

Table 4.22: Agglomeration clusters as a factor in FDI decision-making

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<tr>
<th>Rating</th>
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<th>4</th>
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<th>6</th>
<th>7</th>
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<th>9</th>
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</tr>
</thead>
<tbody>
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<td>9</td>
<td>14</td>
<td>5</td>
<td>16</td>
<td>7</td>
<td>8</td>
<td>14</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Percentage</td>
<td>17.34</td>
<td>9.2</td>
<td>14.3</td>
<td>5.1</td>
<td>16.32</td>
<td>7.1</td>
<td>8.2</td>
<td>14.3</td>
<td>5.1</td>
<td>3.1</td>
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</tbody>
</table>

Table 4.23 below, summarises the key FDI decision-making factors, providing for each factor its mean and standard deviation. From this table the level of relative importance of each of the factors is calculated. The results indicate that the following factors are seen to be the most important considerations for South African firms when investing internationally:

- Country governance and political risk
- Macroeconomic performance
- Market size and demand
- Infrastructure
- Human infrastructure.
Table 4.23: FDI factors considered by SA firms in rank order

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Mean</th>
<th>Standard deviation</th>
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</thead>
<tbody>
<tr>
<td>Political stability and governance</td>
<td>7.57</td>
<td>1.811</td>
</tr>
<tr>
<td>General Macroeconomic stability</td>
<td>7.18</td>
<td>1.991</td>
</tr>
<tr>
<td>Market size and GDP growth</td>
<td>7.17</td>
<td>2.162</td>
</tr>
<tr>
<td>Infrastructure quality</td>
<td>6.84</td>
<td>2.084</td>
</tr>
<tr>
<td>Human Infrastructure</td>
<td>6.52</td>
<td>1.938</td>
</tr>
<tr>
<td>Exchange rate stability</td>
<td>5.94</td>
<td>2.124</td>
</tr>
<tr>
<td>Trade incentives and agreements</td>
<td>5.64</td>
<td>2.262</td>
</tr>
<tr>
<td>Agglomeration clusters</td>
<td>4.71</td>
<td>2.736</td>
</tr>
</tbody>
</table>

Correlations:

Using correlation analysis, a more detailed look at the interaction and interrelationship between variables was carried out. This series of analyses was performed on numerous combinations of variables, and provided information that is summarised Table 4.24. It is evident that there are some significant effects and relationships for certain combinations of factors, which, in conjunction with the means calculated above, identify those factors that are the more important and have a stronger influence on the FDI decision-making process. These factors are in line with prior research. These results also support the hypothesis that there are specific pertinent factors that are perceived to be important by most senior executives when choosing a country in which to invest. The results summarised in Table 4.24 used two tailed p values associated with the t test on each correlation. Table 4.24 shows the correlations tested.

The following relationships were found to be significant; these were investigated using the Pearson product movement correlation coefficient. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity, and homoscedasticity.

The following relationships show a p value of less than .05.

Table 4.24: Summary of significant relationships between factors

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<th>Factor</th>
<th>Cross factors</th>
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<td>Political stability and governance</td>
<td>Political stability and governance</td>
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<td>General macroeconomic stability</td>
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<td>Market size and GDP growth</td>
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<td>Factor</td>
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<tr>
<td>Economic agglomeration</td>
<td>Social and Cultural proximity, Commercial ties, Political ties, Existing country information stock, Level of socio-economic development, Psychic distance, Per capital income of consumers in the foreign market, Level of literacy and education of the consumers in the foreign market, Consumer characteristics</td>
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<td>General macroeconomic stability</td>
<td>Exchange rate stability, Trade incentives and agreements, Infrastructure quality, Human infrastructure, Market size and GDP growth, Economic agglomeration, Social and Cultural proximity, Commercial ties, Political ties, Existing country information stock, Level of socio-economic development, Psychic distance, Per capital income of consumers in the foreign market, Level of literacy and education of the consumers in the foreign market, Consumer characteristics</td>
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<td><strong>Factor</strong></td>
<td><strong>Cross factors</strong></td>
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</tbody>
</table>
| Commercial ties            | Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market  
                             | Consumer characteristics  
                             | Political ties  
                             | Historic ties  
                             | Geographic familiarity  
                             | Social ties  
                             | Existing country information stock  
                             | Level of socio-economic development  
                             | Psychic distance  
                             | Per capital income of consumers in the foreign market  
                             | Purchasing power of consumers in the foreign market  
                             | Consumer preferences in the foreign market  
                             | Level of literacy and education of the consumers in the foreign market  
                             | Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market  
                             | Consumer characteristics |
| Political ties             | Historic ties  
                             | Geographic familiarity  
                             | Social ties  
                             | Existing country information stock  
                             | Level of socio-economic development  
                             | Psychic distance  
                             | Level of literacy and education of the consumers in the foreign market  
                             | Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market |
| Historic ties              | Geographic familiarity  
                             | Social ties  
                             | Existing country information stock  
                             | Level of socio-economic development  
                             | Psychic distance  
                             | Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market |
| Geographic familiarity    | Social ties  
                             | Existing country information stock  
                             | Level of socio-economic development  
                             | Psychic distance  
                             | Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market |
|                           | Existing country information stock  
                             | Level of socio-economic development  
                             | Psychic distance  
                             | Lifestyles of the consumers in the foreign market  
                             | Level of literacy and education of the consumers in the foreign market  
<pre><code>                         | Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market |
</code></pre>
<table>
<thead>
<tr>
<th>Factor</th>
<th>Cross factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social ties</td>
<td>Existing country information stock</td>
</tr>
<tr>
<td></td>
<td>Level of socio-economic development</td>
</tr>
<tr>
<td></td>
<td>Psychic distance</td>
</tr>
<tr>
<td></td>
<td>Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market</td>
</tr>
<tr>
<td>Existing country information stock</td>
<td>Level of socio-economic development</td>
</tr>
<tr>
<td></td>
<td>Psychic distance</td>
</tr>
<tr>
<td></td>
<td>Purchasing power of consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Lifestyles of the consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Consumer preferences in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Level of literacy and education of the consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market</td>
</tr>
<tr>
<td>Level of socio-economic development</td>
<td>Consumer characteristics</td>
</tr>
<tr>
<td>Psychic distance</td>
<td>Consumer preferences in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Level of literacy and education of the consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market</td>
</tr>
<tr>
<td>Per capita income of consumers in the foreign market</td>
<td>Consumer characteristics</td>
</tr>
<tr>
<td>Purchasing power of consumers in the foreign market</td>
<td>Purchasing power of consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Lifestyles of the consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Consumer preferences in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Level of literacy and education of the consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market</td>
</tr>
<tr>
<td></td>
<td>Consumer characteristics</td>
</tr>
</tbody>
</table>
### Factor Cross factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Cross factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifestyles of the consumers in the foreign market</td>
<td>Consumer preferences in the foreign market, Level of literacy and education of the consumers in the foreign market, Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market, Consumer characteristics</td>
</tr>
<tr>
<td>Consumer preferences in the foreign market</td>
<td>Level of literacy and education of the consumers in the foreign market, Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market, Consumer characteristics</td>
</tr>
<tr>
<td>Level of literacy and education of the consumers in the foreign market</td>
<td>Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market, Consumer characteristics</td>
</tr>
<tr>
<td>Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market</td>
<td>Consumer characteristics</td>
</tr>
</tbody>
</table>

### 4.5. PSYCHIC DISTANCE

The psychic distance construct has been widely used in international business research. Psychic distance is defined as a firm's degree of uncertainty about a foreign market with regard to FDI (from its perception of differences between its home and host environments), that present potential barriers to gaining knowledge about the foreign market (Johanson & Vahlne, 1977).

The questions posed in the survey that related to psychic distance were designed based on the work of Brewer (2007). In his work, Brewer described the operationalisation of the psychic distance concept using an index to measure the psychic distance. He then applied it to measure distances between 25 different country combinations. Brewer developed an index by applying logic to the problem, and by aggregating factors that had previously been identified by other researchers on psychic distance. Brewer (2007) identified seven (7) primary elements on his index. Using the same elements that Brewer (2007) did, the respondents in this present research were asked to indicate their perceptions of importance of these elements of psychic distance; using a Likert scale where 1 is very unimportant and 10 is very important.

#### 4.5.1. Psychic distance findings

The findings of the psychic distance factors are described by frequency distributions and the distributions of results briefly discussed under each tabulated factor. Each of the seven psychic distance factors is then subjected to a one-sample t-test. Subsequent to this, an aggregated score for psychic distance (a singular construct) is calculated and subjected to a one-sample t-test.
4.5.2. Commercial ties

A strong commercial relationship between any two countries promotes stronger information flows between those countries. The commercial relationship would be manifest as imports and exports of goods and services, and FDI inflows and outflows between the countries. Table 4.25 below shows the respondents’ percentage distribution of importance ratings of commercial ties as a factor influencing their decision-making. Table 4.25 indicates that 33 respondents (35%) consider this to be important, but with only five (5%) considering this to be very important; 57 respondents (60%) consider this to be very unimportant to unimportant.

Table 4.25: Importance of commercial ties as a measure of psychic distance

<table>
<thead>
<tr>
<th>Factor: Commercial ties as a measure of psychic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very unimportant</td>
</tr>
<tr>
<td>Rating</td>
</tr>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Percentage</td>
</tr>
</tbody>
</table>

4.5.3. Political ties

Political ties between countries help to reduce the psychic distance between those countries. Trade agreements, defence strategies and other aid programs can create mutually agreeable ties. From Table 4.26 it can be seen that 24 respondents (26%) consider this factor to be important, with only 2 respondents considering this to be very important, and 68 respondents (72%) consider this factor to be unimportant.

Table 4.26: Importance of political ties as a measure of psychic distance

<table>
<thead>
<tr>
<th>Factor: Political ties as a measure of psychic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very unimportant</td>
</tr>
<tr>
<td>Rating</td>
</tr>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Percentage</td>
</tr>
</tbody>
</table>

4.5.4. Historical ties

Historic ties that acknowledge previous colonial relationships and joint participation in wars as allies also help to reduce the psychic distance between countries. The relationship permits and promotes
preferential trade access and exchanges of a commercial and cultural nature. Table 4.27 shows that 75 (81%) of the respondents consider this factor to be unimportant, with only 18 (19%) of the respondents considering this to be important. None considered this to be very important.

Table 4.27: Importance of historic ties as a measure of psychic distance

<table>
<thead>
<tr>
<th>Factor: Historic ties as a measure of psychic distance</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Frequency</td>
<td>24</td>
<td>18</td>
</tr>
<tr>
<td>Percentage</td>
<td>25.8</td>
<td>19.35</td>
</tr>
</tbody>
</table>

4.5.5. Geographic ties

Geographic ties, a key element of psychic distance, are defined as the physical, geographical distance between any two countries. If the distance is short, the commercial exchanges between countries are better, because of the lower transport and related costs, and because information transfer is easier if working days overlap significantly in real time.

The geographical distance from the home country is an important variable that impacts on the decision to undertake FDI into a host country. Firms generally have a preference to invest close to home. Johanson and Vahlne (1977) used the theory of internationalisation of the firm to explain the investment patterns of firms. Their theory is that firms will invest initially in neighbouring countries that have the same social, economic and political environments as the home country. However, as firms develop more ownership advantages, they increasingly locate their new ventures in developing countries. Other researchers have supported this theory, also noting that geographic proximity plays an important role in a firm’s FDI processes.

A shorter physical distance helps to reduce information and transportation costs. This should be an important factor particularly for firms operating in the fast moving consumer goods sector. However, the responses to the survey reflected in Table 4.28, show that this is not considered an important factor by South African respondents, as only 27 (24%) of the respondents selected this as important, and 68 (72%) consider this to be unimportant. Geographic proximity reduces entry barriers otherwise posed by transportation and information processing requirements. Geographical proximity lowers the costs of managerial coordination and control, and reduces the cost of monitoring agents’ behaviour. It also promotes the personal contact that is a requirement for effective transfer of knowledge and other interpersonal skills and attitudes (Shenkar, 2001).
Table 4.28: Importance of geographic familiarity as a measure of psychic distance

<table>
<thead>
<tr>
<th>Factor: Geographic familiarity as a measure of psychic distance</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>1 2 3 4 5 6 7 8 9 0</td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>19 13 10 9 17 6 12 7 2 0</td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
<td>20 13.6 10.5 9.4 17.8 6.3 12.6 7.3 2.1 0</td>
<td></td>
</tr>
</tbody>
</table>

4.5.6. Social ties

Differences in language and culture affect the inflow of knowledge and therefore increases the psychic distance between countries. Psychic distance is the sum total of all barriers created by geographical distance and the cultural disparities between the country of origin and the host country (Johanson & Vahlne, 1977). Differences in social and cultural factors prevent a firm from easily and fully understanding a foreign environment. According to the literature, the general trend is that firms begin their internationalisation process by entering new markets that are culturally close, gaining experience in these host countries first before expanding their operations abroad into more physically and psychically distant markets. Uncertainty, which is related to differences in culture between the home and host countries, is an important factor, which is determined by a firm’s adaptability to the social context of a host country (Luo, 1999a).

Foreign investment requires communication skills so as to address government agencies, local competitors, and the foreign workforce with equal effectiveness. Therefore, FDI occurs more frequently between countries that share similar cultural and socioeconomic development histories, as the similarities ease the tensions of the cultural dimensions of business relations. Language too plays a very important role in helping to minimise the cultural distance. Foreign businesses do recruit local people, but effective communication with head office, as well as between expatriate and local (host country) employees, remains crucial to a business's success. Table 4.29 indicates that South African firms are apparently aware of these factors as 22 (23%) of the respondent consider this to be important (but only 1 (1%) respondent considered this to be very important). Significantly, 72 (75%) consider this to be very unimportant.
4.5.7. Information availability

If trade information about a country is readily available, it makes it easier for managers to become quickly familiar with the potential host country. Table 4.30 indicates that 48 (50%) of the respondents found this factor to be unimportant, with 47 (49%) of the respondents considering this to be an important factor, and only 1% consider this to be very important.

4.5.8. Level of socioeconomic development of host country

The higher the level of a country’s socio economic development, the shorter is the psychic distance to all other countries, regardless of the economic development of the potential host country. This appears to be because the more developed countries have greater access to sources of commercial information, and it is easier to conduct business in more developed economies because market conditions are easier to understand. Table 4.31 indicates that only 15 (14%) of the respondents consider this to be unimportant, whereas 71 respondents (74%) consider this to be important and 11 respondents (11%) consider this to be a very important factor.
Table 4.31: Importance of socio-economic development as a measure of psychic distance

<table>
<thead>
<tr>
<th>Factor: Level of socioeconomic development as measure of psychic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very unimportant</td>
</tr>
<tr>
<td>Rating</td>
</tr>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Percentage</td>
</tr>
</tbody>
</table>

One sample t tests of psychic distance items:

Table 4.32 indicates the findings of one-sample t tests for each of the seven psychic distance items.

Table 4.32: One-sample t-tests of psychic distance items

<table>
<thead>
<tr>
<th>One-sample statistics</th>
<th>One-sample test value = 5.5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
</tr>
<tr>
<td>Commercial ties</td>
<td></td>
</tr>
<tr>
<td>Commercial ties</td>
<td>95</td>
</tr>
<tr>
<td>Political ties</td>
<td>94</td>
</tr>
<tr>
<td>Historic ties</td>
<td>93</td>
</tr>
<tr>
<td>Geographic familiarity</td>
<td>95</td>
</tr>
<tr>
<td>Social ties</td>
<td>95</td>
</tr>
<tr>
<td>Existing country information stock</td>
<td>96</td>
</tr>
<tr>
<td>Level of socio-economic development</td>
<td>96</td>
</tr>
</tbody>
</table>

Table 4.32 indicates that all individual psychic distance items are significant at the 5% level or less, with the exception of “existing country information stock” (t=-.351, p=.726). Only the level of socio-economic development (t=8.966, p=.000) was seen to significantly important in FDI decision making.
4.5.9. Overall psychic distance index one sample t-test

The calculation of the psychic distance index provides some useful insights into the concept of psychic distance. A psychic distance index was constructed using an aggregated scale of the 7 items as shown in Table 4.32 above. The alpha coefficient for the 7 items is .872, suggesting that the items have relatively high internal consistency. The items have an aggregate score of 93 responses, a mean of 33.42, and a standard deviation of 12.213. The variance is 149.159 and the standard deviation is 12.213. This scale indicates that there are certain factors that do bring countries closer. Historic ties (in the form of previous colonial ties), political ties, commercial ties, social ties, existing country information stock (within the company), and level of socio-economic development of intended host country all play a role in minimising distances 'psychically'. This index represents a reasonable measure of information flows and the behaviour of the decision-making executives of SA firms when selecting locations for their FDI. The evidence obtained via the index provides support of the view that senior managers rely on developing their own knowledge (on the factors from the table) about potential locations through a variety of information flows, and this agrees with the views presented in the literature reviewed. The factors listed in the table 10 below operationalise psychic distance as a holistic concept. In addition, management characteristics (personalities of individuals, as well as their collective response to challenges and opportunities) also play a role in defining the psychic distance, although these aspects are considered to be outside the scope of the current research.

Table 4.33: Psychic distance aggregate descriptive statistics

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Sum</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial ties</td>
<td>95</td>
<td>1</td>
<td>10</td>
<td>4.95</td>
<td>2.707</td>
<td></td>
</tr>
<tr>
<td>Political ties</td>
<td>94</td>
<td>1</td>
<td>10</td>
<td>4.40</td>
<td>2.420</td>
<td></td>
</tr>
<tr>
<td>Historic ties</td>
<td>93</td>
<td>1</td>
<td>8</td>
<td>3.39</td>
<td>2.152</td>
<td></td>
</tr>
<tr>
<td>Geographic familiarity</td>
<td>95</td>
<td>1</td>
<td>9</td>
<td>4.11</td>
<td>2.403</td>
<td></td>
</tr>
<tr>
<td>Social ties</td>
<td>95</td>
<td>1</td>
<td>10</td>
<td>3.93</td>
<td>2.189</td>
<td></td>
</tr>
<tr>
<td>Existing country information stock</td>
<td>96</td>
<td>1</td>
<td>10</td>
<td>5.42</td>
<td>2.325</td>
<td></td>
</tr>
<tr>
<td>Level of socio-economic development</td>
<td>96</td>
<td>1</td>
<td>10</td>
<td>7.33</td>
<td>2.004</td>
<td></td>
</tr>
<tr>
<td>Aggregate score</td>
<td>93</td>
<td>7</td>
<td>56</td>
<td>3108</td>
<td>33.42</td>
<td>12.213</td>
</tr>
</tbody>
</table>

Table 4.33 shows that most aspects, with the notable exception of "level of socio-economic development", that constitute the psychic distance aggregate scale obtain means that suggest that they are considered relatively unimportant by respondents in the FDI decision making process.
Table 4.34: One-sample t-test of psychic distance aggregate scale

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Std. error mean</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean difference</th>
<th>95% Confidence interval of the difference Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psychic distance</td>
<td>93</td>
<td>4.7742</td>
<td>1.74472</td>
<td>1.8092</td>
<td>-4.012</td>
<td>92</td>
<td>.000</td>
<td>-0.72581</td>
<td>-1.0851</td>
<td>-.3665</td>
</tr>
</tbody>
</table>

Table 4.34 indicates that the psychic distance aggregate scale is significant (t = -4.012, p = .000). However, the findings suggest that psychic distance as an aggregated concept was relatively unimportant in respondents’ FDI decision making.

4.6. BEHAVIOURAL AND ATTITUDINAL FACTORS

Conceptually closely related to psychic distance are behavioural and attitudinal factors.

4.6.1. Characteristics of the consumers in the foreign market

As products mature and competition intensifies firms have to seek new markets which have not been served previously. The process of identifying locations and consumers that are similar with regard to key traits (such as product-related needs and wants), must be performed at country level and at consumer level. This form of segmentation is called micro-segmentation. Micro segmentation uses the demographics of the consumers in the potential market: their age, occupation, education, income, ethnicity, race, lifecycle stage, social class, and degree of urbanisation are all factors that would be considered by the firm before entering a potential market. In addition, psychographic factors such as lifestyles, values, attitudes, interests, and the opinions of the consumers are also seen as being important factors. Using the literature review as a basis, the following factors were identified and posed to the South African respondents regarding their potential consumers, in order to determine whether identifying the characteristics of the consumer is a strategic factor when considering FDI into new, foreign locations.

4.6.1.1. Per capital income of the consumers

Social and economic forces have increased disposable incomes of consumers worldwide, leading to more sophisticated lifestyles and needs, and globalisation has had a significant impact on consumer behaviour and habits.

In order to remain in business, firms have to provide products and services that satisfy changing consumer needs. Consumers’ per capita income, which is an important measure of the expected growth of a country, also gives firms some dimension to their expectations regarding a location’s
potential. Another measure used by firms to determine the economic health of a country, and to assess the overall standard of living of the consumers in that country, is the gross domestic product. Table 4.35 summarizes the respondents' perceptions of the importance of the per capita income of the consumers. From the responses, 27% (20 respondents) consider this to be unimportant, while 73% (55 respondents) consider this to be important when carrying out research prior to FDI. Only six respondents considered this to be a very important factor.

Table 4.35: Importance of consumer per capita income as a factor supporting FDI

<table>
<thead>
<tr>
<th>Factor: Per capita income as FDI determinant</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>1 2 3 4 5 6 7 8 9 10</td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>1 4 2 2 11 9 11 21 8 6</td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
<td>1.3 5.3 2.7 2.7 14.7 12.0 14.7 28.0 10.7 8</td>
<td></td>
</tr>
</tbody>
</table>

4.6.1.2. Purchasing power of the consumers

Purchasing power of consumers is the converse of per capita income, as it also measures the strength of the economy, and the perceptions of businesses and individuals of the economy's future. The purchasing power can change if the price of goods increases or decreases, or if there is a change in the inflation rate within a country. A higher real income means a higher purchasing power. If the economy expands and consumer confidence rises as a result, consumers usually make more purchases and/or purchases of items of greater cost. Table 4.36 provides an overview of the South African firms' perceptions of the importance of the consumers' purchasing power when making FDI decisions.

Again, 22% of the respondents (17 individuals) consider this to be unimportant, whereas 78% (59 individuals) consider this to be important, with a seven respondents considering this to be very important.

Table 4.36: Purchasing power of the consumers as a factor in FDI decision-making

<table>
<thead>
<tr>
<th>Factor: Consumer purchasing power as determinant of FDI</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>1 2 3 4 5 6 7 8 9 10</td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>1 3 2 3 8 6 15 17 14 7</td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
<td>1.3 3.9 2.6 3.9 10.5 7.9 19.7 22.4 18.4 9.2</td>
<td></td>
</tr>
</tbody>
</table>
4.6.1.3. Consumer lifestyle

Consumer lifestyle segmentation has become a popular concept in marketing, and is now used globally by firms during their FDI planning processes (Wells & Tigert, 1971). Consumer lifestyles analysis attempts to determine how consumers live in a country, analysing the behaviour of individuals, small groups of interacting people, and large groups of people with the potential to become consumers and customers (Kucukemiroglu, 1999). The concept of consumer lifestyle segmentation is different from that of personality. Consumer lifestyle relates to the economic level at which people live, how they spend their money and how they spend their time (Kucukemiroglu, 1999). Lifestyle segmentation helps firms to measure potential consumer activities in terms of:

- How they spend their time
- What are their interest
- Their world-views, and views about themselves
- Demographic characteristics (Anderson & Golden, 1984).

Assessment of lifestyle patterns or psychographic patterns provides firms with a "three dimensional view" of consumers, thus assisting them to plan an entry strategy, and to understand their customers (Kucukemiroglu, 1999). In planning an entry strategy, a firm tries to obtain information on what factors affect consumer demand – that is, how consumers form preferences and how they are likely to behave if a new product or service is launched. Usually firms use existing market data to obtain information about preferences. Accurate predictions on consumer responses, coupled with models of production costs, tax rates, cash flow, and product line considerations, can lead to the development of more locally appropriate and thus successful products, and can reduce the risk of failure (Hauser & Shugan, 2008). Table 4.37 summarises the views of the respondents with regard to their consideration of consumer lifestyles as a factor that impacts their potential FDI. Again 35% (26 respondents) consider this to be unimportant, 65% (49 respondents) considering this factor to be important, and 2.7% (2 respondents) considering this to be very important.

Table 4.37: Consumer lifestyle as a factor considered prior to FDI

<table>
<thead>
<tr>
<th>Factor: Consumer lifestyle as determinant of FDI</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating Frequency</td>
<td>2 3 4 2 15 7 18 15 7 2</td>
<td>2.7 4 5.3 2.7 2.0 9.3 24 20 9.3 2.7</td>
</tr>
</tbody>
</table>
4.6.1.4. Consumer preferences and level of literacy and education

Another popular measure of marketing energy is to use market segmentation, via demographics like gender, age and education. The intention is to gain a competitive advantage from a better understanding of the potential market. Education levels often define market segments, and allow firms to develop products for specific consumers with particular educational levels. Table 4.38 provides an overview of the respondents’ perceptions of consumer preferences, which indicates 29% (22 respondents) consider consumer preferences to be unimportant, 71% (53 respondents) consider it to be important and 6.7% (6 respondents) very important.

Table 4.38: Consumer preferences as a factor considered prior to FDI

<table>
<thead>
<tr>
<th>Factor: Consumer preferences as determinant of FDI</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>1 2 3 4 5 6 7 8 9 10</td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>2 1 3 2 14 7 16 16 9 5</td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
<td>2.7 1.3 4 2.7 18.7 9.3 21.3 21.3 12 6.7</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.39: Level of education as a factor considered prior to FDI

<table>
<thead>
<tr>
<th>Factor: Consumer education levels as determinant of FDI</th>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>1 2 3 4 5 6 7 8 9 10</td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>2 7 8 7 18 5 9 11 3 4</td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
<td>2.7 9.5 10.8 9.5 24.3 6.8 12.2 14.9 4.1 5.4</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.39 the perception of education levels as a consideration when planning to enter a new location with 57% (42 respondents) considering this to be unimportant, and 43% (32 respondents) considering this to be important and 5% (4 respondents) very important.

4.6.1.5. Cultural values

Cultural values drive a consumer’s choices. Cultural values are dynamic and they originate from the ethnic and social groupings to which people belong. Cultural values that a person subscribes to can be seen expressed in some of the consumer’s consumption behaviour. Firms are also aware of the fact that consumers from different cultures may respond to different product attributes that nevertheless result in similar underlying consumption values (Chen & Funke, 2011). Cultural values
have long been recognised as a powerful force shaping consumer motivation, lifestyle and product choices. The value system is thought to include sets of beliefs, attitudes, and activities to which a culture or subculture subscribes, and is reinforced by the operation of a system of rewards and punishments to those who follow/fail to follow these guidelines (Rokeach, 1973). Cultural values affect consumers' consumption behaviour as a group, and as individuals in the market place. It is therefore reasonable to assume that firms would analyse cultural values as part of their entry strategy into a new location. Table 4.40 summarises the views of the respondents with regard to this factor. 67% percent of the respondents consider this factor to be unimportant, 33% consider this to be important, and 1.4 percent considers this to be very important.

Table 4.40: Cultural values as a factor considered prior to FDI

<table>
<thead>
<tr>
<th>Very unimportant</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Frequency</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>21.9</td>
<td>9.6</td>
</tr>
<tr>
<td>8.2</td>
<td>5.5</td>
</tr>
<tr>
<td>21.9</td>
<td>6.8</td>
</tr>
<tr>
<td>15.1</td>
<td>6.8</td>
</tr>
<tr>
<td>2.7</td>
<td>1.4</td>
</tr>
</tbody>
</table>

4.6.1.6. One-sample t tests of consumer index items

Table 4.41 below presents the descriptive statistics for consumer characteristics as a factor in FDI decision-making.

Table 4.41: Mean and standard deviation of consumer characteristics

<table>
<thead>
<tr>
<th>Consumer characteristics</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita income of consumers in the foreign market</td>
<td>6.79</td>
<td>2.152</td>
</tr>
<tr>
<td>Purchasing power of consumers in the foreign market</td>
<td>7.08</td>
<td>2.140</td>
</tr>
<tr>
<td>Lifestyles of the consumers in the foreign market</td>
<td>6.32</td>
<td>2.087</td>
</tr>
<tr>
<td>Consumer preferences in the foreign market</td>
<td>6.72</td>
<td>2.070</td>
</tr>
<tr>
<td>Level of literacy and education of the consumers in the foreign market</td>
<td>5.49</td>
<td>2.354</td>
</tr>
<tr>
<td>Cultural values, beliefs, attitudes and traditions of the consumer in the foreign market</td>
<td>4.37</td>
<td>2.552</td>
</tr>
</tbody>
</table>

Table 4.42 below presents the findings of one-sample t tests of consumer characteristics' items.
Table 4.42: One-sample t-tests of consumer characteristics’ items

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Std. error mean</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean difference</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capital income of consumers in the foreign market</td>
<td>75</td>
<td>6.79</td>
<td>2.152</td>
<td>.248</td>
<td>5.179</td>
<td>74</td>
<td>.000</td>
<td>1.287</td>
<td>.79</td>
<td>1.78</td>
</tr>
<tr>
<td>Purchasing power of consumers in the foreign market</td>
<td>76</td>
<td>7.08</td>
<td>2.140</td>
<td>.245</td>
<td>6.432</td>
<td>75</td>
<td>.000</td>
<td>1.579</td>
<td>1.09</td>
<td>2.07</td>
</tr>
<tr>
<td>Lifestyles of the consumers in the foreign market</td>
<td>75</td>
<td>6.32</td>
<td>2.087</td>
<td>.241</td>
<td>3.403</td>
<td>74</td>
<td>.001</td>
<td>.820</td>
<td>.34</td>
<td>1.30</td>
</tr>
<tr>
<td>Consumer preferences in the foreign market</td>
<td>75</td>
<td>6.72</td>
<td>2.070</td>
<td>.239</td>
<td>5.104</td>
<td>74</td>
<td>.000</td>
<td>1.220</td>
<td>.74</td>
<td>1.70</td>
</tr>
<tr>
<td>Level of literacy and education of the consumers in the foreign market</td>
<td>74</td>
<td>5.49</td>
<td>2.354</td>
<td>.274</td>
<td>-.049</td>
<td>73</td>
<td>.961</td>
<td>-.014</td>
<td>-.56</td>
<td>.53</td>
</tr>
<tr>
<td>Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market</td>
<td>73</td>
<td>4.37</td>
<td>2.552</td>
<td>.299</td>
<td>-3.783</td>
<td>72</td>
<td>.000</td>
<td>-1.130</td>
<td>-1.73</td>
<td>-.53</td>
</tr>
</tbody>
</table>

4.6.1.7. Consumer index

A consumer index was created using the six consumer characteristics defined above. The alpha coefficient for the scale is 0.874. Table 4.43 indicates that the standard deviation is 10.5 and the mean for the scale is 36.52 and the variance is 110.253.

Table 4.43: Descriptive statistics of the consumer index

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Sum</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate score</td>
<td>73</td>
<td>6</td>
<td>56</td>
<td>2666</td>
<td>36.52</td>
<td>10.500</td>
</tr>
</tbody>
</table>
Table 4.44: One-sample t-test of the consumer index

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Std. error mean</th>
<th>T</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean difference</th>
<th>95% Confidence interval of the difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer characteristics</td>
<td>73</td>
<td>6.0868</td>
<td>1.75002</td>
<td>.20482</td>
<td>2.865</td>
<td>72</td>
<td>.005</td>
<td>.58676</td>
<td>.1784 to .9951</td>
</tr>
</tbody>
</table>

Note: The items were added together and divided by six and then tested for difference from 5.5.

Table 4.44 indicates that, on average, respondents rated consumer characteristics as important (M=6.08; SD=1.75002; p = 0.005) in their FDI decision making.

The calculation of consumer characteristics shows that purchasing power of consumers and the per capita income of consumers are considered the most important determinants for managers when considering FDI.

4.7. BEHAVIOURAL ASPECTS OF MANAGEMENT

The personal characteristics of a firm’s management team collectively have also been shown to influence perceptions of psychic distance, and marketing strategy. Thus, management’s background and personal experiences impact on preferences and the way in which decisions are made (Kale, 1991). Management’s perceptions of cultural differences between the home and host market also influence the decision on whether to invest in a specific location or not. Alexander (1977) found that “management’s country of origin and the perceptual framework which has been established in their own minds on a formal and informal basis during their lives” influences the process. Martenson (1987) also found that management’s perception of cultural difference influences the marketing strategy of the firm. He found that if management has had direct experience in a foreign market then this has important implications for reducing the psychic distance between the home and the host markets (Evans et al., 2000).

4.7.1. Management’s prior experience of a possible FDI destination

Having undertaken business trips to a specific part of the world, O'Grady and Lane (1996) found, lessens the psychic distance, whereas if management did not have any direct experience of the host market, then the intended host country was seen to be psychologically further away. This study proved that there is an inverse relation between direct experience and psychic distance and as psychic distance is reduced by direct experience, this results in a more accurate perception of psychic distance (Evans et al., 2000).
The respondents to the current research questionnaire had to give either a positive or a negative answer to the question on whether management had lived and worked abroad. Responses indicated that 83 percent of respondents had lived and worked abroad.

### Table 4.45: Management' foreign work experience

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>80</td>
</tr>
<tr>
<td>No</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
</tr>
</tbody>
</table>

#### 4.7.2. Management's participation in overseas business trips

The second question in this section of the questionnaire asked whether the respondent had made regular business trips abroad. Table 4.46 indicates that all of the respondents had travelled abroad on business.

### Table 4.46: Participation in overseas business trips

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>96</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
</tr>
</tbody>
</table>

#### 4.7.3. Management's international transaction experience

A study by Haigh and Jones (2007) found that the rational decision-making approach of firms is influenced by management, specifically the prior knowledge and accumulated experience of the decision-makers and board members. Directors are unique in their abilities to provide relevant expertise because of the diverse nature of their collective knowledge domain. The board of directors' experience, when accessed by executives, assists them to address the real world challenges encountered when implementing the organisation's FDI strategies. Individual board members have, by virtue of their seniority, usually accumulated substantial amounts of relevant experience in their particular fields of expertise, and this is available to the organisation to ease the complex decision-making processes surrounding FDI.

A study by Lai, Chen and Chang (2012) found that a board of directors' prior experience can improve the quality of FDI decisions and the firm's FDI performance overall because of the directors' heterogeneous knowledge domain. Considering the challenges inherent in FDI decisions, assistance from directors experienced in FDI decisions therefore appears crucial to the success of the firms' international business efforts. Under such circumstances it seems an obvious statement that the
quality of decisions being made are better when members of the board directors have already experienced similar situations, and are able to give first hand advice and counsel to managers on strategy formulation and implementation.

Ellis' (2000) study also supports the idea that internationalisation efforts are more strongly affected by the characteristics of the experiences of the directors than by any other variables including the firm's size and age. Conversely, a study by London and Hart (2003) found that the pre-existing biases of directors about the prospects of local economic development could be a constraint for firms entering certain low-income markets. Table 4.47 gives an overview of the number of respondents who acknowledged having experience in conducting international transactions. The respondents had to give a positive or negative answer regarding their prior experience in the field of FDI. Ninety-two (92) percent had prior experience in FDI transactions; 4% did not have prior experience, and 4% chose not to respond to this question.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>92</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
</tr>
</tbody>
</table>

### 4.7.4. Management's behavioural index

An aggregated behavioural index for management's behavioural aspects was created to Table 4.48 shows the results.

<table>
<thead>
<tr>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Sum</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate score</td>
<td>96</td>
<td>1</td>
<td>3</td>
<td>268</td>
<td>2.79</td>
</tr>
</tbody>
</table>

The KR 20 is .420, for the scale. The mean for the scale is 2.79 (where: do not know/undecided = 0; no = 2, and yes = 3) the variance .251, and the standard deviation .501. The relatively high mean score of the index indicates that behavioural aspects of management are important in FDI decision making. This is because it is the managers of the firms (the human personalities) and not the firm itself (the legal persona), that make the actual decisions, and their background experiences colour the way in which the FDI decision is ultimately made, which in turn influences whether the outcome of such a decision is positive or negative. Firms with senior executives who have lived in the foreign country being considered for FDI will be at an advantage over competitors without access to this
experiential asset. This prior knowledge about (and familiarity with) the intended host country makes the psychic distance shorter.

4.8. QUANTITATIVE FINDINGS AND DISCUSSION – CONCLUSION

The findings of this study indicate that management’s experience and ethnic background influences the location preferences of South African firms when embarking on foreign direct investments into new locations. From the results, it can be seen that the FDI location choice is not significantly influenced by the psychic distance factors as perceived by management, and that Africa is a popular destination for FDI by South African firms. The importance of these factors is relatively low as South African multinationals familiar with the African business context would tend to regard such factors as unimportant when their FDI focus is largely in that continent. However, the socio-economic development of the FDI targeted country was considered a significantly important factor in the decision-making process.

Consumer index factors such as the per capita income of consumers in the foreign market, lifestyles of consumers in the foreign market, and consumer preferences in the foreign market were found to be significantly important factors in respondents’ FDI decisions. However, cultural beliefs, attitudes and traditions of consumers in the foreign market were found to be significantly unimportant factors in the FDI decision. This finding corroborates the earlier findings regarding respondents’ perceptions that psychic distance factors were regarded as significantly unimportant in FDI decision-making. The fact that the study found no evidence that cultural differences affect location decisions is consistent with the findings in the literature. O’Grady and Lane (1996) indicate that South African firms are very familiar with Africa, which is the most popular destination for South African firms, and do not feel that cultural differences exist.

Interestingly, levels of literacy and the education levels of consumers in the FDI focus country were considered neither important nor unimportant in respondents’ decisions.

General aspects of consumer attributes are also considered important by respondents in the FDI decision. However, this finding is not consistent with the findings of, for example, Hewett et al’s (2003) study. Lastly, management background and experience are important factors influencing on the perceived distance and location choice.

4.9. QUALITATIVE ANALYSIS, FINDINGS AND DISCUSSION – INTRODUCTION

The objective reasons that pull the MNEs to invest in new locations are primarily macro-economic factors, as is recognised by most strategic management researchers (Cavusgil, 1980; Root, 1994). Variables commonly referred to include economic growth rate, population size, and exchange rates. However, in addition to these elements, firms also look at their industry-specific ‘significant indicators’. Thus, cell phone companies consider the processes and barriers to the obtaining of
operating licenses, and at the dynamics of the urban/rural population distribution. Similarly, fast food companies begin by investigating eating habits and the proportion of family income spent on food.

A preliminary survey of a small sample of South African multinational firms was conducted to probe the validity of these issues. This sample comprised twenty-six firms, ranging in size from "large" to "medium" in terms of annual turnover and assets under management. These companies provide IT, audit, legal, cellular, and financial services. They also mine gold, manufacture pharmaceutical and food products, and provide infrastructure for retail outlets for fast food, clothing and groceries. The sample firms were chosen using a snowballing process, originating with the researcher's personal network of contacts.

**Table 4.49: List of companies in the sample**

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Company</th>
<th>Interviewee</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Audit services company</td>
<td>CEO</td>
<td>Auditors</td>
</tr>
<tr>
<td>2</td>
<td>Bank 1</td>
<td>Senior economist</td>
<td>Financial services</td>
</tr>
<tr>
<td>3</td>
<td>Bank 2</td>
<td>Senior executive</td>
<td>Financial services</td>
</tr>
<tr>
<td>4</td>
<td>Cellular services company 1</td>
<td>CEO</td>
<td>Cellular services</td>
</tr>
<tr>
<td>5</td>
<td>Cellular services company 2</td>
<td>CFO</td>
<td>Cellular services</td>
</tr>
<tr>
<td>6</td>
<td>Engineering company</td>
<td>CEO</td>
<td>Engineering</td>
</tr>
<tr>
<td>7</td>
<td>Fast food company 1</td>
<td>CFO</td>
<td>Food</td>
</tr>
<tr>
<td>8</td>
<td>Fast food company 2</td>
<td>CEO</td>
<td>Food</td>
</tr>
<tr>
<td>9</td>
<td>Food corporation 1</td>
<td>CFO</td>
<td>Food</td>
</tr>
<tr>
<td>10</td>
<td>Food corporation 2</td>
<td>Company secretary</td>
<td>Food</td>
</tr>
<tr>
<td>11</td>
<td>Information technology 1</td>
<td>CEO</td>
<td>Information technology</td>
</tr>
<tr>
<td>12</td>
<td>Information technology 2</td>
<td>CEO/CFO</td>
<td>Information technology</td>
</tr>
<tr>
<td>13</td>
<td>Legal services 1</td>
<td>Senior partner</td>
<td>Legal services</td>
</tr>
<tr>
<td>14</td>
<td>Legal services 2</td>
<td>Senior partner</td>
<td>Legal services</td>
</tr>
<tr>
<td>15</td>
<td>Mining company 1</td>
<td>Senior executive</td>
<td>Mining</td>
</tr>
<tr>
<td>16</td>
<td>Mining company 2</td>
<td>Senior executive</td>
<td>Mining</td>
</tr>
<tr>
<td>17</td>
<td>Mining company 3</td>
<td>CEO</td>
<td>Mining</td>
</tr>
<tr>
<td>18</td>
<td>Mining company 4</td>
<td>CEO</td>
<td>Mining</td>
</tr>
<tr>
<td>19</td>
<td>Paper manufacturing company</td>
<td>Senior executive</td>
<td>Paper manufacturing</td>
</tr>
<tr>
<td>20</td>
<td>Pharmaceutical manufacturing company 1</td>
<td>Senior executive</td>
<td>Pharmaceutical</td>
</tr>
<tr>
<td>21</td>
<td>Pharmaceutical manufacturing company 2</td>
<td>Senior executive</td>
<td>Pharmaceutical</td>
</tr>
<tr>
<td>22</td>
<td>Retailing company 1</td>
<td>Senior executive</td>
<td>Retailer</td>
</tr>
<tr>
<td>23</td>
<td>Retailing company 2</td>
<td>CFO</td>
<td>Retailer</td>
</tr>
<tr>
<td>24</td>
<td>Retailing company 3</td>
<td>Chairman</td>
<td>Retailer</td>
</tr>
<tr>
<td>25</td>
<td>Retailing company 4</td>
<td>Senior executive</td>
<td>Retailer</td>
</tr>
<tr>
<td>26</td>
<td>Retailing company 5</td>
<td>CEO</td>
<td>Retailer</td>
</tr>
</tbody>
</table>
policies, and is concentrated in sectors which are most obviously regulated, in SA’s case, the mining and services industries (Mortensen, 2008).

4.13.4. Emerging markets have potential

The BRICS countries are becoming FDI leaders as they continuously expand and invest in emerging economies (Forbes, 2013). FDI in emerging markets increased in the 1990s in response to the adoption of macroeconomic and structural reforms by a number of emerging markets in both Latin America and Eastern Europe.

 Traditionally, FDI in emerging markets has been driven by investments in extractive activities, and to take advantage of lower costs of production. However, the recent trend seems to be to seek new markets, as they try to capitalise on the market size in emerging economies, which will help to accelerate profit growth.

While other recent trends, such as the financial crisis, have highlighted certain inherent risks associated with emerging markets, most MNEs however remain committed to investing in emerging markets as they provide new growth prospects, and the size of the market and its potential for growth remain key determinants for an FDI location (Forbes, 2013). The emerging markets identified by the respondents as potential markets for their products and services were in Africa, India, and South America.

4.13.5. Expansion to serve customers

Firms will generally expand internationally into countries where their corporate clients have chosen to invest and will provide the necessary service in order to retain the client (Ball & Tschoegel, 1982 cited in Herrero & Simon, 2006).

4.13.6. Global player

Over the years a diverse set of drivers have motivated SA MNEs to invest abroad, in order to strategically acquire technology and brands, to reduce costs, gain access to natural resources, and to respond to growing demand for their goods and services in Africa. An important initial factor which prompted outward FDI by SA firms was the end of apartheid in the early 1990s. This was followed by the privatisation spree of the 2000s which increases inward FDI and further intensified competition faced by SA firms in the domestic market. This in turn forced SA firms to look across the national borders for profitable opportunities and resulted in them becoming global players (Ernst & Young, 2013).

SA firms have been working to serve lower-income consumers, and have often produced innovative designs which help stimulate further growth; an example of this is Vodacom SA with their prepaid cellphone cards. SA firms, in their quest to become global players, have been exposed to institutional
voids, that is, the lack of support systems such as retail distribution channels, reliable transportation and telecommunication systems, and even the lack of adequate water supply. These voids have forced these companies to adopt a more entrepreneurial approach, and to develop greater flexibility in order to meet demands of their local and new lower income consumers (Ernst & Young, 2013).

4.13.7. Labour problems in South Africa

The recurring bouts of labour unrest negatively impacts growth, and damages SA's external image (Oberholzer, 2012). In general, SA companies' FDI since the early 1990s can be characterised as profit defensive due to the falling profitability of SA firms' domestic operations. A number of factors such as trade, export substituting, and market seeking are attached to SA FDI. All of these factors have prompted SA firms to invest in other locations and to actively pursue acquisitions beyond the country's borders.

Competition from international firms entering SA squeezed the domestic profits of SA firms, which at the same time then became the main push factor for SA FDI to go global. However, since 1990, the SA economy has suffered from increasingly severe labour disputes. The number of labour disputes has increased dramatically, and the number of workers involved in each dispute has also increased sharply. The labour disputes in SA generally are over demands for "living wage" increases and this leads to a sharp increase in real and nominal wages, causing a squeeze on firms' profits in their SA operations. SA's labour intensive industries have therefore been compelled at least to investigate moving their operations to lower wage regions, such as other countries in Africa (Jung, 1999).

A favourable labour environment, which is influenced by flexible labour laws, also influences the decision to invest. The impact of the unionisation rate, which is indicated by the number, status and layouts in the home country, is estimated. The more rigid the labour laws, the higher will be the incentive to invest abroad (Jung, 1999).

Labour related factors are an important push factor. A study by Oberholtzer et al (2012) shows that although labour productivity is not a significant variable, existing real wages and efficiency wages in the home economy have a significant and positive impact on outward FDI.

4.13.8. Competitive advantage

Competitive advantage exists when a firm possesses technological advantages, operational skills and superior management skills, which would push the firm to undertake FDI in order to exploit the internationalisation advantages (Dunning, 1977; Buckley & Casson, 1981). Competitive advantages therefore play a key role in emerging markets like countries in Africa, where there is a general lack of both technology and management skill.
4.13.9. Mature market and saturation of home markets

A key driver of FDI is competitive pressure. In a rapidly globalising world economy, firms can no longer count on their home markets for a stable income source. Competition from foreign firms is extensive when measured in terms of imports and incoming FDI. These conditions make it paramount for firms to consider outward foreign direct investment (OFDI) as strategic for their sustained growth (Sauvant, 2005 cited in UNCTAD, 2006).

The strategic decision to internationalise is derived from the need to expand into new markets, given the saturation of the SA market. In the early 1990s, with the demise of apartheid, the saturation of and low growth rates in the domestic market, and growing competition, became push factors for SA firms to invest abroad to improve competitiveness and profitability. Market saturation, limited market size at home, and the attractiveness of overseas markets have continued to encourage SA firms to internationalise (UNCTAD, 2006). The other common point raised by the respondents (15) was that saturation point had been reached in South Africa, and therefore they had to expand abroad in order to seek new markets. Another recurring idea was captured in a respondent’s statement that “…we expanded in order to grow the company. South Africa did not provide us with further growth opportunities”.

4.13.10. Operational synergy

Empirical evidence has shown a significant improvement in economic efficiency of local firms acquired by MNEs. However, there are notable variances, depending on the country and sector. Research has also shown that larger companies experience better efficiency gains via FDI (UNCTAD, 2002). Studies have shown that additional values or synergistic gains from acquisitions are often derived from an increase in operational efficiency or financial gain (Seth, 1990).

Operating synergies refer to acquisitions that are undertaken with the goal of achieving economies of scale, which are effected by combining various of the operations and resources of the firms (Seth, 1990). Acquiring firms also achieves a rise in shareholder value, as firms are able to reduce competition in that market through their dominant position. As a market leader, the firm is better able to control prices. In terms of information technology, acquisitions related to FDI allow smaller firms to benefit from the operating and research and development costs already incurred by their new partners/owners, which improves their competitive positions in the market and enhances the value of the firms (Eckbo, 1983).

4.13.11. Political agendas

A common form of uncertainty facing the firm is the changing policy reforms. Policy changes can raise expected returns, if the new policy is beneficial (for example, by lowering tariffs or increasing profit repatriation allowances). However, policy changes could just as easily increase uncertainty if
firms believe that the policy changes could be reversed, and this could reverse the firm’s investment decision.

An unstable political environment is a powerful aggregate investment factor, a view which is supported by empirical evidence. Alesina and Perotti (1996 cited in Chen & Funke, 2008), found that government instability, or any form of political violence influences cross-border differences in investment and growth. Keefer and Knack (1994 as cited in Chen & Funke, 2008), also found that indicators of uncertainties in property rights (for example a tendency to expropriate arbitrarily), are negatively associated with inward FDI and would prompt outward FDI.

All of this helps to support the fact that FDI is sensitive to policy uncertainties and “participation” in the economy by political institutions (Julio & Yook, 2014). The objectives of multinational firms are to diversify the locations of their production and to have production flexibility; this results in a positive correlation between political uncertainty and FDI. The reason for this relationship is that firms prefer a larger market share and production flexibility rather than the risk of uncertainty (Lemi & Asefa, 2001).

4.13.12. Low cost inputs

The most important investment motives concentrated around the use of low cost factors of production, particularly natural resources and skilled labour. Investments to secure supplies of essential raw materials are the most significant for SA firms. SA firms have engaged in this type of FDI to benefit from the cheaper raw materials, and to enhance their proximity to their regional customers.

The objective of FDI is to move production processes around globally to access cheaper raw material and cheaper labour, in order to gain from the lower cost inputs. This also facilitates the provision of cheaper products through gaining maximizing “economies of scale” in the global value chain (Tondel, 2001).

The motive to seek lower cost inputs is to take advantage of incentives and cheap labour in order to save on production costs, and then to export the finished product to other markets. Firms have to seek improved efficiency and cheaper resources in order to stay ahead of competition (Gokhale & Sinha, 2012).

4.13.13. Research and development

MNEs follow a rational process in order to determine where to locate their R&D units abroad. The location decision is a multifaceted process that depends on the nature of the R&D activities being considered, and on the mode of entry required by the investment. If R&D FDI occurs through an
acquisition, the host country initially experiences a change of ownership in one of its entities, but the long-term benefit of this investment is in the transfer of foreign knowledge.

The main location drivers for R&D are the availability of skilled employees, the quality of public research centers and technology centers, the propensity to collaborate with the different subsets of the national innovation system, fiscal and financial incentives for R&D and an efficient intellectual property rights regime (Guimon, 2008). Countries generally consider firms with R&D abilities to be attractive, and a possible catalyst for upgrading the country in global value chains; therefore, countries globally compete to attract R&D activities. Most R&D expenditure by firms occurs in their own subsidiaries internationally, indicating that foreign controlled subsidiaries are an important contributor to innovation (Guimon, 2008). The literature base slows that the location for R&D activities depends on the nature of the R&D, on the mode of entry of the investment, and on the fact that most R&D FDI occurs through the expansion of subsidiaries or strategic alliances rather than through greenfield investments (UNCTAD, 2005).

An important component of the R&D FDI decision is the availability of research infrastructure and skilled labour in a location. The presence of other international firms active in R&D, and the protection of intellectual property rights also remain important pulling factors for firms contemplating R&D FDI.


Firms considering FDI decisions, have to perform a formal risk analysis, due to the continually changing global environment within which companies are forced to make capital expenditure decisions (Sykianakis, 2007). Most risk assessments undertaken by firms occur during the initial phase of identification of a potential location, and before any FDI is made (King, 1975). With regard to FDI in a specific location, inter-country factors have to be considered, as FDI is a complex decision process (Aharoni, 1966 cited in Sykianokis, 2007).

Some of the inherent risks in a location are the normal business and financial risk associated with any potential investment. Market potential and ROI are generally considered by firms with regard to FDI; similarly, return on sales and political risk, are also considered. A study by Baxter and Beardsley (1973) found that there was only a limited understanding of the concepts of risk and return in most firms. Another study by Kelly and Philippatos (1982) has shown that MNEs consider risk in a subjective way; however most MNEs now tend to use sophisticated techniques to assess potential risk.

Empirical research has found that companies undertaking FDI tend to focus on managing risk rather than calculating the potential risk in a location (Wilson, 1990). Many firms embarking on FDI are therefore paying greater attention to the financing of FDI, and relegating the management and control of investment risks to the local management team.
Table 4.63 provides an overview of the subjective reasons for FDI.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Conceptual literature</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brand recognition</strong></td>
<td>A strong brand name has the ability to allow the firm to build an international footprint, as it is the most important asset for the firm with regard to FDI.</td>
<td><strong>Respondent 19</strong> &quot;... competition is a huge factor because you as a company have to develop your brand in the market in order to create a competitive advantage&quot;.</td>
</tr>
<tr>
<td><strong>Competition Commission in South Africa</strong></td>
<td>The high levels of market concentration and related competition challenges in South Africa, as faced by the local firms, are due to the legacy of apartheid policies that shielded the big corporations and further stimulated the growth of state owned enterprises, such as Sasol and Iscor. Government intervention and constant regulation was extensive and disparate.</td>
<td><strong>Respondent 10</strong> &quot;Another contentious issue for us, as a company with a fairly large share of the local market, is the Competition Commission which does keep a rather watchful eye, and [does] not really allow growth in terms of mergers and acquisitions&quot;. The senior executive of pharmaceutical company 2 felt that they were being &quot;... continuously hampered by the Competition Commission, so growth in South Africa is difficult to achieve&quot;.</td>
</tr>
<tr>
<td><strong>Diversify risk out of South Africa</strong></td>
<td>Firms expand internationally in order to diversify their risk. MNEs are able to maximise their overall level of profits because of the foreign operations, whereas firms without FDI experience a higher level of risk because they are exposed to a single national market. (Rugman, 1975 cited in Tang, Selvanthan &amp; Selvanathan, 2010).</td>
<td><strong>Respondent 12</strong> &quot;... [We wanted to] diversify and expand and look for new markets, and to be close to our customers. We wanted to diversify our interest out of South Africa. We felt that we had too much interest in one basket&quot;. <strong>Respondent 16</strong> &quot;Diversification does feature as a motive because, as a company, we have [the] majority of our interest in South Africa, and with labour becoming an issue in South Africa [this] is an unsatisfactorily high risk situation&quot;.</td>
</tr>
<tr>
<td><strong>Emerging Markets have potential</strong></td>
<td>Global corporations are investing in emerging markets according to the UNCTAD (2013) report. Emerging market economies are attracting more FDI than the developed ones, with four developing economies ranked among the five largest recipients in the world.</td>
<td>A common thread running through most of the respondents' interviews was that emerging markets have potential. &quot;... because they consist of an emerging middle class consumer&quot;.</td>
</tr>
<tr>
<td><strong>Expansion to serve customers' needs</strong></td>
<td>&quot;Follow the customer&quot; is a popular reason for exploiting a comparative advantage and undertaking FDI. This helps the firm to avoid losing clients in the local market as well.</td>
<td><strong>Respondent 1</strong> &quot;... [M]ost of our clients have expanded because of the abundance of resources in Africa (for example, gas finds in Maputo), so we have to be able to provide advise on project controls, [and] on processes to control budget. We have the expertise to provide consultancy service for these types of costs and projects which our clients are venturing into&quot;.</td>
</tr>
<tr>
<td>Concept</td>
<td>Conceptual literature</td>
<td>Interviewee response examples</td>
</tr>
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<tr>
<td>Global player</td>
<td>MNEs from emerging markets are less well known than their developed country counterparts, which have been part of the global business landscape for many years.</td>
<td>Respondent 7  &quot;The US is a new market [for us], and we want to establish ourselves [there] as a fast food company. ... Investors globally have the perception that if you can get it right in the US, you are a leader, and ... you can [then] get it right anywhere else in the world. It will allow us to become a global player (which is the ultimate objective of the company), because [becoming a global player] will help to realise value and become more attractive as a company&quot;.</td>
</tr>
<tr>
<td>Labour problems in South Africa</td>
<td>The consequence of labour unrest in SA has pressured margins and created economic uncertainty, forcing companies to re-evaluate their investments and their positions in the country.</td>
<td>Respondent 16 &quot;There are no labour issues faced in Zimbabwe, because there are no union issues and the workers are more hard working. The labour legislation is also better in Zimbabwe&quot;. Respondent 22 &quot;... South Africa also has lots of union and political problems&quot;.</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>Dunning's (1977) FDI theory postulates that firms undertake foreign expansion in the form of FDI, when the firm considers that it has firm-specific advantages over the host country's firms in a specific location. This is called internalisation.</td>
<td>Respondent 12 &quot;That is, [you have to] obtain enough market share to be in the top three in order to be able to make money. If you don't have the competitive advantage, you will only lose money. You have to be able to dominate the market with your product. Another important factor is to look for competitive advantage rather than market size and growth&quot;.</td>
</tr>
<tr>
<td>Mature market and saturation of home markets</td>
<td>Intensive competitive pressures, restrictive trading environments, slow economic performance and a static population growth, all contribute to a mature market (Treadgold &amp; Davies, 1988), and it becomes a push factor for firms to grow internationally.</td>
<td>Respondent 4  &quot;We feel that the South African market has matured and that there is a saturation of growth&quot;. Respondent 7:  &quot;We had reached saturation point in South Africa, with limited growth potential&quot;.</td>
</tr>
</tbody>
</table>
| Operational synergy                  | Firms that embark on FDI are able to create enterprise development in host countries. If FDI is carried out via FDI, the direct impact on the targeted enterprise includes the achievement of synergies within the acquiring firm. Efficiency is also increased within the firm and overall costs are reduced in the targeted enterprise. FDI also realises efficiency gains in unrelated enterprises through agglomeration effects, which are possible through demonstration effects and other spillovers, especially related to technology and human capital. | Respondent 1:  "We tap into our global expertise, and that's the value we provide to our clients. In Africa, all PWC offices fall under the South African offices. So for example if a company needs financial advice (and there are only 8 partners in [for example] the Tanzanian office), ... by having access to the South African firm, the company is now able to access the expertise of the entire South African firm with over 400 partners". Respondent 21 "We also wish to achieve operational synergies and increase the
<table>
<thead>
<tr>
<th>Concept</th>
<th>Conceptual literature</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political agendas</td>
<td>FDI decisions are influenced by any form of political risk or uncertainty. Political risk is the risk that arises from the potential actions of governments and/or other influential forces which impact on the expected returns on investment.</td>
<td><strong>Respondent 18</strong> &quot;Expansion into new regions [is essential] because of the political landscape [in South Africa] which is also creating instability. Another barrier is that most politicians tend to use mining projects in the area for their own agendas, depending on the political situation&quot;.</td>
</tr>
<tr>
<td>Low cost inputs</td>
<td>Historically, the most important host country determinant of FDI is the availability of lower cost inputs e.g. raw material. The presence of natural resources is not a sufficient pull factor; rather, the host country’s lack of capital and skill, which is required for resource extraction, is the pulling factor for FDI to take place.</td>
<td><strong>Respondent 21</strong> &quot;... by expanding abroad we are able to procure centrally and ... [this] helps to leverage our cost. The other reason is economies of scale: that is, to move manufacturing to markets which are cost efficient&quot;.</td>
</tr>
<tr>
<td>Research and development</td>
<td>As firms embark on internationalisation of business, research and development FDI by most host governments is seen as a central factor for upgrading value chains. Therefore, competition among countries to attract the research and development (R&amp;D) activities of MNEs has increased substantially during the last year (Guimón, 2008).</td>
<td><strong>Respondent 20</strong> &quot;Our strategy for the Indian market is not to carry out any research and development from a South African perspective, rather we have bought the research and development unit in India, and they will continue with the research into new drugs. We had to expand into India in order to tap into their skills market, which is very strong in the research and development arena&quot;.</td>
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</table>
| Risk and return               | Empirical research has shown that economic and financial risk has a positive impact on FDI. As with any investment decision, FDI is subject to the risk and return relationship. With regard to FDI, firms experience economic, transfer, political, sovereign and exchange rate risk; these types of risk are concerns for MNEs when selecting a particular location. | **Respondent 13** "Even though the risk is high in Africa, it is a growing market and has been profitable".  
**Respondent 14** "Risk is a huge factor in Africa but the benefits outweigh the risk".  
**Respondent 16** "... this does impact on the share price, but shareholders as a whole, are aware of the implications and risk factors that exist in Africa". |

4.14. REASONS FOR INVESTING IN AFRICA

(What attracted you to invest in Africa?)

The next question in the qualitative interview concerned senior executive managers’ reasons for investing in Africa. From the analysis conducted a variety of reasons emerged.
South African firms investing in Africa is not a new phenomenon. However, the primary motive for being in Africa has changed steadily over the years, as the political landscape has changed. Africa remains primarily a source of natural resources for some industries, while there is now a new source of demand for all kinds of other businesses spanning the spectrum from pure services (including legal and accounting) through information technology, cellular services, and retailing, to engineering and primary industries like mining and agribusiness.

In spite of this diversity, companies display a similar tendency in the early stages of internationalisation, to carry out FDI in markets that are physically, historically and culturally closer to them, markets that are more familiar and less demanding, before they consider countries that are further away and with which they have fewer pre-existing business and political ties. This gradual process follows the internationalisation theories of Johanson and Vahlne (1992) and Luostarinen (1994).

South African firms’ exports are becoming uncompetitive due to the rate at which wages are increasing and the consequential eroding of comparative advantages. Relocating production to low-cost countries allows the firms to regain that competitive advantage. South African firms seem to be attracted to the less-developed markets because their knowledge and experience is fundamentally African, and the company ownership advantages of South African firms have been appropriate to the situations in less developed markets, rather than in the more developed markets like the US, where the large western multinationals dominate the market. These findings support the findings delineated in the literature review on psychic distance.

Table 4.64 gives a summary of the attraction factors that Africa provides for South African firms. The subsection that follows gives a more detailed breakdown of the key aspects summarised in Table 4.64.

**Table 4.64: Summary of attraction factors for African investments given by companies interviewed**

<table>
<thead>
<tr>
<th>Company type</th>
<th>Attractions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>Africa has a demand for technology</td>
</tr>
<tr>
<td>Mining</td>
<td>Africa has the resources</td>
</tr>
<tr>
<td>All companies</td>
<td>Africa is closer and therefore familiar, and consumers in Africa are similar to consumers in SA</td>
</tr>
<tr>
<td></td>
<td>It is easier to operate in English speaking countries</td>
</tr>
<tr>
<td></td>
<td>Lastly, SA has a shared African origin and has historical ties with the continent</td>
</tr>
<tr>
<td>Company type</td>
<td>Attractions</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Fast food and retail</td>
<td>Agglomeration</td>
</tr>
<tr>
<td>Cellular services, fast food, food manufacturing, mining Engineering, IT, financial services and retail All companies</td>
<td>Local SA companies operating in Africa</td>
</tr>
<tr>
<td></td>
<td>MNEs are customers</td>
</tr>
<tr>
<td></td>
<td>Africa is the new fast-growing economy</td>
</tr>
<tr>
<td></td>
<td>Demand is not being satisfied by supply</td>
</tr>
<tr>
<td></td>
<td>Achieving market dominance</td>
</tr>
<tr>
<td></td>
<td>Emerging markets have potential</td>
</tr>
<tr>
<td></td>
<td>Having a product to suit Africa</td>
</tr>
<tr>
<td></td>
<td>Expansion into Africa for growth</td>
</tr>
<tr>
<td></td>
<td>Sub Saharan Africa has the growth enabling the achievement of scale returns</td>
</tr>
<tr>
<td>Engineering, fast food, IT and legal services Food manufacturing and cellular services</td>
<td>Local SA bank operating in region</td>
</tr>
<tr>
<td></td>
<td>Shareholders and diversification into Africa</td>
</tr>
</tbody>
</table>

4.14.1. Africa has a demand for technology

Africa is keen to build its digital future and therefore African countries have become potential technology seekers. These countries seek partnerships with technology firms to acquire relevant technologies. The motive is the perception of reduced costs and increased output. However, for firms it is the ability to deliver the required technology. Firms also face the challenge in that the market is unable to pay for the technology or the users are too poor (UNCTAD, 2010). Technology partnerships are vital for African countries to become globally competitive.

4.14.2. Africa has the resources

Africa possesses large reserves of oil, gold, and other minerals, but it also has half the world’s cobalt and manganese, and about 80% of the world’s reserves for platinum (Morisset, 2011). The majority of FDI into Africa, as seen from above, is into natural resource exploitation. This consists of oil, gas and mining projects, and the industry with the highest concentration is the mining industry. SA firms from the mining industry confirm this trend of FDI into Africa (Anyanwu, 2012). Africa’s overall economic growth is driven by natural resources, as it attracts foreign investors. Firms access resources and build capabilities through international expansion. Firms go abroad to access resources that are in short supply in the home market: “…when the resources cannot move to the producer, the producer must move to the resources” (Rugman, 1988:182).
4.14.3. Africa is closer and there is an element of familiarity with Africa

Geographic factors generally do contribute in attracting FDI, but particularly it is the distance from the surrounding potential markets that drives the foreign investment. Proximity to a market is considered to be an important determinant of the choice of location for FDI, because geographic proximity reduces informational and managerial uncertainty, thereby reducing the overall FDI risk (Davidson, 1980). A recurring statement made by most of the respondents interviewed was “... being considered an African firm, Africa is a natural choice for us as a location”.

4.14.4. Agglomeration

Agglomeration economies relate to the benefits that firms derive from locating near to other firms in order to reduce transport and communication costs and to gain from network effects. A large number of firms in a network allows for more knowledge and intelligence to be shared. Agglomeration also allows firms to access an established pool of more highly skilled labour, suppliers, customers and competitors. Agglomeration allows firms to adapt their resources in an uncertain or risky environment; it allows firms to grow more quickly and to overcome growing difficulties by giving firms access to shared services and infrastructure that exist because of the larger concentration of firms and the bigger scale of activity.

Firms invest in cities and are attracted to agglomeration economies. “The enduring competitive advantages in a global economy are often heavily localised, arising from concentration of highly specialized skills and knowledge, institutions, rivalry, related businesses and sophisticated customers” (Porter, 1998:90).

Clusters of certain firms within an industry bring together specialised suppliers, service providers and associated institutions that compete but also co-operate (Porter, 2000: 15). This allows firms to grow faster than in places without the benefits of agglomeration.

4.14.5. Local South African companies operating in Africa

Several respondents explained that having other South African firms operating in Africa does make Africa more attractive for their FDI.

4.14.6. MNEs are customers

"Follow the customer" is a popular reason for exploiting a comparative advantage and undertaking FDI. Firms will generally expand internationally into countries where their corporate clients have chosen to invest, and thus provide the necessary service in order to retain the client (Ball & Tschoegel, 1982 cited in Herrero & Simón, 2006). This helps the firm to avoid losing clients in the local market as well.
4.14.7. Expansion into Africa for growth

Africa as a whole already has a collective gross domestic product of more than R2 000 billion and is home to some of the world's fastest growing economies (Forbes, 2014). Many firms originally set up in Africa to exploit the continent's natural resources; however, firms have realised that Africa has become a market for services, manufacturing, and communications and IT. Sixty percent of Africa's population is 25 years of age or younger. Industrial countries like Ethiopia have had phenomenal GDP growth (10.6% in 2011). Investors are therefore continuously looking at opportunities to tap into the market because of the fast growth (KPMG, 2014). In addition to Ethiopia, the economies of Tanzania, Mozambique, Ghana, Republic of the Congo, Zambia and Nigeria, have all seen impressive levels of growth that have pulled foreign investors to consider FDI in these countries (KPMG, 2014).

According to a report by PWC, by 2030, countries in Africa with large populations (such as Nigeria and South Africa), could spend as much as $2.2 trillion on consumer goods, which is equivalent to 3% of the global consumption. Africa, with its new growth economies, large populations, rising affluence and with a new perchance for innovation, has become very attractive for many international firms (PWC, 2012). PWC's Africa report also showed that 74% of the respondents to PWC's Annual Global CEO survey said they expected to invest in Africa via FDI in the next 12 months. African countries are also making a strong impression by showing that they can withstand global economic shocks, making them attractive for MNEs from other emerging markets (PWC, 2012).

Africa's political reform progress is another factor making the continent attractive for FDI. As depicted in the World Bank's Doing Business Index (DBI), 36 of 48 economies in Sub Saharan Africa have enhanced their business environments over the last couple of years. The DBI has doubled because of significant growth in technology, services and manufacturing sectors.

However, Africa does have its complexities thereby forcing the firm to adapt and innovate. Shoprite, the largest food retailer on the continent, is successful because of its automated supply chain that leverages centralized procurement, resulting in reduced costs and improved service levels. Despite the higher food and fuel prices, consumers in Africa are spending more, because the continent has seen an increase in the middle class population, which has doubled consumption over the last 10 years. According to The Economist (2011), Africa has in the last ten years produced six of the world's fastest growing countries.

The statement made most frequently by respondents from the qualitative interviews was "... simply that Africa has the new fastest-growing economies in the world, and the strongest emerging markets".
4.14.8. Shareholders and diversification into Africa

Shareholders of multinational firms, compared to those of domestic firms, realise better returns from companies with international operations (Fatani, 1994).

Table 4.65 provides an overview of the attraction factors for investment in Africa.

**Table 4.65: Summary of attraction factors for investment in Africa**

<table>
<thead>
<tr>
<th>Concept</th>
<th>Conceptual literature</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa has a demand for technology</strong></td>
<td>Africa has a young population (60% of the population is under 35), and the youth have embraced technology including mobile communications. Africa has also embraced the internet and web services, pulling foreign firms to invest in high capacity fibre optic cables (Forbes, 2014).</td>
<td>Respondent 11 “Africa has a demand and appetite for technology; they need to apply better processes in order to mobilise the economy and develop societies”, and because Africa is developing, there is an increasing demand for IT in the region, which his company is able to provide.</td>
</tr>
<tr>
<td><strong>Africa has the resources</strong></td>
<td>Africa has become successful in attracting FDI over the past few years. The reason was principally the result of their abundant natural resources. The role of natural resources in the location choice of firms is obvious, reflected in the FDI flows into certain regions. About 60% of FDI in Africa is allocated to oil and natural resources (UNCTAD, 1999).</td>
<td>Respondent 15 “Africa has the resources which we need. The continent is massively endowed with lots of minerals, oil and other resources”. The senior executive of mining company 2 concurred: “We are a mining company so there is just one basic reason why we would venture into a new location and that is simply because of mineralization – that is, looking for resources”.</td>
</tr>
<tr>
<td><strong>Africa is closer and there is an element of familiarity with Africa</strong></td>
<td>Hamilton (2000) explains that “geographic proximity, higher accessibility and lower costs of transport to and from areas adjacent to the EU stimulate higher motivation of market oriented behaviour amongst new firms”.</td>
<td>Respondent 4 “Because Africa has a similar customer base as South Africa, especially with the rural market, and the fact that we pioneered prepaid, [this] gave us a confidence to carry out FDI in Africa, with minimal risk”.</td>
</tr>
<tr>
<td><strong>Agglomeration</strong></td>
<td>In Africa, there is a growth in urbanisation manifesting as fast growing cities. The geography of the economy is important for prosperity and human progress, and growing cities make an important contribution to development: with increasing urbanisation, there is industrialisation (Unctad, 2009).</td>
<td>Respondent 23 “…agglomeration is a factor in making the African markets attractive because, if South African businesses are in the region, it helps us with the supply chain and distribution networks, and thereby helps us to expand our network [of retail outlets]”.</td>
</tr>
<tr>
<td><strong>Local South African companies operating in Africa</strong></td>
<td>The local South African companies already operating in Africa bring confidence, help with logistics, and often pioneer supply and distribution channels for other South African MNEs.</td>
<td>Respondent 4 “Having other South African companies [already present in the country] does provide us with a certain comfort factor and additional confidence in the region”.</td>
</tr>
<tr>
<td>Concept</td>
<td>Conceptual literature</td>
<td>Interviewee response examples</td>
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</tbody>
</table>
| MNEs are customers           | The fact is that most of the interviewees recognised that other multinationals are also their customers, and that if other multinationals were expanding into Africa, then Africa becomes attractive to the interviewees' companies in that Africa contains a core of already familiar customers. | Respondent 11 “We also have to follow our clients who have entered new locations in Africa, and [who now] need our support services. So we expanded to meet customer needs”.  
Respondent 2 “We also had to expand our services in Africa because our client base, that is our corporate clients, have [already] moved and we [believed we] had to move in order to serve our clients”.  
Respondent 4 “Growth is a key driver of our expansion into Africa”.  
Respondent 17 “We have investments in Kenya and Ghana. The reason for investing in these regions is that there are good growth prospects”.
Respondent 11: “Africa has a demand and appetite for technology”.  
Respondent 2: “We were also pulled by a want in Africa in terms of a need for financial services”.
Respondent 10 “… as being specialist in emerging markets: that is why we avoided UK, US and Europe”.  
Respondent 3: “Emerging markets gave us the growth potential”. |
| Expansion into Africa for growth | African economies entered an era of privatisation and deregulation. This made Africa attractive for local SA firms. Further economic growth in sub-Saharan Africa is expected to grow at 6% per annum (IMF, 2013). Africa’s growth rate continues to rise, and is considered to be above the general developing country average of 3.9%. This is due to the increasing investment in natural resources and infrastructure, as well as the stronger household spending (KPMG, 2014). Sub-Saharan Africa is attracting the highest rates of FDI inflows per capital of any developing region. Business research has shown that risk adjusted returns for new investors are very competitive. Growing consumer demand, especially with retail has become the main drive for the growth. | Respondent 18 “[… the presence of] laws firms and other construction companies, like Murray and Roberts, [does help our operations] … in terms of infrastructure. It helps to sort out any logistical problems because the local [South African owned] construction companies would have offices in most regions in Africa”.
Respondent 9: “Shareholders see the potential in Africa and invest in Tiger brands to exploit that potential. If they feel that the market will not realise the growth potential, they can easily dispose of the shares”.  
Respondent 5: “Because our shareholders require us to grow the business, it would not be wise to invest in...” |
| Shareholders and diversification into Africa | A study by Fatani (1994), shows that the rates of return realised by the shareholders of multinational firms compared to those of domestic firms. Fatani’s (1994) results indicate that the risk adjusted returns realised by the shareholders are identical, but however when the firm operates as a MNE the returns are different, that is shareholders |
4.15. **REASONS FOR INVESTING OUTSIDE AFRICA**

(What attracted you to invest in countries outside Africa?)

South African firms have invested in Africa and other emerging markets including India, Brazil, Chile, Indonesia, and Eastern Europe, as well as in the developed markets of the UK, the USA, Europe and Asia. The fundamental reason for most South African firms to invest abroad was to seek new markets and resources. However, a very close second reason was to search for lower cost structures for manufacture, so that they could export their products to the established markets at a more competitive price. The presence of these features enhances the attractiveness of a location, so increasing the probability that the firm can meet its FDI objectives.

Table 4.66 gives a summary of factors that attract South African firms to invest outside of Africa. The subsection that follows gives a more detailed breakdown of the key aspects summarised in the table.

**Table 4.66: Summary of attractions for investment outside of Africa**

<table>
<thead>
<tr>
<th>Company type</th>
<th>Attractions/destinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>Australia</td>
</tr>
<tr>
<td>Pharmaceutical and fast food</td>
<td>Brazil</td>
</tr>
<tr>
<td>Fast food, pharmaceutical, financial services, IT, paper manufacturing, cellular services</td>
<td>No bribery and corruption</td>
</tr>
<tr>
<td>Fast food, pharmaceutical, financial services, IT and cellular services</td>
<td>Emerging markets</td>
</tr>
<tr>
<td>Fast food and pharmaceutical</td>
<td>India</td>
</tr>
<tr>
<td>Fast food and paper manufacturing</td>
<td>USA</td>
</tr>
</tbody>
</table>

4.15.1. **Australia**

Kearney's 2012 FDI Confidence Index has ranked Australia as one of the top ten destinations for FDI. Sixty percent of all investments made in Australia are generally in IT, business services, financial services, communication, coal, oil, and natural gas. Companies from around the world, carry out FDI in Australia because of the attractiveness of the location, particularly its sophisticated infrastructure, skilled workforce and dynamic economic growth (Hellenic Australian Business Council, www.habc.gr).
4.15.2. Brazil

Brazil remains attractive for FDI as foreign companies interested in investing in Brazil can count on numerous tax incentives granted by the Brazilian government. In addition, Brazil has a domestic market of nearly 200 million inhabitants, a booming and diversified economy, and easy access to raw materials. It is therefore less vulnerable to international crises, while also being strategically positioned as a gateway to other South American countries.

Brazil has extensive raw materials as well as low-cost labour, and the Brazilian government tends to encourage and promote FDI (Palma, 2012). Brazil’s economy has for the last century, included many international companies, evidenced by the fact that after the Second World War, Brazil retained its position as a top FDI destination.

Brazil has stimulated FDI by offering opportunities to foreign companies in the form of protection from high tariffs, a wide variety of incentives and subsidies, as well as stable and liberal economic policies. All of this has helped MNEs increase their profit margins, and to remain invested in Brazil.

Additionally, more mergers and acquisitions have helped create more control of the Brazilian domestic market as well as an increasing privatisation programme and the restructuring of MNEs currently in Brazil. MNEs have taken advantage of acquisitions in Brazil, whereby a low initial cash outflow is required, in order to gain entry into the Brazilian market (Palma, 2012).

4.15.3. Bribery and corruption

FDI inflows into a country are affected by economic factors, the business facilitation schemes and the institutional frameworks of government, and the levels of corruption, which is always considered an important determinant of FDI (Mauro, 1995; Castro & Nunes, 2013) as it increases uncertainty with regard to FDI. Corruption functions as a “tax on business” (as it increases the time and resources required to deal with both the complex regulations and bribes to bureaucrats). The cost is often transferred to consumers through higher prices or lower quality of goods and services, which affect negatively the reputation of the business (Castro & Nunes, 2013: 62).

The World Bank defines corruption as the abuse of public power for private benefit. Corruption exists in an economy because of excessive bureaucracy, lack of transparency with regard to formulation of policies, an inefficient legal system, low wages in the civil service, and a lack of economic freedom; all of these factors contribute to the existence of corruption (Castro & Nunes, 2013).

Firms contemplating FDI conventionally seek strategic alliances, which depend on trust. However, differences in business standards, government ethics and regulations make that process more difficult. Researchers have shown empirically that corruption is a negative determinant of FDI; that is, corruption is as persuasive against a FDI decision as is poor quality of infrastructure, health care

4.15.4. Emerging market platform

Emerging markets depend on capital flows and FDI helps accelerate growth, because it provides resources and spillovers from innovation. Emerging markets in Asia receive most of the world’s inward investment, because of their centrality to the global manufacturing value chain. Investment into Africa and South America is predominantly associated with infrastructure development, and natural resources exploitation (Palma, 2012). Since 2012, there has been a shift by MNEs in where they spend their capital; the shift is towards emerging markets (UNCTAD, 2013). Developing countries have received more FDI than the developed economies, and the BRICS countries continue to attract FDI that accounts for 10% of the total global FDI (UNCTAD, 2013). The liberalisation of trade and the implementation of free markets have created new investment opportunities in emerging markets, manifesting as acquisitions, mergers and greenfield investment in these emerging markets. Also, the emergence of increasingly accountable political governance and more transparent business environments have stimulated further growth in these economies (Van Wyk & Lal, 2008).

India, Brazil and Turkey all have economic and development policy weaknesses (in the form of current account deficits and rising inflation), yet these emerging markets are also experiencing rapid industrialisation, urbanisation, per capita income growth and a rise in the number of middle class consumers, which boosts long term economic stability (Roubini, 2014).

4.15.5. USA

The US has the least restricted markets and investment climate in the world. It also has an unrivalled consumer market, a skilled and productive workforce, and an entrepreneurial culture that embraces innovation and risk taking. It also has a very transparent regulatory environment and very large venture capital and private equity markets. FDI into the US tends to be in narrowly defined and specific industrial sectors, indicating that there is a tendency for agglomeration in the investment patterns of foreign multinational firms (Jadeson, 2013).

The US also has an abundance of raw materials and natural resources that makes it a very attractive destination for FDI. By partnering with US firms, and sharing technology and resources, foreign firms can enhance their own efficiency and productivity and become more competitive. Foreign entities benefit from US technology and resources (David, Dorn & Hanson, 2013).

Table 4.67 provides an overview of the attraction factors for investment outside of Africa.
### Table 4.67: Attraction factors for investment outside of Africa

<table>
<thead>
<tr>
<th>Destination</th>
<th>Conceptual literature</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td>Australia is one of the world's leading destinations for FDI, with total FDI growing 66% to reach A$ 507 billion in 2011. Australia has a strong competitive position in the global economy, because of the country's strong economy, strategic location, robust global trade and investment ties, making it attractive for FDI.</td>
<td><strong>Respondent 15</strong> &quot;We need to diversify and expand, and Australia and Columbia provides incentives in the form of resources as well&quot;. <strong>Respondent 16</strong> &quot;There are no subjective reasons for entry into Indonesia. There are no subjective reasons for entering any new market other than for minerals and resources&quot;.</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td>Brazil experienced an investment slowdown prior to 2009; however, since then there has been a growth in FDI into Brazil. In 2012, FDI into Brazil totaled 65 billion US$. Brazil is the largest recipient of FDI in Latin America and the fourth largest in the world.</td>
<td><strong>Respondent 21</strong> &quot;Brazil is a huge emerging market ... which we feel is [also] our gateway to the Far East market. Brazil as a market is very similar to South Africa; in fact we find that all the BRICS countries have consumers [that are] similar to [those that comprise] the South African market .... [W]e understand the South African market and therefore are familiar with trading here and this makes us comfortable to trade in BRIC countries&quot;.</td>
</tr>
<tr>
<td><strong>Bribery and corruption</strong></td>
<td>Globalisation has pushed firms to invest in other location, in order to promote their own economic growth. Decisions to invest abroad depend on a complex set of factors, but the least corrupt countries appear to attract more FDI because they provide a more favourable climate for investors (Castro &amp; Nunes, 2013).</td>
<td><strong>Respondent 8</strong> [In] Russia, the language and corruption is a huge barrier for us&quot;. <strong>Respondent 12</strong> &quot;In China, there is the problem of corruption. Business culture and practices is very different in China&quot;. <strong>Respondent 5</strong> &quot;Bribery and corruption is prevalent in the Middle East; however we maintain a zero tolerance approach&quot;.</td>
</tr>
<tr>
<td><strong>Emerging market platform</strong></td>
<td>Emerging markets are countries that experience significant growth in GDP and infrastructure development. Emerging markets also have lower per capita GDP and therefore try to implement structural economic reforms in order to be able to be on par with developed economies (Noeth &amp; Sengupta, 2012).</td>
<td><strong>Respondent 8</strong> &quot;India is a potential market; we feel that we are familiar with the Indian market&quot;. <strong>Respondent 20</strong> &quot;India is again very similar to Africa, and [because] we understand the South African market and therefore are familiar with trading here ...this makes us comfortable to trade in BRIC countries&quot;. <strong>Respondent 3</strong> &quot;Emerging markets gave us the growth potential&quot;.</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td>FDI in USA amounted to $2.7 trillion dollars at the end of 2012, and in 2013, more foreign direct investment dollars flowed to the US than to any other market (UNCTAD, 2013).</td>
<td><strong>Respondent 7</strong> &quot;The US is a new market [for us], and we want to establish ourselves as a fast food company, because investors globally have the perception that if you can get it right in the US you are a leader, and thereby you can get it right anywhere else in the world&quot;.</td>
</tr>
</tbody>
</table>
4.16. ENTRY METHOD STRATEGIES USED

(What are your entry method strategies? Why do you use these strategies?)

Multinational firms see the world as a chessboard, and the game is one of movement. The rules appear to be: identify rivals and weaken them where possible; penetrate new markets; maintain efficient sources of supply, and develop new products and services with which to wage future battles (Vernon, 1998). One of the major decisions a multinational firm faces is that of defining the mode of entry. Firms choose from many strategies, ranging from exporting their goods to a foreign market, to setting up a wholly owned subsidiary. The rationale for a particular market entry approach depends on a range of factors, including the industry in question, a firm’s risk profile (and the risk profile of the country), the scope of activities planned for that market, and also the level of development in the country (Economist, 2011).

The next question in the qualitative interview concerned senior executive managers’ entry method strategies for new international locations. From the analysis conducted, South African firms are no different from their international counterparts in that they have many strategies that are appropriate for the different regions.

The ownership structure of South African owned foreign entities reveals that South African firms prefer to actively control their investments and to participate fully in the operational decision-making process. Wholly owned subsidiaries are the most common ownership form, followed by majority-owned affiliates. Joint ventures, while not an uncommon occurrence with South African firms, do rank a distant third. However, before entering into a joint venture agreement, South African firms all carry out a detailed due diligence analysis on the potential joint venture partner. The attractiveness of joint ventures lies in the fact that, by acquiring a 50% share in a local business, the firm also acquires the local expertise, which usually helps to overcome the local cultural and language challenges. In addition, the administration and marketing barriers that most firms face in foreign locations are less daunting. Therefore, before finalising a partnership agreement with a foreign partner one of the most important criteria is to ensure that the local partner does in fact know the local conditions, and furthermore, that the partner is better connected with the local administration and distribution channels than the South African firm could achieve it by starting a wholly owned business. Foreign partners are mostly private companies, while partnerships with other multinationals are the exception.

Of course, much depends on the sector a firm is entering, and the background and experience of the parent firm: for example, greenfield investments are preferred by companies that have international experience (acknowledging that ‘experiences’ vary widely according to each country’s business, economic and political conditions). In riskier countries, however, the preferred approach relies on partnerships with local going-concern entities. Some firms attempting to buy their way into
a new market will encounter the situation that established businesses have already been “taken,” i.e., have foreign shareholders. In other markets, local bureaucracy can be the obstacle preventing this form of easy entry into the market.

Table 4.68 gives a summary of entry strategies used by South African firms for their FDI. The subsection that follows gives a more detailed breakdown of the key aspects summarised in the table below.

<table>
<thead>
<tr>
<th>Company type</th>
<th>Entry strategies preferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food manufacturing, mining, pharmaceutical, retailer, paper manufacturing</td>
<td>Wholly owned subsidiary</td>
</tr>
<tr>
<td>Fast food, financial services, cellular services, IT, legal services, mining</td>
<td>One size fits all</td>
</tr>
<tr>
<td>Engineering, legal services, IT, paper manufacturing, cellular services, food manufacturing</td>
<td>Greenfield, merger and acquisition</td>
</tr>
<tr>
<td>Fast food, retail</td>
<td>Franchise</td>
</tr>
<tr>
<td>Paper manufacturing, food manufacturing, fast food, pharmaceutical, IT, mining, financial services, retail, cellular services</td>
<td>Joint venture and local alliances</td>
</tr>
<tr>
<td>Audit services, mining, IT</td>
<td>Minority shareholding</td>
</tr>
</tbody>
</table>

4.16.1. Wholly owned subsidiary – control

Managing a wholly owned subsidiary in a foreign location can be complex and costly. The general tendency is for larger, more established firms to enter a new market via a wholly owned subsidiary (Dunning, 1998). Agarwal and Ramaswami (1992) found in their research, that smaller firms will overstate the risk associated with a foreign market and will therefore choose a lower degree of control. For host countries, this mode of entry is not considered beneficial as there is no technology transfer associated with this mode of entry (Luo, 1999a). Most wholly owned subsidiaries are set up as a new operation in the foreign location, by acquiring an established local firm that has strong market penetration with potential for growth. Luiz and Ruplal (2013) found in their research that SA firms favoured setting up operations via wholly owned subsidiaries, as this ensures operational control and thus maximises profits. An analysis of the results from Luiz and Ruplal (2013) showed that this preference by SA companies was independent of the size of the company.

Hill et al. (1990) showed that global strategies of multinational firms that have very high specific know-how face heightened risk of their firm-specific knowledge being broadcast or misappropriated. These factors influence the control decision, and firms usually prefer high control entry modes if they
seek FDI. There was another interesting finding by Meyer (1998) who found that entry into fast
growing industries predominantly occurs via wholly owned subsidiaries.

The motive for acquiring a wholly owned subsidiary is to obtain faster access to the market and to
benefit from the existing market share of the local firm (Estrin, Hughes & Todd, 1997:136). A wholly
owned subsidiary also helps in diversifying the financial risk of the investor.

4.16.2. One size fits all?

Analysis of the interviews showed that there is no single strategy that is used by all SA firms when
entering a new country.

4.16.3. Greenfield, merger or acquisition

A greenfield entry has to be in the most preferred location so that the firm can achieve its objectives
(Youssuf, 2007). Greenfield investment allows the firm to bring specific internal advantages to the
foreign location, without the risk of spillovers, especially with regard to technology, because a
greenfield investment gives a firm more control over its investment.

However, a greenfield investment is also a very costly way of entering a foreign location, as the firms
has to incur all costs with regard to setting up in the new location, and most of the cost is sunk costs.
Firms that are larger and have more of a global presence will tend to enter via greenfield investments,
and even in locations with smaller markets, they will generally choose to enter via a greenfield
investment as it helps to satisfy their strategic need to achieve their internationalisation objectives
(Agarwal & Ramaswami, 1992).

Export and joint ventures would seem a better alternative in locations with smaller markets as the
risk is lower. But the control and flexibility is not normally achievable in these arrangements, thereby
creating hurdles rather than opportunities for the firm, and the investment becomes restrictive and
sub-optimal.

The greenfield investment also allows the firm to gain more of a competitive advantage by exploiting
its own strategic motives. Greenfield investment allows firms to "bring the full weight of their
resources to bear on selected competitors or markets, and they can shift resources across national
boundaries very easily, and it allows the firm to use the experience gained in one country in another
where it may be relevant" (Agarwal & Ramaswami, 1992:16)

MNEs prefer complete control over their foreign operations in order to realise their objectives of profit
maximisation. Firms with sufficient technological capabilities will choose a greenfield investment as
it provides the firm with higher control. Firms that possess technological capabilities always fear
possible spillovers of knowledge, and therefore by choosing a greenfield investment entry mode,
they can modify their investment in such a way that the assets they invest in in a foreign location are less vulnerable to the host government in case they are expropriated (Eaton & Gersovitz, 1983 cited in Agarwal & Ramaswami, 1992).

The same principle generally applies to firms with strong internalisation capabilities in that firms that are able to develop differentiated products are likely to choose greenfield investments, especially in locations that have inherently high contractual risks (Agarwal & Ramaswami, 1992). Dunning (1995, 1998, 2000) substantiated the above by showing in his research that firms with more ownership, internalisation and location advantages will opt to enter a new location with a high control level such as a greenfield investment or even a wholly owned subsidiary. A greenfield entry ultimately reduces the costs associated with sharing ownership with a partner in the host location and the associated potential for unauthorised diffusion of information and coordination problems between co-owners (Buckley & Casson, 1976). Greenfield investment also averts the integration costs associated with the acquisition of a local investment or subsidiary (Hennart & Reddy, 1997).

4.16.4. Franchise

Franchising is a popular mode of entry for fast food restaurants, car rentals and hotels. Franchising allows firms to expand rapidly into a new location with a lower capital investment. It also requires a standardized method of marketing with a unique message. There are also low political risks associated with franchising.

A key disadvantage with franchising as an entry mode, however, is that a firm cannot achieve profit maximisation. There is a lack of control over the franchisee, and franchisors are generally unable to influence government restrictions. International franchising is popular, especially for a firm that cannot export to a foreign country or that does not have sufficient capital to embark on full-scale FDI. Under these circumstances, it would consider the franchising route as franchising allows the firm to transfer its production process to an independent party (Root, 1994).

Franchising is therefore popular with firms that specialize in consumer service products that can be transferred relatively inexpensively. When a firm contemplates FDI, it does have the option of an equity investment or franchising, but will choose franchising because of the lower risk and because they have a franchisee product. There is also the option of being able to replace a franchisee with a subsidiary as the firm gains experience through successfully negotiating its learning curves in the location (Root, 1994).

4.16.5. Joint ventures and local alliances

The contractual joint venture is an investment whereby profit and other responsibilities are assigned to each party according to a contract. Significantly, these are not normally the same as each partner's percentage of the total investment. Each party cooperates as a separate legal entity and bears its
own liabilities. The two firms entering into a contractual joint venture also have the option of forming a limited liability entity with a recognised legal persona, with an ultimate outcome similar to that of an equity joint venture.

For most MNEs globally, the most common foreign entry vehicle has been via equity joint ventures, as was evident from the literature review. An international equity joint venture involves equity ownership and control being exercised by an international company over a venture they share with host country-nationality local partners. In order to set up an equity joint venture, each partner contributes assets. According to joint venture laws in most countries, a foreign investor’s share must exceed a certain minimum percentage of the total equity. Two common factors that influence MNEs’ decision to go the equity joint venture route are:

• Technological characteristics, that is, where an MNE that has a strong technological capability it will prefer a joint venture so as not to lose the value of that asset to a third party;

• Secondly, an MNE will seek a joint venture in order to obtain the expertise they require from a local partner, that is, to benefit from inter-partner learning.

A joint venture allows the firms to establish a foothold because it allows for learning and for gradual expansion without a major financial or asset commitment (Peng, 2000). A joint venture provides a lower level of involvement from which to expand, or, should the venture fail, it leaves behind a smaller investment when disinvestment occurs. It also allows a firm a limited degree of control, and reduces the risk being left behind by competitors who have committed more resources (Meyer & Tan, 2006). A joint venture is created by a firm “joining its resources with those embedded with one or more local firms, and both partners contributing resources to the de novo local company and jointly sharing control over its operations” (Meyer et al., 2004:9). The joint venture provides an option for the MNE to select certain resources to be contributed by the local partner, without the responsibilities that arise from taking over an existing company. Thus, a joint venture entry mode allows only shared control of the resources, which parallels restrictions in strategic decision-making and profit maximisation.

The presence of corruption also plays a key motivating factor in favour of entering a new location via joint venture. Foreign investors tend to enter a new location, which has a perceived high corruption rate, via joint venture (Smarzynska & Wei (2002 cited in Meyer et al., 2004), as the institutional voids reduce the efficiency of markets, so that firms have to create new organisational forms to overcome them.

Even if a foreign location has a weak, underdeveloped institutional environment, foreign firms will still consider FDI, and will seek local partners in order to create joint ventures that can assist them in managing the loopholes and gaps (the institutional voids), that may exist. However, if the
regulatory environment is less restrictive, then the need for joint ventures decreases. Firms that need to maintain a competitive advantage in emerging economies, via their intangible assets such as brand names or tangible assets such as real estate, would prefer to establish a partnership with a local firm in order to retain that competitive edge.

Joint ventures tend to be mutually beneficial if both parties are subject to periodic market failures, and an acquisition is not feasible (Meyer et al., 2004). In a joint venture it is often difficult to value one of the partner’s contributions to that agreement if the contribution takes the form of intangibles such as knowledge of the local market and business networks, as it is difficult to define the value of such shared resources in a contract, and later, should the need arise, to enforce those clauses of the agreements. Therefore, contracts related to the sharing or transfer of intangible assets would normally give rise to higher transaction costs.

A challenge for any foreign firm wanting to enter a new location via a joint venture is the identification of an appropriate local target company (Hitt et al., 2012), especially if the local firms are required to possess specific and/or unusual resources. The ownership arrangement is prone to be unstable and possible conflicts between the partners have to be managed. According to Hamilton (2000), ethnic or local alliances aid the internationalisation efforts of firms. Ethnic alliances provide knowledge and access to local markets and local distribution systems, while maintaining connections with local bureaucracy and financing (Sim, 2005). However, subjectivity would come into play when attempting to determine whether the partner or local alliance was “good” (contributing fair value) or not. Marketing and growth strategies are some of the areas where conflict arises between partners in a joint venture. Serious conflicts can occur when one of the partners (normally the foreign firm), wants to expand the business and increase brand awareness, while the local partner is not willing (or able) to contribute any further capital for the planned growth, and objects to any further foreign capital increases that would reduce the local partner's share. To address this kind of potential conflict, certain conditions are conventionally stipulated in the contract; these allow one of the partners to take over the entire joint venture (Hitt et al., 2012).

4.16.6. Minority shareholding

Some countries have a policy whereby international firms are required to share their technology and/or equity in a firm with government-identified entities. Most of these agreements tend to be long term in nature, and are often cooperative in nature, or require specific co-production of product. Under co-production, the international firm typically furnishes technology, components, and expertise or other inputs in return for a share of the resulting output, normally resource extraction. However, these cooperative arrangements can have serious limitations: governments fail to meet production or delivery commitments; political risk materialises as a cancelled production license, or
a sharply increased minimum wage. These are therefore key factors to consider prior to entering a country via a minority holding.

An involuntary relationship (which is often the only way to invest or retain any influence over an existing investment in certain countries), is the forced minority shareholding by the FDI partner, in which the majority shareholder is frequently the government, or a statutorily prescribed local entity. Zimbabwe’s indigenisation policy illustrates the concept clearly, in that foreign companies have had to give up 51% of their shareholdings to local companies or empowerment bodies.

Table 4.69 provides an overview of the entry strategies favoured by SA firms when carrying out FDI.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Conceptual literature</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholly-owned subsidiary – control</td>
<td>This form of entry allows MNEs increased flexibility and control, allowing a firm to expand without any restriction. This form of entry also allows firms to protect their own manufacturing processes, which helps improve strategic and operational control.</td>
<td>Respondent 20 “… all the acquisitions are new and we own the operations 100%”. Respondent 22 “We only do greenfield investments, and prefer to do the investment all on our own”. The senior executive of paper manufacturing company 1 agreed: “We prefer to have 100% ownership”.</td>
</tr>
<tr>
<td>One size fits all?</td>
<td>All interviewees indicated that the entry strategy would depend on the specifics of the location, and the opportunities available.</td>
<td>Respondent 7 “… [w]e do not cut and paste our business models into every new location; rather, we adapt and modify based on the results of due diligence carried out on the country. Even the stores or restaurant layout has to be adapted and modified for the local culture, especially in the Middle East markets”. Respondent 4 “But each type of entry strategy is dependent on the region and the circumstances available, [including the] availability of other businesses in the region. So there is no definite solo strategy followed. Rather …the [prevailing] circumstances … will …[determine] the entry mode followed”.</td>
</tr>
<tr>
<td>Greenfield, merger or acquisition</td>
<td>A greenfield entry is a high equity based entry mode, because it requires commitment to a more capital-intensive investment in</td>
<td>Respondent 14 “We tend to go the merger and acquisition route so as to come together with other established lawyers in the”</td>
</tr>
<tr>
<td>Concept</td>
<td>Conceptual literature</td>
<td>Interviewee response examples</td>
</tr>
<tr>
<td>---------------------------------</td>
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<td>---------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Conceptual literature</td>
<td>the foreign location (Pan Tse, 2000). The commitment is in the form of a new production facility, and/or human resources and technology transfer, and it entails the setting up of a new venture.</td>
<td>Respondent 12 &quot;... our strategy for [entering] new markets is acquisition: we acquire a relatively small company and then grow it to become [one of] the top 10 companies in the region. We prefer mergers and acquisitions, so we generally identify a potential company, and then train and provide our ideology and business strategy, and superimpose our culture. When we want to accelerate our growth in the region, we acquire a company&quot;.</td>
</tr>
<tr>
<td>Franchise</td>
<td>Franchising is a form of licensing in terms of which a firm licenses a business system as well as other property right to an independent company or person (franchisee) (Ulrich, Boyd &amp; Hollensen, 2012).</td>
<td>Respondent 7 &quot;We basically enter a market via franchisee route or equity based investment, whereby we do a greenfield investment. Middle East is franchise base; so is Africa (that is, Botswana, Namibia, Swaziland, Malawi, DRC, and Nigeria), as well as India, Pakistan and Bangladesh&quot;.</td>
</tr>
<tr>
<td>Joint ventures and local alliances</td>
<td>There are generally two types of joint venture that can be entered into, the first being a contractual joint venture, and the other being an equity joint venture.</td>
<td>Respondent 19 &quot;... [t]he joint venture with an established company that was [already] an industry player, [and] had the expertise and the market&quot;. Respondent 10: &quot;We generally prefer joint venture, because it helps us to buy into the management skills, which would then help to overcome, and barriers or issues in terms of language and business culture, and know-how of the region&quot;.</td>
</tr>
<tr>
<td>Minority shareholding</td>
<td>A cooperation agreement as Root (1994) points out is a catchall term used to describe a contractual or equity relationship with the government of the host country.</td>
<td>Respondent 1: &quot;... you have to have local partners only in an office ...&quot;, Respondent 15: &quot;... we have two investments presently, with a state owned company, OKIMO, and the investments are 10% and 14% [held] by the state owned company&quot;.</td>
</tr>
</tbody>
</table>
4.17. OTHER REASONS FOR FDI

(Is there any other aspect of FDI that you’ve not already mentioned that you feel is important in deciding to invest in a foreign country?)

This final question in the qualitative interview invited respondents to give their opinions and to share any unique aspects of their approaches to FDI.

Table 4.70 gives a summary of the additional concerns and factors that they felt were important, and should be considered by other firms when investing abroad. The subsection that follows the table gives a more detail breakdown of the key aspects summarised in the table.

Table 4.70: Summary of additional concerns and factors in FDI decisions

<table>
<thead>
<tr>
<th>Company Type</th>
<th>Other factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast food, food manufacturing and IT</td>
<td>Arrogance</td>
</tr>
<tr>
<td>Audit services, IT and financial services</td>
<td>Africa is a continent and not a country</td>
</tr>
<tr>
<td>Fast food and IT</td>
<td>Consolidate</td>
</tr>
<tr>
<td>Mining and paper manufacturing</td>
<td>Corporate social responsibility</td>
</tr>
<tr>
<td>All companies</td>
<td>Detailed due diligence</td>
</tr>
<tr>
<td>Fast food, IT, retailer, financial services, paper manufacturing</td>
<td>Each emerging market is different</td>
</tr>
<tr>
<td>IT</td>
<td></td>
</tr>
<tr>
<td>Food manufacturing, financial services, IT and retail</td>
<td></td>
</tr>
<tr>
<td>Engineering, food manufacturing, pharmaceutical, retail and paper manufacturing</td>
<td></td>
</tr>
<tr>
<td>Legal services, retail and cellular services</td>
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<tr>
<td>Fast food</td>
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<tr>
<td>IT, mining, retail and financial services</td>
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<tr>
<td>Fast food and IT</td>
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<tr>
<td>Cellular services, food manufacturing, legal services and mining</td>
<td></td>
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<tr>
<td>IT, pharmaceutical and financial services</td>
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<tr>
<td>Cellular services, financial services, retail</td>
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<tr>
<td>Fast food, food manufacturing, pharmaceutical, retail and financial services</td>
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<tr>
<td>Mining, pharmaceutical, cellular services</td>
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<tr>
<td>Legal services, retail, paper manufacturing, cellular services</td>
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<tr>
<td>IT</td>
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<tr>
<td>Audit services, Mining, IT, retail, paper manufacturing and cellular services</td>
<td></td>
</tr>
</tbody>
</table>
4.17.1. Arrogance

A few of the respondents stressed that it was important to respect other cultures and not to be arrogant when carrying out FDI. As respondent 7 explained: “You cannot be arrogant, and assume you know more than the local culture”. Respondent 10 also advises about not being too arrogant: “As a company you have to learn to respect the culture, and you cannot be arrogant. You can never assume that you know more than the local culture”. Respondent 12 shared their hard-earned lesson: “In the US we bought a few bad acquisitions because we were arrogant in our approach, and ended up hurting the company. So we had to restructure quickly in order to off-load the bad assets. Other international companies (like [those from] the US) don’t have respect for culture, and in Africa it is vital that you respect the culture and not be arrogant in your approach in investing in the region”.

4.17.2. Africa is a continent and not a country

Some of the respondents interviewed offered the advice that when investing you cannot treat Africa as one country. The cultural and economic differences are vast, and you cannot simply ‘copy and paste’ your single strategy into every region in Africa. Rather, you have to develop strategies for each individual region because each county in Africa (and many regions within individual countries) presents a slightly different challenge. As respondent 1 reminded the interviewer: “Africa is not one country….you need to understand each country in Africa separately. Do your homework, and make sure you will be able to achieve your objective”. Respondent 12 company offered similar advice: “…treat each country in Africa separately. You cannot treat all countries as one (i.e. using a one-size-fits-all strategy). Therefore you have to have a different strategy for each country in Africa”. Respondent 3 expressed similar views: “Africa is different in its component parts, and one of the biggest mistakes people make is when they generalise about Africa. It's not a place; rather [it is] a conglomeration of different places, each with its own currency, governments, fiscal policies, inflation rate, and local conditions”.

4.17.3. Consolidate

Another piece of advice given by the firms was that when carrying out FDI it is advisable to consolidate one’s investments; that is, to become a leader in a specific location rather than failing to effectively cover a wide geographical spread of tenuously linked and supported investments. As explained by respondent 7, their motive for consolidating was because: “…we want to be brilliant…” The same advice is given by respondent 12: “We merged and consolidated in order to get the company back on track. We obviously did not do a proper detailed due diligence [in] the USA”.
4.17.4. Corporate social responsibility

When firms demonstrate some form of corporate social responsibility it enhances the image of the firm and improves the sustainability of their FDI in the region. Most of the respondents recommended carrying out some form of corporate social responsibility in the area surrounding their business investments in order to enhance the corporate social value of the firm. Respondent 17 explained that his company’s strategy was intended “... to maintain a good reputation”. Respondent 18 illustrated the importance of corporate social responsibility: “There is also the possibility you are stepping over lives in terms of the communities that are living in the region. The communities can become hostile, until they see the benefits of having you as a company operating in the region. The social responsibility [investment] is paramount when operating in Africa. It shows that you as a company care about the people living in the region, and ... will give back to the community in the region. ... Where the mines are, we try to alleviate any flammable political situations, by investing in local schools to enhance education for the children of the community”. Respondent 19 confirmed that approach: “We also have continuous investments in the community in terms of corporate social responsibility”.

4.17.5. Detailed due diligence

When venturing abroad, companies need to understand the possible hurdles they will face in the new location. Performing a due diligence on a potential country, or location helps the company to strategise and to understand the location a little better. That a proper due diligence is important for FDI was a frequently repeated piece of advice offered by most of the firms interviewed.

Respondent 1 emphasised the importance of a due diligence: “Do your homework, and make sure you will be able to achieve your objective”. Respondent 4, commenting on the necessity of a due diligence, said: “Before entering a new region, one of the key issues for us as a company is to carry out a due diligence on the region, [particularly] the regulatory environment, and all other processes which will need to be complied with. ... [The outcome of] the due diligence will drive the strategy in terms of potential greenfield [developments], ... [as will] the result of the study on the demographics and the competition which is present in the region”. Respondent 4 also insisted that it was necessary to conduct a due diligence on a target company: “… that is, we require detailed knowledge on the quality of management, the full team operating in the company, brand value, the ability to gain market share, and [the possibility of] losing market share. Doing your homework thoroughly before entering a market is important; that is, knowing who the competition is, [assessing the] political stability, [and] GDP growth, [and establishing] what are the local nuances, tax rates, buying trends”. Respondent 6 stressed that: “When venturing abroad, you need to understand and know the market”. Similar sentiments were expressed by respondent 9: “Before any acquisitions, we always carry out a detailed due diligence, which we feel is vital with regards to FDI in Africa”. Respondent 10 agreed, stating: “A detailed due diligence is vital. We have our own management team doing a due diligence,
as well as using merchant bankers and other very good sources”. Respondent 11 expressed similar views: “When we carry out a due diligence it does help to identify how many competitors there are in the region, [the] potential of being able to operate in the region and the size of the market”. Respondent 14 provided this reassurance: “If you have studied your market well and understand it, and know beforehand what you are getting yourself into, you should be able to manage your risk”. Respondent 17 had this to share: “In terms of investment in Africa, for example in the Burkina Faso region, knowledge of the region is very important. You cannot enter a region as a company unless you have carried out a thorough investigation via a due diligence of the region. You must understand the market, the business culture, political landscape. A good due diligence requires the expertise of both a South African and local expertise to get an overall picture of the potential hazards and risk which you as a company face when entering a new region”. Respondent 18: “With regards to any investment, we do not do shortcuts, but ensure that we carry out a thorough due diligence review of any region and of any alliance or management team that we will be using in the region. That is, we investigate whether the investment will be viable, from the risk perspective to logistical, to political, to infrastructure, to actual resources available, to profit and possible growth”. Respondent 20 agreed: “Before entering any new market, a proper due diligence is important and you have to expand slowly, an aggressive approach will only end in disaster”. Respondents 3, 12, 26, and 19 all agreed: “A detailed due diligence is vital”. Respondent 5 summed it up as follows: “Before you enter a country, understand the industry and the opportunity available. Carry out a detail due diligence of the country, or alliance, and of the regulatory and financial framework operable in the region”.

4.17.6. Each emerging market is different

The respondents from the qualitative interviews explained that it was important to have a different strategy for each of the various emerging markets. The key was not to simply ‘copy and paste’ the standard business model into every region, just because they all happen to be emerging markets. One of the respondents also stressed the importance of using different strategies for developed and emerging markets. Respondent 7 elaborated: “We do not cut and paste our business models into every new locations, rather we adapt and modify based on the results of due diligence carried out on the country. Even the stores or restaurant layout has to be adapted and modified for the local culture, especially in the Middle East markets. Another example: we try and introduce vegetarian dishes to our menus in India, and in the Middle East we introduced meze platters”.

Respondent 11 agreed on the importance of a different strategy for each intended market, while respondent 24 provided specific examples from his company’s strategy: “The four biggest markets in the world are India, China, Nigeria and Brazil, and each region has a different body type. For example, in India the population is generally thinner and taller, and [in] China, they are shorter and slightly … heavier; and Nigerians are similar to South Africans, and Brazilians are thinner and shorter. Our company tries to understand the country and tries to get 20% market share by modifying
and adapting to the location we are in. Another example is fabric: … fabric for South African market will not work in Nigeria, because of the differences in the climate. Another factor is the different regions in the same country [could] experience different weather patterns (and this can get complex), so we design to suit the [individual] country’s needs”. Respondent 3 was essentially in agreement with respondent 19: “Each country has some differences”.

4.17.7. Ego

One of the respondents explained that for most South African firms the best advice would be to stay local, because if they allowed the egos of the directors to be used to dictate strategy, then in most cases the company would experience failure. Respondent 12 put it this way: “Stay local and don’t expand. South African companies tend to expand for ego reasons”.

4.17.8. Enter with caution and use a phased approach

More advice offered by the respondents was to enter a new location with caution: a stepwise approach or phased approach was recommended when expanding abroad. According to respondent 10: “We believe when carrying out FDI, a phased approach has to be undertaken,” a sentiment echoed by respondent 3: “… don’t try to do too much too soon”. The view of respondent 11 was that the following: “The most important thing when entering Africa is to use caution. You have to enter Africa slowly, that is do not use an aggressive approach”. Respondent 22 held an essentially similar view: “One needs to go into Africa carefully, because there is no available statistics or trade information”.

4.17.9. The right product

Most of the respondents from the qualitative interviews agreed that having an appropriate product before venturing abroad was essential to ensure sustainability of the FDI venture. As respondent 6 explained: “If you have a product which other competitors cannot match it does make international expansion easier to accomplish”. Respondent 10 also stressed the importance of introducing new products, but warned: “If we introduce new products, we do a detailed market study to confirm whether our products or brands would be popular”. Respondent 21 illustrated the need for one’s product to be accepted as a key to success: “We therefore bought into a legacy product and extended the product range using the legacy product, thereby helping to leverage the brand, and this helped us to increase and expand our product [range]”. Respondent 23 was clear in his advice: “Know your market, and be able to provide a product that is suitable for the market”. Respondent 24 made a similar point: “We also have the ability to deliver the right product to the right customer, which we feel is similar to most of the customers which we serve in South Africa”. Respondent 19 endorsed the “right product for the area” advice, concluding that: “Entering a new geographic [region] with a new product is a disaster. Therefore we try and do one or the other, that is, a new product or a new market”.
4.17.10. Competitive advantage

Another factor that is important for FDI is to have or to achieve a competitive advantage. Some of the respondents stressed this factor as an important element of successful FDI. Respondent 14 explained: “India and Brazil are not an option because we want to be the best in Africa, and in order to become the best, we have to work on just one strategy”. Respondent 24 also commented on the importance of maintaining a competitive advantage: “We want to expand into a location where we feel we have a competitive advantage, otherwise it’s not worth the effort of entering into a country”. Respondent 5, on his company's strategy to maintain a competitive advantage, said: “Our success in Africa is due to entering before anyone else, which gave us the ‘first mover’ advantage”.

4.17.11. Management’s familiarity with the region

The respondents maintained that familiarity with a location does help to drive a more sustainable FDI. In other words, if the firm’s management team has had direct experience in the foreign market, this has important positive implications for shrinking psychic distance. O’Grady and Lane (1996) found in their study that if a company’s management team has had direct experience in a host market then the psychic distance of that market from the company is smaller. Respondent 8 explained how first-hand experience in some of the regions in Africa has helped him to understand the markets: “In Africa we have seen [that the] growth potential that is there … [offers] both risk and opportunity. For me as the CEO, having lived in some of the regions in Africa has created … [a] familiarity … [with] the culture and the language, and [this has] therefore reduced the perceived risk in some of the regions, and this is the driving force behind the expansion into Africa. If I had lived in Russia or China, I would have ventured into these markets, because I would not see the risk, as I would be familiar with the market”.

4.17.12. Government’s blessing

When investing in a new location it is important to get “the government's blessing” because it is vital as a company, to have good relations with the local governments. This eases one’s passage through the regulatory requirements and the red tape. Respondent 11 confirmed this: “It is also important to get government’s backing with regards to any new venture in Africa”. Respondent 17 added that it was important that they “… [did] not antagonise the local government or community by being arrogant”. Respondent 18 agreed: “Therefore negotiation with local governments is vital to be able to survive in the region and in order to secure certain rights over the mined resources”. Respondent 18 again: “When operating in Africa it is important to have alliances with governments, as it does help to create the foreign direct investment. It is also important to be on good terms with the government, and to get the buy-in from the government”. Respondent 22 also discussed the importance of obtaining government's blessings: “Government in Africa is not against investments in the country; however, we feel it is necessary to obtain government’s approval before investing in
a region, and to maintain good relations with the government of every new location … we enter. It is vital to get the goodwill of the government because by getting the goodwill of government you will be able to get government’s help in sorting out any issues which you face in the country. Respondents 2 and 3 stressed the need for this permission and for it to be obtained before moving in.

4.17.13. Invest for the long term

Two respondents suggested that it was important to invest for the long term. Respondent 7 believed success depended on "showing our commitment to the investment". Respondent 12 also believed that: "… if you are going to invest, at least give your investment a chance, that is 2-3 years, before you decide to retract".

4.17.14. Local alliance

A common strategy followed by the firms of the interviewees is to partner with a local enterprise in order to overcome potentially negative effects of foreignness in the new location. It was also a strategy recommended to achieve sustainable FDI. The explanation of and justification for the process was comprehensively provided by respondent 4: "By forming alliances in the region and using local skills, [this] is a big help in terms of overcoming the language barrier or culture barrier. It is vital for FDI in Africa to use local partners to assist in understanding the local business culture, and to help in finding good outsourcing partners to move equipment across borders. …. For example, in Mozambique we use local partners and a state owned company to help [us] through understanding the culture, and to help in obtaining [permits] and setting up the company, and satisfying the regulatory requirements". Respondent 10 agreed, but was more succinct: “A vital ingredient for a successful FDI venture is to partner with a good local business. Local alliance is good". Respondent 14 expressed the same view: "… language and culture as a barrier is easily overcome by our strategic alliances in the region". Respondent 15 also confirmed the use of strategic partnering agreements: “We form alliances in some regions (for example in Africa)…. By creating these alliances we are able to realise potentials because of the local expertise, skill and knowledge of the region, which is obtainable through the alliance".

4.17.15. Localise the business

An important aspect when internationalising is to localise the business as much as possible, to provide it with traits acceptable to local people. The consensus was summed up by the comment by respondent 11: “… you must use local skill: that helps to give the business a local face, and helps to obtain [access to] the [local] business network and [gives you] comfort which you need when operating in a totally new region". Respondent 20 put it this way: “You have to have a front end business and a local person to help identify good business opportunities”. Respondent 2 confirmed this: "We try … to be completely localised with our investment: that is, with each investment we try
and use as much local talent as possible”. Respondent 12 emphasised the need to be seen as a local business entity: “In India we are very Indian, because we only use local skill. Our business model is to use local skill and not to use expats. [One should] identify a good local business, and then superimpose your business strategy. Become localised as much as possible”.

4.17.16. Macro environment

It is vital to obtain a thorough understanding of the macro environment of the potential location. The respondents generally acknowledged the importance of also looking at an opportunity against the background of regional macro-economic factors, and the long-term predictors of the market. Respondent 4 endorsed the importance of doing a study on the macroeconomics of a potential region, “… and the competition which is present in the region”. Respondent 2 pointed out that: “With regards to all of our investments we look at the economic conditions (that is) product capability, and secondly we look at the market conditions and channel capability of the location”. Respondent 25 informed the interviewer that they look at “hard economic factors”.

4.17.17. Modify and adapt product

When entering a new location it is important to adapt and modify the standard product to accommodate local taste. That makes the product more marketable, and this helps the FDI to become sustainable quicker. Respondent 7: “We did however use a different concept in the US, which was more of a sit down concept, which is similar to our strategy in the UK. Even the stores or restaurant layout has to be adapted and modified for the local culture, especially in the Middle East markets”. Respondent 10 acknowledged that: “… we have to modify and adapt all our products for the different markets”. Respondent 20 claimed that: “We will therefore have to generate new products for the Indian market. We will have to understand the market, to determine what we can sell, and in most cases we will have to modify and adapt for the local Indian market”. As respondent 24 acknowledged: “… it’s impossible to sell the exact same clothing all over the world; rather you have to modify and adapt the product for the local market”. Respondent 2 acknowledged: “We have found that we do need to tailor and modify our product and service for the different markets”.

4.17.18. Outsourcing

Another strategy used by some of the respondents interviewed was to use outsourcing in a new location, in order to overcome any logistical issues posed by the new location. Using local agents, for example, helps to get products into the local distribution channels more efficiently. Respondent 17 acknowledged that: “… sometimes we outsource any potential infrastructure problems which we face in Africa to companies operating in the region, to help us overcome any logistical issues”. Respondent 18 provided some insight into where the use of outsourcing was proving effective: “We have experienced some issues at borders, and again, the local construction companies to which we
have outsourced the movement of equipment, has helped". Respondent 20 supported the concept: “We have outsourced all our distribution in Africa, that way we feel the risk is diversified”.

4.17.19. Risk appetites
The interviewees explained that it was important to have a healthy risk appetite when investing in new foreign markets; without it, it was unlikely that usable returns would be realised. Respondent 21 advised potential investor companies to be risk takers because “… the international market has potential”. Respondent 2 also discussed the importance of having high risk tolerance: “We also determine our risk appetite in terms of revenue pools for specific client segments, and then, using credible sources, and based on management decisions, we expand into certain locations”. Respondent 5 presented the contrarian view, mentioning the importance of being risk averse: “Because we are risk averse we do carry out large-scale investments upfront, and [do] not scale it down, as other companies [might], because if we have identified an opportunity per the due diligence, then we feel we should go all out to ensure we get a return; so the approach is very aggressive”.

4.17.20. Scale and returns
Most of the respondents interviewed were of the opinion that it was important, when carrying out FDI, to achieve scale and positive returns. Respondent 13 expressed the importance of achieving scale and returns in Africa, because: “Even though the risk is high in Africa, it is a growing market and has been profitable”. Respondent 25 stated: “[our objective is to continue] expanding internationally and achieving [positive] returns. We want to achieve greater scale and returns”. Respondent 25 saw that it was important: “… [to serve the needs of the consumers, [achieve a positive] return on shareholders’ investments, scale and meet needs and demands of consumers in Africa”. Respondent 26 observed: “Seeking new markets and growth is all linked”. According to respondent 19: “We recognised that Eastern Europe [has] provided us with [a] low cost production base, [and] better cost structures compared to traditional European competitors. Resources and low cost manufacturing gave us the cost advantages, and therefore we expanded into those regions to exploit the opportunities”. Respondent 5 again: “… we do carry out large scale investments upfront, and not scale it down, as other companies [do], because if we have identified an opportunity per the due diligence, then we feel we should go all out to ensure we get a return, so the approach is very aggressive”.

4.17.21. Small economy higher growth
Two of the respondents recommend investing in smaller economies, in order to achieve higher growth. Respondent 11 stated: “It is advisable to look for a smaller economy that has better growth [potential]”. 
4.17.22. Zero tolerance for bribery and corruption

An important issue raised by most of the respondents is the need to maintain a zero tolerance policy for bribery and corruption. Any involvement with bribery or corruption can be detrimental to the image and the reputation of the company, and it can lead to all sorts of problems for the company at a later stage. Respondent 1 confirmed his company's strategy with regard to bribery and corruption: "We don't entertain bribery or corruption and we won't take on clients that have a negative or unethical reputation". Respondent 15 agreed: "Bribery and corruption is a problem in Africa. If we are faced with this, we try and resolve the problem as we refuse as a company to pay any bribery money". Generally, the senior executives agreed that they maintain a zero tolerance policy, and respondent 16 reiterated this idea: "... so as a policy we do not engage in any form of corruption or bribery". Respondent 12 also acknowledged: "... we have zero tolerance for bribery and corruption". Respondent 25 stated that, as a "...subsidiary of Walmart, we need to comply with anti-bribery legislation, and other foreign anti-corrupt practices acts, especially with African countries. Respondent 19 shared their experienced: "In Russia, bribery is a bit of a problem, but we maintain a zero tolerance to any form of bribery or corruption in the region". Respondent 5 commented: "Bribery and corruption is prevalent in Africa; however we maintain a zero tolerance approach. We have implemented proper governance structures to ensure that we have no repeat of any incident relating to bribery and corruption. Bribery and corruption is [also] prevalent in the Middle East; however, we maintain a zero tolerance approach. We did have an incident in Iran, but it was an issue that came about due to a disgruntled employee. We have implemented proper governance structures to ensure that we have no repeat of any incident relating to bribery and corruption".

4.18. QUALITATIVE FINDINGS AND DISCUSSION – CONCLUSION

While the data and analysis presented here reflect the views of the firms that were interviewed, there is clear evidence that SA firms are looking beyond the national borders for investment opportunities. SA firms are becoming more multinational in approach, and are intent on seeking locations around the globe that will provide the best possible returns. Locations that are considered appropriate and desirable are those that provide both new markets and stable political environments.

Europe remains an FDI destination for SA firms (as a developed market it is a destination which helps firms to retain profitability), as Europe still remains a driver of world economic activity. Europe has fewer barriers to entry and still provides the best destination for strategic asset-seeking firms, as it maintains a long tradition of innovation and technological expertise.

The US is an attractive region for three of the firms in the sample, as it is the world's leading source of innovation and entrepreneurial success, and as in the case of Europe, it provides relatively few barriers to entry.
Four of the companies also expressed an interest in the BRICS countries. Brazil, because of its stable economy, and because it is a growing market, has become an attractive destination for SA MNEs. Furthermore, for the resources-seeking MNEs, Brazil provides abundant as yet untapped reserves.

India, another of the BRICS countries, is also becoming an attractive investment destination; however, there are barriers that have made the location unattractive for some of the firms in the sample. These barriers include corruption, red tape, and a lack of infrastructure. Despite this, the location still provides an already huge and growing market, and, for the pharmaceutical companies, opportunities related to research and development (India is rapidly becoming a leader in research and development related to the pharmaceutical industry).

The UK still remains the world’s financial and business hub and, as SA’s former colonial master, it remains a natural and familiar home for SA firms. The UK also provides easier access to the financial networks needed by firms wanting to raise additional capital.

The growth opportunities in Africa remain attractive for SA firms, but risk remains an equally important factor, complemented as it is by issues that include corruption, inadequate infrastructure, political instability, lack of skilled labour and questionable attention to safety. Yet despite the risks, SA firms have been seduced by the rewards on offer and the abundance of natural resources, to embrace Africa as a destination for FDI, with enthusiasm. The respondents however, were all keen to provide pointers as to how to overcome the many challenges to doing business in Africa. In order to invest in Africa (and to reap the benefits), firms must commit themselves to long term ventures; must recognise the importance of local alliances, and must build sustainable relationships in order for their ventures in the region to succeed. No venture should be undertaken without first performing a thorough due diligence investigation. And most importantly, investors must remember that Africa is a continent comprising more than fifty unique countries and it is folly for firms to approach business with Africa as if it were a single country.

Regardless of the specific location, the respondents all highlighted one important aspect of business: manage the risk. Supporting this key aspect was the need to persevere, and to understand and respect the local customs and cultures in order to tap into the potential for wealth-creation offered by the location. There are a myriad factors vying for analysis and consideration when deciding which region/area to enter, but it is ultimately the intention and effort of the firm to achieve its goal (that is, the clarity of its strategic objectives, and its recognition of the subjective reasons which motivate a firm to invest in a certain location), which makes the location attractive and profitable.

Based on the responses to the questions posed to the respondents during the qualitative interviews, the findings of this research discussed in the previous section clearly indicate that South African
companies generally follow an eclectic mix of ad hoc approaches to evaluating a potential market for FDI. Certain factors that were identified in the literature are apparent in South African firms' evaluation of FDI opportunities. And then there are factors that are unique to South African firms that will need additional research in order to determine whether they have commonalities, and are rational and generally useful in the long term.
CHAPTER 5
INTEGRATION AND DISCUSSION OF THE QUALITATIVE AND QUANTITATIVE FINDINGS

5.1. INTRODUCTION
As mentioned in Chapter 1, the overall research question for this thesis is the determination of the salient factors that senior managers of South African multinationals consider when making FDI decisions. In order to answer the question, both quantitative and qualitative approaches were employed. The former used statistical analysis to test the interactions of the different elements of the decision making process, while the latter investigated the decision making process through interviews with CEOs and other senior managers of MNEs. These two studies were conducted sequentially. The findings from the quantitative and qualitative research were then integrated to explore the research question (i.e., the findings from the quantitative and qualitative studies were integrated using triangulation). Triangulation is a unique form of social inquiry that analyses the fundamental differences between observing and listening (Greene, 2008). It allows researchers to make assumptions that “there are legitimate approaches to social inquiry” (Greene, 2008:20). Triangulation further helps understand the different and often difficult-to-define aspects of social phenomena by using multiple forms of inquiry in order to obtain answers (Greene, 2008:20). Triangulation resolves diversity to achieve answers, thereby enriching the knowledge base.

This section focusses on the integration of findings from the qualitative and quantitative studies by discussing interviewees’ views on their FDI decision-making processes. The integration of qualitative and quantitative approaches within a single study provides a new way to assess the FDI decision-making process. Using this integration helps to achieve triangulation and complementarity. This section provides evidence that the qualitative interview data can complement the quantitative study by exploring the variables used in the statistical analysis.

The research study interrogated psychic distance factors using earlier studies by adding a qualitative dimension and through the process of triangulating qualitative and quantitative data. Extensive research has been published on FDI decision making process, however little has been done on an alignment between qualitative and quantitative factors in decision making process. In other words which is meant that managerial volition has been under emphasised in terms of research in the decision making process.

5.2. EVOLUTION OF FDI BY SA FIRMS AND THE LOCATION DECISION
South African firms have matured from being local companies wanting to increase exports to other parts of Africa, into multinational corporations initiating manufacturing ventures and direct investment
throughout the continent. This process became evident and increasingly possible after South Africa became a democratic country in 1994, and once sanctions against the country had been lifted. Foreign direct investment flows into Africa have been geographically selective and are usually directed towards the larger markets in Kenya and Nigeria, and also to South Africa's closer neighbours.

Analysis of the FDI decisions made by the respondents indicated that most of the firms had evolved into multinational corporations. The evidence this study found was consistent with previous studies, including Vernon's lifecycle model (Vernon, 1966), which has significant explanatory value when seeking to understand SA firms' FDI motives and processes. It appears that for most companies, their international operations started with exporting in response to requests for the firm's product (as was the case with one of the fast food companies interviewed). The firm then entered into an agreement with a franchisor; in the case with the retailing firms, they then established export departments. Most of the interviewees also explained that when their products (which were manufactured in South Africa) had been fully adopted by the host country, and when there was an indication of good future growth, these trends necessitated and validated the consideration of host country manufacturing and procurement alternatives for the goods that were being shipped from South Africa in increasing volumes. Sometimes, due to cost factors, the firms also consider entering into alliances with local partners, or to invest operational expertise in already established businesses. Most of the firms in the sample indicated that they were at various development stages in different locations; that is, they were manufacturing their products in one foreign location, while entering a local alliance in another location, and exporting finished products to a third foreign location.

Frequently, the first countries selected for foreign investments by the firms in the sample were in Africa, and very often the neighbouring countries of Namibia, Mozambique, and Botswana. The close proximity of these African countries made them a natural choice, initially for exports, and later as destinations for direct investments. Before the establishment of South Africa's democratic government, some of the firms had to choose European destinations for both their exports and later their direct investment efforts, because they were the closest destinations in terms of psychic proximity from South African. The analysis also indicates that long-established firms were most likely to have foreign operations in developed countries, whereas the smaller (and younger) firms had direct operations in neighbouring countries. Bearing in mind the changing demographics of companies over the last 20 years, this successfully echoes the literature in that it shows that firms prefer investing in locations with which they are familiar first, before expanding further afield. From the empirical results, it was impossible to reduce FDI decisions to a simple one-line explanation. It was in fact rather difficult to describe the way decisions were reached at all. In addition, the factors that influenced the way judgements about investments were formulated were also not uniform; the material from the qualitative interviews shows an eclectic, apparently irrational behaviour pattern
being generally adopted by SA firms. The reason for the apparently irrational behaviour could be ascribed to the influences of South Africa's torrid past and its distinctive dual economy.

Another common issue mentioned by the interviewees was that travel leads to the accumulation of knowledge, and, given that the interviewees were all particularly well-travelled, this allowed them to make astute and accurate observations regarding possible destinations. Also, an experienced executive with the appropriate knowledge is better able to strategise, and so to avoid problems with regard to FDI. The experienced executive also provides the impetus for the actual decision to invest, because he is confident about the potential of a foreign location to yield a good return on such an investment.

5.3. EMPIRICAL RESULTS FROM THE QUALITATIVE STUDY AND INTEGRATION WITH THE QUANTITATIVE STUDY.

The discussion is based on the findings from the literature and from the empirical research, as each pertains to and throws light on the research questions. However, the discussion focuses primarily on the empirical findings, and rather less so on the literature, as the literature review was primarily "mined" to provide the criteria that were then used in preparing the data collection tools (the questionnaire and the interview structure), and as a reference point in the final data analysis.

MNEs have different strategic objectives and specific purposes for their individual international expansion efforts. A critical aspect of the investment strategy of MNEs is the location selection, which is the key dependent variable in the realisation of the enterprise's strategic international expansion goals.

The hypotheses (the formal research questions) are addressed in sequence;

5.4. FACTORS INFLUENCING FDI

Most of the variables and factors discussed by the interviewees were influenced by one key factor: uncertainty. Most locations that they endeavoured to invest in were characterised by uncertainty arising from the level of business risk inherent in the specific foreign location. The key risks are the probability of financial loss and the possibility of not achieving the key objective of dominance or control over their business sector in the specific location. The risk is usually further fuelled by the lack of information about a new location. The different factors discussed in the interviews indicate that one of the key concerns for any new investment is the company's ability to evaluate the general political environment accurately; that is, is the government pro foreign investment, and are foreign-owned firms being attracted by offers of tax holidays.

Another source of uncertainty is presented by the legal system's perceived degree of effectiveness, because the company has to rely on the local legal system to sort out problems. Similarly, the
economic factor can induce uncertainty in that the size of the market and the sociological and cultural backgrounds of the population are only superficially known. Social and cultural dynamics influence the consumers’ lifestyle that in turn impacts on consumer buying patterns. And finally, the state and nature of the labour market and its associated productivity levels is an important economic factor that also has to be evaluated.

General factors which SA firms are wary of with regard to FDI:

- Political – war, expropriation, revolutions, government intervention, and political instability
- Economic – inflation and devaluation
- Infrastructure – its presence and/or absence, and condition

Most international markets are initially screened in order to form an opinion on the risk factors. If political and economic stability is an issue then FDI is usually not considered in that region. However, one of the companies from the sample was not deterred by political instability in a region, because they found that, for example, the Middle East (which is normally a volatile market) had provided some incredible profits and growth opportunities for the company.

For some of the respondents, unsubstantiated assumptions had been made regarding certain locations that seem to have stemmed from generalisations and a lack of knowledge about the market. However, certain factors remained important (especially with regard to Africa), when respondents were asked to identify the different barriers faced by SA firms when investing in Africa or outside of Africa. It was apparent that almost all of the interviewees correlated “less developed” with “inefficient and corrupt”, when asked to describe their challenges when investing in Africa. Most of the respondents also identified government regulations as a major barrier, because this fed their fear of possible expropriation and unsympathetic government intervention. In most African countries, government generally interferes via the imposition of regulations, which were perceived as barriers for South African firms.

On the issue of barriers that impact on SA firms’ FDI decisions, the results largely support the literature. Sakarya, Eckman and Hyllegard (2007) and Root (1994) view the market selection process as comprising three stages: screening, identification, and final selection. They suggest that during screening, macro-level indicators should be used to eliminate countries that do not meet the objectives of the enterprise (Bosakova et al, 2015). Johanson (1997) and Bosakova et al (2015) emphasises the importance of a well-articulated reason why the enterprise wants to be involved in international business as fundamental to the quality of the initial screening process. He observes that including factors such as macro-level indicators into the decision-making process increases the role of subjective judgement in market location selection (Johanson, 1997; Koch, 2001; Forsgren, 2013). The literature on international market selection confirms the importance of using market size
and the level of economic development as criteria to identify potential opportunities more accurately (Cavusgil, 1980: 275; Ball & McCulloch, 1993; Papadopoulus & Jansen, 1994; Kinda, 2010; Anyanwu, 2012; Cheung, De Haan, Qian & Yu, 2012).

In the first stages, MNEs try to establish the size and growth potential of foreign markets as these are correlatives of attractiveness of the market. This is important because MNEs generally invest globally for growth, and to improve the bottom line (Rahman, 2003a: 122; Keller & Yeaple, 2009). This finding is also supported by some of the previous research findings in target marketing and portfolio frameworks for market selection (Levison, 1996; Brouthers, Mukhopadhyay, Wilkinson & Brouthers, 2009). If a market is found to be attractive at the first ‘growth potential and market size stage’, it will be further evaluated on the basis of the ‘structural attractiveness’ of the market, before reaching the final selection stage (Porter, 1990; Rahman, 2003a; Kinda, 2010).

The reliability of the relevant information and of the methods used to obtain it, have attracted considerable attention (Cavusgil, 1980, 1984; Burton & Schlegelmilch; 1987; Johanson & Vahlne, 1977; Kachwamba & Sæbø, 2012). Estimates of market potential are documents and processes that require careful analysis by management. Similarities between the potential market and the MNEs’ current operations increase the attractiveness of the new market. Indeed, this similarity will determine how difficult it will be to implement knowledge transfer which will, in turn, affect management’s feelings of uncertainty, the accuracy with which they can assess future opportunities, and how much flexibility they will need while pursuing alternative courses of action (Gielens & Dekimpe, 2001; Kedia, Gaffney & Clampit, 2012).

Numerous authors have also referred to the impact of external variables on the market entry decision. Behrman (1969) showed that most MNEs’ decisions were affected by factors such as import tariffs and quotas; Etgar and McConnel (1976) and Johanson and Vahlne (2009) discuss the location of markets, economic forces and legal-political influences; Welch and Wiedersheim-Paul (1978) and Kang and Jiang (2012) include external stimuli, such as market opportunity, economic integration, and government stimulation in their model of factors affecting the decision-making process of the MNE. Cavusgil (1980) and Kachwamba and Sæbø (2012) suggest that management’s expectations regarding entry into new markets result from considerations external to the enterprise.

Multinationals also face tremendous political risks: governments may change a policy after the multinational has invested, adversely affecting the profitability of the investment. These political risks can be a major factor in a multinational’s decision to invest in a foreign market (Murtha & Lenway, 1994; Lecraw, 1993; Vadlamannati, 2012).
In the identification stage, enterprises obtain industry-specific information and investigate factors such as entry barriers and the existing level of competition. Barriers play a distinctive role in modifying the MNE’s internationalisation process. However, MNEs become less wary of foreign markets when they perceive there to be fewer entry barriers. As Pehrsson (2004) explains, enterprises tend to perform better in markets where fewer barriers are encountered. His study examined Swedish companies that had invested in Germany, and it was found that the business relatedness and exploitation of similarities were major contributors to positive performance.

Enterprises also need to make a selection that is informed by enterprise-specific information, such as profitability, product compatibility with the existing product portfolio, and the possible inherent limitations in the market (Koch, 2001; Dunning, 1993; Forsgren, 2013). The triangulation evidence reported in Table 5.1 should be considered against the general Hypothesis H10 and H1A, which were formulated in Chapter 2-Literature Review(2.7) and presented again here:

H10. There is an association between South African multinational enterprises’ FDI strategy and senior executives’ perceptions of the salience of specific pertinent factors when choosing a country to invest in.

H1A. There is no association between South African multinational enterprises’ FDI strategy and senior executives’ perceptions of the salience of specific pertinent factors when choosing a country to invest in.

Table 5.1 provides the triangulation between analysis methods for factors influencing FDI on the African continent.
Table 5.1: Triangulation between analysis methods for factors influencing FDI – African continent

<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative Analysis</th>
<th>Triangulation</th>
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<tbody>
<tr>
<td>Socio political issues – Political stability and governance</td>
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<tr>
<td>Cellular Services Company 1: “... other issues which we look at in terms of potential markets is the political stability of the region, and this plays a big role in terms of our decision making”.</td>
<td>86.7% of the respondents gave a response of important to this issue, which means that political stability and sound governance are factors that are essential to success.</td>
<td>81% of the responding firms considered political instability to be an important factor, and it was the primary factor when deciding on an international location. Compliance with laws and regulations, complex legislation, changes in government policies and the overall regulatory environment all fall under the umbrella of political instability. From the interviews, the respondents all viewed this factor as key, to be considered before investing in an international location. The mining firms in particular felt that changes in government policies do impact on the overall investing decision in Africa. The political instability factor was a key environmental factor for firms when investing in Africa.</td>
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<tr>
<td>Retailer 5: “... another big concern for us is the continuously changing fiscal policies which does make it difficult to operate in the region”.</td>
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<tr>
<td>Mining Company 2: “... the other barrier we face in Africa is fluctuating government policies”.</td>
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<tr>
<td>IT Company 1: “... political instability is a risk in Africa, and the continuous changes in government policies can impact on the business”.</td>
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<td>Mining Company 2: “...in other instances, governments apply pressure, that is, you obtain your mining license, and you sink the capital into the project, and then you are approached by government to include certain state owned companies or government officials in the project”.</td>
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## Qualitative analysis

<table>
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<tr>
<th>Socio political issues - Infrastructure quality</th>
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<tbody>
<tr>
<td><strong>Audit Services Company</strong>: &quot;... infrastructure is the biggest challenge on the African continent&quot;.</td>
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<tr>
<td><strong>Cellular Services Company 1</strong>: &quot;... infrastructure is an issue which all companies operating in Africa face. In Africa these costs are higher because of the lack of infrastructure&quot;.</td>
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<tr>
<td><strong>Food Manufacturing Company</strong>: &quot;... infrastructure like IT is a huge issue which we face; however there has been some progress in that area&quot;.</td>
</tr>
<tr>
<td><strong>Food Manufacturing Company 2</strong>: &quot;... especially in countries like Nigeria, because if it rains, then the whole road network comes to a halt&quot;.</td>
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<tr>
<td><strong>Retailer 1</strong>: &quot;...moving supplies across borders and through the ports is a big problem which we face in Africa, because of the border inefficiencies and bribery and corruption at most border posts and ports; and this impacts on our lead times, which can be cumbersome&quot;.</td>
</tr>
<tr>
<td><strong>Logistics</strong></td>
</tr>
<tr>
<td><strong>Mining Company 4</strong>: identified &quot;a lack of infrastructure and lack of proper road networks on the continent&quot; as one of their biggest challenges.</td>
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<td><strong>Distribution channels</strong></td>
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## Quantitative Analysis

<table>
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<tr>
<th>Socio political issues - Infrastructure quality (cont'd)</th>
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<tbody>
<tr>
<td><strong>Pharmaceutical company 1</strong>: &quot;... operating in both Africa and India requires a very strong distribution capability because distribution is key [to] a successful operation in both countries&quot;.</td>
</tr>
</tbody>
</table>

78% of the respondents identified with this factor, and considered it to be an important factor for FDI. Infrastructure includes road networks, borders and ports, as well as IT and telecommunication. For SA firms whose dominant FDI is in Africa, infrastructure remains an on-going issue, as most of the firms are in retail, manufacturing, and natural resources, all of which rely on logistics. The qualitative analysis showed a common theme with regard to the lack of infrastructure in Africa, which is a key barrier faced by SA firms. Similarly, the lack of distribution channels was a concern for most of the companies interviewed, and this includes the lack of efficient ports and border controls in most of the locations in Africa. Another issue raised by executives is the inadequacy of the electricity and other utility supply infrastructures. For the retailers dealing in perishables, this was a major barrier they faced in Africa. Another issue faced by SA firms and identified with by the retail-oriented interviewees is the lack of available retail space. This factor was of particular concern for firms investing outside of Africa, and in the more developed markets.

## Triangulation

78% of the respondents gave a response of important to this factor, which strongly emphasises its relevance. This is just over three quarters of the firms in the sample.
Qualitative analysis

overcome this hurdle”.

Retail space

Fast Food Company 1: “... the cost of obtaining space in prime retail positions makes FDI very expensive”.

Retailer 1: “... for us the difficulty is to find space that is also a suitable supermarket premises. Africa is also lacking in terms of strip centres and shopping malls, again making the task of finding suitable retail space rather difficult”.

Safety

Mining Company 3: “... the security of our people operating the mines in the region is another barrier which we face”.

Microeconomic factors - Risk and return

Legal Services Company 1: “... even though the risk is high in Africa, it is a growing market and has been profitable”.

Legal Services Company 2: “... risk is a huge factor in Africa, but the benefits outweigh the risk”.

Mining Company 2: “... the plus side is that the profit obtained from FDI in Africa does compensate for the risk faced in Africa”.

Legal Services Company 2: “... even though the risk is high in Africa, it is a growing market and profitable”.

Microeconomic factors - Trade incentives and trade agreements

Countries that have signed investment treaties positively influence FDI inflows. In addition, bilateral treaties and double tax treaties are used as proxies for investment treaties and FDI incentives. These treaties are also distinguishable from trade agreements because they are entirely dependent upon the will and intention of governments, but despite

79% of the respondents gave a response of important, which indicates the high degree of relevance this factor has for the sample surveyed. This is almost 4 out of every 5 of the firms in the sample.

55% of the respondents gave a response of important, which indicates that for the sample this factor has a relatively high relevance.

For SA firms investing especially in Africa, where the risk can be higher due to uncertainty, general economic factors provide a gauge of future profitability in the region.

79% of the respondents considered this factor to be important. From the qualitative analysis, the executives identified higher risk as a consideration when investing in Africa, but explained that because of the growing markets, it was also seen as a profitable market.

55% of the respondents considered this factor to be important. This is supported by the qualitative analysis that also reflected a similar sentiment. The interviewees explained that trade barriers are an issue especially with regard to investment in Africa, as governments introduce barriers in order to hinder foreign investment so as to protect local companies. If a location provides fewer trade barriers, it makes FDI
Qualitative analysis

this, they do act as conduits for firms’ FDI efforts. The EU’s market plan has provided attractive opportunities for FDI from countries outside the EU, and the United States’ free trade agreement with Canada has helped to promote exporting and manufacturing from Canada (Rugman & Verbeke, 2001). Bilateral investment treaties, double tax treaties, and free trade agreements have all helped to promote FDI (UNCTAD, 2014). Regional agreements (for example among ASEAN countries) have encouraged FDI in that region. Tax incentives (another popular tool) are also used to attract FDI. (Tax incentives normally take the form of reduced tax rates, tax depreciation, tax credits or tax holidays, and government grants (Kumar et al, 2001; Buettner & Ruf, 2007)). Tax rates are both negatively and linearly correlated with FDI (Gastanaga et al., 1998; Feld & Heckemeyer, 2011). However, there are studies that have shown that increased taxes encourage FDI inflow into the country (Swenson, 2000; Sauvant & Sachs, 2009). The reasons for this appear to be unique to the time and countries involved.

Quantitative Analysis

Microeconomic factors – Economic agglomeration

When companies from the same industry go abroad, others feel compelled to follow suit in order to maintain their relative market position, and to pursue growth. This is known as the “bandwagon effect”, and is characterised by imitating the commitments of an industry leader. Ideally, this means that one is less vulnerable because one’s exposures are the same as those of the principal competitors (Aharoni, 1966, Sethi et al, 2003). In many cases, the follow-

38% of the respondents gave a response of important, which suggests that for the sample as a whole, this is not the most pertinent factor they consider. This group comprises barely more than one third of the firms in the sample.

32% of the respondents identified this factor as important. Generally, as is evident from the qualitative analysis, SA firms prefer to invest in locations where there are similar competitors.

Triangulation

Trade agreements such as the SADC agreement are seen as positive factors as they incentivise firms, as was repeated frequently in the interviews. The SADC agreement makes investment across the border easier for SA firms, because of the absence of restrictions on the movement of capital across these borders.
the-leader pattern was that of following major clients overseas in order not to lose their patronage, even if it was no longer present at home. One of the reasons given by most of the South African firms for investing internationally is that their customers have moved across borders, and this expansion has been effected in order to retain their clients locally, while also being able to serve their clients in international locations as well: this is an important push factor for them to move abroad.

The rush by South African firms to make investments into new markets has also been fuelled by oligopolistic rivalry: large companies cannot allow their competitors from other countries to take over a market by default, and this is evidenced in a tendency for firms to follow their rivals into new markets.

### Macroeconomic factors – Inflation

| Banking Company 1: "... other risks faced in Africa are general country risk, high inflation, and exchange risk due to continuous volatility of the currencies". | 82% of the respondents gave a response of important, which suggests that this factor is a significant consideration in FDI destination deliberations. | Macroeconomic factors such as inflation are important considerations for SA firms when investing in international locations. 76% of the respondents considered this to be an important factor. The responses from the qualitative analysis confirm this factor as important, as both inflation and GDP are considered influential factors for investment decisions. GDP growth is related to the return that companies can expect from an investment in a new location, and inflation gives some indication of the health of the economy of the host market. |

### Macroeconomic factors – Inflation (cont’d)

### Macroeconomic factors – Exchange rate stability

<p>| Audit Services Company: &quot;... exchange control is not an issue, because most of the economies in | 54% of the respondents gave a response of important. Most companies in developing markets tend to be volatile, and | 51% of the respondents identified this factor as important. Most companies in developing markets tend to be volatile, and |</p>
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<tr>
<th>Qualitative analysis</th>
<th>Quantitative Analysis</th>
<th>Triangulation</th>
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<tr>
<td><strong>Retailer 4</strong>: &quot;... economic volatility, that is, liquidity, is strained, and it is difficult to get funds out of Africa. Malawi devalued its currency making it difficult to purchase any currency out of Malawi&quot;.</td>
<td>important, which suggests that this factor is important to their FDI deliberations. This is more than half the firms in the sample.</td>
<td>as Africa is considered to be a developing continent, exchange rate volatility becomes a concern for investors. However, the qualitative analysis shows that SA firms generally trade in US dollars, and this helps to act as a buffer against any adverse local currency movements, or changes in government policies.</td>
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<tr>
<td><strong>Legal factors – South African Reserve Bank approval</strong></td>
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<tr>
<td><strong>Food Manufacturing Company 2</strong>: &quot;... Reserve Bank approval is the first and biggest barrier that we face when investing in Africa&quot;.</td>
<td>54% of the respondents gave a response of important, which suggest that this factor is important. This is more than half the firms in the sample.</td>
<td>However, a common complaint from the qualitative research questionnaire was about the inordinate amount of time spent trying to obtain Reserve Bank approval in South Africa, which was considered to be a very cumbersome exercise.</td>
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<tr>
<td><strong>Legal services company 1</strong>: &quot;...you need to obtain Reserve Bank approval and this can be hampering because it’s clunky and inefficient.&quot;</td>
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<td><strong>Legal factors – Repatriation of funds</strong></td>
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<tr>
<td><strong>Mining Company 3</strong>: &quot;... repatriation of funds is not an issue for us as a barrier, because we repatriate all funds to our holding company in the UK&quot;.</td>
<td>55% of the respondents gave a response of important, which indicates that for the sample this has a relatively high relevance. This is barely more than half of the firms in the sample.</td>
<td>Another issue that was discussed in the interviews was the repatriation of monies back to SA. Most firms experienced some form of restrictive legislation while trying to repatriate funds back to SA, and most of the restrictions stemmed from locations in Africa.</td>
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<tr>
<td><strong>Engineering Company 1</strong>: &quot;... this barrier is quite hampering because we are not able to repatriate funds successfully back to SA&quot;.</td>
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<tr>
<td><strong>Legal factors – Tax legislation</strong></td>
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<tr>
<td><strong>Cellular Services Company 2</strong>: &quot;...we are also the biggest cash acquirer in any region. Normally surcharges are imposed on the tax we incur on our taxable income. Another issue is the financial regulatory body’s inconsistencies and this makes tax the biggest hurdle we face&quot;.</td>
<td>55% of the respondents gave a response of important, which indicates that for the sample this is has a relatively high relevance to their decision-making processes. This is barely more than half of the firms in the sample.</td>
<td>Another issue that was discussed was tax legislation, which is an important barrier for SA firms operating in Africa. The general complaint was of inconsistent tax rates across the African continent, and differences in tax legislation, which made compliance difficult.</td>
</tr>
</tbody>
</table>
Legal factors – Labour Issues

Audit Services Company: "... we are a talent based organisation, so work permits become an issue, especially when we are trying to move staff around the different offices".

76% of the respondents gave a response of important to this issue in the questionnaire, which indicates the high relevance they as a group attach to this factor. This is again more than three quarters of the firms in the sample.

SA firms seek both skilled and unskilled labour to reduce operating costs. 76% of the respondents indicated this factor as important. From the qualitative analysis, a similar trend was apparent as the executives indicated that because production requires superior labour skills, the lack thereof can be a deterrent to their FDI initiatives.

With regard to general labour legislation, this is a major issue faced by SA firms when investing in Africa, especially since each country has its own unique labour laws, which makes compliance a challenge. A partial solution has been to hire local management skills and expertise, but even this can be a scarce resource, making it an important factor when considering FDI in Africa. Another option identified by the interviewees is to use South African management in the host country, and to train local people. However due to frequently draconian labour laws, obtaining permits for SA managers is another negative issue faced by the firms.

Table 5.2 provides the triangulation between analysis methods for factors influencing FDI for the rest of the world.

Table 5.2: Triangulation between analysis methods for factors influencing FDI – excluding the African continent

<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative Analysis</th>
<th>Triangulation</th>
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<tr>
<td>Audit Services Company: &quot;... we are a talent based organisation, so work permits become an issue, especially when we are trying to move staff around the different offices&quot;.</td>
<td>76% of the respondents gave a response of important to this issue in the questionnaire, which indicates the high relevance they as a group attach to this factor. This is again more than three quarters of the firms in the sample.</td>
<td>SA firms seek both skilled and unskilled labour to reduce operating costs. 76% of the respondents indicated this factor as important. From the qualitative analysis, a similar trend was apparent as the executives indicated that because production requires superior labour skills, the lack thereof can be a deterrent to their FDI initiatives.</td>
</tr>
<tr>
<td>Fast Food Company 1: &quot;... in the USA, each state has its own laws and regulations, so this makes it difficult to ensure compliance with the regulatory issues apparent in the market&quot;.</td>
<td>86.7% of the respondents gave a response of important, which indicates the high relevance that they attach to this factor.</td>
<td>81% of the firms from the sample considered political instability to be an important factor, and for many it was a primary factor when deciding on an international location. Compliance with laws and regulations, complex legislation environments, changes in</td>
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</table>
government policies and the overall regulatory environment fall under the umbrella of political instability. From the interviews, it was apparent that the respondents all viewed this as a key factor to consider before investing in an international location.

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<tr>
<th>Qualitative analysis</th>
<th>Quantitative Analysis</th>
<th>Triangulation</th>
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<tr>
<td>Politically unstable</td>
<td>78% of the respondents gave a response of important, which indicates the high relevance they attach to this factor. This is just over three quarters of the firms in the sample.</td>
<td></td>
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<tr>
<td>Infrastructure quality</td>
<td>78% of the respondents indicated a resonance with this factor and considered it to be an important factor for FDI. Infrastructure includes road networks, borders and ports, as well as IT and telecommunication infrastructure. Another issue identified by the interviewees as a concern is the lack of available retail space, particularly for firms investing outside of Africa, and in the more developed markets.</td>
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**Socio political issues**

**Infrastructure quality**

**Paper Manufacturing Company:** "... Eastern Europe provided us with low cost production base, [and] better cost structures compared to traditional European countries. Resources and low cost manufacturing gave us the cost advantages and therefore we expanded into those regions to exploit the opportunities. We also expanded in France and UK, but we retreated from these investments because we realised that the cost advantages were greater in Eastern Europe, and that's where we could have a competitive advantage".

"... to have a clearing agent in each state, because of the complexity of the regulatory environment."

**Pharmaceutical Company 2:** "... there is also the issue of logistics in India, which is very poor. The regulatory environment is so different in each state of India that when you try to move product from one state to another you have"

**Mining Company 2:** "... [the lack of infrastructure in Indonesia]...does impact on the cost factor."
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<th>Qualitative analysis</th>
<th>Quantitative Analysis</th>
<th>Triangulation</th>
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<tr>
<td><strong>Paper Manufacturing Company 1</strong>: &quot;... [with regard to infrastructure in Northern Russia] it's a constant challenge. Road and rail; and we produce the electricity. IT is not an issue. Poland is very first world in terms of infrastructure&quot;.</td>
<td>79% of the respondents gave a response of <em>important</em> to this issue, which indicates the high relevance that they attach to this factor. This is just about 4 out of every 5 of the firms in the sample.</td>
<td>63% of the respondents considered this factor to be important. From the qualitative analysis, the executives identified higher risk when investing in non-African locations.</td>
</tr>
<tr>
<td><strong>Fast Food Company 1</strong>: &quot;... so the cost of obtaining space in prime retail positions makes it very expensive in the UK. We try and target more the high streets near business centres&quot;.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Microeconomic factors – Risk and return</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Banking Company 1</strong>: &quot;... we also determine our risk appetite in terms of revenue pools for specific client segments, and then using credible sources, based on management decisions, we expand into certain locations&quot;.</td>
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</tr>
<tr>
<td><strong>Pharmaceutical Company 2</strong>: &quot;... we are [only] considering India at the moment, because the Indian government is very protective over its own industries... they have defensive tariffs which are a barrier [to our entry], as well as the fact that they grant their own pharmaceutical companies tax holidays&quot;.</td>
<td>55% of the respondents gave a response of <em>important</em> which suggests that for barely more than half the surveyed firms this issue is a pertinent consideration.</td>
<td>55% of the respondents considered this factor to be <em>important</em>. Governments introduce barriers in order to hinder foreign investment (so as to protect local companies). This type of location is considered less desirable. If a location offers relatively fewer trade barriers, it becomes a more desirable FDI destination.</td>
</tr>
<tr>
<td><strong>Microeconomic factors – Trade incentives and trade agreements</strong></td>
<td></td>
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<tr>
<td>Qualitative analysis</td>
<td>Quantitative Analysis</td>
<td>Triangulation</td>
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<tr>
<td><strong>Microeconomic factors – Competition</strong></td>
<td></td>
<td></td>
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<tr>
<td><em>Fast Food Company 2:</em> &quot;... we feel our brand is not competitive enough for Australia or New Zealand. However, we are considering the Latin American market, especially Brazil. China is not being considered because we feel that we will be minnows against the multinational competitors who already have a head start in the region&quot;.</td>
<td>79% of the respondents gave a response of <em>important</em>, which indicates the high relevance that they attach to this factor. This is just about 4 out of every 5 of the firms in the sample.</td>
<td>The intensity of competition in a host country is important because it impacts on a firm’s market position. MNEs will locate their operations in places where competition is not that intense, in order to obtain a competitive edge (Luo, 1999a; Cui &amp; Jiang, 2009). Most of the respondents identified the more developed countries to be very competitive and therefore more challenging when carrying out FDI, because it was difficult to retain a market share.</td>
</tr>
<tr>
<td><em>Retailer 1:</em> &quot;Europe and Asia and [the] US are considered to be very sophisticated markets, with too many competitors, and therefore fierce competition&quot;.</td>
<td></td>
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<tr>
<td><strong>Microeconomic factors – Security of intellectual property</strong></td>
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<tr>
<td><em>Fast Food Company 1:</em> &quot;... in most countries...our intellectual property is not secure. An issue that we face in the UK is protection of our intellectual property, where take-outs are trading with similar names and selling a similar concept [to that of our brand]&quot;.</td>
<td>86.7% of the respondents gave a response of <em>important</em>, which indicates the high relevance that they attach to this factor.</td>
<td>Security of intellectual property is a concern for most of the respondents trading in other countries. As the respondents explained, the issue is essentially the security of the brand name, which is more easily impinged upon in some locations. Most companies found that their intellectual property is not secure.</td>
</tr>
<tr>
<td><em>Engineering Company:</em> &quot;In Australia it’s the changes to fiscal policies and labour rates which can impact on the bottom line&quot;.</td>
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<tr>
<td><em>Mining Company 1:</em> &quot;... in Australia labour inflation is a big barrier; because, when labour rates increase it impacts on our return. Consumer characteristics and behaviour does impact on our business, however: for example in a country like Norway, where the</td>
<td>82% of the respondents gave a response of <em>important</em>, which indicates the high relevance that they attach to this factor.</td>
<td>Macroeconomic factors such as inflation are important factors that are considered by SA firms when investing in international locations. 76% of the respondents considered this to be an <em>important</em> factor. The responses from the qualitative analysis confirm this view as interviewees identified both inflation and GDP as important considerations for investment decisions. GDP growth is related to the return that</td>
</tr>
<tr>
<td>Qualitative analysis</td>
<td>Quantitative Analysis</td>
<td>Triangulation</td>
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<tr>
<td>purchasing power of the consumer is high, this will impact on our factor of labour inflation, because a high purchasing power creates a high labour rate, and this is [also] the case in Australia&quot;.</td>
<td>54% of the respondents gave a response of important, which suggests that for barely more than half the firms surveyed, this factor has pertinence.</td>
<td>companies can expect from an investment in a new location, and inflation gives some indication of the health of the economy of the host market.</td>
</tr>
</tbody>
</table>

**Microeconomic factors – Exchange rates**

**Banking Company 1**: "... foreign exchange risk due to continuous volatility of the currencies can be an issue for us".

| | 54% of the respondents gave a response of important, which suggests that for barely more than half the firms surveyed, this factor has pertinence. | 51% of the respondents identified this factor as important. The qualitative analysis shows that SA firms generally trade in US dollars, and this helps to act as a buffer against many adverse movements of the local currencies, or changes in government policies. |

**Legal factors – South African Reserve Bank approval**

**Paper Manufacturing Company 1**: "... we have to get approval from Reserve Bank [and this] is a huge barrier; its ad hoc and confusing and no one understands it and it is an impediment [to the general flow of business]".

| | 54% of the respondents gave a response of important, which suggests that for barely more than half the firms surveyed, this factor has pertinence. | However, a common complaint identified in the qualitative element of this research was the difficulty experienced in obtaining Reserve Bank approval in South Africa, which was considered to be a very cumbersome exercise. |

**Legal factors – Repatriation of profits**

**IT Company 2**: "... another problem we face in India is with regards to repatriation of funds back to South Africa, because of the [Indian] limitations [on forex purchases]".

<p>| | 54% of the respondents gave a response of important, which suggests that for barely more than half the firms surveyed, this factor has pertinence. | Repatriation restrictions can have a negative impact on the net income or dividends remitted to head office. Restrictions and obstructions in the form of taxes on the repatriated profits, approval from central bank, or compliance with some form of foreign exchange control regulation, can make the repatriation of funds difficult for a firm, and this can become a disincentive to firms carrying out FDI. |</p>
<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative Analysis</th>
<th>Triangulation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal factors – Tax legislation</strong></td>
<td>54% of the respondents gave a response of <em>important</em>, which suggests that for barely more than half the firms surveyed, this factor has pertinence.</td>
<td>Another issue was tax legislation, which is an important barrier for SA firms operating in international locations. The general complaint was that compliance with different tax laws internationally was difficult. The existence of international trade agreements is a positive factor as the certainty they bring does incentivise firms, a fact that was highlighted in the interviews.</td>
</tr>
<tr>
<td>The senior executive of the paper manufacturing company explained that operating within the limits imposed by red tape helps to ensure a good relationship with the local government. He also advises not to be too ambitious: “You cannot be ultra-aggressive with your tax structures, and [should] not try to antagonise the government”.</td>
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</tbody>
</table>

| **Legal factors – Labour Issues** | 76% of the respondents gave a response of *important*, which indicates the high relevance they attach to this factor. This is again more than three quarters of the firms in the sample. | Firms seek both skilled and unskilled labour to reduce operating costs. 76% of the respondents identified this factor as *important*. From the qualitative analysis, a similar trend was identified: executives indicated that because production requires superior labour skills, the lack thereof can be a deterrent to their FDI efforts. |
| **Mining Company 2:** “… skills shortage is a problem in… Indonesia, and therefore there is great reliance on Australian skills, because of their familiarity with the region, and because Australia is close to Indonesia”. |  | Another option identified by the interviewees is to use South African management in the host country, and to train local people. However due to draconian labour laws, obtaining permits for SA managers is another challenging issue faced by the firms. |
| **IT Company 2:** “… they keep moving jobs … We have other multinationals poaching our skilled staff... They are easily seduced by better salaries elsewhere, so you have to keep staff happy by paying them well”. |  |  |

From tables 5.1 and 5.2, it appears that SA firms are generally wary of political instability and tend to invest in countries where they perceive government policies to be favourably inclined towards FDI.

SA firms, as is evident from the analysis, require reliable information (obtained via a due diligence review) when making a new market entry decision. The firm initially obtains an overview of the international location’s environmental factors (political factors, economic factors, legal factors and population demographics), as well as the location’s production factors and market factors.
The objective here was to identify a set of factors that informs the decision to enter or not to enter a new foreign market. Existing literature on international market entry criteria provided evidence that there is a significant number of factors influencing this decision. The aim of this study was to identify a set of factors from the literature, and to determine whether any of these factors impacted on SA firms' decisions to enter or not to enter a specific foreign business location. Discriminant analysis of the predictor variables indicates that five (5) factors are important for SA firms when deciding to enter or not to enter a new market. The key factors are political (in)stability, economic environment, market size, infrastructure, and labour. (There are many other factors that are considered, the mix being influenced by industry and the experiences of executives tasked with making these decisions.) Of paramount importance for every firm contemplating FDI is their assessment of the political environment of the country in which they plan to invest: the stability or instability of the existing political systems and of the government and its policies are the major concerns.

Tariffs and marketing costs (which include logistics and transportation costs), are considered important by firms, as are government policies that will impact on profitability. Restrictions on repatriation of profits is another important consideration that was mentioned by all of the respondents to the questionnaires and the participants in the interviews. Copyright and trademark protection was also a concern. Based on the firms' risk tolerances and their responses to the issues just mentioned, SA firms tend to perform a pre-selection screening to eliminate certain locations because of the existence of factors that they have identified as incompatible with their business models.

The findings of this research indicate that the above key environmental factors are important for the decision-makers of SA firms when selecting the location of their FDI entry-point, and thus the hypothesis is supported here.

5.5. REASONS FOR ENTRY

Prior research has shown that firms expand internationally in order to capitalise on international market opportunities, or because the local market is saturated. Other objective reasons are to reduce strategic risk, and to seek new economies of scale and growth. Firms also venture abroad as an attempt to reduce costs of production, and to establish new competitive advantages (Koch, 2001; Forsgren, 2013; Faeth, 2009).

Dunning's (1993) OLI paradigm provides a framework for determining factors which influence the MNE's FDI decision. Dunning (1993) proposes that there are three main motives for MNEs carrying out FDI: natural resources exploitation, expansion into new markets, and the development of strategic assets. Furthermore, the OLI paradigm requires that MNEs must possess three specific advantages in order for FDI to occur. Firstly, an enterprise must possess ownership-specific advantages (O), that is, advantages that the competition in the host country lacks. If an enterprise has more ownership-specific advantages, there will be a greater incentive for the enterprise to
compete in other locations (Dunning, 1980, 2012; Rugman, 2012; Galan et al., 2007: 977; Agarwal & Ramaswami, 1992).

The second advantage rests in location factors (L). As Dunning emphasises, "locational configurations" of an enterprise’s activities may itself be an ownership-specific advantage as well as affecting the modality by which it augments or exploits its existing ownership advantages.

Lastly, there has to be an element of market failure for the enterprise to decide to internalise (I). Dunning (1981, 1986) explains that when an enterprise decides to capitalise on (O) a certain location, it does so by internalising them (i.e. an enterprise will internalise when it feels that it is better to own the investment in order to reduce transaction costs). The IDP Model (Dunning, 1981, 1986) added to the OLI’s eclectic paradigm a dynamic dimension by relating the net outward investment of a country to its stage of economic development. Dunning’s (1986) IDP model showed that depending on the economic development and competitiveness of the home country, local firms develop ownership advantages that allow them to successfully internationalise and expand abroad. (Dunning, 2012; Galan et al., 2007).

Dunning and Narula (1996) and Narula and Guimon (2010) recognise that the IDP pattern of each country is unique, as it is based on country-specific factors, such as its resources, market size, industrialisation strategy, government policy and economic activities.

The above models were tested primarily in developed countries, and MNEs from Africa do not necessarily display the same traits and characteristics as MNEs from other developing countries, because the MNEs from Africa have different motivations for FDI (Hailu, 2010). According to UNCTAD (2005) “South African companies have been investing abroad for various reasons, which differ at different times, between industries, types of corporations and host locations”. Market saturation, market size limitation and the attractiveness of foreign markets have encouraged South African MNEs to seek new markets (Luiz & Charalambous, 2009: 307).

MNEs have different strategic objectives for their international expansion. MNEs individually have specific purposes for expanding across borders. A crucial aspect of the investment strategy of MNEs is the selection of location, which is the key dependent variable in the realisation of the enterprise’s strategic goals when expanding internationally. As indicated earlier in Chapter 2-Literature Review(2.7), the following hypothesis was proposed:

H20. The primary FDI strategic goal of South African multinational companies’ senior executives is strategic asset seeking.

H2A. The primary FDI strategic goal of South African multinational companies’ senior executives is not strategic asset seeking.
Evidence from this research has shown that the key motives for the internationalisation of SA MNEs have been market expansion and the search for low cost labour. The size of the market, as typically measured by the level of GNP, is an important determinant of SA FDI, which is line with many previous research studies (Root & Ahmad, 1979; Ramamurti, 2012).

The location aspect of the mainstream rationale or general theory, as researched in Dunning's eclectic paradigm, suggests the following primary motivations (Dunning, 1977, 1993).

- Foreign market-seeking FDI
- Efficiency-seeking (cost reduction) FDI
- Resource-seeking FDI
- Strategic asset-seeking.

Market-seeking FDI is undertaken by firms in order to access distribution networks, so as to facilitate exports from the host country to other closer markets. Efficiency-seeking FDI occurs when firms seek lower cost inputs for operations, and resource-seeking FDI is undertaken by firms to acquire raw material or resources. Strategic asset-seeking occurs when firms pursue FDI aimed at acquiring a new technological base, rather than exploiting an existing asset. Dunning describes various situations in which, rather than pure asset-seeking, strategic considerations are the dominant motives.

Table 5.3: Triangulation between analysis methods for reasons for entry

<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative analysis</th>
<th>Triangulation</th>
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<tbody>
<tr>
<td>Business opportunistic factors – resource seeking</td>
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<tr>
<td>The mining firms all indicated one common objective and that is to seek additional resource opportunities in Africa.</td>
<td>29% of the respondents indicated that the presence of resources was the main pulling factor driving FDI. The respondents who indicated this as a reason for their FDI were mining companies.</td>
<td>Resource-seeking remains a primary objective with the firms in the mining sector. The responses from the mining firms, both in the qualitative and the quantitative analyses, all indicated that the reason for FDI was resource-seeking, and a frequently cited refrain was that “Africa has the resources”.</td>
</tr>
<tr>
<td><strong>Mining Company 1</strong>: “Africa has the resources we need”.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mining Company 2</strong>: “Africa is the only continent with enormous resources”.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business opportunistic factors – economic growth and market factors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>That Africa is a fast-growing economy was frequently cited by the different respondents.</td>
<td><strong>Market-seeking &amp; profit</strong>: 97% of the respondents indicated this as a reason for their FDI. Due to the home market being saturated, they</td>
<td></td>
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<tr>
<td><strong>Banking Company 1</strong> explained</td>
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Senior executive managers of these firms were asked their opinions of their enterprise’s motives and rationales for making direct investments abroad. In addition, they were requested to identify the criteria and reasons for selecting a specific host country. None of the senior executives interviewed had a specific “checkbox system” in place to guide their identification of an international market in which to participate. Rather, the motives and rationale tended to be specific to the company, and eclectic, responding to the circumstances prevailing in their particular companies and industries at the time the decision was taken. In spite of this apparently random/arbitrary process, the data obtained and the qualitative analysis performed on the data did identify distinct general rationales for specific industries. Most of the senior executives interviewed are experienced international players, each having been involved in FDI for more than ten years. During their years in office, their international market selection processes appear to have evolved, suggesting that their management strategies, while initially formulated as a projected strategic approach, are responsive to the circumstances prevailing in the markets at the time (Benito & Welch, 1993; Rahman, 2003b).

The questions that were asked of the senior executives are given in the table below and will be discussed sequentially in the following sections:

<table>
<thead>
<tr>
<th>Questions asked in the interviews</th>
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<tbody>
<tr>
<td>1 Do you perceive a difference between globalisation and internationalisation?</td>
</tr>
<tr>
<td>2 Please can you tell me “objective” reasons for having invested in certain countries, such as,</td>
</tr>
<tr>
<td>for example, the economic environment and labour legislation etc.</td>
</tr>
<tr>
<td>3 Please can you tell me “subjective” reasons for having invested in certain countries, such as,</td>
</tr>
<tr>
<td>for example, familiarity with the culture and language, historical ties etc.</td>
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<tr>
<td>4 What are your business strategy reasons for investing internationally? For example, is it for</td>
</tr>
<tr>
<td>expansion diversification or some other reason?</td>
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<tr>
<td>5 What FDI barriers do you face in Africa?</td>
</tr>
<tr>
<td>6 What FDI barriers do you face for countries outside Africa?</td>
</tr>
<tr>
<td>7 What attracted you to invest in Africa?</td>
</tr>
<tr>
<td>8 What attracted you to invest in countries outside Africa?</td>
</tr>
<tr>
<td>9 What are your entry method strategies? Why do you use these strategies?</td>
</tr>
<tr>
<td>10 Is there any other aspect of FDI that you have not already mentioned that you feel is important</td>
</tr>
<tr>
<td>in deciding to invest in a foreign country?</td>
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</tbody>
</table>

The richness of the qualitative data received in response to the above questions requires that it be presented in detail, in the sequence in which the questions were asked. An analysis of the explanations/rationale offered for FDI is agglomerated by industry type and presented thereafter, to
give a more workable framework for understanding the data generated by the mixed method approach in this thesis.

4.10. RECOGNITION OF INTERNATIONALISATION AND GLOBALISATION-
(Do you perceive a difference between globalisation and internationalisation?)

As an introductory question to gage the respondents' understanding of the concepts underlying the terms “globalisation” and “internationalisation”, the respondents were specifically asked to distinguish between the two concepts.

Internationalisation has been described as a process in which economic activities are extended across national boundaries, while globalisation is a process in which economic activity is functionally integrated. Globalisation has been defined by the International Monetary Fund (IMF) as the increasing integration of economies around the world, particularly through trade and financial flows (IMF, 2003). Giddens (1999) also suggests that globalisation is not only an economic phenomenon, but that it encompasses political, technological and cultural issues. While for Ruigrok and van Tulder (1995:22), “Globalisation seems to be as much an overstatement as it is an ideology and an analytical concept”. Internationalisation on the other hand more often refers to the specific economic activities certain firms undertake across international borders.

It was therefore essential to find out whether or not senior executives recognise a distinction between the terms ‘internationalisation’ and ‘globalisation’. Multinational enterprises have the power to coordinate and control operations worldwide (Dicken, 1998). The subsidiaries of these organisations play a major role in the world economy (Vernon, 1998). Host countries can benefit from the presence of multinational enterprises through the inflow of capital and technology, through job creation and workforce improvement (through education and training), and by improved access to foreign markets (Vernon, 1998).

As indicated above, internationalisation is commonly described as a process of opening up foreign markets, whereas globalisation has broader implications that are both socio-political and economic. Thus, as part of the qualitative analysis, this research investigated how senior executives, as decision makers, understand the distinction between these two concepts. Comments by South African senior executive managers suggested that they were not aware of the distinction between the concepts of internationalisation and globalisation. Furthermore, they do not appear to be concerned about the broader impact of globalisation, nor the eventual consequences of their participating in a continuing process of internationalisation.

An analysis of the interviews with companies' senior executive managers reveals that 22 of the 26 recognised no distinction between globalisation and internationalisation. When this was addressed
specifically with them, most senior executives explained that, as far as they were concerned, there is no real difference between globalisation and internationalisation, and they used the terms interchangeably, as the following quotes illustrate.

The CEO of Information Technology company 2: "There is no difference, but we feel that globalisation does not exist and that the difference is an academic debate".

According to the senior executive of the paper manufacturing company: "... there is no difference, rather, this would be an academic distinction, not a business one".

However, some executives did recognise differences in nuance between the concepts, as the following quotes suggest. The CEO of the audit services company explained that: "Internationalisation is going into new locations in order to internationalise the company, whereas globalisation is when your company is able to have a global network".

According to Food Corporation 2's company secretary: "Globalisation is more from a global perspective, things being regarded globally, that is, [the] impact of global procurement".

Banking company 1's senior economist said: "Globalisation is a perspective or mind-set to move across borders".

Senior executives' views on the nature of internationalisation are captured in the following comments.

For the CEO of the audit services company: "Internationalisation is going into new locations in order to internationalise the company".

For the company secretary at Food Corporation 2: "Internationalisation is more the coming together of nations, so it is more to do with the geographies faced by companies".

According to the senior economist at banking company 1: "Internationalisation is where we interrogate opportunities for further expansion on an international basis. However, globalisation and internationalisation is used interchangeably".

It is quite clear from the above commentary that senior executive staff in the South African firms interviewed see little difference between the concepts of internationalisation and globalisation (nor do they appear concerned about what either term is intended to mean – tautology is apparent in many of the explanations offered), and they regard any distinction as being more of an academic issue than one with substantive impact on business practices. This was a somewhat unexpected finding, as the two concepts are related but distinct, and pivotal to an understanding of the strategic effects of FDI. Clearly, some senior executives of South African firms are not fully aware of the socio-political effects of globalisation.
4.11. OBJECTIVE AND SUBJECTIVE REASONS FOR FDI-
(What are the objective and subjective reasons for having invested in certain countries?)

South African firms embark on investing in new locations in order to seek location-specific resources or assets: that is raw materials, low cost labour, and/or technology, or to seek new markets or to take advantage of production cost advantages.

Globalisation and internationalisation of the world economy have forced firms to seek new markets, new resources and new assets. The literature base has highlighted traditional motives related to FDI, that is, market seeking, resource seeking and efficiency seeking, which remain the key motives for SA firms engaging in FDI. The empirical literature on the determinants of FDI has changed over the last two decades, but has shown that the aggregate of FDI flows has concentrated on variables commonly used in models of international capital flows, e.g. market size, income, exchange rate differentials, infrastructure, and real wage differentials amongst others. These variables help explain which country characteristics remain attractive for FDI. However, these motives are further incorporated into the firms' broader FDI strategies. In order to understand the key factors that prompt SA firms to invest in certain locations, the senior executives of the small sample of SA firms were asked to give the objective and subjective reasons for investing abroad.

Objective reasons generally deal with material theories; these include things that can be measured or have to do with the real world, that is economic, legal or political reasons. Analysis of the reasons offered by South African firms for having entered international markets showed significant diversity. For mining firms it was primarily a resources issue; for the senior executive managers from other business sectors it was a combination of a need or desire to enter new markets, and/or the perception of having to respond to growth opportunities.

Some specific examples of this diversity follow: for the paper manufacturing company and for mining company 1, the re-opening of international markets to South African companies after sanctions were lifted in 1994 presented the opportunity they had been waiting (and saving) for. For food corporations 1 and 2, and for all five retailers, increasing domestic competition as a result of deregulation of the market was the primary driving force behind their foreign expansion. For banking company 2 and retailer 5, foreign market expansion was more aggressively pursued after they had been taken over by, and become part of already internationally active foreign firms, who had acquired the South African firms as their bases from which to enter other parts of Africa.

These findings are similar to those examined and reported on in the literature review (see, for example, Kumar et al. (2001); Root (1994); Cavusgil (1980)) – that the diversity of reasons means there really is no one "most common" objective rationale for FDI. However, some overriding industry-specific indicators were identified.
With regard to subjective reasons, the world is entering a period of greater regional differentiation, with similar businesses clustering in industry-defined areas (e.g., the South Korean domination of the electronics and white goods arena), and this provides additional subjective material for FDI deliberations (Gilroy & Bauer, 2005). Most FDI arises from the interaction of a centuries-long process of economic exploration and colonialism, and the real-time deliberate exercise of conscious choices (Gilroy & Bauer, 2005). MNEs are the major vehicles driving the global integration process: however, what determines an enterprise’s initial foray into FDI is to a large extent founded on subjective or behavioural and institutional variables, frequently overlying (and overriding) traditional economic variables and motives.

For most multinationals, addressing the cultural variable is axiomatic, despite the complexity of isolating it as a distinct variable for research and analysis purposes. Cultural characteristics remain important in terms of target country selection, particularly when attempting to determine market potential. Traditional cultural and social links, as well as geographic proximity and the use of a similar business language, all play key roles in location selection. The general trend is that firms start their internationalisation in those markets they find easiest to understand, where it is easy to spot opportunities, and where they perceive market uncertainty to be low (Luo, 1999a). A firm’s knowledge gained from its successful experiences in its local market is of limited value when assessing the potential of markets located very far away, because geographic distance usually adds to the complexities introduced by cultural differences. Firms that are new to FDI will instinctively prefer markets that are similar to their existing ones, and that are located geographically close to their primary domestic market. However, as a firm develops international experience, the influence of proximity to their original domestic market on their choice of international investments decreases (Luo, 1999a).

From an analysis of the data and interview transcripts, it is apparent that most of the firms have recognised the importance of subjective factors, which confirms the findings presented in the literature review (see for example, Johanson & Vahlne, 1977).

The different objective and subjective factors that the firms take into consideration when considering FDI in a specific location (drawn from the responses), were classified in order to provide a coherent overview of these factors.

Table 4.51 gives a summary of specific objective and subjective reasons offered by senior executives.
Table 4.51: Objective and Subjective reasons

<table>
<thead>
<tr>
<th>Objective Reasons</th>
<th>Subjective Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business opportunistic factors</strong></td>
<td>Psychological and socio-political factors</td>
</tr>
<tr>
<td>seeking resources; emerging market platform</td>
<td>bandwagon effect, ethnic alliances and skill, psychic distance and globalisation.</td>
</tr>
<tr>
<td><strong>Economic growth and market factors</strong></td>
<td>Historical factors</td>
</tr>
<tr>
<td>seeking new markets; competition and market saturation; disposable income; diversification; scale and returns.</td>
<td>legacy and country of origin.</td>
</tr>
<tr>
<td><strong>Micro-economic factors</strong></td>
<td></td>
</tr>
<tr>
<td>lower production costs; economies of scale; returns on investment and competitive advantage.</td>
<td></td>
</tr>
<tr>
<td><strong>Legal factors</strong></td>
<td></td>
</tr>
<tr>
<td>local competition commission</td>
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</tbody>
</table>

4.11.1. Objective reasons – business opportunistic factors

4.11.1.1. Resource seeking

Natural resources continue to attract investments from South African MNEs. Africa has resources in the form of copper and platinum, and energy resources in the form of gas reserves in Mozambique and Tanzania. South African firms have been active in acquiring operations in the mining industries (UNCTAD, 2013), to capitalise on the diverse and vast array of resources available in Africa. Literature on the internationalisation of the firm has also highlighted the resources based view, which states that firms that possess certain capabilities create strategic comparative advantages (Barney, 1991; Ekeledo & Sivakumar, 2004). John Dunning explains in his theory that location-specific advantages explain the nature and direction of FDI. These location-specific advantages include, for example, resource endowments that are tied to a particular foreign location and that a firm finds valuable to combine with its own unique assets, particularly its own know how. Dunning’s theory helps explain how location factors affect the direction of FDI.

4.11.1.2. Emerging market platform

Most emerging market nations have a history of poor infrastructure development, have less skilled labour, and greater political turmoil than do the developed nations that generate the FDI they receive (De Castro & Uhlenbruck, 1997; Prasad Kodiyat, 2009)). Increasingly, over the last decade, MNEs have been attracted to developing and emerging markets because of their lower labour costs and relatively abundant resources (Helpman, 1993; IMF, 2008). Emerging markets also appear to have been relatively well insulated from the effects of the financial crisis in 2007 (IMF, 2008; Prasad Kodiyat, 2009), allowing them to play a role as target markets for goods produced in industrialised countries, both as manufacturing bases and as destinations (Prasad Kodiyat, 2009). These emerging markets act as buffers during turmoil in developed markets which nicely complement the MNEs’ need.
to control costs as they expand. From the analysis, South African firms share a preference for emerging markets, because South Africa, their successfully traded home bases, is also an emerging market, and this creates a familiarity that gives them confidence to expand into other emerging markets.

Table 4.52 below provides an overview of the objective reasons specifically identified as business opportunity factors by South African companies. The table links the concepts identified in the literature review with corresponding responses from the interviewees.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Conceptual literature</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource seeking</strong></td>
<td>SA firms have immense capabilities in the mining sector, and enjoy strategic competitive advantages in terms of mining in Africa. They have therefore become aggressive in pursuing resource-focused FDI in Africa, as natural resources remain the mainstay of FDI flows to Africa (UNCTAD, 2013).</td>
<td>The South African mining firms have one overriding objective when investing abroad, and that is to seek additional mining resource opportunities in Africa. Respondent 15 “Africa has the resources which we need. The continent is massively endowed with lots of minerals, oil and other resources. We are a mining company, so there is just one basic reason why we would venture into a new location and that is simply because of mineralisation: that is, looking for resources”. Respondent 16 “There is a massive deposit of platinum in Zimbabwe, and that is why we ventured into Zimbabwe – in order to mine the platinum deposits. …Our only reason for entering the Zimbabwe market is because of mineralization and availability of resources – and Africa is the only continent with [such an] enormous [wealth of] resources”. Respondent 12 “We seem to have the ability to service emerging markets, and we generally have the support of our vendors who support our investment in most emerging markets, [which are lucrative] because they are generally underserviced”.</td>
</tr>
</tbody>
</table>
| **Emerging market platform** | Some of the key motives for internationalisation offered by South African MNEs include their needs for market expansion, to access resources, and as part of their search for low cost inputs. This supports previous case study research that found that the main motives were: To expand and to find new markets for growth (Sim, 2005). To invest in emerging markets because there are opportunities for growth, and for | }
Conceptual literature

higher returns on their investments than are usually available in their home countries, as the World Bank (1997) noted.

Interviewee response examples

Respondent 5: "We want to grow the business, and we prefer emerging markets because we understand the landscape. We feel we have the core competencies and skills for emerging markets."

4.11.2. Objective reasons – economic growth and market factors

4.11.2.1. Seeking new markets

One of the determinants found to affect the destination of MNE’s FDI is the existence of a rapidly growing economy (Luo, 1999a; Culem, 1988). Growing economies signify market opportunities for South African MNEs to explore. Generally, a positive correlation was found to exist between a growing economy and FDI inflow (Luo, 1999a). South African firms seem to have simply followed current MNEs’ inclination to locate their presences in regions where macroeconomic trends suggest there is significant demand for their goods and services (Luo, 1999a). The notion of market potential as the single most important driver of market entry is supported by researchers Nordström (1991) and Whitelock and Jobber (2004). As Yoshida (2001) has also identified, market size has been an important factor in influencing MNEs’ expansion choices worldwide.

Together, market size and market growth are considered important location-deciding factors when identifying developing countries for FDI. Recent market growth provides a barometer for expansion of market size and demand over time, and is thus a particularly significant determinant of FDI destinations. Globally, most MNEs are attracted to larger markets in order to exploit the returns that are inevitably generated by servicing the host country’s demand (the host country’s GDP is used as a measure of potential demand) (Root & Ahmad, 1979). Nigh (1985) also found the GDP of a country to be an important pull factor for MNEs. Both empirical research and currently accepted theory have explained that a positive relationship exists between foreign direct investment and the GDP growth of the intended recipient of FDI. GDP growth is an indicator that a market is expanding and that it should have the potential to absorb FDI through its population’s rising quality of life and consumer demands (Anwar, Hasse & Rabbi, 2008). The statements in Table 5 confirm that South African firms are influenced by market factors when carrying out FDI.

4.11.2.2. Disposable income

Good investment opportunities are the main attractors for South African MNEs for whom the relationship between risk and income generation is vital. A large expanding consumer market in a potential location is an attractive feature for MNEs, including a rising disposable income, which would prompt consumer spending thereby increasing the country’s competitive strength (Ernst & Young,
Factors inherent in emerging markets are a growing domestic market and rising disposable incomes, the latter being the attractive factor which drives FDI.

4.11.2.3. Competition and saturation in the home market

John Dunning identified one of the primary reasons for corporate foreign investments (Global Competitiveness as the need for new markets because firms have saturated sales in their home market; they therefore believe that FDI will bring higher returns than would additional investments at home (Wrigley, Guy & Lowe, 2002).

The intensity of competition in the home market is important because it impacts on a firm’s market position and its gross profit from local sales, and this becomes a push factor for FDI when local sales begin to plateau. Therefore, a South African MNE will usually choose a location where competition is relatively low, unless they have sufficient confidence in their internal competencies to maintain a competitive advantage in a competitive environment.

4.11.2.4. Diversification of risk

Imperfections in the home financial markets push MNEs to internationalise in order to diversify their risk. This is according to the diversification theory proposed by Lessard (1979). The essence of this theory is that MNEs may gain advantages through risk reduction that accompanies international diversification. South African firms have demonstrated a desire to diversify risk exposure, in response to the volatility of their local markets.

Table 4.53 below provides an overview of the objective reasons offered by interviewees that specifically address the economic growth and market factors faced by South African companies.

**Table 4.53: Objective reasons – economic growth and market factors**

<table>
<thead>
<tr>
<th>Concept</th>
<th>Secondary and primary research findings</th>
<th>Interviewee response examples</th>
</tr>
</thead>
</table>
| Seeking new markets| For most South African firms growth of the intended host country is also an important variable in the decision to expand beyond local borders. Twenty of the 26 respondents commented that they had ventured into Africa because of Africa’s growth – both actual and potential. A statement made by 94 of the respondents was that, for them, growth was a key driver of their expansion into Africa. | The comment that “Africa is considered a fast growing economy” recurred frequently through all the interviews. **Respondent 2** “We were also pulled by a want in Africa, in terms of a need for financial services. Even though Africa is high risk, it has high expected growth. Africa has the [world’s] fastest growing economies, and the fact [is] that we already held a legacy footprint via our parent company...”. **Respondent 1** “...we found that Nigeria, Ghana, and Kenya, Angola, Tanzania, and Mozambique are the new growth
<table>
<thead>
<tr>
<th>Concept</th>
<th>Secondary and primary research findings</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary and primary research</td>
<td></td>
<td><strong>Respondent 2</strong> “We look at growth indicators, that is GDP, FDI and political stability, as well as the international transparency index, before we internationalise. In terms of specific locations, we look at opportunity which is normally driven by macro-economic factors and the long term future predictors of the market. We also look at the size and growth of the new market and the ease of doing business in the new location”.</td>
</tr>
</tbody>
</table>
4.11.3. Objective reasons – microeconomic factors

4.11.3.1. Lower production costs, economies of scale, and returns on investments

Expanding into a region that already has well-established and fully functional infrastructure remains a key consideration for MNEs, because, in the process of maximising profits for the business, firms also have to try and reduce overall costs, especially costs related to production. Labour and capital costs can also influence the choice of location in the foreign investment decision-making process (Sim, 2005). MNEs gain a competitive advantage by exploiting cost differences between certain locations, especially when costs in the preferred location are lower than the value of the marginal product (Park & Park, 2000).

4.11.3.2. Competitive advantage

Multinational enterprises are large companies that are in the most part more productive, pay higher wages and have better knowledge, technologies and managerial skills than their locally constrained, indigenous competitors. They try and gain competitive advantages through their expansion into new markets, by welcoming the learning opportunities internationalisation affords them, and equally importantly, by reducing production costs and obtaining less costly natural resources, advanced technologies and/or know-how (Falk, Falk, Wolfmayr, Bruno, Driffield et al., 2012).

4.11.4. Objective reasons – legal factors

4.11.4.1. Local competition commission

The conditions imposed by the SA Competition Commission with regard to SA firms’ expansion options have been strict in order to address competition or public interest issues. These conditions are imposed after careful analysis of the market and the legal requirements. However, the effect is that it has stifled some firms, persuading them not to pursue certain M&A activity locally, and rather to reconsider FDI to provide their desired growth. This situation provides a key stimulus to seek new markets, and is reviving interest in Africa as a potential growth market. Regulation, and in particular the application of competition laws in the home market, impact on FDI outflows by acting as a push factor. The competition commission’s rulings sometimes fuel perceptions that influence firms’ strategic decisions.

Table 4.54 below provides an overview of the next category of objective reasons, specifically the microeconomic factors and legal factors, considered by South African companies contemplating FDI.
Table 4.54: Objective reasons – microeconomic factors and legal factors

<table>
<thead>
<tr>
<th>Concept</th>
<th>Secondary findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower production costs, economies of scale, and returns on investments</td>
<td>Analysis of the qualitative interviews provided confirmation that South African firms prefer investing abroad, and particularly in less developed economies, in order to exploit the lower costs of production.</td>
</tr>
</tbody>
</table>

| Interviewee response examples                  |
|----------------------------------------------|------------------------------------------------------------------------------------|
| Respondent 25                                | “...expanding internationally and achieving returns, we want to achieve greater scale and returns, and serve the needs of the consumers, and meet needs and demands of consumers in Africa”. |
| Respondent 13                                | “Whilst we are a law firm, we are also a business. Therefore, we identified an opportunity in Africa, because our clients are investing in Africa”. |

| Competitive advantage                         | Having the right product is an important strategy component for successful investment in international markets: the right product provides the firm with a competitive advantage, and associated positive cash flows, which are important for survival in a new international location. International competitiveness can be established and furthered with the right product selection (Koch, 1997). |

| Interviewee response examples                  |
|----------------------------------------------|------------------------------------------------------------------------------------|
| Respondent 7                                 | “The general sentiment with regards to being a global player was to become a market leader and [a] global leader, which is the ultimate objective of the company, because it will help to realise value and [to] become more attractive as a company”. |
| Respondent 7                                 | “The US is a new market [for us], and we want to establish ourselves as [an international] fast food company, because investors globally have the perception that if you can get it right in the US you are a leader, and ... [once established successfully there] you can get it right anywhere else in the world”. |

| Legal factors                                | The Competition Commission of South Africa has as its broadest goal the objective of serving ‘the public interest’, and this represents an important component of political and social reform in the country. However, an indirect consequence of the Competition Commission’s over-zealousness in this regard is that it has become a push factor for some South African firms, motivating them to invest abroad. |

| Interviewee response examples                  |
|----------------------------------------------|------------------------------------------------------------------------------------|
| Respondent 10                                | “Another contentious issue for us as a company with a fairly large share of the local market, is the Competition Commission which does keep a rather watchful eye [on us], and [is] not really allowing growth in terms of mergers and acquisitions”. |
| Respondent 21                                | “......continuously hampered by the Competition Commission, so growth in South Africa is difficult to achieve”. |

4.11.5. Subjective reasons – psychological and socio factors

4.11.5.1. Bandwagon effect

When companies from the same industry go abroad, others feel compelled to follow suit in order to maintain their relative market position, and to pursue growth. This is known as the “bandwagon effect”. It is characterised by companies imitating the commitments of an industry leader. Ideally, this
means that one is less vulnerable because one’s exposures are the same as those of the principal competitors (Aharoni, 1966; Sethi et al, 2003). In many cases, the follow-the-leader pattern involved following major clients overseas in order not to lose their patronage, even if it was no longer present at home. The rush by South African firms to make investments in new markets has also been fuelled by oligopolistic rivalry: large companies cannot allow their competitors from other countries to take over a market by default, and this is evidenced in a tendency for firms to follow their rivals into new markets. As is evident from the analysis of the interviews, South African firms do tend to “climb on the bandwagon”.

4.11.5.2. Ethnic alliances and skill

The term ‘ethnic alliances’ refers to the recognition of differences in cultures and business protocols between the investing company and the host country. It also recognises the likelihood of encountering greater challenges when dealing with officialdom in the process of establishing a viable foreign business, if one is not familiar with local custom. Similarly, ethnic alliances enable speedier adaptation of parent company/home country marketing strategies to be culturally relevant and sensitive to those of the host country. Once MNEs have committed to FDI, the next decision is whether to start from scratch (and to learn a new way of doing business, complete with trials and errors), or to enter an alliance with an already successful local business entity that is operating within the cultural and business norms of the host country. This is a key aspect of an objective evaluation of a foreign market: if there are well-established local businesses which could be acquired in the host country, then investment in the location becomes easier, and in fact becomes a significant pull factor for some of the respondents. Also, acquiring local expertise from the host countries, and giving the investing company a local face, are vital factors for SA firms that ensure efficient and sustainable trading in the ethnically and culturally different environments.

4.11.5.3. Psychic distance

Geographic proximity has a direct impact on transportation costs to the firms. Thus, as a cost control consideration, firms tend to prefer investing in markets that are geographically closer to their head offices/home bases in order to reduce not only transportation costs, but also the associated costs such as import/export tariffs, import restrictions, or other impediments to market access (Jensen, 2003). Rising oil prices, fluctuating currency exchange rates, and the condition of local infrastructure all add to the importance of geographical distance as an influence on their decision-making processes. Historical ties consist of relationships that are both formal and informal, and that develop between countries over a period often extending to centuries. Formal ties are created intentionally, and include politically motivated agreements and alliances, amongst others.

Informal ties evolve naturally as a by-product of for example colonisation. These ties develop in a path-dependant manner. In some cases, they are now based on a common cultural heritage that
includes a shared language, a common religion, and similar social norms, practices and conventions. Colonisation has also created ties between countries or regions with previously dissimilar cultural contexts. Irrespective of the socio-political details, historical ties facilitate FDI between countries on both sides of the colonialism divide (Makino & Tsang, 2011).

As the analysis shows, historical ties are a recognised pulling factor for South African firms wishing to invest beyond the South Africa’s borders.

4.11.5.4. Globalisation

Most of the world’s population that has experienced the effects of globalisation is increasingly accepting of a "global western culture", which in turn diminishes the difference in business cultures (Whitelock & Jobber, 2004).

Table 4.55 provides an overview of the different subjective reasons offered by South African companies in support of their FDI efforts. The table show the conceptual base (a brief overview of the literature that was introduced earlier in the thesis), as well as pertinent responses from the interviewees.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Secondary and primary research findings</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bandwagon effect</td>
<td>One of the reasons given by most of the South African firms for investing internationally is because their customers have moved across borders, and this expansion is effected in order to retain their clients locally, while also being able to serve their clients in international locations: this is an important push factor for them to move abroad.</td>
<td>Respondent 1 “… most of our clients have expanded because of the abundance of resources in Africa (for example gas finds in Maputo), so we have to be able to provide [appropriate local] advice on project controls [and] on processes to control budget. We have the expertise to provide consultancy service for these types of costs and projects which our clients are venturing into”.  Respondent 6 “… we had to follow our customers into the new markets in order to serve them. These customers are the large South African mining companies”.</td>
</tr>
</tbody>
</table>
| Ethnic alliances and skill     | Ethnic ties play a crucial role in South African firms’ FDI decision, especially in locations with strong ethnic links, thereby confirming that the internationalisation strategies of SA business groups are largely influenced by ethnicity. In other words, managers of SA firms prefer to locate their FDI in | Respondent 11 “One of the vital factors is that you must use local skill. That helps to give the business a local face, and helps to obtain [access to] the business network and [also provides] comfort which you need when operating in a totally new region”.
Respondent 2 “… we try and identify a
**Concept**  | **Secondary and primary research findings**  | **Interviewee response examples**
--- | --- | ---
Africa | Africa where ethnic ties can benefit their efforts to gain critical resources (Jean, Tan & Sinkovics, 2011). | partner with a great presence, and use that to promote our strategy”.
| | Johanson and Vahlne (1977) and Johanson and Wierdesheim-Paul (1975) view psychic distance as the paramount variable which, when optimal, motivates a firm to pursue internationalisation. Psychic distance, as defined by Johanson and Vahlne (1977), consists of perceptions of barriers created by geographical separation, cultural differences between the country of origin and the host country, and differences in modes and nuances of communication due to social perspectives, attitudes and the two interacting languages (Dichtl et al, 2011; Ekroos & Sjoberg, 2012). | Respondent 11 “One of the vital factors is that you must use local skill. That helps to give the business a local face, and helps to obtain [access to] the [local] business network, and comfort which you need when operating in a totally new region”.
| Johanson and Vahlne (1977) and Johanson and Wierdesheim-Paul (1975) view psychic distance as the paramount variable which, when optimal, motivates a firm to pursue internationalisation. Psychic distance, as defined by Johanson and Vahlne (1977), consists of perceptions of barriers created by geographical separation, cultural differences between the country of origin and the host country, and differences in modes and nuances of communication due to social perspectives, attitudes and the two interacting languages (Dichtl et al, 2011; Ekroos & Sjoberg, 2012) | Africa has a similar customer base
| Respondent 4 “Because Africa has a similar customer base [to that of] South Africa, especially with the rural market, and the fact that we pioneered prepaid, gave us a [high level of] confidence to carry out FDI in Africa, with minimal risk”.
| Fewer barriers in Southern Africa, especially the South African Development Community (SADC). | Respondent 8 “…the SADC region for us is like going to Durban, and the SADC agreement has helped with red tape and overall business legislation”.
| | Respondent 26 “We have found that subjectively, it has been easier to invest in Africa because of the proximity of the region to South Africa”.
| | Respondent 18 “…Mali and South Africa have historical ties, and this has helped us in terms of operating in the region, and this [historical relationship] is a good incentive for us [to invest]”.
| Globalisation | Globalisation has helped to diminish the psychic distances between most countries, and this helps motivate FDI. | Respondent 21: “Previously, language used to be an issue, but with international trends and globalisation this has all changed: that is, globalisation has helped to narrow the gap in business culture internationally”.
| Respondent 21: “There is also the similar economic climate in BRICS countries, and the business language in all the BRICS countries is English … because of globalisation”. |
4.11.6. Subjective reasons – historical factors

4.11.6.1. Legacy footprints

The long-term benefits of a properly aligned footprint can exceed the cost of the original investment. Parent companies can be proactive by capitalising on a footprint in the right location for current and future economic conditions (Buelow, Szuhaj, Timberlake & Adams, 2014). The characteristics of a parent company's specific footprint in a specific location will determine the relation impact of the costs related to the investment, which, when balanced for both existing and new locations, are essential to realising sustainable benefits (Buelow et al., 2014).

4.11.6.2. Country-of-origin agglomeration

Country-of-origin agglomeration provides different types of benefits. When firms invest in new locations, there is the image of being the newcomer, and they therefore have to develop trust (and trustworthiness) in local ethnic alliances, because of their own ignorance of the local market (Tsui-Auch & Mollering, 2010).

Inter-firm relationships within a country-of-origin agglomeration (aka an expatriate community) help develop trust in several ways. Ethnic ties and shared socio-cultural backgrounds help the development of trust among compatriot FDI firms (Tan & Meyer, 2010). Additional firms entering from the same country of origin face less uncertainty about each other because of their similar backgrounds. Compatriot firms also develop both formal networks and informal social networks, such as expatriates' personal and family involvement in the local expatriate community. Country-of-origin agglomerations help firms entering new locations to build their knowledge of the local market and reduce the liability attached to their foreignness (Johanson & Vahlne, 2009).

By being close to firms with the same country of origin enhances learning and facilitates adaptability to the local environment and institution. Also, due to having the same socio-cultural background and the same business practices, they will require similar processes to adapt to the new business environment. It also allows firms to take advantage of the "legitimacy spillover" generated by earlier compatriot firms (Kostova & Zaheer, 1999). Country-of-origin agglomerations are also less competitive, as firms may operate in different sectors and will thus not compete directly for the same customers. Empirical studies have further supported the above arguments by showing that co-location with ethnically similar FDI firms improves foreign firms' entrance into a new location and makes the investment sustainable (Miller et al., 2008). Most importantly, country-of-origin agglomeration provides expatriate personnel and their families with access to local environment general knowledge and support. Country-of-origin agglomeration therefore acts as an important channel for accessing tacit local knowledge (Tan & Meyer, 2010).

Table 4.56 gives an overview of the subjective reasons being the historical factors.
### Table 4.56: Subjective reasons – historical factors

<table>
<thead>
<tr>
<th>Concept</th>
<th>Conceptual literature</th>
<th>Interviewee response examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legacy footprints</td>
<td>Where companies locate their assets helps dictate the potential value that companies can achieve as an organisation: this footprint, which can be previously acquired by the parent company, includes the corporation’s investments.</td>
<td><strong>Respondent 2</strong> &quot;In Africa, in terms of legacy, our parent company always maintained a footprint in all the former colonies in Africa, which were all part of the commonwealth&quot;.</td>
</tr>
<tr>
<td>Country of origin</td>
<td>Having local South African businesses operating in other international locations lends confidence to firms wanting to internationalise, because the South African firms have already set up successful supply and distribution chains and other logistics support mechanisms.</td>
<td><strong>Respondent 10</strong> &quot;...[the presence of] local South African businesses [is] a confidence booster, because you have confidence in them. For example, having Standard Bank in the region does help in terms of repatriating the funds back to South Africa. In Africa, having other South African retailers does help in a small way with distribution and the supply chain, and has helped raise the profile of the brand. Retailers are also helping to move our products across borders&quot;.</td>
</tr>
<tr>
<td>agglomeration</td>
<td></td>
<td><strong>Respondent 23</strong> &quot;Agglomeration is a factor in making the African markets attractive because if South African businesses are in the region, it helps us with the supply chain and distribution networks, and thereby helps us to expand our network&quot;.</td>
</tr>
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### 4.12. IDENTIFICATION OF BARRIERS FACED BY SOUTH AFRICAN COMPANIES WHEN INVESTING IN AND OUTSIDE AFRICA

(What FDI barriers do you face in Africa and outside Africa?)

Foreign firms take into account a wide range of factors in making direct investments, including not only investment costs related to institutional and regulatory barriers, but also the market size, factor endowments, transport costs, infrastructure quality, macroeconomic stability, and so on (Venables, 2005; Arita & Tanaka, 2013). These factors are crucial for multinational activity, and a broad measure of investment barriers is useful for understanding aggregate impacts on multinational production (Kinda, 2010). Prior evidence shows that a better investment climate encourages FDI activity (Markusen, 2002). However, regulatory barriers to foreign investment in developing economies remain more restrictive than their equivalents in developed economies.

Regulatory reforms and discriminatory tax practices affecting foreign firms remain contentious issues, as does political instability and macroeconomic factors such as bad road networks and congested ports: are all hurdles that firms have to negotiate in Africa. Moreover, firms face structural and bureaucratic constraints, such as huge currency exchange rate fluctuations, poor infrastructure,
the lack of a skilled workforce, the lack of readily accessible finance, high business costs, high import
tariffs, and sub-optimal domestic markets. The challenges are compounded when combined with a
lack of access to global markets, a poor regulatory framework and a lack of intellectual and physical
security for their assets (The Economist, 2011).

The evaluation of FDI opportunities necessitates the investigation and consideration of a host of
different factors. Some of these are peculiar to foreign investments; others are part of the analysis
of any investment opportunity. Research on FDI has shown that all firms face some form of barrier
when internationalising (Aharoni, 1966; OECD, 2014). The barriers encountered by a firm are
generally not unique: the firm’s size, its business sector and other external factors all have their own
challenges (Jaklic & Svetlicic, 2001). During the investigation phase, general indicators are used to
form a working opinion of these barriers to FDI in Africa.

The risk factors most commonly feared in foreign investments have been described in many reports
on barriers to FDI and can be generally summarised as: political, economic, and nuisance (a lack of
adequate services) (Aharoni, 1966).

Table 4.57 gives a summary of specific barriers faced by each of the 26 respondents, both while
preparing for and later when implementing their FDI plans into Africa and outside of Africa. The key
aspects summarised in Table 4.57 are discussed more fully thereafter.

Table 4.57: Summary of barriers faced by South African firms

<table>
<thead>
<tr>
<th>Barriers in Africa</th>
<th>Barriers outside of Africa</th>
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<tbody>
<tr>
<td>General concept</td>
<td>General concept</td>
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<tr>
<td>Sub concepts</td>
<td>Sub concepts</td>
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<tr>
<td>Socio political issues</td>
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<td>Country of origin</td>
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<td>Bribery and corruption</td>
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<td>Cultural differences</td>
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<td>Inconsistent government policies</td>
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<tr>
<td>Infrastructure and congested cities</td>
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<td>Safety and hostile communities</td>
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<td>Micro-economic factors</td>
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<td>Brand integrity, reputation and intellectual property</td>
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<td>Sunk costs</td>
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<td>Corporate social responsibility</td>
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<td>Bad debts</td>
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<td>Logistics and local</td>
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<td>Socio political issues</td>
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<td>Country of origin</td>
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<td>Bribery and corruption</td>
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<td>Inconsistent government policies</td>
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<td>Infrastructure</td>
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<td>Micro-economic factors</td>
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<td>Reputation and intellectual property</td>
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<td>Logistics and local suppliers</td>
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<tr>
<td>Minority shareholding</td>
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<td>Standardisation of products</td>
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<td>Risk and Return</td>
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<td>Barriers in Africa</td>
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**Barriers in Africa**

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| South Africa’s business competitiveness has led to accusations that South Africans have a ‘big brother’ attitude towards local businesses, and apply bullying tactics. These sensitivities are directly related to the overwhelming size of South Africa’s economy relative to Africa’s usually small economies (Grobbelaar, 2004). Being South African in origin has affected some of the firms that were interviewed, and this has been found to be a liability in some of the cases.

4.12.1.2. *Bribery and corruption*

Globalisation has highlighted the concerns related to corruption, as global mergers and acquisitions depend on mutual trust. There is empirical evidence that corruption has a negative impact on several important determinants of FDI (Castro & Nunes, 2013), the quality of public infrastructure, health care and education services (Gupta, Davoodi & Tiongson, 2000) and economic growth (Mauro, 1995), amongst others. Treisman (2000) found that corruption is perceived to be lower in countries with democratic institutions, media freedom, and high economic development, while it is perceived to be worse in poor countries, with more intrusive regulations, and less democratic protection.
Most MNEs prefer investing in locations with low levels of bribery and corruption (Agarwal & Ramaswami, 1992). Africa generally has a reputation for bribery and corruption and is unable to attract sufficient FDI due to this association, as most MNEs consider corruption as an important determinant for FDI (Mauro, 1995). Uncertainty increases in environments with higher corruption, as does the cost of doing business. Corruption is like a tax on business; due to the time and resources spent to deal with complex regulations, and bribes to bureaucrats, the cost is often transferred to consumers through higher prices, which impacts on the private sector’s labour market, efficiency, competition, innovation and in particular economic growth. Bribery and corruption seem to exist in many locations around the world, and is an issue to which most South African firms are exposed when carrying out FDI.

4.12.1.3. Cultural differences

A cultural barrier includes all those factors that often make human interactions difficult, i.e. differences in language, values and behaviours. Cultural diversity does have benefits in that it can promote creativity (Watson, Kumar & Michaelson, 1993). It remains a challenge for firms, however, because in any new location there are hidden cultural differences, making it difficult for MNEs to quantify. For example, distances, time zones, exchange rates can be easily measured, and laws and policies are promulgated and readily available, but cultural differences are not easily recognised, and the associated consequences are not easily corrected. Subtle cultural issues can have a huge impact on the efficiency of a MNE, and most particularly in the management of people. An important facet of the uncertainty in relation to a location is the differences in culture between the home and host countries. This difference in culture determines a firm’s adaptability to the host country. Culture is viewed as the set of attitude and values that are common to a group of people. FDI requires that a firm interfaces with the host community at different levels, including the state, local competitors and ‘foreign’ (local) labour. Therefore, FDI will be higher in regions or locations that are similar to the firm’s country of origin. As the similarity eases the cultural dimension of business relations, this similarity would include language barriers as well. Culture is a hurdle that some of the South African firms choose not to jump over.

4.12.1.4. Inconsistent government policies

Changes in government policies can impact on the repatriation of earnings and at their worst manifest as the expropriation of foreign-owned assets. MNEs cannot usually introduce certainty and stability to a host country’s “dynamic” political landscape, and this can create and escalate transaction-related risks affecting MNE operations. A stable political environment in which corruption tends to be low, and where good tax incentives, lower tax rates, and a positive investment climate are present, is an important driver for MNEs with regard to FDI. However, in Africa, the tax rates are high, frequently including ‘value added tax’, and withholding taxes. This is a challenging factor for MNEs operating in Africa, as they cannot then offer their products and services at lower rates (Kissel,
Yarbrough and Yarbrough (2002) found that a MNE’s decision about which country, area or region it should invest in, strongly depends on the factors present in the host country that could affect a firm’s profit. Despite the negatives, most of the interviewees agree with the literature discussion, as Africa is chosen as a destination due to its large markets and resources. However, Bellak and Leibrecht (2009) further expands on this statement by explaining that foreign firms are often attracted by factors such as security, favourable investment climate or democracy in post conflict countries as well as by the presence of favourable tax incentives (Agarwal, 1980).

Most countries in Africa tend to adopt strict regulations, which do not necessarily conform to international law or respect human rights. Changes in government policy can also result in policies like the Indigenous Peoples Policy in Zimbabwe (introduced in 2011), and its counterpart in Zambia, which was introduced in 2012, both intended to help integrate and uplift the indigenous populations in the twenty-first century global economy. This can become a barrier to expansion for companies already operating in the region, or persuade potential investors to look elsewhere. Governments should be fiscally responsible, and MNEs spurn any type of government intervention. Changes to government regulations are referred to as “creeping expropriation”. These regulations are considered as a major factor of uncertainty, partly because of the general belief held by western business interests that governments should not regulate business, and partly because it is expected that existing regulations will be changed often (Aharoni, 1966). Overall, bureaucratic requirements are found by SA MNEs to be at best cumbersome, making operating in Africa difficult. This was a common issue raised by the representatives of the companies that were interviewed for this research.

The problem, in broad overview, is that legislation covering the same business-related issues is so vastly different, even between neighbouring countries, that it gives rise to significant problems. The range of legislation and red-tape-related problems encountered spans a vast spectrum, ranging from difficulties in obtaining permits for importing goods and key expatriate personnel, to restrictions on selling certain items (for example, one may not, as a foreigner, sell shoes in Nigeria, and must get special ministerial permission to sell even basic insurance products in some other countries). In some countries, local laws stipulate that you can only share profits in a company if you are a citizen of that country, and “indegenisation” is a neologism now enjoying increasing political and popular support. In other countries one has to negotiate with state owned enterprises attempting to operate in a similar space, and this is all against the background of having to tiptoe through draconian tax laws, empowerment laws, and other regionally-specific, unique, and arcane indigenous laws. And behind it all is the fact that what some consider to be corruption, others see as nothing more than looking after the extended family’s interests.
4.12.1.5. Infrastructure and congested cities

Dunning (1998) has argued that in the 1980s and 1990s three important changes occurred. First, knowledge emerged as the “key wealth-creating asset”. As a result, and with the exception of some natural resource and cheap labour seeking FDI, MNEs now attach much more importance to locations with excellent infrastructure and institutional facilities, rather than conventional location advantages such as low labour costs or easy access to raw materials. However, firms will differ in the importance they attach to infrastructure depending on the special requirements of their industries. Another set of related factors impacting firms in developing economies is the availability of suitable plant sites, the cost of land, availability of space for expansion, and local government policy for renting or purchasing land, which, together with related costs, such as transportation and construction, have been recognised by managers as important factors that influence FDI decisions (Luo, 1999a).

4.12.1.6. Safety and hostile communities

Safety and health generally becomes issues of concern when firms carry out FDI in developing economies rather than developed economies, due to the weaker infrastructures. The firms for whom health and safety are particularly important issues would be firms operating in the mining, oil, gas and chemical industries (OECD, 2014). Chinen, Jun and Hampton (2000) also found in his research that the country-of-origin effect is also noticeable in that firms from emerging economies had lower standards of health and safety compared to those firms from developed economies.

The following Table 4.58 provides an overview of the different barriers faced by South African companies when expanding into international locations.

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<th>Barrier</th>
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<tr>
<td><strong>Country of origin</strong></td>
<td>Five of the respondents interviewed explained that being South African was a barrier in itself because most regions in Africa consider South African companies as a threat to their local businesses. The same logic is applicable for firms investing internationally in Chinese markets. This is confirmed by Respondent 9 “African countries are also protectionist countries, which means that they want to protect their own industries against foreign-owned businesses; so there is some resentment from government”. Respondent 18 “We have encountered animosity towards us as a South African company, because the general feeling in Africa is that the South African companies are “taking over the region”.</td>
<td>Respondent 8 “China is not considered because we feel that we will be minnows against the competitors”. Respondent 12 “In Asia, not being Chinese in China is already a barrier, and the technology we represent is western and not Chinese, and this creates a barrier for us. In China the government is a little bit resentful because of us not being Chinese”.</td>
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### Barrier Conceptual base

The responses from the interviewees.

### Cultural differences including language and business culture

The efficient transaction of foreign direct investment is prone to certain barriers, that is, geographical distances, legal and political barriers and culture.

**Respondent 18** “Familiarity and culture was not a factor; however as a South African mining company we are familiar with the African landscape and [the] culture prevalent in the region, and this makes it easier for us to understand Africa”.

**Respondent 21** “The business culture is different in Africa compared to that of South Africa: therefore we tend to source local management to help us overcome the business culture barrier”.

**Respondent 5** “…[w]e have not entered Latin America, even though we see ourselves as the emerging market player, because of the [barrier the] language and cultural [issues pose] … in the region”.

### Bribery and corruption

The World Bank defines corruption as the abuse of public power for private benefit. Corruption is generally the result of excessive bureaucracy, inefficiency and slowness of the legal system, low wages in the civil service and a lower degree of economic freedom which can affect the different aspects of the economy, especially foreign investment.

**Respondent 13** “To avoid [exposure to pressures of] bribery and corruption, we only deal with global [and] multinational companies, because most MNEs will not perform unethically”.

**Respondent 2** “Corruption and bribery is not a factor: however [while] we do not experience it directly … our clients do (that is private companies operating in the region). So, we provide legal advice on how to mitigate the risk of [exposure to] bribery and corruption [pressures] and how to deal with it legally”.

**Respondent 6** “We definitely use a different style of business culture when operating in Africa compared to our international business in New Zealand and Australia”.

**Respondent 12** “In China, there is the problem of corruption. Business culture and practices is very different in China, and their accounting systems are completely different. But then again this is a problem across all geographies”.

**Respondent 20** “… corruption and bribery exist in both Africa and India”.

**Respondent 13** “… in China, there is the problem of corruption. Business culture and practices is very different in China, and their accounting systems are completely different. But then again this is a problem across all geographies”.

**Respondent 16** “There are lots of renegade officials in Indonesia who occupy certain regions, and this contributes to the overall corruption problem existing in the country”.

**Respondent 21** “The business culture is different in Africa compared to that of South Africa: therefore we tend to source local management to help us overcome the business culture barrier”.

**Respondent 6** “We definitely use a different style of business culture when operating in Africa compared to our international business in New Zealand and Australia”. 
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<tr>
<td><strong>Inconsistent government policies including repatriation of funds, import regulations, state owned enterprises, tax legislation and overall regulatory environment</strong></td>
<td>This group of related factors reflects the uncertainty occasioned by political and government policies, the understanding of which is important to the survival and profitability of the firm entering a foreign country.</td>
<td>Respondent 10 “Africa, politically, can be unstable, and changes in governments mean changes in fiscal policies which can impact on the FDI investment in the country”</td>
<td>Respondent 6 “In Australia, its the [changes to] fiscal policies and labour rates which can impact on the bottom line”.</td>
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<td><strong>Infrastructure and congested cities</strong></td>
<td>Luo (1999a), in his research explains that a superior infrastructure may increase FDI in a country or region. Important infrastructure variables include transportation, telecommunications, and utilities. Many countries in Africa do not have well-developed infrastructures, and this introduces difficulties for MNEs</td>
<td>Respondent 8 “In Zimbabwe, electricity is a problem: however the franchisee bares the cost of installing generators to deal with the shortage thereof”. Respondent 9 “... electricity shortages and the lack of proper warehouses makes storage a huge problem, since our stock are all perishables”. Respondent 14 “[A]nother contentious issue is courts in Africa”. Respondent 1 “… you are trying to get to meetings;</td>
<td>Respondent 16 on the infrastructure problem they face in Indonesia: “… does impact on the cost factor”, and that the lack of infrastructure in Indonesia makes it “… practically impossible to get to the mining area except by helicopter, which does add to the cost. … Presently we are using C131 aircraft in order to get the mining equipment to the mines”.</td>
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<td>with regard to their FDI. Obtaining access to needed infrastructure from the local government is important to production and market development if the MNE is to locate in such areas.</td>
<td>you have to leave earlier because of the bad road networks”.</td>
<td>Respondent 7 “…the cost of obtaining space in prime retail positions makes FDI very expensive”.</td>
<td>Respondent 20 “There is also the issue of logistics in India which is very poor”. In contrast, the CEO of information technology company 2 finds the infrastructure to be better in Brazil and Eastern Europe, with a bonus in that “in Brazil …corruption is not too bad. Infrastructure is normally good in most of eastern Europe”.</td>
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<td>Respondent 7 “Another barrier faced in the US is that because we are still a new company, then from a franchise perspective, it is difficult to obtain a letter of guarantee from the landlords because they don’t know the company, and [it is] therefore very difficult to obtain retail space in malls because of not being an established brand”.</td>
<td>Safety and health of employees is an important factor for MNEs as any complacency with regard to health and safety issues could impact on the reputation of the firm, and result in fatalities and regulatory fines (OECD, 2014).</td>
<td>Respondent 16 “… this does affect the recruiting of expat skills because of the safety issues”.</td>
<td>Respondent 17 “The security of our people operating the mines in the region is another barrier which we face”.</td>
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4.12.2. Micro economic barriers

4.12.2.1. Brand integrity, reputation and intellectual property

According to Ozawa (1979) and Kojima (1975), countries in Africa are targeted by foreign investors since country-specific advantages, such as low labour costs, inexpensive equipment, materials, and resources are exploited by MNEs of different industries. The interviewees' experiences also corroborate the views expressed in the literature that assume (Ozawa, 1995; Kojima & Ozawa, 1984 and Dunning, 1981) that developing countries offer a large untapped potential market for foreign MNEs who are able to provide services such as construction of infrastructure, and mining of resources that cannot be carried out by domestic enterprises because of the lack of technical skills, machinery equipment and knowledge. Ownership advantages (which is a determinant factor according to Dunning's (1977) OLI paradigm), also incorporate the availability of patents, trademarks, brands and skilled human resources among other things, and are important factors needed to develop opportunities. Milberg (1996) explains that patents, trademarks and brands can present foreign investors' superiority and represent a competitive advantage compared to local firms. International treaties, such as those that protect international property rights (UNCTAD, 2002), are mentioned as being important for MNEs entering a foreign market, due to the respect which patents are afforded. Security of intellectual property is important for the SA fast food companies and the SA pharmaceutical companies in particular.

4.12.2.2. Sunk costs

Sunk costs include costs of packaging, innovations in product quality, accumulating information on foreign markets and establishing new market channels. FDI entails sunk costs in the form of entry costs: only productive firms are able to cover such an expense (Helpman, Melitz & Yeaple, 2004). High sunk costs of FDI make investors highly sensitive to uncertainty (Helpman et al., 2004). Such sunk costs include the cost of acquiring information so as to overcome the lack of knowledge and familiarity with the country.

4.12.2.3. Corporate social responsibility

A key facet of this component is the vulnerability of MNEs' reputations to bad publicity. The developments in global communications have facilitated the international transmission of information about working conditions, contributing to increased public awareness. MNEs globally attempted to mitigate the effects of bad publicity surrounding their operations by introducing corporate social responsibility strategies into their business plans around the turn of the century (Jenkins, 2005).

Over the last couple of years, the view of development as being primarily about economic development has become less dominant, with a greater focus now being placed on social development. However, most firms are driven by short-term financial profitability, and are generally
wary of making the long-term investments necessary to promote human social development. SA firms embarking on investments in natural resource exploitation, that is the mining firms, are attracted to locations determined by geological factors, whereas most other FDI is concentrated in the wealthier regions of host countries. These mining firms contribute by investing in infrastructure and education. Other respondents confirmed their adoption of CSR strategies, which conforms to the results in the literature. Firms embrace the CSR concept not least because this move pre-empts (and hopefully avoids) implementation of more binding public regulation.

4.12.2.4. Bad debts
Adequate cash flows, when investing in a developing economy, are a high priority. Most SA firms have retail customers, and experience has led them to be more cautious about investing in sectors where collections are a problem (Lamech & Saeed, 2003).

4.12.2.5. Logistics and local suppliers
Proximity to suppliers, and sources of raw materials and inputs, is another important factor for MNEs when considering a location decision. This factor is one of the major determinants of input efficiency, which is one of the four building blocks of competitive advantage. As MNEs rely most on local input sources, this type of logistics is the most important consideration for managers of MNEs. With regard to revenue, market logistics are mainly composed of ensuring optimal proximity to major buyers and end consumers. This factor can have a substantial influence on the effectiveness and efficiency of customer responsiveness (Ozawa, 2012).

Market logistics is an important consideration for firms pursuing market penetration and product specialization strategies, as the firm’s profitability is dependent thereon. Another important consideration with regard to logistics is the availability of international seaports and import-export facilities, and proximity to home country or other export markets. This is an important factor as most MNEs have operational linkages with home and other international markets, as these linkages promote strategic flexibility during international expansion, which in turn contribute to the profit of the firm. Transportation costs are another concern, because high transportation costs result in an increase in delivered cost, forcing MNEs to continue foreign production rather than export, if the firm’s products are sold to customers in the target market (Ozawa, 2012).

4.12.2.6. Expatriation and relocation costs
When a skilled employee is relocated, the firm is making a big investment in that person as they are sharing their expertise and knowledge with another office. The reason to relocate an employee is often based on the following two reasons: that the firm needs to utilise that employee as a resource in their new location, and that it allows a skilled employee to add to his experience (and value) through participating in the relocation.
Moving an employee internationally (relocating him across borders), is much more expensive than a local relocation. Most MNEs are wary of this cost and its implication for the firm’s profit margin. Relocating an employee includes not only moving expenses and per diem living expenses, but also incentive bonuses that help to make up for the cultural transition an employee faces upon moving. This results in firms spending millions to move employees around the world. However, if a location does not provide the necessary and required, then firms have to embrace relocation costs (www.smallbusiness.chron.com).

4.12.2.7. Knowledge transfers

FDI further enhances the ability of domestic firms to learn from other global firms, as the local governments have policies that encourage or even subsidise multinational investment. These policies are deliberately biased in favour of MNEs, so that production or research activities undertaken by the MNEs in the location will result in spillover benefits.

The internationalisation theory of FDI suggests that firms establishing greenfield investments abroad may be exploiting firm-specific technological assets not possessed by their foreign competitors. Kogut and Chang (1996) found evidence in their study of Japanese firms, that the motive of Japanese firm’s FDI in America was to access American technological strength.

4.12.2.8. Minority shareholding

FDI firms are subject to host country restrictions (usually imposed by governments), that subject the foreign investor to variously biased and restrictive policies, that impose hurdles to MNEs’ efforts to acquire full FDI ownership and access to local resources (Muller, 2007). Such regulatory restrictions usually compel FDI firms to obtain market rights similar to those of the local firms by forming joint ownerships or minority shareholdings with local firms. This kind of partnership is also subject to host nation regulations.

Other forms of minority shareholding favoured by MNEs is with local businesses; using a local business partner can speed up the acquisition of knowledge of the host country’s practices and cultural norms, which helps facilitate the learning process (Lin Cui, 2012). State ownership can minimise restrictive effects on FDI ownership. The greater the state service of equity in the firm will cause firms to choose joint ownership structures.

Sometimes host governments require a direct stake in a venture with a firm. This is not the best partner to have however, and MNEs find that these kinds of joint ventures bring both advantages and disadvantages. There have been instances where a host government requires the MNE to allocate a predetermined share of the equity of the joint venture to a government department or state owned enterprise. This acquired stake can be paid in hard currency or by other types of contributions.
by the host government. The other type of contributions can consist of land, buildings, equipment, labour or even government approvals, tax exemptions and tax holidays.

4.12.2.9. **Standardisation of products**

A research study by Krugman (2010) found that the connection between product differentiation and trade/FDI is affected in important ways depending upon whether the competing firms have their domestic production based in the same or different countries. The study found that if firms have their domestic operations in the same country and have relatively high set up costs, than FDI is more likely at low degrees of product differentiation. This study proves that FDI gives the firm an advantage when products are similar to that of competition.

4.12.2.10. **Risk and return**

Country risks are important factors for MNEs when selecting a potential location. If the country risk is high, there is the potential of a higher return (Brigham & Erhardt, 2005 as cited in Sedile & Seoudy, 2012).

4.12.2.11. **Competition**

Locations with large numbers of MNEs attract other investors, and this can saturate the market.

**OUTSIDE AFRICA**

4.12.2.12. **Brand name**

Firms have to spend time and money developing brand recognition so that they can charge a premium for their products. Firms have to ensure that the customers in the new location have positive experiences with their product offering (Wasserman, 2005). SA MNEs face the daunting task of competing with established multinationals and their globally recognised brands when embarking on FDI in US and Europe. They have to implement an aggressive brand strategy and produce innovative products that will appeal to western consumers.

4.12.2.13. **Capital intensive investments**

FDI in developed economies accounts for a substantial part of capital investment. Different locations vary in the costs of construction materials, labour, land, equipment rental and quality of construction (Luo, 1999a).

4.12.2.14. **Different landscapes**

SA mining companies face additional logistic problems when investing in resources in locations outside of Africa, as they are not familiar with these landscapes.
4.12.2.15. Other barriers

Other barriers identified by the respondents included having US partners with investments in locations in the US which are in different time zones.

Table 4.59 provides an overview of the different microeconomic factors faced by South African companies when expanding into international locations.

Table 4.59: Barriers – micro economic factors

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<th>Barrier</th>
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<tr>
<td>Brand integrity, intellectual property and reputation</td>
<td>The violation of copyrights is a particular concern for MNEs because of the presence of vast quantities of imitation products in developing countries. Furthermore, MNEs have to rely on local suppliers and local expertise, which adds to the possibility of the copyrights being violated. Imitation products are generally cheaper, thus impacting on the MNEs’ profit, and their image, as the company name is affected when consumers associate the lower quality or imitation products with the company name and brand.</td>
<td>Respondent 7 “…[the absence of] decent suppliers in Africa will impact on proper business processes which will [in turn] impact on brand integrity”. Respondent 8 “Our primary concern before we enter any market is whether we can source the product. Sometimes we have to make concessions in terms of what we require, because of the limitations of the market in Africa, but we ensure that we remain faithful to the quality requirements of our brands”. Respondent 7 “A problem we do face is that in most [developing] countries our intellectual property is not secure”.</td>
<td>Respondent 7 “…in most countries, our intellectual property is not secure. An issue that we face in the UK is [protection of our] intellectual property, where take outs are trading with similar names and selling a similar concept [to that of] our brand”. Respondent 20 “Patent protection is a problem in India. Previously MNEs took products to India, and the manufacturers in India would manufacture the same product [unauthorised generics] for the local consumers in India, and there was no violation of the patent if that was the case. However, now all MNEs are forcing the patent issue to avoid any future problems with the manufacturers in India. To manufacture in...”</td>
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<td>Sunk costs</td>
<td>Sunk costs play a crucial role in defining trade flows between countries and directly affect firms’ strategic decisions in terms of international expansion.</td>
<td>Respondent 15 “...we have to build infrastructure to make our FDI feasible and this adds to the cost factor”.</td>
<td>India, obtaining a patent for the market is essential”.</td>
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<td>Corporate social responsibility</td>
<td>The growth of globalisation has led to calls for MNEs to take responsibility not only for aspects such as product quality but also for working conditions and environmental impacts.</td>
<td>Respondent 18 “The importance of social responsibility projects when investing abroad ... is a way of indicating the company’s commitment to the country and the community. We demonstrate this social responsibility by investing in schools”.</td>
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<td>Bad debt</td>
<td>Investors globally rank consumers’ payment discipline and their ability to recover debts as “high” when determining the likely success of an investment. Investors identify inadequate collection discipline as the second-most important contributory factor to the failure of investments.</td>
<td>Respondent 26 “...credit worthiness or debtor worthiness – you can lose a lot of money because clients don’t pay”.</td>
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<td>Logistics and local suppliers</td>
<td>MNEs prefer to be in close proximity to other plants and firms in the same industry, especially plant owned by the MNE, as it allows the MNE to effect operational synergies, which in turn have an impact on cost savings and adaptability to market changes.</td>
<td>Respondent 22 “Moving supplies across borders and through to the ports is a big problem which we face in Africa, because of border inefficiencies and bribery and corruption at most border posts and ports, and this impacts on our lead times, which can be cumbersome. The road network across</td>
<td>Respondent 21 “There is also the issue of logistics in India which is very poor. The regulatory environment is so different in each state of India that when you try to move product from one state to another you have to have a clearing agent in each state, because of the complexity of the regulatory</td>
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<td>Barrier</td>
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<tr>
<td>Expatriation and relocation costs</td>
<td>MNEs, with regard to FDI, tend to send skilled employees to the new FDI location; however, there is always the associated risk of exorbitant costs to relocate the employees.</td>
<td><strong>Respondent 16</strong> “We use expat skills to help train and perform the start-up functions, and then slowly, as the local skills are developed, we then rely on the local skills. However safety of our staff is an issue we do face, and this does affect the recruiting of expat skills...”</td>
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<tr>
<td>Knowledge spillover</td>
<td>FDI is a potential conduit for the mediation of knowledge spillovers (Branstetter, 2001). Branstetter (2001) found in his research, that domestic firms generally learn from the foreign goods that they purchase, by reverse engineering technological innovations; and that additionally, these domestic firms learn to improve the quality of their products and production processes through contact with more advanced foreign competitors in global markets.</td>
<td><strong>Respondent 23</strong> “Knowledge transfer is a risk for us, because the locals have a tendency to copy what we sell”. <strong>Respondent 24</strong> “Knowledge transfer is a [risk] factor, because we have other retailers trying to copy what we import. However, we go the patent and trademark route: that is, if there is any infringement we use the legal route to sort out the problem”.</td>
<td><strong>Respondent 20</strong> “...the copying of products by other manufacturers in India is also an issue”. <strong>Respondent 8</strong> “…takeouts are trading with similar names and selling a similar concept of our brand”.</td>
</tr>
<tr>
<td>Minority shareholding</td>
<td>FDI firms are subject to host country government regulatory restrictions in the form of formal laws, regulations, and rules to safeguard national interests and</td>
<td><strong>Respondent 15</strong> “…we have two investments [jointly] with a state owned”</td>
<td><strong>Respondent 12</strong> “…reflective of the demographics of the country. Again in”</td>
</tr>
<tr>
<td>Barrier</td>
<td>Conceptual base</td>
<td>Inside Africa</td>
<td>Outside Africa</td>
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<tr>
<td></td>
<td>maximise local benefits from inward FDI.</td>
<td>company, OKIMO.</td>
<td>eastern Europe, if you are a foreign company, you have to have some local ownership.</td>
</tr>
<tr>
<td>Standardisation of</td>
<td>Consumers in the targeted location will have different consumption patterns</td>
<td>Respondent 8 &quot;... have to modify food according to local cultures and taste&quot;.</td>
<td>Respondent 7 &quot;We do not 'cut and paste' our business models into every new locations; rather we adapt and modify, based on the results of due diligence [we have] carried out on the country. Even the stores or restaurant layout [have] to be adapted and modified for the local culture, especially in the Middle East markets. Another example: we try and introduce vegetarian dishes to our menus in India, and in the Middle East, we introduced mezé platters.</td>
</tr>
<tr>
<td>products</td>
<td>compared to that of the home market. Therefore, MNEs have to strategically align a location choice with an analysis of consumer behaviour in the area.</td>
<td>Respondent 7 &quot;... we do not 'cut and paste' our business models into every new location; rather we adapt and modify, based on the results of due diligence [we have] carried out on the country. Even the stores or restaurant layouts [have] to be adapted and modified for the local culture...&quot;.</td>
<td></td>
</tr>
</tbody>
</table>
| Risk and return         | FDI is subject to higher investment risk in order to generate better than average returns. However, with FDI there is an additional kind of risk that is country-specific, which may include different mix of risk categories such as economic, political and exchange rate risks (Meyer, 2000). | Respondent 16 "... the plus side is that the profit obtained from FDI in Africa does compensate for the risk faced in Africa. This does impact on the share price but shareholders as a whole are aware of the ... risk factors that exist in Africa; but they are also aware of the plus | Respondent 21: 

"[Being] [in] Australia, because other South African retailers and businesses have flopped, [has] made us wary of the market; therefore we had to ensure that we know our business, and create[d] a risk free model to suit the Australian
<table>
<thead>
<tr>
<th>Barrier</th>
<th>Conceptual base</th>
<th>Inside Africa</th>
<th>Outside Africa</th>
</tr>
</thead>
</table>
| Competition | The presence of rival firms in a location can become a barrier to entry. However, firms do follow each other's movements, often preferring to invest in the same countries as their rivals do (Ito & Rose, 2002). | Respondent 15  
"Another important barrier is competition, because there are other companies from other countries operating in Africa".  
Respondent 2:  
"Africa does have competition, because it is a growing market; so it is attractive to other global MNEs".  
Respondent 25:  
"Other South African companies are our competitors". | Respondent 8  
"We feel our brand is not ... [yet] competitive enough for Australia or New Zealand. However, we are considering the Latin American market, especially Brazil. China is not [being] considered because we feel that we will be minnows against the [multinational] competitors who [already] have a head start in the region".  
Respondent 14  
"We also feel that Brazil and India have competitor firms which we feel ... have [a competitive advantage in that they have] the expertise in the region already". |
| Brand name | Brand loyalty can intrinsically discourage new foreign entrants into the market (Nolan, 2014). When firms invest internationally, establishing and building a brand identity becomes essential. |                                                                                           | Respondent 7  
"In the US one of the key factors was to create brand awareness because there was none, and this added to the cost factor of the investment in the US".  
Respondent 12  
"Generally in the US market, if you have an established brand, then the staff are more loyal to the company, but if you
<table>
<thead>
<tr>
<th>Barrier</th>
<th>Conceptual base</th>
<th>Inside Africa</th>
<th>Outside Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital intensive investments</td>
<td>Capital-intensive projects have to be undertaken with regard to FDI in developed economies. This can be draining on the resources of the company.</td>
<td></td>
<td>Respondent 7 “… had to go the equity route, because if a franchise [couldn’t] make it in the US it would impact on the brand. So, by going the equity route we were taking personal responsibility [for] the investment in the US, [and by so doing, we were] showing our commitment to the investment”.</td>
</tr>
<tr>
<td>Different landscapes</td>
<td>South African MNEs prefer seeking resources in locations in Africa as the firms face landscapes similar to that of South Africa, whereas internationally it is different.</td>
<td></td>
<td>Respondent 16 “It is also very difficult to mine in Indonesia because the mining landscape is very different from that of Africa, because the area is still very primitive”.</td>
</tr>
<tr>
<td>US partners</td>
<td>SA firms that partner with US firms find it difficult to make FDI due to the negative perceptions of “American imperialism”.</td>
<td></td>
<td>Respondent 12: “partnering with American companies has become a problem in some countries, because of strong anti-American sentiment in certain locations”.</td>
</tr>
<tr>
<td>Different time zones</td>
<td>When investing in locations outside of Africa, that is in the US and Asia, SA firms have to consider the different time zones when making strategic financing decisions.</td>
<td></td>
<td>Respondent 19: “In the US time zone is a challenge [for anyone looking at expansion], in terms of communication: [it] complicates issues”.</td>
</tr>
</tbody>
</table>
4.12.3. Macroeconomic barriers

4.12.3.1. Exchange rates

One of the many sensitivities of FDI activity is to the behaviour of exchange rates. Exchange rates can influence the total amount of FDI as well as the destination of this investment across the range of potential locations. Thus, a location that experiences real currency depreciation relative to its peers becomes an additionally attractive location for FDI (Goldberg, 2009).

A fluctuating exchange rate forces MNEs to be more flexible in terms of capacity and location choice. Exposure to currency risk becomes a primary concern as MNEs develop global networks: e.g., if a MNE is involved in retail in a particular location, but instead of manufacturing the products it imports them, it is exposed to the risk of currency depreciation, thus decreasing profit margins.

4.12.3.2. Inflation

Higher inflation rates lead to greater political and real foreign exchange premiums, which create a volatile financial environment for MNEs seeking FDI. Further, the higher inflation rates contribute to higher production costs through increased materials prices, loan interest and even labour's wages. In a location where competition is vibrant, a rise in selling prices cannot compensate for the increase in costs of goods sold and other related expenses.

OUTSIDE AFRICA

4.12.3.3. Exchange rates

Table 4.60 provides an overview of the macroeconomic barriers faced by South African companies when expanding into international locations.

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Conceptual base</th>
<th>Inside Africa</th>
<th>Outside Africa</th>
<th>Respondent 1</th>
<th>Respondent 2</th>
<th>Respondent 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rates</td>
<td>Where capital controls are in place, MNEs need to include them as part of the strategic landscape, and respond to them accordingly. For countries that are economically volatile, firms also need to consider the possibility of dramatic policy shifts. Most countries in Africa that have capital controls are targeted by short term stock market traders, or investment portfolio flows, and these have a strong peripheral impact on trade and foreign investment</td>
<td></td>
<td></td>
<td>&quot;Exchange control is not an issue, because most of the economies in Africa are dollar based&quot;.</td>
<td>&quot;... exchange risk due to continuous volatility of the currencies can be an issue for us&quot;.</td>
<td>&quot;If a devaluation of the currency takes place it does impact on our original investment and thereby lengthens our return model&quot;.</td>
</tr>
</tbody>
</table>
flows. However, they also tend to fall most heavily on foreign firms since governments that sanction foreign exchange allocations typically discriminate against foreign firms in favour of domestic firms.

Inflation

Monetary stability is important for FDI, because MNEs assets and liabilities are less exposed to economic risks and foreign exchange risks. Respondent 2: "Other risks faced in Africa [are] general country risk, high inflation, and exchange risk due to continuous volatility of the currencies".

4.12.4. Legal barriers

4.12.4.1. Compliance with local laws and regulatory environment.

SA firms operating abroad have to comply with local laws and regulations, as the first step to compliance is to understand the legislation (Van der Luyt, Hamblin, Burgess & Schickerling, 2011). Laws and regulations include an understanding of the labour laws, and the various provisions intended to safeguard employees' interests. Foreign firms have to ensure that they have sufficient knowledge of the law of the local country in which they have made their FDI in order to stay on the right side of the law. SA companies operating in foreign locations have to comply with international and domestic tax laws, in order to benefit from tax treaties, double taxation avoidance agreements and tax holidays.

The plethora of regulations a company must comply with is often made even more complicated by frequent amendments made by the government; for example, changes in transfer pricing policies of multinational companies are scrutinised by the tax authorities across the world to ensure that cross border transactions are appropriately taxed within their jurisdictions. But with many firms engaged in FDI and transfer pricing policies differing across nations, compliance has become a major issue. The vast array of FDI laws, rules and regulations remains a primary concern for MNEs with regard to a location decision. The interviewees confirmed this concern. MNEs have to assess the different policies against the possibility that they will change during the MNE’s operations; therefore, the different laws and policies have to be evaluated for both benefits and costs (Luo, 1999a). In some locations, MNEs find that clout can trump the rules, that the rules follow power, and that power, more often than not, clusters around wealth. That is, rules are set by people that have an ability to control policy and a desire to maintain their own privileged positions.
4.12.4.2. **Labour issues**

Falling FDI barriers prompt firms to exploit opportunities (such as tax and labour cost differentials), that were formally closed to them. Strict employment protection legislation, and especially high labour tax wedges, appear to divert FDI to locations where the labour market arrangement is perceived as less costly. Further, the cost of job protection and of labour taxation is not fully added onto lower wages to enable an accurate comparison.

The downside of strict employment protection legislation is that it affects not only the returns expected from foreign investment but also their viability, thereby increasing the risk that investors face in a specific location. Another factor is cost shifting, in the face of high labour costs and income taxation, may be particularly difficult for MNEs, whose employees have a cross-border mobility, especially with skilled and managerial employees.

Labour markets at home can also impact on MNEs strategically; e.g., strike action and continuous disruptions will push firms to seek outward FDI, whereas locations with less stringent market rules and taxation will attract FDI, as will locations that have effected structural reforms in their labour markets.

4.12.4.3. **Land ownership**

Land ownership is a sensitive issue, especially in Africa. The process of buying or leasing land can be lengthy and expensive, since it involves multiple state agencies and the approval of local communities. After the firm has secured the land rights, the next step is to obtain permits, generally from the local authorities, for site and building developments. These permits require pre-approval, multiple site inspections and final approvals (Morisset & Lumenga-Neso, 2002).

4.12.4.4. **Security of tenure**

This creates issues especially if the government has the authority to rescind its approval or to impose additional legislation that has negative effects on the joint ventures (Pritchard, 2005). There is also concern that the host government might default on its contractual obligations or revoke concession given by previous governments. This becomes a concern especially if the government of the host county is also a major supplier of raw materials, or a buyer of the end product (Pritchard, 2005). The security of tenure is a key issue facing SA mining companies’ FDI. Dale (1996) found in his study that security of tenure was ranked as second in importance (by respondents to his survey) during the exploration stage, and first in the mining stage as a decisive factor when carrying out FDI.

4.12.4.5. **SA Reserve Bank approval**

There are strict Reserve Bank requirements that have to be complied with, and which can be very cumbersome for firms. They have to submit business plans, full details of the monetary benefits, the
proposed financial structure of the investment to be established, the manner in which the funds will be employed, and an estimate of annual running expense of the investment to the Reserve Bank for approval (www.resbank.co.za).

4.12.4.6. **Outside Africa**

- Compliance with local laws and regulatory environment
- Labour issues
- SA Reserve Bank approval.

Table 4.61 provides an overview of the different barriers faced by South African companies when expanding into international locations.

**Table 4.61: Barriers – legal barriers**

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Conceptual base</th>
<th>Inside Africa</th>
<th>Outside Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with laws and regulations</td>
<td>South African companies operating abroad have to comply with local laws and regulations; however, they also face the risks associated with the SA government’s legislation and regulations. In order to better regulate FDI, foreign governments have to make information available to investors about rules and regulations in force in their countries. Governments in foreign locations should also strive to improve law enforcement.</td>
<td>Respondent 13 “...English law is prevalent in most of the African countries; however, [it is] less active in the Francophone and Lucophone areas because of the language barriers, and these Francophone and Lucophone areas consist some of the largest countries in Africa”.</td>
<td>Respondent 11 “You are a complete foreigner, outsider, [a] stranger to the laws, legislation and overall business culture of the country”. Respondent 24 “Labour legislation is also an issue in most countries, because each country operates a different legislation or practice with regards to labour, and we have to ensure that we comply with the different requirements”. Respondent 12 “Governments in most Western countries is [sic] not an issue, as long as you comply with all relevant legislation”. Respondent 6 “In Brazil the legislation is a bit complex, and in some ways, we do face similar problems as we do in Africa”. “... the labour is unionized [in India], which does make trading harder”.</td>
</tr>
<tr>
<td>Barrier</td>
<td>Conceptual base</td>
<td>Inside Africa</td>
<td>Outside Africa</td>
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</tr>
<tr>
<td>Labour issues</td>
<td>Human infrastructure is an important factor determining whether an MNE invests in a specific location (Meier, 2006). The first challenge for companies operating in Africa is to find suitable skills. The number one barrier to growth in African countries is the general lack of sufficiently skilled or experienced labour.</td>
<td>Respondent 1 “We are a talent based organisation, so work permits become an issue, especially when we are trying to move staff around the different offices”. Respondent 9 “Another problem is skilled management. When we try to source from South Africa, we face the problem of labour permits”. Respondent 23 “Labour legislation is a barrier we face in all countries of Africa, because each country has its own unique labour laws”.</td>
<td>Respondent 16 “Skills shortage is a problem in … Indonesia, and therefore … [there is great] reliance on Australian skills, because of their familiarity … [with] the region, and because Australia is close to Indonesia…” Respondent 12 “…in terms of housing, safety and family relocation costs, it can all become very expensive”. Respondent 12 “…they keep moving jobs …. We have other multinationals poaching our skilled staff …. they are easily seduced by better salaries elsewhere, so you have to keep staff happy by paying them well”.</td>
</tr>
<tr>
<td>Land ownership</td>
<td>An important barrier faced by most firms operating in Africa are the delays associated with securing land access and obtaining building permits, which can take more than 2 years. When a firm makes an investment, it has to secure land access as well develop his business site and connection to main utilities.</td>
<td>Respondent 5 “Land ownership is a problem we face in Africa, because we need land on which we place our switch-sites. For the masts or towers, we lease land, and end up with a plethora of landlords in every region on whose land the tower or mast is situated. This does lead to some interesting situations”.</td>
<td></td>
</tr>
<tr>
<td>Security of tenure</td>
<td>Most mining companies are vulnerable to host country legislation, which often requires that a mining license must be approved by the host government before becoming effective.</td>
<td>Respondent 18 “Other mining companies being in the region, this has been a bit of an issue or barrier as you wish to call it, because we are granted exploration rights in some regions, and other mining companies have also obtained these mining rights. Ownership of resources is with government, that is it remains with government, which adds to the risk</td>
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<tr>
<td>Barrier</td>
<td>Conceptual base</td>
<td>Inside Africa</td>
<td>Outside Africa</td>
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</tr>
<tr>
<td>SA Reserve</td>
<td>SA firms wanting to invest in a foreign location require</td>
<td>Respondent 10 “Reserve Bank approval is the first [and] biggest barrier that we</td>
<td>Respondent 19 “We have to get approval from Reserve Bank [and this] is a huge barrier; its ad hoc and confusing and no one understands it and it is an impediment [to the general flow of business]”.</td>
</tr>
<tr>
<td>Bank approval</td>
<td>prior approval from the Financial Surveillance Department,</td>
<td>face when investing in Africa””.</td>
<td></td>
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<tr>
<td></td>
<td>which is part of the Reserve Bank.</td>
<td></td>
<td></td>
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<tr>
<td>Respondent 13</td>
<td>“You need to obtain Reserve Bank approval, and this can be</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>hampering because its clunky, and inefficient”.</td>
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<tr>
<td>Respondent 19</td>
<td>“We have to get approval from Reserve Bank [and this] is a</td>
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<tr>
<td></td>
<td>huge barrier; its ad hoc and confusing and no one</td>
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<td></td>
<td>understands it and it is an impediment [to the general</td>
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<td></td>
<td>flow of business]”.</td>
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**4.13. REASONS FOR INVESTING INTERNATIONALLY**

*(What are your reasons for investing internationally? For example, are you expanding or diversifying the business, or do you have some other strategic reason?)*

The next question in the qualitative interview concerns senior executive managers’ strategic reasons for investing internationally. A variety of reasons were identified in the review of the responses.

South African mining firms undertook FDI in Africa in order to identify new deposits of natural resources, whereas the more established firms undertook FDI in the effort to improve efficiency, in the more developed markets like Europe, UK and the US. FDI by South African firms is growing fast especially in Africa. Firms tend to undertake FDI in order to reduce costs (including labour costs); however, another motive for FDI is to enter new markets. As is the case with emerging market firms, there are various factors, both domestic and global, which drive the FDI initiative. Rising domestic labour costs, labour and social unrest, and political instability, high interest rates, favourable/unfavourable exchange rates, a depreciating national currency, a limited domestic market, export markets, technology and improved efficiency, are all push factors identified by most of the South African firms.

Some of the strategic business reasons given by the firms that were interviewed are set out below. There is a diverse mix of reasons, and there are some common elements shared by some of the firms within this diversity. When a firm invests abroad, it is actually pursuing a set of different aims and for this reason, motivations are certainly not unique.

These findings are similar to findings gathered from the literature review. There are strategic reasons for investing internationally that are common to all businesses; however there are overriding and specific indicators for firms that are unique to the industries in which they operate.
Table 4.62 gives a summary of strategic reasons given by senior executives for their companies' FDI. The subsection that follows it gives a more detailed breakdown of the key aspects summarised in the table below.

<table>
<thead>
<tr>
<th>Company type</th>
<th>Strategic reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT and paper manufacturing</td>
<td>Brand recognition</td>
</tr>
<tr>
<td>Food manufacturing and pharmaceutical</td>
<td>Competition commission</td>
</tr>
<tr>
<td>All companies</td>
<td>Diversify risk out of South Africa</td>
</tr>
<tr>
<td>All companies</td>
<td>Emerging markets have potential</td>
</tr>
<tr>
<td>Audit services, engineering, IT and financial services, retail. Paper manufacturing, engineering, legal services, and mining</td>
<td>Expansion to serve customers' needs</td>
</tr>
<tr>
<td>Fast food, paper manufacturing, and IT</td>
<td>Global player</td>
</tr>
<tr>
<td>Mining and retail</td>
<td>Labour problems</td>
</tr>
<tr>
<td>Engineering company, IT and paper manufacturing</td>
<td>Competitive advantage</td>
</tr>
<tr>
<td>Cellular services, fast food, food manufacturing, mining and paper manufacturing</td>
<td>Mature market and saturation</td>
</tr>
<tr>
<td>Audit services, legal services, and pharmaceutical</td>
<td>Operational synergy</td>
</tr>
<tr>
<td>Mining and retail</td>
<td>Political agendas</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>Low cost inputs</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>Research and development</td>
</tr>
<tr>
<td>Pharmaceutical, retail, legal services, mining, financial services and cellular services</td>
<td>Risk and return</td>
</tr>
</tbody>
</table>

4.13.1. Brand recognition

When expanding internationally, it is important for the firm not to compromise its unique operations. Rather it should incorporate the factors of the new market into its operations in order to maintain the integrity of its brand (Bhatt, Paleti & Singh, 2014). FDI in retail, that is for companies like Shoprite Checkers and Massmart, is demand based, rather than supply driven. Therefore, successful FDI arises from having foresight and understanding of what the demand will be in the future, thereby influencing consumer purchasing decisions through comprehensive brand marketing. Brand recognition is an important intangible asset for the firm and the general objective is to maintain the brand value (Bhatt et al, 2014). A location becomes attractive for a firm if there is a potential for the firm's brand to be exploited. Franchising is a popular choice for international fast food chains, as the franchisee has the benefit of brand recognition and is aware of the local taste patterns. This is a common strategy for SA firms as well, especially those in the retail sector (Mukherjee & Patel, 2005).
4.13.2. Competition commission

The Mouton Commission of 1977 acknowledged the importance of competition issues and this resulted in the enactment of the Maintenance and Promotion of Competition Act 1979 (Act No. 96 of 1979, as amended up to 1991) and the establishment of the Competition Board. However, neither of the above made any real impact, until the end of apartheid, when the extent of market power became a key issue, resulting in the Competition Act of 1998 becoming the new legislation.

The new legislation prohibited certain practices and mergers, such as the abuse of a dominant position. In South Africa, the high levels of concentration in many sectors, together with the tight oligopolies, of only a few producers, provided favourable conditions for anti-competitive conduct. The opening of SA’s economy to trade and investment after 1994, affected firms which had been subsidized by the state (www.compcom.co.za).

Further, because of the hefty fines imposed on firms found by the Competition Commission to have been colluding, firms were “persuaded” to seek enhanced returns by diversifying their operations via FDI. This resulted in the Competition Commission becoming a push factor for large SA firms, and lead to many SA firms fragmenting and reorganising across national borders as global entities trying to distribute production and consumption of products and services globally through FDI (Mortensen, 2008).

4.13.3. Diversify risk out of South Africa

Risk diversification has become an important strategic motive for FDI (Lessard, 1976). MNEs’ risk is minimised through diversification of operations when firms engage in production multiple locations, both in their home country and internationally in host countries, as they embark on minimizing transaction costs (Rugman, 1980).

Firms are generally risk-averse and therefore seek locations that are largely free of economic downturns (such as recessions), or dramatic fiscal policy changes. Caves (1996) and Rugman (1975) explain that the establishment of diversified MNEs occurred when firms acquired horizontal or vertical subsidiaries, in order to spread risk and to diversify from the parent or holding company’s business.

Geographical diversification allows a firm to stabilise its profit margins. Thompson (1985) also found that international diversification helped firms reduce risk, as the firms’ foreign operations reduced the entities’ vulnerability through exposure to the systemic risk of the local (home country) stock market.

Empirical studies have shown that when they diversified geographically, the risk factors such as the effect of labour disputes were mitigated, which helped SA MNEs achieve a higher return. This is also known as escape FDI, which is carried out to escape home governments’ restrictive legislation and
Qualitative analysis | Quantitative analysis | Triangulation
---|---|---
the need for services: "...we were pulled by a want in Africa in terms of a need for financial services". | had to seek new markets. | to seek new markets, in order to increase revenues and profit margins. African firms are generally underdeveloped and SA firms across the services and manufacturing sectors are able to deliver the needed services, thus allowing SA firms to capitalise on higher returns on FDI especially in Africa. Market-seeking thus remains a popular reason for SA firms to undertake FDI.

20 of the 26 respondents acknowledged that they had ventured into Africa because of the magnitude of Africa's growth - both actual and potential. 15 of the 26 respondents also found growth and expansion opportunities in regions outside of Africa, specifically in Chile, India, Brazil, Australia, Columbia, Philippines and Eastern Europe.

Banking Company 1: "...we look at size and growth of the new market and the ease of doing business in the new location".

Cellular Services Company 2: "...we invested internationally for growth and opportunity: these were the two driving factors which pulled us into the different regions in Africa and the Middle East".

Cellular Services Company 1: "...the GDP growth of a market is important and therefore the study of the demographics and the competition is studied".

Microeconomic factors – lower production cost

Retailer 4: "...expanding internationally and achieving incentives – 7% of the cited as a reason by a small returns. We want to achieve respondents indicated that in percentage of the respondents greater scale and returns and [to] order to increase the profit serve the needs of the margins they had to lower consumers... [to] meet [the] production costs, which was needs and demands of done by seeking lower labour consumers in Africa".

Cellular Services Company 2: FDI. "...affordability is another important criteria for us when deciding on a market".

Microeconomic factors – competition

The senior executive of the Market-seeking and to Following customers into paper manufacturing company discourage potential international locations is another
Paper Company: "... competition is a huge factor because you, as a company, have to develop your brand in the market in order to create a competitive advantage; you have to have a competitive advantage... that you can leverage in the different markets".

Microeconomic factors - competition

Strategic reasons - expansion to serve customer needs

CEO of Audit Services Firm: "... most of our clients have expanded because of the abundance of resources in Africa, so we have to be able to provide advice on project controls [and] on processes to control budgets".

Engineering Company: "... we had to follow our customers into the new markets in order to serve them. These customers are the large SA mining companies".

Strategic reasons - diversify risk out of South Africa

A statement made by the CEO of the engineering company: "... to diversify and expand and look for new markets. We wanted to diversify our interest out of SA. We felt that we had too much interest in one basket".

Diversification of risk: 74% of the respondents indicated that diversify risk in response to the uncertainty of the reasons for expanding out FDI, because of home country government policies in SA. SA is seen as becoming a socialist regime as policies are increasingly being dictated by the trade unions.

Qualitative analysis | Quantitative analysis | Triangulation
---|---|---
and the CFO of Fast Food Company 1 both mentioned the importance of dominating a market like the US in order to become an acknowledged global player. | competitors: 20% of the respondents indicated that this was the reason for their FDI. | reason for FDI, as most firms found that their customers provided a platform for further growth. Moving to new countries allowed them to retain their customers and to discourage competition.

Microeconomic factors - competition

Strategic reasons - expansion to serve customer needs

CEO of Audit Services Firm: Market-seeking: agglomeration

There is a strong indication that SA companies follow certain trends in that when several companies in the same sector go to a foreign country, others follow, thereby creating a bandwagon effect. Another popular reason was that of "... to diversify and political uncertainty."

Engineering Company: "... we had to follow our customers into the new markets in order to serve them. These customers are the large SA mining companies".

Strategic reasons - diversify risk out of South Africa

A statement made by the CEO of the engineering company: "... to diversify and look for new markets. We wanted to diversify our interest out of SA. We felt that we had too much interest in one basket".

Diversification of risk: 74% of Another popular reason was to..."
All the interviewees and the survey instrument’s respondents cited market size as one of the most important variables, as market size is used as an indication of the profit potential of a location. Conversely, a smaller market was also associated with higher risk. The respondents to both the qualitative and the quantitative surveys indicated that market size is a crucial factor and that it includes the growth potential of the market, the per capita GNP, and the population size of the host market.

Early research conducted by Dunning (1993) identified market-seeking and resource-seeking as major determinants of investment destinations. SA firms venture abroad to seek new markets, and Africa, which has an abundance of resources, is also a pulling factor for SA firms seeking resources.

The results indicate that the primary FDI strategic goal of SA firms is strategic asset-seeking. This study therefore supports this hypothesis H2A.

5.6. ENTRY STRATEGY

The rationale for a particular market entry approach depends on a range of factors, including those that are unique to the firm. A firm’s international strategy includes a decision on how to enter a foreign location, which is the firm’s entry mode. Entry mode is an important decision for a company. The research analyses the preferred mode of entry used by SA firms when internationalising.

<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative analysis</th>
<th>Triangulation</th>
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<tbody>
<tr>
<td>Wholly owned subsidiary - control</td>
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<tr>
<td>Food Manufacturing Company’s CEO explains that they start in a foreign location by buying into an established company and then “... once we feel we understand the environment and the business, we buy out the remaining partnership share, so as to obtain full control”.</td>
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<tr>
<td>Mining Company 3: “...we buy out the remaining partnership share, so as to obtain full control”.</td>
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<tr>
<td>Pharmaceutical Company 1: “...all the acquisitions are new and we own the operations 100%”.</td>
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<tr>
<td>Mergers and acquisitions</td>
<td>From the survey instrument and the qualitative interviews, Greenfield emerged as the most popular choice amongst the sample of SA firms surveyed. As Africa has a limited number of formal businesses, and in most sectors they do not exist at all, and because Africa is a primary FDI destination for most SA firms, it is difficult to identify existing operations to partner with in any formal way. The Greenfield approach is therefore a popular choice. In addition it allows firms to maintain their own business cultures and methods of operation, and to retain control of their reputations.</td>
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<tr>
<td>Engineering Company 1: “...we have done a few mergers and acquisitions and 50% of the respondents indicated that this was an effective entry strategy”.</td>
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</table>

Table 5.4: Triangulation between analysis methods for entry strategy
SA companies prefer to acquire control and larger shares of the profits from their joint ventures, a position that is justified because of their superiority in the research and design arenas. Investing in Africa also allows SA firms to amortise their research and development costs over an extended market. A joint venture seems to be a model commonly used by SA firms to mitigate risks related to uncertainty in the region. JVs provide the region-specific know-how and a readymade association with the business fraternity of that local region. SA firms seem adamant about maintaining a controlling interest with regard to FDI, and only a few of the firms interviewed, and a small minority of respondents from the survey, were willing to accept a minority interest. The key objectives were to make a profit and to overcome the foreignness of the operation. One of the most strongly negative issues raised regarding JVs was the fact that companies had to deal with foreign parties, who in most cases had different business objectives. However, on the use of joint ventures, the overall impression from the interviews was that they helped to reduce uncertainty because of the advantage of having the local partner’s knowledge of the market and the customers. But companies did indicate some reservations about JVs in that there was uncertainty when dealing with JV alliances that was greater than that of having a controlling interest in a subsidiary.
On the issue of the determinants of entry mode chosen by SA firms, the study finds evidence that supports the existing body of literature on the issue in that the same factors continue to have a significant influence on the choice of entry mode. This dissertation also adds to the literature in that it shows the preferred entry mode of SA firms when investing in international locations.

Empirical evidence supports the fact that SA MNEs prefer Greenfield operations as an entry mode when investing internationally, especially because the advantages of ownership in locations like Africa, allows SA firms to complement their firm-specific assets. The evidence in this research found that SA MNEs target locations in Africa for resources and asset-exploration activities, and this is best achieved by adopting a Greenfield investment approach.
5.7. BIOGRAPHICAL FACTORS

International working experience, experience in living abroad and other international travel experiences shape the minds of the decision-makers, as their exposure to the world decreases their perception of psychic distance (Håkanson & Ambos, 2010; Dow & Larimo, 2009; McDougal et al., 1994). Research conducted by Lecraw (1993), Buckley, Tan and Xin (2008), and Cuervo-Cazurra (2008) found that management’s collective experience had a strong influence on the behaviour of Indonesian firms with regard to decisions about the destination of their investments. Oviatt and McDougall (1994), Dow and Larimo (2009) also found that internationally experienced managers provide their companies with positive benefits because they have already gained experience of the international locations necessary to enable them to fulfil their roles effectively. Crick and Jones (2000), Dow and Ferencikova (2010) and Herrmann and Datta (2006) found that the market selection decision was primarily based on the managers’ experience in operating in international markets; that is, it was based on their previous work experience in that foreign market, and on the networks that they had previously established.

Personal experience is an important aspect of FDI decision-making. Marketing managers, or their representatives, should therefore travel to a particular country to experience first-hand the country’s culture and business practices before FDI decisions are finalised, because from one’s first impression one can ascertain in what ways a country is similar or dissimilar to one’s own domestic market (Jansson & Johanson, 1988; Schotter & Beamish, 2013; Tan & Meyer, 2010).

Prior research has shown that managers of MNEs often rely on personal assessments rather than on a systematic analysis of a foreign market (Aharoni, Tihanyi & Connelly, 2011; Cavusgil, 1987). Schotter and Beamish (2013), in their research of Japanese enterprises in international markets, found that managers put more faith in information they had obtained directly by visiting the market than on results of market research surveys. Walters (1983) and Herrmann and Datta (2006) makes a similar observation, and states that personal contacts with the anticipated foreign market are cited by many enterprises as the main source of information in international marketing.

Brown and Cook (1990) and Schotter and Beamish (2013) maintain that successful MNEs rate personal experiences with the foreign market as more influential than objective information. As indicated earlier in Chapter 2(2.7), based on the foregoing, the following hypothesis was proposed:

H3o. Senior executives of South African multinational enterprises prefer primary information obtained through personal contact with the FDI target market than information obtained from secondary sources.
Senior executives of South African multinational enterprises do not prefer primary information obtained through personal contact with the FDI target market than information obtained from secondary sources.

Table 5.5: Triangulation between analysis methods for biographical factors

<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative analysis</th>
<th>Triangulation</th>
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<tbody>
<tr>
<td>Biographical factors</td>
<td>International strategic management experience</td>
<td>Management of SA firms is influenced by their prior experience when choosing a location for investment; that is, because of their international strategic management experience, they are more likely to choose locations with which they are familiar, because either they have lived there or they have made regular business trips to the location. They would rather rely on this information than on formal trade information.</td>
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<tr>
<td>Fast Food Company 2: “... in Africa we have seen growth potential that is there, [and] both risk and opportunity. For me as the CEO, having lived in some of the regions in Africa has created familiarity with the culture and the language and this has therefore reduced the perceived risk in some of the regions, and this is the driving force behind the expansion into Africa. If I had lived in Russia or China, I would have ventured into these markets, because I would not see the risk as I would be familiar with the market”.</td>
<td>Management experience: 83%</td>
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<td>Business trips abroad: 91%</td>
<td>Strategic decision experience: 96%.</td>
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<tr>
<td>Management's biographical factors in terms of past experience with decision-making and with having lived abroad do have an influence on his FDI decision making. The results from the sample indicated that with regard to management experience, 83% indicated that they had either lived or worked abroad, and 91% indicated that they had made regular business trips abroad. 96% indicated that they had prior experience in international decision-making.</td>
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The intention with this hypothesis was to evaluate how those directors, who are primarily involved in the strategic decision-making process, make use of their first-hand experiences to assist executives to deal with the challenges presented by a firm’s FDI decision-making processes. According to the literature, individuals develop expertise as they accumulate relevant experience in the complexities of the FDI decision-making processes (Lai et al., 2012). FDI decision-making can be challenging because of the high risks involved; assistance from experienced directors is therefore crucial.

Furthermore, the value of a directors’ FDI experience is enhanced when this experience is specific to the intended host country, because the director’s awareness of the business parameters inherent in the international location gives him unique insights into the market. Cross-cultural management experience is able to build a more compatible relationship between the investor and the host country.

Lai et al. (2012) showed in their study that the learning accumulated through directors’ heterogeneous experiences is important for international decision-making, as directors are able to overcome generally pervasive hurdles in the form of language differences, cultures, political influences and regulatory issues, thereby being able to make decisions more effectively and efficiently.
From the empirical evidence, managerial experience and international exposure would seem to have a strong influence on the behaviour of the firms in the surveyed sample. SA firms with senior managers who were involved in strategic decision-making tended to engage in outward investment. The senior managers' direct experience in the foreign market (via travelling to the market or having previously worked in the region), has important implications for psychic distance perceptions. The findings of this study indicate that if a firm's senior management has had direct experience in a specific international location, then the psychic distance of that market is likely to be less than is generally perceived. Conversely, if management has not had any direct experience in an international location, that location would most likely be considered psychically further away because of the lack of specific knowledge about the location.

Further, management's attitudes are significant when considering a potential location for FDI, as management has to be aware of all the alternatives and their advantages and consequences. A manager with extensive experience in foreign operations will make a more sophisticated decision from the way he analyses potential foreign opportunities. Additionally, he would somehow know, without having any specific estimate or data, how to adjust the plan to accommodate the risk involved.

Behavioural scientists have realised the importance of both personality and environment in the explanation of problem-solving behaviour of individuals. However, logic and rationality are not all-persuasive. As Bruner (1961:54) idiosyncratically puts it, he has been “…celebrating the role of emotional factors and unconscious drives in behaviour so long now that man's capacity for rational coping with this world has come to seem like some residual capacity that shows its head only when the irrational lets up”.

To test the robustness of both the quantitative and the qualitative findings, triangulation was used to analyse the data further. Overall findings of the present study confirm the value of directors’ experiences in firms undertaking FDI. The empirical analysis yielded a consistent pattern of results that show that a director's prior international experience enhances a firm's FDI propensity, especially in locations that are otherwise considered psychically distant.

Therefore, a director's accumulated first hand FDI experience is beneficial, because it is this subconscious knowledge that enhances his decision-making and helps firms to capitalise on appropriate international opportunities. As FDI experience increases, it provides directors with additional insightful information to select the next suitable investment location. Furthermore, the advantage of a director's first-hand experience is important because of the high environmental uncertainty surrounding an FDI decision-making process, in that it creates benefits of a more thorough assessment of strategic alternatives from which to choose a location that is suitable for the firm.
The results are unanimous in that in all firms that have found a successful foreign location for their investments, the directors or senior managers have had broad international experience, and that has positively affected the phases of the international location decision-making process. The CEOs and directors who were interviewed were very familiar with and knowledgeable about the foreign countries they had identified for FDI with respect to the political, economic, cultural and social conditions prevailing there. Their prior experience of these locations provided valuable insights and helped sway the decision in favour of investing in those locations. Most of the directors interviewed, and from data emerging from the quantitative study, the knowledge of the prospective locations was gained mainly through having already had considerable international business dealings with these countries. Several researchers have highlighted the pitfalls of an overall lack of specific knowledge regarding a potential location, because it can negatively affect the decision-making process relating to location choice, and thus impact on the profitability of a foreign investment choice. As is apparent from the qualitative interviews and the quantitative analysis, the ability to assess the most feasible country options is enhanced through knowledge gained during personal visits to these countries.

5.8. PSYCHIC DISTANCE

Existing literature identifies psychic distance as the perceived degree of similarity or difference between the home and the foreign markets. The psychic distance concept maintains that enterprises start their internationalisation strategies in markets that are geographically and culturally close to the MNE (Johanson & Vahlne, 1977; Arenius, 2005). However, enterprises change entry modes and structures as they gain experiential knowledge in a particular market (Meyer, 2005a). They then progress to other markets at successively greater distances (Arenius, 2005). Psychic distance is defined as the set of factors – such as differences in language, culture and business practices – that prevent or disturb the flow of information between the enterprise and the market. As the psychic distance increases information flows become more problematic. Only through experiential learning can enterprises overcome psychic distance, and, because such learning takes time, the internationalisation process undertaken by new enterprises tends to be gradual and incremental (Arenius, 2005).

Prior research also shows that there are many factors which nudge an enterprise to internationalise; however intuitive factors (such as psychic distance), play a decisive role (Zhang et al, 2014; Ekroos & Sjöberg, 2012). In an overwhelming number of cases, there is a general tendency to prefer an MNE’s immediate neighbours because geographic proximity is likely to reflect cultural similarity. A clear indication of this phenomenon is the fact that enterprises from both the US and Canada started their FDI initiatives by exporting across their mutual border, without seriously considering other factors that usually underpin successful FDI (Crookell & Graham, 1979; Kaynak & Stevenson, 1982; Papadopoulos, 1986; Kuo & Fang, 2009; Blomkvist & Drogendijk, 2013; Vaccarini, Spigarelli & Tavoletti, 2016).
As indicated in Chapter 2, the following hypotheses was generated again (refer to Chapter 2.7):

H4a. Senior executives of South African MNEs consider psychic distance as important in their choice of country for FDI.

H4b. Senior executives of South African MNEs do not consider psychic distance as important in their choice of country for FDI.

This study finds that senior executives of South African MNEs do consider psychic distance as an important factor in their choice of country for FDI.

In order to test the hypothesis, a psychic distance index was constructed and presented in Chapter 4. The index used an aggregated scale comprising seven elements:

- Commercial ties
- Political ties
- Historical ties
- Geographic ties
- Social ties
- Information availability
- Level of socio economic development.

The mean distance scores based on the scale was 33.42.

On the issue of psychic distance, the study finds evidence that supports research done by Brewer (2007). However, other empirical research does not convincingly support either a positive or a negative relationship between psychic distance and organisational performance. Research from the perspective of the Uppsala School of Economics' understanding of psychic distance (Ellis, 2007; Magnusson et al, 2014; Brewer, 2007), explains that firms invest in countries which have business cultures similar to that of their country of origin, and that “... firms overcome psychic distance by cumulating their internationalisation related knowledge” (Chen, 2003; Blomkvist & Drogendijk, 2013). However, SA firms invest in countries which are compatible, that is, similar in terms of consumers and resources. South African firms also tend to avoid more ‘distant’ locations, because of the differences in language or business culture.

Six geographic regions were identified as the most popular destinations for South African firms’ FDI. The firms participating in the survey were asked to indicate the geographic region in which they had made FDI. The analysis provides the following additional insights:

- Two regions are prominent for South African FDI – the European Union and Africa.
• Other regions are very rarely chosen, ostensibly due to the cultural distance between Europe and South Africa, and between the rest of Africa and South Africa (Hofstede, 1980; Ellis, 2007).

• The other regions chosen by some of the companies (the USA, Brazil and Eastern Europe), are usually selected as secondary target markets.

• The duration and strength of cultural and business links between a SA firm and the overseas markets exercises a considerable influence on the choice of markets and on the order in which they are selected.

Table 5.6 shows the number of companies pursuing FDI in each region. Distance is an important factor, as is evident from the responses from the qualitative interviews. Even though some regions in Africa use legal systems that are different to South Africa’s, many South African firms look at Africa as part of their domestic operations, especially in the light of the significant number of investments which continue to be made in Namibia, Mozambique, Zimbabwe, Botswana, Swaziland and Lesotho. Again, the psychic and geographic closeness of these countries is a major consideration in the FDI decision, and Africa seems to be the first foreign country selected for FDI by most SA firms. A difference in cultures is a common problem identified by many respondents during the qualitative interviews: differences in culture impacts on consumer tastes, in legal requirements and labour policies.

Table 5.6: Triangulation between analysis methods for psychic distance

<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative analysis</th>
<th>Triangulation</th>
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<tbody>
<tr>
<td>Similar customer base</td>
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<tr>
<td>Banking Company 2:</td>
<td>&quot;Having consumers in Africa that are similar to those found in South Africa did make it easier...&quot;.</td>
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<tr>
<td>Social and cultural proximity:</td>
<td>There was consensus that Africa and South Africa share a similar customer base; that is, 38% of the respondents in the sample indicated that they considered this factor to be important. This is approaching half of the respondents. From a research perspective, this was an expected answer.</td>
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<tr>
<td>Cellular Services Company 1:</td>
<td>&quot;because Africa has a similar customer base to that of South Africa, especially with the rural market, and the fact that we pioneered prepaid, gave us... confidence to carry out FDI in Africa with minimal risk&quot;.</td>
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<tr>
<td>Social and cultural proximity:</td>
<td>In terms of consumer behaviour, the respondents indicated that they prefer to have knowledge of the consumers via lifestyle</td>
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<tr>
<td>Fast Food Company 1:</td>
<td>&quot;Africa is an emerging market consumer preferences, and levels ... and we felt that it was the same consumers as [in] South Africa&quot;.</td>
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Pharmaceutical Company 1: "the consumers in Africa are very different, but there is similarity ...to the clients we have in terms of the lower end consumers you would find in South Africa".

Retailer 1: "another pulling factor to invest in Africa is that the customers are similar to the customers in South Africa".

In terms of **per capital income**, 73% of the respondents indicated that this was an important factor.

**Purchasing power**: 78% of the respondents indicated this to be an important factor.

**Lifestyle**: 65% of the respondents in the sample indicated this to be an important factor.

**Consumer preferences**: 71% of the respondents indicated this to be an important factor.

**Level of literacy**: 43% of the respondents indicated this as important.

**Cultural values**: 33% of the respondents indicated this as important.

**Fewer barriers**

Fast Food Company 2: "the SADC region for us is like going to Durban, and the SADC agreement has helped with red tape and overall business legislation".

Food Manufacturing Company: "we only wish to invest in countries close to SA".

Retailer 2: "... few barriers to entry, and another plus is the SADC agreement which made it easier to ensure compliance with the different regions’ legislative requirements".

Socio-political motives and **trade incentives** were the two key factors that helped reduce barriers.

**Socio-political motives**: 7% of the respondents found socio-political motives to be factors that helped to diminish the barriers to FDI.

**Trade incentives and trade agreements**: 55% of the respondents preferred trade incentives and trade agreements, as they contribute to diminishing barriers.

28% of the respondents feel that SA is part of the continent they are familiar with Africa owing to their **geographic location**, similarities in its landscapes, and 24% feel that due to **social ties** the eclectic mix of cultures makes Africa different to other

**SA firms understand Africa as a market**

Bank 2: "... we believe we can manage African risk and African people".
<table>
<thead>
<tr>
<th>Qualitative analysis</th>
<th>Quantitative analysis</th>
<th>Triangulation</th>
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<tbody>
<tr>
<td><strong>African culture and the geographic proximity to SA</strong></td>
<td>they have a better understanding of Africa than</td>
<td>this diversity of culture, and the</td>
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<tr>
<td><strong>Geographic proximity</strong></td>
<td>they do of other cultures in resource companies are familiar with the physical landscape.</td>
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<tr>
<td><strong>Mining Company 4</strong>: &quot;... as a mining company we are familiar with the African landscape and [the] culture prevalent in the region, and this makes it easier for us to understand Africa&quot;.</td>
<td>50% of the respondents indicated that existing knowledge of the country’s trade and familiarity with its citizens made it easier for them to understand Africa as a market.</td>
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<td><strong>Legal Services Company 1</strong>: &quot;geography is relevant to a certain extent&quot;.</td>
<td>32% of the respondents indicated that geographic proximity is an important factor influencing their FDI decisions regarding selection of destination.</td>
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<td><strong>Mining Company 1</strong>: &quot;...the investment in Africa also helps to minimise the psychic distance and the geographic proximity&quot;.</td>
<td>Geographical familiarity: 28% of the respondents indicated that in terms of psychic distance, geographic familiarity was an important factor. These percentages indicate that at least one third of the respondents acknowledge geographic distance as a factor.</td>
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<tr>
<td><strong>Retailer 5</strong>: &quot;... we have found that, subjectively, it has been easier to invest in Africa because of the proximity of the region to SA&quot;.</td>
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<tr>
<td><strong>Culture in Africa is similar to the culture in SA</strong></td>
<td>Cultural considerations: 38% of the respondents indicated that the presence of cultural similarities was an important and influencing factor.</td>
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<tr>
<td><strong>Mining Company 4</strong>: &quot;... culture in Africa is similar to SA and these countries have the same resources&quot;.</td>
<td>Social ties: 24% of the respondents indicated that in terms of psychic distance, social ties, in the form of cultural similarities between countries, is an important factor.</td>
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<tr>
<td><strong>IT Company 2</strong>: &quot;... we are used to managing the complex systems found in Africa, and having the street fighting approach which we have acquired from a SA perspective&quot;.</td>
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<tr>
<td><strong>SA firms invest only in English speaking countries</strong></td>
<td><strong>English speaking countries</strong>: Investing in locations where psychic distance is very important for us, and therefore we intend staying in Southern Africa and not to expand to other locations where we are unlikely to find English as a medium of business.</td>
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<tr>
<td><strong>Fast Food Company 2</strong>: &quot;... we have found that the English language is prevalent and therefore we prefer to communicate in English as it is our first language. We feel that this language is the most appropriate for communication in the host country&quot;.</td>
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</table>
would encounter different languages and cultures”.

**Mining company 1:** “... we would like to invest in countries where we are familiar with the language and culture”.

**Cellular Services Company 1 and 2, Retailer 2 and IT Company 2** expressed the belief that they “... found it easier to operate in English speaking countries”.

### Historic ties

**Legal Services Company 1:** “... political ties and historic ties help to ensure local ties and this does make it easier to establish an investment in the country”.

**Mining Company 4:** “... Mali and SA have historical ties, and this has helped us in terms of operating in the region and this is a good incentive for us”.

**Pharmaceutical Company 1:** “... there is the cultural heritage and the colonial ties [with Africa and India], which we feel makes it easier for us to operate in these regions”.

**Retailer 1:** “... also the fact that SA is part of Africa, in terms of historical, colonial and other pulling factors, is an important reason for our investment in Africa”.

**Cellular Services Company 2:** “… our business strategy is restricted to Africa, South East Asia, [and the] Middle East. We also have a preference for the old British Colonies because of the similarity in business culture and language. For us the big driving factor is derived from the similarities in the regulatory structure”.

**Historic ties:** 19% of the respondents felt that in terms of psychic distance, historic ties that would influence the (business) language of the country are an important factor.
<table>
<thead>
<tr>
<th>Regional similarities</th>
<th>Qualitative analysis</th>
<th>Quantitative analysis</th>
<th>Triangulation</th>
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<tbody>
<tr>
<td><strong>Fast Food Company 2</strong>: “… we are considering the Latin American market, especially Brazil, because of the similarities and their influence on social contacts is an important factor. Therefore, the tendency is to invest in emerging market economies.**</td>
<td><strong>Social ties</strong>: 24% indicated that SA firms have a preference for investing in countries that have similarities and their influence on markets similar to those of SA; therefore, the tendency is to invest in emerging market economies.</td>
<td><strong>Cultural considerations</strong>: 38% indicated that cultural considerations pertaining to a country are important factors.</td>
<td><strong>Country of origin</strong></td>
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<tr>
<td><strong>Pharmaceutical Company 2</strong>: “Brazil as a market is very similar to SA; in fact we find that all the BRICS countries have a shared status as a developing country, and because we understand the SA market and therefore are familiar with trading here, this makes us comfortable to trade in BRIC countries”.</td>
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<tr>
<td><strong>Engineering Company</strong>: “Brazil is similar to Africa in that it has resources which are being pursued by the mining houses and therefore to follow our customers we invested in Brazil”.</td>
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<tr>
<td><strong>Audit Services Company</strong>: “… we are an African firm, so Africa was a natural choice”.</td>
<td><strong>Geographic familiarity and social ties</strong> were considered important by at least a quarter of the respondents, whereas 38% management of the firms tend to invest in locations with which they are fundamentally familiar.</td>
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<tr>
<td><strong>Legal Services Firm 1</strong>: “… being considered an African firm, Africa is a natural choice for us as a location”.</td>
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The analysis presented above shows that from a qualitative aspect, psychic distance is a very strong determinant of the location that SA firms have chosen for their FDI. In the sample surveyed, Africa and Europe were the most popular destinations. For those firms that have invested in Africa, the key explanation offered tended to be saturated with references to language and cultural proximity. That is, most companies that have expanded into Africa cited geographic and cultural proximity as the most important determinants, with geography seeming to be marginally the more relevant and influential factor. However from a quantitative aspect, psychic distance was considered to be relatively unimportant in FDI decision making, presumably because of the psychic proximity of the
actual (African) counties chosen for FDI by the South African executives. Also most or all FDI by South African MNEs is now African.

An assessment of the investment’s strategic element was also considered by most firms when acquiring production capacity: that is, it considered competitors’ existing shares of the market. For Asian markets and other more developed markets, these were ruled out by the majority of SA firms (only two or three firms indicated that they had an investment in these locations). Most of the respondents argued that it was difficult to compete in the more developed markets due to the presence of long-established and experienced competition.

Psychic distance, as is evident from the above analysis, does influence location choice, but it does not guarantee problem-free investments. O’Grady and Lane (1996) and Chan and Cui (2016) highlighted this problem in their study where they showed the pitfalls of recognising other differences rather than zoning in on the cultural similarities. Respondents often mentioned cultural proximity as an influencing factor, yet this was contrasted by complaints about difficulties experienced in Africa, due to differences in business cultures and consumers preferences. It would therefore appear that even though there are certain inherent cultural similarities, and a strong correlation with language, managements are seduced by the common language aspect, because it lends familiarity that they believe will make it easier to conduct business in foreign locations.

It is evident from the statements made in the interviews and from the quantitative analysis, that more than any other factor, language is the element that determines psychic distance. Thus, for the SA firms language and cultural distance were important considerations in the determination of their FDI destinations. The overall evidence appears to lend qualified empirical support to psychic distance theory. From the sample of companies selected for the qualitative interviews, analysis of that data shows the majority of the firms located their foreign investments in Africa, where the psychic distance between SA and the foreign locations is perceived to be relatively low. Business expansion to culturally Anglo-Saxon locations (as was the case with a few of the firms interviewed), can be explained by the shortened psychic distance arising from previous colonial ties.

Physical distance appears to be a relevant factor in that most of the participating SA firms preferred investing across the border in the SADEC region (Botswana, Mozambique and Namibia). The short distance between SA and Africa in terms of culture and geography is a popular reason given for investment in Africa. However, Zimbabwe, which is across the northern border, is not a particularly popular investment destination: here “institutional incompatibility” was frequently advanced as an important factor that continues to influence firms’ decisions not to undertake FDI in that location.

Globalisation does have a hand in reducing distances psychically, due to the emergence of similarities in consumers’ lifestyles, in business practices, and in legal processes. Technology is
another key element that has reduced the psychic distance between countries in that electronic communications and efficient air transport have helped to shorten the geographic distances between countries. But ultimately, the distance argument fades into the background when the allure of economic advantages (in the form of larger markets and abundant resources) are discussed as positive determinants of FDI destinations.

The evidence from this study strongly suggests that the ethnic background of senior management plays a role in influencing their perception of psychic distance. Contextual changes also help to reduce distances, as does the experience gained by firms as they adapt to a new location; all this helps to shorten the distance psychically. Evidence also shows that there is a significant relationship between psychic distance and the financial results reported, which suggests that psychic distance is influenced by and is conditional to the psychic distance of the manager from the foreign market. The results therefore indicate the empirical significance of psychic distance as a factor when SA firms consider a location for FDI.

5.9. CONCLUSION

The quantitative and qualitative studies were closely integrated, thereby providing confirmation of some important findings. This enhanced the external validity of the overall research. Apart from the triangulation of results, the combination of the quantitative and qualitative approaches also has the potential to overcome the limitations inherent in using a single method.

The qualitative and quantitative components of this thesis were explicitly related to each other, and hence findings from the two studies produced a more comprehensive picture of the FDI decision-making process. The qualitative study provided the means to analyse the weaknesses or strengths that the quantitative variables had. The mixed method showed how the qualitative study helped understand the FDI decision process on a different level.

The evidence presented in both the quantitative and qualitative studies showed that psychic distance is a very strong determinant of the location that South African firms have chosen for their FDI, and that the ethnic background of senior executives is an important influence on their perception of psychic distance. The triangulation process, using both the qualitative and quantitative data triangulation process suggest that psychic distance deficit model overlooked some important dimensions in the FDI decision making process that could be better encompassed in a "push pull" model involving attractors and repellers. In chapter 6 this will be discussed in detail.

Other important findings are that all firms have found a successful foreign location for their investments; that the directors or senior managers have all had broad international experience, and that this had positively affected the phases of the international location decision-making process.
The interviewees and the respondents to the survey all cited market size as one of the most important variables, as market size is used as an indication of the profit potential of a location. In other words, the primary strategic goal of South African firms’ FDI processes is strategic asset seeking.

With regard to preferred entry mode, the empirical evidence indicates that South African MNEs prefer greenfield operations as their international investment entry mode, particularly because ownership in locations like Africa allows South African firms an advantage in that this complements their firms’ specific assets. With regard to the factors that inform the decision to enter or not to enter a new foreign market, the discriminant analysis of the predictor variables identified five factors which are important for South African firms. These key factors are political instability, economic environment, market size, infrastructure and labour.

The above findings provide some insights into the process followed with regards to the FDI location decision-making process.
CHAPTER 6
CONCLUSION, LIMITATIONS AND RECOMMENDATIONS
FOR FURTHER STUDIES

6.1. INTRODUCTION

The empirical findings presented in this thesis suggest that there is a core of key, common elements that prompt FDI into certain locations. This thesis has also identified a broad spectrum of other factors that influence the destinations of new FDI. By using quantitative statistical analysis and qualitative interviews, this thesis aimed to address the two research questions. The questions were: what are the salient factors that senior managers of South African multinationals consider when making FDI decision; and, do senior managers of South African multinational companies make FDI decisions in the South African industrial context that correspond to Brewer’s (2007) impediment oriented model of psychic distance. The impediment orientated models introduced by Brewer(2007) and the Uppsala model by Johanson and Wiedersheim-Paul (1975) have been found to be limited in effectively describing the FDI decision making process in the sense that they perhaps over emphasised the deficit or impediment model rather than positive or attractor factors. This aspect will be discussed in more detail in this chapter.

6.2. SUMMARY OF EMPIRICAL RESULTS

This section summarises the empirical results that were generated from the quantitative and qualitative studies and presented in chapters 4 and 5 respectively. This thesis used a mixed method study, in which the quantitative and qualitative methods were integrated. The conclusions discussed here are the findings that were obtained from integrating the two approaches.

6.2.1. Findings on the salient factors considered by senior managers.

The triangulated quantitative and qualitative analysis has shown that it is difficult to reduce FDI decisions to simple, singular explanations, but it is rather less difficult to depict the way decisions are reached descriptively. Furthermore, the factors that influence the way judgements about investments are formulated are not homogeneous. The material from the qualitative interviews shows that decision-making within SA firms is probably more intuitive and personal than clinically logical. This intuitive behaviour could be ascribed to the fact that SA’s economic situation is unique, arising from its torrid past and its distinctive dual economy, in which making decisions on clear objective data was at best “difficult”. However, certain common factors that influence the decisions to undertake FDI were identified.

A general trend that emerged from the data was that less developed countries, despite being considered much more risky, were seen as more profitable because of their growth potential. The
subject of FDI in less developed countries has been receiving increasing attention amongst the participants in this research. There is a “revolution of expectations” in the less developed countries caused by globalisation. These less developed economies are also linked to recently independent political entities. Governments of these less developed countries are making strides towards achieving economic independence, and are trying to improve the standards of living of their populations through the economic growth of their countries. This finding is in line with Dunning’s Eclectic Paradigm model which postulates that the extent, geographical and industrial composition of foreign production undertaken by MNEs is determined by the interaction of three sets of interdependent variables: these are ownership, location and internalisation (Dunning, 2000). (It should be remembered that South African firms have ownership of specific advantages when investing in Africa.)

In parallel with the changes in less developed countries’ economies, globalisation has also shrunk psychic distances (as measured by would-be investor companies) between investment destination countries. In addition, globalisation has increasingly brought rationality and uniformity to government controls of investments internationally. The effect of this is lower-risk opportunities and new possibilities for SA firms. In the last two decades there has been an upsurge in foreign direct investments by SA firms, and most of this FDI has been made in the less developed countries of Africa. There are also strong business preferences: investments have favoured extraction industries, manufacturing, and services (banking and auditing in particular). As an aside, there are also many SA firms that choose not to look at the possibility of investing outside South Africa, or perhaps the SADC region, as they perceive the risks to outweigh the benefits and profits, believing that sufficient investment opportunities still exist in South Africa and/or the SADC region.

The decision by South African multinationals to invest internationally appears to be influenced by a plethora of factors (not all of them necessarily objective or linked to core business), that include local distributors courting foreign interest, environmental forces (political, economic, and geographic amongst others), organisational factors, management’s personal interests, or sheer accident. Other factors such as the liquidity, capital availability and expected future growth of the company, also influence decisions to invest internationally. An investment requires capital, and incurs certain costs in the form of fact-finding investigations that have to be carried out. A common trend among the South African MNEs is that they do carry out a detailed due diligence investigation of the new locations, if they are contemplating purchasing a local company rather than pursuing a greenfield strategy.

Every firm has a set of defining and often unique characteristics; similarly, a host country for FDI usually has specific pull factors that make it an attractive investment destination. However, these pull factors are frequently offset by other “push” factors that can ultimately cause the FDI decision to be reversed. Market size, real GDP growth, availability of natural resources, and political stability are
the important factors which can influence a FDI decision positively, whereas distance from home, differences in culture, political instability, barriers in the form of restrictive fiscal and/or government policies, and a lack of adequate infrastructure can have a negative effect. With SA firms, the lifting of sanctions in the 1990s, and the introduction of a democratic government in the last two decades, has shifted the directions and adjusted the perceived distances of their FDI activities. Dunning (1981, 1988) proposes three key motivations for MNEs to carry out FDI:

- To seek natural resources
- To seek new markets
- To seek strategic assets.

From the evidence, it can be seen that SA firms' choices of international investment locations are influenced by a number of factors inherent in the intended host country. From the analysis of the empirical research data, for retail and service elements of the economy FDI is part of a search for new markets, whereas for mining companies the search is for resources. Over the last two decades, there has been an increasing trend amongst SA's MNEs to effect FDI, and the destinations of most of the investments have been strongly influenced by the availability of suitable merger and acquisition opportunities, which then define the entry strategy. (This aspect of FDI decision-making occurs in all sectors.) However, the study also shows that a significant proportion of SA's MNEs in fact prefer greenfield investments as their primary mode of entry into a foreign market. The literature shows that entry into fast-growing industries in transitional economies generally takes place via wholly owned greenfield investments and not via acquisitions, and that it is the most common mode of entry in such circumstances. Greenfield investments provide lower risk, and generally the host government considers this form of FDI as a way of increasing employment (Dunning, 1981; Hu et al., 2012). South African MNEs seem to prefer this approach for entry into foreign markets. The literature also recognises that, based on the transaction cost theory, an acquisition is initially more capital intense than a greenfield investment, and that therefore it is the larger firms with access to capital that tend to invest in this way in preference to greenfield investments. South African mining companies are generally more capital intense in their investments, and are representative of the larger MNEs in South Africa.

6.2.2. Findings on the psychic distance concept

This study investigated the different factors that affect psychic distance, the psychologically influenced factors that the investing firm draws into their decision-making processes. (This phenomenon is well represented in the literature.) The items used in the empirical analysis to determine psychic distance are based on the general aspects of national values and attitudes as described by Brewer's (2007) study on international business experiences. Using Brewer's (2007) measures of psychic distance (consisting of commercial ties, political ties, information availability,
historic ties, geographic ties, development of the country and social ties), the idea was to determine whether these factors influence management’s perception of psychic distance, and if so, to establish the degree to which they influence which markets are selected for FDI.

These were then adapted to enable the researcher to capture the South African business perceptions of psychic distances between South Africa and their intended foreign investment locations. The findings from the study suggest that geography (physical distance from head office) still matters. However, the study found no direct evidence that cultural differences as such affect the choice of investment destination. For SA firms, their success in negotiating their "learning curves" in foreign direct investment is the reason for the subsequent internationalisation of their businesses. Firms have demonstrated that they are able to overcome the challenges of psychic distance in a broad sense by having an understanding of cultural aspects and gaining direct experiential knowledge of foreign markets over time.

The perception that the personal overseas experiences of top management moderate the relationship between perceived distance and location choice was borne out by analysis of the empirical data. It seems that managers with personal experience of international locations (through work experience, business and social networks, and from published information) are more adaptable and exhibit greater understanding of local cultures in foreign locations. The managerial experience, training and the ethnic background of decision-makers also seems to have a strong influence on the sampled firms’ FDI decision-making processes. SA firms with greater expertise in international business decision-making tend to engage in FDI investments with apparently greater risk elements, thereby confirming the value of directors’ foreign business experiences in making SA firms’ FDI undertakings successful. The empirical analysis suggests that the collective foreign experiences of the directors are a desirable and significant asset, because they tacitly endorse, and practically assist managers in their strategic decision-making efforts. Aharoni (1966:7) explains that

“a businessman today is not an individual entrepreneur, motivated solely by a search for profits, but a large organisation composed of many individuals, each with his own set of goals and objectives. It is also recognised that information is far from perfect, that organisational resources must be used for its acquisitions, that management time must be devoted to the digestion of this information, and that decision makers are operating in a world of uncertainty where the faculty of blissful prescience cannot be taken for granted”.

All the firms in the sample had decision-makers with international business experience of varying degrees of quality and duration. These decision-makers’ experiences had reportedly played a significant role in the assessment of drivers of the outward foreign investment decisions, and in identifying preferred location factors. The international experience also helped firms to implement the FDI location decision appropriately. This result is consistent with Davidson’s (1983) finding that
direct experience is more important in market selection decisions than other sources of information, including market research reports.

The findings of the study show that executives in SA firms have to cope with many factors, and they often make decisions based on inspired guesswork, gut feel and intuition, but most importantly, on personal experiences.

6.3. SUMMARY OF THE FINDINGS IN RELATION TO THE RESEARCH OBJECTIVES

In this section, the research objectives of the study are considered in the light of the research findings. The research questions were to determine the salient factors which influence the management of a firm in their choice of FDI location and whether senior managers make FDI decisions that correspond to Brewer’s impediment-orientated model. The research objective was to determine through the use of a triangulated methodological approach, whether a theoretical modification to the existing psychic distance model (Brewer, 2007) and the Uppsala School’s model is empirically warranted and to consider the development of an “attractor/repeller”, model which is a more holistic model that incorporates positive factors as well.

The purpose therefore was to identify the factors that influence the decision-making process, and to determine whether the choice of final location was purely the outcome of rational processes aimed at finding the best solution from a variety of alternatives. FDI decision-making is acknowledged to be a complex process. It is composed of many interrelated external (economic, business and other) factors, and the individual experiences and views of the decision-makers. The set of factors and the relational concepts that are considered were established by a combination of quantitative and qualitative empirical research used in the study. The research has shown that there is no definitive set of factors or objectives that all firms respond to; rather, every firm sees FDI from its own unique perspective, and responds according to the interests, values, attractors and objectives of the firm, based on the bounded rationality and partial information possessed by decision makers, rather than just the impediments inherent in certain locations.

6.3.1. Push-pull classification of factors influencing FDI attained

MNEs internationally have to accept world market trends, e.g. interest rates, increased tax rates, oil prices etc and strategically react to them. Certain locations can attract FDI by controlling some of the economic and political variables, making the country more attractive. Market trends also help “push” investment to certain locations. That is some locations create an environment which is attractive for FDI, thereby “pulling” investments or FDI into their countries (Jung, 1999). The literature base on FDI has generally focussed on the effects arising from foreign (push) versus domestic(pull) factors. Pull factors relate to specific developments in recipient countries that attract capital flows, whereas push factors are for example changes in interest rates or tax rates. Most authors have
discussed how country specific dynamics tend to shape the swing between the push-pull factors. In this research the attempt is to understand how FDI decisions are shaped by the push-pull factors (Gossal & Biekpe, 2015). Although it needs further elaboration with future research. The development of a psychic distance model into a more elaborate “push pull” model is discussed as possible future research development.

Brewer’s (2007) psychic distance model and Johanson and Wiedersheim-Paul’s (1975) Uppsala model showed that FDI decisions are more based on impediments, whereas Gossal and Biekpe (2015) showed that capital flows from South Africa are based on both push and pull factors. However the qualitative dimension in this study demonstrates that FDI decisions are based on both push and pull factors.

When SA firms make a FDI location decision, various locational factors have to be investigated and analysed, including key factors such as geopolitical and economic stability. These factors are at the core of a location decision-making process. SA firms also consider other factors that are important specifically to them, to ensure that the correct location is chosen for their FDI. These additional factors complement the locational factors, and assist the firm in making FDI decisions that are also cognisant of the firm’s needs and objectives.

Democracy and the lifting of sanctions against South Africa rapidly expanded the opportunities for and process of outward internationalisation for SA firms, but not without adding negative pull factors peculiar to SA. Not least of these negative pulls is the fact that FDI itself is a greenfield endeavour for most of the SA firms that undertake it, as they lack experience of the processes involved and the knowledge required to make sound FDI decisions. On the other hand, negative pushes at home, such as unionisation and labour unrest, and changing fiscal policies further motivate SA firms to go abroad.

Equally important in defining and driving the strategic goals of the firm are the positive pulls of the potential market, and the opportunities for product development. The profit motive underlies all investment decisions, whether local or abroad, and SA firms are no different. They consider carefully various host countries’ investment incentives intended to sway the decision towards a specific location; these include cost-of-production factors intended to minimise investor costs and increase profits (and thus attractiveness).

A central postulate of the FDI decision theory is that it is undertaken in order to reduce uncertainty; this is achieved by seeking information identifying benefits or negative aspects that could reverse the FDI decision. The FDI decision is not made in a vacuum. The history of a firm, its relations to other organisations, its diversity, and its proximity to other countries all influence the FDI decision. All these factors add complexity to the specific decision being contemplated by someone in the
organisation who has more influence and ultimately forms the basis for the action by the firm. In terms of the potential location for FDI, there are two main sets of factors – those attracting it in and those repelling it out.

Table 6.1 below identifies the most significant repellers, attractors and propellers that drive the FDI investment decisions.

Table 6.1: Push pull classification factors affecting FDI

<table>
<thead>
<tr>
<th>Home country</th>
<th>Host country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repellers</td>
<td>Attractors</td>
</tr>
<tr>
<td>Labour unrest</td>
<td>Psychic distance</td>
</tr>
<tr>
<td>Political uncertainty</td>
<td>Growth of markets</td>
</tr>
<tr>
<td></td>
<td>Geographic proximity</td>
</tr>
<tr>
<td>Propellers</td>
<td>Resources</td>
</tr>
<tr>
<td>Financial strengths</td>
<td>Targeted organisations</td>
</tr>
<tr>
<td>Experience of FDI</td>
<td>Consumer index factors</td>
</tr>
<tr>
<td>Intuition</td>
<td>Repellers</td>
</tr>
<tr>
<td>Social system of the MNE</td>
<td>Legal circumstances</td>
</tr>
<tr>
<td>Internationalisation/globalisations</td>
<td>Repatriation of funds</td>
</tr>
</tbody>
</table>

Table 6.1 above shows a reconciliation of the repellers, attractors and propellers that are all pertinent to the FDI decision-making process. There are certain general patterns and a basic framework that can be discerned that provides an effective way for explaining and predicting SA firms' FDI decision-making behaviour.

6.3.1.1. Home country repellers – labour unrest

When SA firms focus first on internal barriers to effective decision making, and proceed to reduce these barriers, then the firm experiences success in their FDI efforts. At the same time, unionisation and labour unrest, and the changing fiscal policies at home, further motivate SA firms to go abroad. Imperfections in the local financial markets push SA firms to internationalise in order to diversify and/or to mitigate their home country risk. SA firms demonstrate that because of the volatility of the local markets, they gain advantages through the risk reduction that accompanies international diversification. The qualitative interviews provided the evidence to support the aforementioned observation, as the respondents repeatedly explained that one of the key reasons for investing internationally was to offset the risk of being over-exposed to the home economy. Labour unrest continues to affect performance in the manufacturing, mining and agricultural sectors, with the mining industry being worst hit, and thus creating a reason to seek new locations for FDI. The consequences of labour unrest in South Africa have been pressure on profit margins and the creation of economic
uncertainty; SA companies have had to re-evaluate their investments and their positions in the country.

The ongoing labour unrest has had a negative impact on growth prospects, and this has prompted SA firms to invest in other locations, particularly through acquisitions via FDI. In general, a favourable labour environment is characterised by flexible labour laws, and this also influences the decision to invest. The impact of the unionisation rate (which is indicated by the number of active unions, their status, and membership numbers in the home country) is estimated to be one of the strongest FDI push factors. The more rigid the labour laws, the higher will be the incentive to invest abroad (Jung, 1999). Labour related factors are thus an important push factor for SA firms, as they seek markets where there are no union issues and the workers are more motivated and productive. Labour issues and political agendas were cited as key reasons prompting diversification in order to mitigate the relatively high risk of conducting business locally. The effect of labour disputes in SA magnified SA MNEs' higher returns when they diversified geographically. This is also known as "escape FDI" which is carried out to escape the restrictive legislation and policies of home governments. This is concentrated in sectors that are more highly regulated; most prominently in South Africa, these are the mining and financial services industries.

6.3.1.2. Home country repeller – political uncertainty

An important element identified in the research is that SA firms are keen to diversify so as to mitigate the risks that obtain due to political uncertainty in the home market. They therefore seek environments and locations that are politically stable, predictable and less economically hostile.

FDI decisions are influenced by any form of political risk or uncertainty. Political risk is the risk that arises from the potential actions of governments and/or other influential forces that could impact negatively on the expected returns on investments. SA firms have sought to expand into new locations because the fluidity of the SA political landscape is also creating instability. There are intensifying challenges facing the political leadership in South Africa: as unemployment runs high, labour relations have increasingly turned violent and reports of graft and corruption in the political class continue to mount. The government's slow rate of spending on infrastructure maintenance and development has become a push factor, thus inhibiting the country's economic growth potential. The local economy has seen a slow decline due to continuous infrastructure constraints, epitomised by the lack of a sufficient and reliable power supply that is fundamental to achieving higher levels of growth.

Despite the critical importance to the economy of a continuous energy supply, other glaring inefficiencies in the country's infrastructure also need attention: the road, rail, port, and communications networks and other logistical infrastructure components also need to be maintained and developed in order for the economy to grow.
The South African government’s policies are not stable, but rather exhibit a pattern of continuous (and sometimes arbitrary and capricious) change. This environment of continuous policy change, as has been shown in the evidence from this study, has produced a mixed bag of reactions. There has been some support (in the form of local investment) when policy changes are expected to raise profits/returns. However, even if the proposed policy is perceived to be beneficial, it nevertheless also increases uncertainty, as firms believe (and evidence is mounting to support this) that the policy changes could as easily be reversed, thus increasing the risk that the decision to invest locally was not optimally beneficial for the SA firm.

Another issue identified by respondents is the body of rulings issued by the Competition Commission of South Africa, which has as its broadest goal the objective of serving the ‘public interest’. While this represents an important component of political and social reform efforts in the country, the Competition Commission’s over-zealousness has resulted in it becoming a push factor for some SA firms, motivating them to invest abroad rather than to reinvest in South Africa.

New legislation was also found to prohibit certain practices (particularly mergers) that might lead to the abuse of a dominant position. In South Africa the high levels of concentration of ownership in many sectors, together with the tight oligopolies of only a few producers in other sectors, has provided favourable conditions for authorities to successfully limit anti-competitive conduct, again creating a push factor for SA MNEs.

SA firms face long delays in getting approval from the SA Reserve Bank to sanction the purchase of foreign currency. This delay has often contributed to the investment opportunity being lost.

6.3.1.3. Home country propellers - financial strength

An important characteristic of SA firms, especially with regard to the investments they have made in developing markets like Africa, is their financial strength. This has enabled firms in the sample to pursue their FDI objectives in Africa, despite its infrastructural deficiencies, because they have cash available, or, because of the general strength of their balance sheets, they are able to obtain the requisite financing. The SA economy has produced a number of enterprises that have become world class MNEs with the ability to compete with enterprises in developed markets. South African firms have advantages that are not location-specific, and appear to have more of the characteristics of a MNE from a developed country.

These characteristics translate into strong management and strong brands with dominant market positions. In most of these instances, management has been able to export and exploit their brands’ competitive advantages, all the time supported by their financial strengths. The financial strengths are apparent in the increasing numbers of enterprises being listed on the local stock exchanges, thereby ensuring greater access to financial resources. There are also attributes that are specifically
South African, most notably the ability and willingness to take risks, as was evident from responses gathered during this research. Strong and effective managerial leadership also adds to the advantages afforded by the financial strength of South African companies.

6.3.1.4. Home country propellers – experience of FDI

SA MNEs generally have a wealth of operational expertise and are especially effective in African settings. This includes managerial know-how, and a willingness and ability to network with suppliers and distributors, thus allowing the firms to realise financial synergies.

SA MNEs also favour areas where strategic factors, such as skilled labour and developed infrastructure, have been successfully addressed. However, if the strategic factors have not yet materialised, there is a keenness to accept the challenge and to create or develop the expertise, logistics and infrastructure, as may be required.

From the evidence gathered in this study, SA firms generally initially export to a specific country, thereby capturing rents while simultaneously increasing the knowledge base from which to extend their FDI later. By initially exporting to a single foreign market, SA firms are able to gather sufficient information about the market from within the market to determine whether there is sufficient demand for its products to make full-scale FDI a viable option.

The benefits of learning from experience in this manner helps firms realise lower transaction costs, and there are fewer internal organisational barriers, because they are capitalising on the advantages offered by their import partners' networks of contacts and knowledge of the local economies.

6.3.1.5. Home country propellers – intuition

Evidence from this research indicates that individual managers' personal experience of management within a specific location is an important aspect of FDI decision-making. Marketing managers, who have previously travelled or worked in a targeted location, appear to be in possession of a certain 'intuition' with regard to FDI decisions. By having experienced first-hand the country's culture and business practices, it is easier to gauge the likely operational impact that the potential location's similarities or dissimilarities pose. Furthermore, as the qualitative analysis showed, the value of a director's FDI experience is enhanced when this experience is specific to the intended host country, because the director's awareness of the prevalent business culture in the specific location allows him to use and develop his intuition. The empirical analysis is consistent in its indication that a director's prior international experience enhances a firm's FDI propensity, especially in locations that would otherwise be considered psychically too distant. A director's first-hand experience (subconscious knowledge) enhances his intuition and ability to "read" a specific location. As a MNE's FDI experience increases through various business learning curves, this process provides directors with additional insights and useful information to help choose potentially lucrative locations.
6.3.1.6. Home country propellers – social system of the MNE

An organisation's structure can support the firm, enabling it to carry out its strategic plan. The factors that create the structure include FDI policies, location and type of foreign production facilities, and the impact of FDI on corporate performance. The evidence presented in this research shows that from a utilisation of internal resources perspective, senior management has to support the FDI investment strategy. In addition, both internal management and the firm’s system capabilities must “adopt” the investment, allocating time and skill to the management of the foreign operation. Proper budgetary assessment has to be carried out to assess support for the FDI. A clear indication of management’s commitment to a foreign direct investment is the preparation of a carefully structured and researched plan, which shows the viability of the investment.

6.3.1.7. Home country propeller – internationalisation and globalisation

Internationalisation is commonly described as a process of opening up foreign markets, whereas globalisation has broader implications that are both socio-political and economic. Evidence from this research suggests that South African executive managers are not aware of the distinction between the concepts of internationalisation and globalisation: in their view, the distinction is an academic one, and not one with implications for business. Furthermore, they do not appear to be concerned about the broader impact of globalisation, nor the eventual consequences of a continuing process of internationalisation. However, analysis of the responses identified that internationalisation was seen as a push factor, encouraging firms to move into new locations in order to internationalise the company (mitigate risks of overexposure to a single economy), as well as a globalisation issue, which was considered to be a perspective or mindset that encouraged them to move across borders.

6.3.1.8. Host country attractors – psychic distance concept

Another intuitive factor is the psychic distance concept, an important consideration for firms before embarking on internationalisation. There is a general tendency for MNEs to favour their home country's immediate neighbours, because geographic proximity is usually indicative of cultural familiarity. The evidence presented in this research shows that SA MNEs do consider psychic distance as an important factor in their choice of country for FDI. Two regions were found to be strongly preferred destinations for SA MNEs' FDI: the European Union and Africa. The psychic closeness of these regions is a major consideration in the FDI decision: Africa, because of the language and cultural proximity, and the UK/EU location because of the shortened psychic distance arising from previous colonial ties.

Africa has a low psychic distance from home, where psychic distance is extended by factors such as differences in language, culture and business practices that could prevent and/or disturb the flow of information between the enterprise and the world (Arenius, 2005; Nordström & Valhne, 1992; Brouthers & Brouthers, 2000).
6.3.1.9. Host country attractors – growth of markets

In a firm’s search for new markets internationally, the growth potential of the host country's market has to be considered. Equally, the potential of the market, and opportunities for product development, are variables that will help define and drive the strategic goals of the firm. No firm ventures abroad without profitability in mind, and SA firms are no different. The existence of a rapidly growing foreign economy signifies a market opportunity for SA companies to explore, particularly for firms experiencing saturated sales in the home market. In other words, FDI carries the hope of better profitability. Saturation of the home market is a push factor, driving expansion into other markets. Successful FDI carries an additional benefit in that it allows the firm to reduce its dependence on the home market.

The intensity of competition in the home market is an important factor in deciding whether to embark on FDI. A firm’s market position, its gross profit from local sales and its ability to grow these, become push factors favouring FDI when local sales begin to stagnate. SA MNEs are committed to investing in emerging markets as they provide substantial new growth prospects. Africa is an attractive destination for SA firms as economic growth in Sub Saharan Africa is expected to grow at 6% per annum for the foreseeable future. Furthermore, Africa has a large population, rising levels of affluence, and a growing demand for innovation and technology, which have collectively made it an attractive destination for FDI. Africa has also been able to withstand global economic shocks due to its geographical location. All of this has pulled foreign investors to Africa.

Other developing countries receive FDI from SA because, as was evident from the research, these economies have liberalised trade agreements, have implemented free market policies and have thus created new investment opportunities for SA firms in that these previously underserviced markets increasingly need to be serviced. Most importantly, as was explained by the interviewees and was evident from the research, the attraction of these markets lies in their size, the stability and growth potential of the economies, as well as the availability of labour.

The study found a positive correlation between a growing economy and FDI inflow from SA firms.

Good investment opportunities are the main attraction for SA MNEs for whom “good” means that the higher risks are more than compensated for by exceptional income generation opportunities. A large and expanding consumer market (particularly if it includes rising rates of disposable income) in a potential location is an attractive feature for SA MNEs.

6.3.1.10. Host country attractors – geographic proximity

Geographic proximity has a direct impact on transportation costs to the firms. SA firms recognise this in their preferences for investing in markets that are geographically close to their home base, in order to minimise transport cost, associated import tariffs and similar import restrictions. Rising oil
prices and volatile currency exchange rates all add to the importance of minimizing geographical distance for SA MNEs when justifying their FDI decisions.

Geographically, South Africa is an integral part of “the rest of Africa”. When SA’s borders with the rest of Africa were opened, and trade barriers were removed, it was a perfect opportunity for a country with a developed infrastructure to invest in Africa. “The rest of Africa” is therefore a favoured FDI destination because of the proximity to South Africa.

6.3.1.11. Host country attractors – resources

Natural resources continue to attract investments from SA MNEs, because Africa has abundant and under-exploited resources. The tendency is for the SA mining companies to acquire operations in local mining industries. SA firms have world-class capabilities in the mining sector and enjoy a strategic competitive advantage in terms of their technical expertise in the mining industry in Africa, and this has enabled them to become aggressive in their pursuit of FDI in Africa. (The availability of natural resources remains the key pulling factor for SA FDI flows into Africa – Zimbabwe’s massive platinum reserves being a textbook illustration of the phenomenon.)

6.3.1.12. Host country attractors – targeted organisations

The ownership structures of SA-owned foreign entities shows that SA firms prefer to control their foreign investments in order to participate fully in the decision-making processes. SA firms favour wholly owned subsidiaries (the most common ownership form), followed by majority-controlled subsidiaries. Despite this significant preference for full control, joint ventures are another popular choice for SA MNEs because, by acquiring a 50% share in a local business, the firm also acquires the local skills required to help the firm overcome cultural and language barriers, as well as coping with administration and marketing tasks. Joint ventures allow investor organisations to buy into the local conditions, and to access the local business networks and knowhow with regard to local administration and distribution channels. Most SA MNEs’ partnerships are with private companies. The choice of company targeted for partnership is also dependent on the sector a firm intends entering, as well as the background and experience of the SA MNE. Greenfield investments are in fact preferred by companies that have international experience, whereas in locations with high risk exposures, the preferred approach is the use of joint ventures.

6.3.1.13. Host country attractors – consumer index factors

When firms seek new markets that have not been served previously, they have to identify locations and consumers that are similar with regard to product related needs and wants. This is known as micro-segmentation, which uses the demographics of the consumers in the potential market: specifically, their age, occupation, education, income, ethnicity, race, lifecycle stage, social class,
and degree of urbanisation are all factors that have to be taken into consideration as part of the location decision.

Psychographic factors such as lifestyles, values, attitudes, and the interests and opinions of the consumers are also as important as the per capita income of the consumers. Social and economic forces have increased disposable incomes of consumers, creating more sophisticated consumers, and firms have to provide products and services that will satisfy consumer needs. Firms use consumers’ per capita income and standard of living as a measure of the expected growth of a location. Assessment of lifestyle patterns provides firms with a three-dimensional view of consumers, thus assisting them to plan an entry strategy into a potential location.

Another consumer index factor, that is, using demographics like gender, age and education, helps give firms a competitive advantage and form a better understanding of the potential market. Education levels help firms develop products to suit consumers with particular education levels. Cultural values, also a consumer index factor, help firms realise that consumers from different cultures may respond to different product attributes. Cultural values are generally recognised as a powerful force shaping consumer motivation, lifestyle and product choices.

Using the above factors, a consumer index was created which showed that SA MNEs consider purchasing power of consumers and the per capita income of consumers as important determinants for SA managers when considering FDI, and that consumer preferences and lifestyles are the next most important two factors that would be considered by management.

6.3.1.14. Host country repellers – legal circumstances

SA MNEs also possess proprietary knowledge in the form of patents, brands and registered copyrights, and are therefore often vulnerable to infringement, as was evident from the research. This can require legal intervention to enforce these rights, which can be costly, particularly in a foreign jurisdiction. However, despite this cost, the evidence from this research shows that SA firms are adamant that their legal rights must be protected.

SA MNEs have found that rules serve power, and power more often than not clusters around wealth. That is, rules are set by people that have an ability to control policy and a desire to maintain their own privileged positions. SA firms operating abroad have to comply with local laws and regulations, and therefore the first step to achieving compliance is to understand legislation. Most of the SA firms find that the labour and tax legislation is problematic because each country has its own unique laws. However, a positive aspect of Africa’s national legal systems is that at least superficially, the majority of countries have used the English legal code as their basis, making them a more attractive destination for SA’s MNEs because of the similarities with South African laws.
SA companies in Africa have also struggled with labour issues in general, and particularly when trying to find suitably skilled labour. They have also had problems when dealing with legislation that protects employees, as this usually negatively affects the anticipated returns from the FDI.

SA firms have also experience delays in securing access to land, and in obtaining building permits in Africa, because traditionally, land and property rights are communally owned.

Mining companies have become vulnerable to changes in host-country legislation. A mining license must be approved by the host government, but the license can be rescinded on a whim. The host government can also revise or impose additional legislative requirements, default on its contractual obligations, and even revoke previous concessions. Unplanned regime change is also experienced on occasion. The inability to obtain security of tenure remains an important barrier to FDI for SA firms operating, or wishing to operate in Africa.

A uniquely South African issue that haunts most of the firms participating in this study is the need to obtain prior approval of their intended investment from the SA Reserve Bank’s financial surveillance department. Most of the firms indicated that this was a particularly frustrating, time-consuming and cumbersome task.

6.3.1.15. Host country repellers – repatriation of funds and tax holidays

Tax holidays, tax benefits, and the repatriation of funds, comprise another important trio of factors considered by SA firms, because ultimately these are key to the firm being able to realise its primary objective – profit. An important consideration is therefore the degree to which the company will have the right to transfer profits out of the host country, and thus to realise a return on its investment.

A concern faced by all SA MNEs is the relative ease with which governments can change their policies. These changes can impact on the repatriation of earnings, and at its worst, manifest as the expropriation of assets. A stable political environment (in which corruption tends to be low), with good tax incentives, lower tax rates and a positive investment climate, are all important drivers for SA MNEs. (Illustrative of the ease with which policy can change are the recently introduced Indigenous Peoples Policies in Zimbabwe and Zambia. These have created new challenges for SA mining firms operating in these regions.) The range of legislation and red-tape-related problems they have encountered have constrained their current operations, and caused them to review their futures. Some of the SA MNEs have found that they have become easy targets: by making it difficult to repatriate their profits, for example, most governments are effectively forcing MNEs to contribute in excess of the legislated financial requirements.

SA firms’ investment decisions also depend on factors present in the host country that could affect a firm’s profitability. Even though Africa’s large markets make it attractive, SA firms are additionally
attracted by factors such as favourable tax incentives, and particularly tax holidays. However, the other extreme is also present: some foreign locations protect their own local industries, and the use of a foreign investment review board serves this end. This is manifest as cumbersome legislation and onerous compliance requirements for new firms wishing to enter the country, and this has become a deterrent to investment for SA firms.

6.4. CONCLUSION

The study aims to make two fundamental contributions to the extant literature: methodological and theoretical. In the first instance, the study uses both quantitative (nomothetic) and qualitative (idiographic) methods in a triangulated methodological synthesis to obtain a more complete picture of salient factors senior managers' of South African multinationals consider in FDI decisions than is currently available in the literature. As mentioned earlier, the extant literature on FDI decision-making relates largely to a 'researcher's eye' objective national market perspectives and tends to ignore the subjective, phenomenological elements that occur in the actual FDI decision-making process almost entirely.

In the second instance, that relating to theoretical contribution, the study, by using Brewer's (2007) model of psychic distance as a basic theoretical edifice, and by considering the shortfalls in that theory uncovered in the psychic distance paradox, aims to develop empirically-based repeller/attractor model. This model is aimed at contributing to the knowledge in the area by providing a novel theoretical perspective that develops Brewer's (2007) largely 'push' or 'repeller'-oriented model and, thereby, present a possible theoretical solution to the psychic distance paradox.

The employment of both quantitative and qualitative approaches to study the rationale for FDI offers a new dimension to research in the area of business decision-making processes, and is in line with more recent methodological approaches. The research emphasises actual decision-making behaviour, rather than extrapolations from the assumption that MNEs' executives are perfectly rational 'homo-economicus-type' people with complete information, and this provides greater insight into the complexities of the processes involved. The quantitative and qualitative triangulated approach has added a new dimension to understanding FDI by MNE. A clear cut example of the methodological importance of this is in the apparent unimportance of psychic distance quantitative analysis that was 'explained' in greater depth by the qualitative data.

The aim of this research has been to draw from both the qualitative and quantitative analyses of the foreign investment decision-making process some broader theoretical implications, and to add empirical depth to business theory.

This research has attempted to determine the dominant factors that influence SA firms' FDI decisions, and to explain the foreign investment behaviour of SA firms. In addition, the research has
sought to provide explanations for firms' reactions to different factors inherent in a location. This was achieved by examining the behavioural aspects of executives' personal experiences with preferred locations.

The conclusions of the study are broader still, as both the qualitative and quantitative research revealed certain general patterns and factors that help understand the decision-making process in FDI. There is a considerable chasm between homo-economicus assumption-based theories on FDI and actual behaviour of business enterprises through their management decision making processes. There is awareness in the businesses themselves that a firm is not merely some collective form of entrepreneur, but that it embodies its own interrelated social systems and economic organisations that act on behavioural, experiential and attitudinal levels, as well as rational responses to purely business factors.

SA MNEs demonstrate the same primary motivation for FDI identified in the literature – that FDI is undertaken in pursuit of competitive advantages. SA firms strive to find a favourable socio-political environment into which to expand, as this factor has an important impact on the firms' operational stability and performance growth. Africa is the preferred FDI destination of the majority of MNEs surveyed because of the minimal psychic distance between the rest of Africa and South Africa. Additionally, SA firms have individual and specific competencies (developed in and thus suited to African markets) that they wish to develop via economies of scale and organisational learning. SA firms are better able to align their location selection to global integration aspirations, and thus to enhance overall firm performance and increase economic rents.

The evidence presented in the thesis shows that both micro- and macro-economic factors influence the FDI decision-making process, in addition to socio-political and legal factors. When a firm initially chooses a specific location, the important preparatory issue is to estimate the likely impact of both the micro and macro factors, and the socio-political and legal factors on the investment over the long term, as this is key to determining the feasibility of the investment.

The findings of the study are significant in that they help identify factors that influence the overall decision-making process regarding FDI location for different industries. Previous research has identified many of these factors, but has generally focused on firms in single, specific industries, and/or on purely quantitative analyses. These findings have identified certain core factors that are pertinent (and are usually considered by managers) for companies operating in a variety of industries that wish to invest in foreign locations. In addition, the research has revealed peripheral variable factors that are industry specific.

Although the study focuses on MNEs from one country and uses a small sample, it has provided clear behavioural insights into the theoretical aspects that influence FDI decision-making. The
research has also provided a list of general factors, as well as sub-lists of industry-specific factors that influence the FDI decisions of South African MNEs. In this way, the study contributes to FDI theory while simultaneously offering insight into practical aspects of the decision-making process of South African firms undertaking FDI.

The study aims to provide managers with a better understanding of the salient factors influencing the choice of location for FDI of SA multinationals, and offers empirical data and a theoretical base that provides additional managerial insight into the FDI decision making process.

In conclusion, the study has described a set of factors, both core (generic) and industry-specific, that influence the actual FDI investment decision making process in South African MNEs, and which underlie the decision-making process involved in favouring certain locations over others for their FDI.

The nature of the research domain has dictated that the research into FDI decision making is largely descriptive rather than prescriptive. In short, the study has shown unequivocally that aside from a basic number of core factors, FDI decisions depend on qualitative aspects of particular management experiences, their individual and collective personalities and perceptiveness, as much as on the quantifiable business rationale.

6.5 LIMITATIONS OF THIS RESEARCH

Like all such research endeavours, this study has various limitations. Firstly, despite the benefits that mixed methods researchers can derive from its implementation here, this approach is a challenge in that it requires more work, and more time than singular methods. These practical difficulties to a large extent limited the current research in terms of sample planning. As has been noted in Chapter 3, the quantitative and qualitative studies are not fully matched in their samples. The quantitative data was collected from 278 companies; however, the qualitative interviews were conducted within the boundaries of South Africa and consisted of 26 interviews. In addition, the empirical studies were conducted using a sample of South African firms; however, the qualitative study was conducted with executives drawn from a far more limited pool of industries. In addition, because of the problems with access to targeted interviewees, and the sensitivity of the research topic, participation was largely dependent on the participants' willingness to help the researcher, and may thus not have achieved the purpose of maximum variation. Given the sample size, the generalisability of the findings are limited by virtue of the sample size and the effect that the sample was a purposive sample of MNEs in a South African context. Also the qualitative material was obtained in many cases from a single person in a senior position and this may have had different perspectives if a broader segment was used. Further, the senior managers that is, the chief executive, in most instances tends to reflect board member decisions in their commentary. Although this is not the same as asking everyone on the board, it usually is a consensus opinion. However the qualitative and quantitative aspect and the utilisation of triangulation has given a potentially more complete and valid account of
FDI decision making which would now require further collaboration of a larger sample of multinational industries in other countries in Africa.

Secondly, for the qualitative component of this study, the fact that the research topic involves sensitive information not only makes it difficult to get access to targeted interviewees, but also makes participants very cautious about providing specific and in-depth information.

Thirdly, the qualitative part of this thesis shares some common problems with other qualitative research. Published literature argues that qualitative research may have potential bias imposed by the researcher in the processes of conducting interviews and analysing data (Bryman, 2004). The researcher in this current study recognises that this study is not free from subjectivity, and her experience, knowledge background, and bias may have influenced the research processes, particularly in the areas of sample selection, formulation of interview questions, and data coding. In order to reduce the bias, the researcher tried to be as thorough and consistent as possible throughout the data collection and data analysis stages of the process. For example, interviews were carefully transcribed and the transcripts or notes were checked with interviewees so as to ensure that the collected raw data was unbiased, and represented the interviewees' views and intentions accurately; data was coded following a consistent and systematic coding procedure and interpretation was routinely discussed with supervisors. Moreover, as in any other qualitative case study, this research suffers from the problem of generalisation. The findings of this study are relatively specific to the entities and their industries, and therefore difficult to be seen as universally representative. However, the empirical results presented in this thesis may nevertheless provide a usable insight into the FDI decision-making processes that could be informative in other settings, and thus achieve analytical (or theoretical) generalisation (Yin, 2003).

Fourthly, for the quantitative part of this thesis, as was discussed in chapter four, there was a level of information that was missing as some of the participants failed to respond to all parts of the questionnaire and/or the interview questions, and this reduced the efficiency of the statistical analysis and the quality of quantitative data (see Chapter 4).

6.6. PRACTICAL IMPLICATIONS

The findings indicate that FDI decisions are multifaceted and that the psychic distance deficit model does not adequately take account of actual factors brought to bear in FDI decision making. In particular the study suggests that FDI decision making involves a process of considering pertinent attractor and repeller factors that pertain to particular foreign investment destinations and that these vary with changing international circumstances. The study has shown clearly that these are from those indicated in the deficient model which impinge on management decision making process and need to be taken into account in explaining FDI decision making.
6.7. FUTURE RESEARCH

Future research could benefit from the current research work in that it provides a methodological and conceptual foundation on which to build further understanding of the complexities of FDI decision-making processes. Future studies should aim to conduct more extensive tests, with samples being drawn from other South African industries and/or firms in similar industries from other countries in Africa. Such research would test the current study's specific hypotheses more extensively, and present further both evidence regarding the utility of adopting a mixed method approach and an attractor-repeller model in describing and explaining MNEs executive managements' FDI decision.
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APPENDIX 1:
QUANTITATIVE QUESTIONNAIRE

SALIENT FACTORS IN EXECUTIVE MANAGMENTS’ FDI DECISIONS: A STUDY OF SOUTH AFRICAN MULTINATIONAL ENTERPRISES
University of the Witwatersrand
School of Accountancy

Who should answer the questionnaire?

It would be greatly appreciated if the person responsible for FDI in your organisation answers the questionnaire.

Most of the questions require your considered opinion. Please answer the questions on the basis of your experience in the international market selection process which resulted in your company’s success.

- Confidentiality and use of data

All data gathered in the survey will be treated in strict confidence.

Your answer to each question will enable us to gain insight into this important aspect of South African Multinational functioning and it provides important data for a PhD research program. So we greatly appreciate your support and cooperation.

Contact person:
Tasneem Joosub
MCom CA (SA)
Email – Tasneem.joosub@wits.ac.za
Tel – 011 7178244
1. Personal Details: _______________________

1.1 Name of Respondent _____________________

1.2 Position held by respondent: e.g. CEO or CFO ___________________

2. Company Details

2.1. Name of Company ____________________________

2.2. In which of the following categories does your industry fall? (Please click on the most appropriate number).
   - Mining 1
   - Oil and Gas 2
   - Service 3
   - Manufacturing 4
   - Fast Moving Consumer Goods 5
   - Other (Please Specify) 6

2.3. In which of the following ownership categories does your company fall? (Please click on the most appropriate number)
   - South African owned sole trader/partnership 1
   - South African owned proprietary company 2
   - South African public company 3
   - South African government enterprise 4
   - Subsidiary of a foreign multinational 5
   - Others (Please specify) 6

2.4 In what phase of the product life cycle concept is your primary product positioned? (The primary product can be regarded as the best selling product in your firm) (Please click on the most appropriate number)
   - Introductory phase 1
   - Growth phase 2
   - Maturity phase 3
   - Declining phase 4

3. In which country or countries do you have FDI and what is the approximate turnover from these countries?

3.1 FDI
   - Country __________________
   - Country __________________
   - Country __________________
   - Country __________________
   - Country __________________
   - Country __________________
   - Country __________________
3.2 Turnover:
- Country __________
- Country __________
- Country __________
- Country __________
- Country __________
- Country __________
- Country __________

4. Entry Method:
What entry channel or channels does your company use to enter a foreign country? Please click on the appropriate choice.
Briefly give reasons for choice of entry channels.

1. Merger & Acquisition □
   Reason ________________________________

2. Joint Venture - Majority shareholder (≥ 50%) □
   Reason ________________________________

3. Joint Venture - Minority shareholder (< 50%) □
   Reason ________________________________

4. Strategic Alliance □
   Reason ________________________________

5. New Investment (Greenfield) □
   Reason ________________________________

6. Other (please specify below) □
   ______________________________________

5. Motive for Entry:
Why has your company entered other foreign markets? Please tick which of the following reasons relate to your foreign market entry decision? Reasons for entry can be given under the headings:
5.1 Market seeking/ Market growth

1. Profit/ growth 
2. Closeness to local customer base and needs 
3. Defence of market i.e. responding to competitors
4. Agglomeration (FDI attracted by the concentration of firms within the same sector ).
5. Saturation-competitive local markets

5.2 Efficiency seeking/ Improved productivity

1. Local incentives e.g. tax, reduced admin etc.
2. Resource seeking i.e. cheaper labour
3. Source of skills
4. Source of Capital

5.3 Strategic/ Diversification of risk through the creation of a portfolio of operations

1. Socio-political motives e.g. to establish agreements, to win favour with local governments initiatives
2. To create local alliances

5.4 Other motive for entry (please specify below)

6. In which of the following categories does your company's international turnover fall into? (Please click on the most appropriate number).

- Less than R300 million 1
- R300 to R900 million 2
- More than R900 million 3

7. How long is your company involved in international business? (Please click on the most appropriate number).

- Less than 1 year 1
- 1-3 years 2
- 3-5 years 3
- More than 5 years 4

8. In which of the following categories does your company's international involvement fall? (Please click on the most appropriate numbers - you can select more than one if applicable).

- Export 1
- Direct investment 2
- Joint venture 3
- Licensing/franchising 4
- Others (please specify) 5

9. Factors influencing investment destinations:

The following questions aim to investigate the most important factors that a firm should consider when thinking of investing in a foreign country, with 1 being very unimportant and 10 being very important. Please add any additional comments that you feel might be relevant to the topic.
9.1: Political stability and governance
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.2: General Macroeconomic stability.
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.3: Exchange Rate Stability
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.4: Trade Incentives, and Trade agreements
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.5: Infrastructure Quality
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.6: Human Infrastructure.
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.7: Market Size and GDP Growth.
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.8: Geographical Proximity to South Africa
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.9: Economic Agglomeration
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10
9.10: Social and Cultural proximity
1 is very unimportant  5 is unimportant  10 is very important

1  2  3  4  5  6  7  8  9  10

9.11: Please feel free to add any additional factors that you feel should be considered when investing in foreign African markets and rate these factors accordingly:
Factor: ______________________
Rating:
1 is very unimportant  5 is unimportant  10 is very important
1  2  3  4  5  6  7  8  9  10

9.12 What aspects of the above factors are of particular concern to your firm?
______________________________________________________________
______________________________________________________________
______________________________________________________________

10. Psychic Distance
Which of the following aspects do you consider as important (unimportant) in deciding on the internationalisation of your business: On a scale of 1-10 where 1 is very unimportant and 10 is very important:

- Commercial ties (i.e. imports and exports of both goods and services)____
- Political ties (i.e. political relationships between countries)____
- Historic ties (i.e. past colonial relationships or joint participation in wars as allies)____
- Geographic familiarity (i.e. closeness and familiarity with country’s borders)____
- Social ties (i.e. cultural similarities between countries)____
- Existing country information stock (i.e. knowledge of the country’s trade and familiarity with its citizens)____
- Level of socio-economic development (i.e. compatibility of business practices and level of corruption)____

11. Consumer characteristics
On a scale of 1-10 where 1 is very unimportant and 10 is very important:
When considering FDI into new markets, how important do you consider the following listed consumer aspects in your business strategy:

- Per capital income of consumers in the foreign market____
- Purchasing power of consumers in the foreign market____
- Lifestyles of the consumers in the foreign market____
- Consumer preferences in the foreign market____
- Level of literacy and education of the consumers in the foreign market____
- Cultural values, beliefs, attitudes and traditions of the consumers in the foreign market____
12. International strategic management experience
   Please tick the appropriate answer

12.1 Has management involved in international strategic decision making in your company lived and worked abroad?
   yes   no

12.2 Does management involved in international strategic decision making make regular business trips overseas?
   yes   no

12.3 Does management involved in international strategic decision have international transaction experience?
   yes   no
APPENDIX 2:
LETTER TO RESPONDENTS

Letter to respondents to partake in the interview:

Dear Sir/Madam

I would like to thank you sincerely for volunteering to take part in this research, titled:

Salient factors in executive managements’ FDI decisions: A study of South African multinational enterprises

The information obtained will be treated with the strictest confidentiality and will be used solely for this research purposes only.

Before commencing with any data collection exercise I will first explain the research and what each of the participant’s role will be. I will explain how I will go about the research and how the audio recordings will be done.

I would like to thank you in assisting me in this research. I hope that the information obtained from this research will benefit you most in identifying different strategies, for the FDI decision making process.

Yours sincerely

-------------------------------------------------------------
Tasneem Joosub
Senior Lecturer
University of the Witwatersrand

If you are willing to participate in this study, please sign this letter as a declaration of your consent, i.e. that you participate in this project willingly and that you understand that you may withdraw from the research project at any time. Under no circumstances will the identity of interview participants be made known to any parties/organisations that may be involved in the research process.

Participant’s signature ..................................................... : Date: ...........................................

Researcher’s signature ..................................................... : Date: .............................................
APPENDIX 3:
QUALITATIVE INTERVIEW GUIDE

RETAILER 5

1. Do you perceive a difference between globalisation and internationalisation?
There is no difference

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.
We wanted to diversify our risk, which we felt was only restricted to South Africa, it was necessary to explore new growth opportunities, and we also wanted to exploit our capabilities, in other regions. Seeking new markets and growth is all linked in, however we won’t expand unless we have done the proper research in terms of a detail due diligence of the prospective market. Due diligence on the company and on the country, that is on the economy and the region, by looking at legal, political, tax and political risk.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.
We have found that subjectively it has been easier to invest in Africa because of the proximity of the region to South Africa. Because of the different language regions, we try and strategise based on the differences apparent in the region.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?
We wanted to grow the company and diversify some of our interest out of South Africa.

5. What FDI barriers do you face in Africa?
Political uncertainty, corruption, inability to enforce contracts or breach of contract situations. Credit worthiness or debtor worthiness. You can lose a lot of money because clients don’t pay. Another big concern for us is the continuous changing fiscal policies which does make it difficult to operate in the region. Finding skill labour is another issue which we do face in Africa, but aside from that a problem that is faced with regards to labour is in terms of retrenchments or disciplinary actions, some of the labour regulation is very draconian and very difficult to work through. Competition, is prevalent and the local competitors in the form of owner managed businesses tend to undercut prices, to retain clients. We are involved in fast moving consumer goods, so moving inventory into Africa is another barrier which we do face, in the form of border inefficiencies. There is a lot of corruption at the border posts, and if you don’t comply with border regulations, you end up sitting with all your goods at the border for days on end, leading to huge delays. There is also the problem with perishables which adds to the overall cost of inventory. We ship other construction equipment for other clients. We do logistics for other clients. Governments are pro and are generally for investments. Repatriation of funds, has been a problem in Zimbabwe, but the indigenous plans in Zimbabwe has not impacted on our industry.
6. What FDI barriers do you face for countries outside Africa?

N/A

7. What attracted you to invest in Africa?

Africa is a growing market with potential, and we had to expand into Africa in order to service our customers who have made relatively large investments in the different regions in Africa.

8. What attracted you to invest in countries outside Africa?

N/A

9. What are your entry method strategies? Why do you use these strategies?

We do more alliances and joint ventures. There are some areas, where we had to do acquisitions. With regards to joint venture, we find it easier in order to overcome language and cultural or any other business related barriers, because partnering with the joint venture gives us the relative expertise quickly, in order to expand into the region.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

Do your homework very thoroughly, that is both on the country and potential partner. Have an alliance or partnership with someone already in the country.

AUDIT 1

1. Do you perceive a difference between globalisation and internationalisation?

Internationalisation is going into new locations in order to internationalise the company, whereas globalisation is when your company is able to have a global network.

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

Our business expanded into Africa in order to serve our clients in Africa, we have been in Africa for 20 years or longer however we were only doing audits and now we expanded on our services in order to provide a better quality of service to our clients across the continent.

Our growth point had reached saturation in South Africa, and we found that Nigeria, Ghana, and Kenya, Angola, Tanzania, and Mozambique are the new growth areas, because of mining resources, oil and gas finds in the region.

There was a lack of good quality audits in Africa, and when you dealing with large conglomerates, its essential that you are able as an audit firm to provide the required quality that most MNEs expect from their auditors.

However a problem in most regions in Africa, is the lack of resources, especially in our field being the lack of skilled labour, also there are not enough credible institutions, that is universities that are able to provide the required level of training for accountants, and that which would meet international standards. In Africa, most of the accountants that are operating in the region are in fact trained or educated in the UK, South Africa, or
the US or even France. The reality is that most of the regions in Africa are poor economies, because money is not in abundance, therefore education is sought internationally. Skills and availability of skills is the biggest barrier that we do face on the continent. We therefore move skills from South Africa to Kenya, and we move Kenyans to South Africa, because most Kenyan accountants have been trained at world class universities.

Another issue which we face as an auditing firm, is the consistent application of accounting standards and international financial reporting standards. We want the same level and cohesion across the board, that is at every African office. So to achieve this, we train everyone on a continuous basis via technical updates, and try building centres of excellence.

Infrastructure is the biggest challenge on the African continent. Most of our clients have expanded because of the abundance of resources in Africa, for example, gas finds in Maputo so we have to be able to provide advice on project controls on processes to control budget. We have the expertise to provide consultancy service for these types of costs and projects which our clients are venturing into.

Transnet has invested in a R800 billion project. So there is a value chain that has to be created, and again we have to be able to provide engineering, financial controls and IT controls.

Insurance companies that have ventured across the border also require specialist service in the form of actuarial service to confirm balances, and again we have actuaries in our practice that are able to provide this kind of service. We also provide legal services for the MNEs, that is tax implications for MNEs operating in Africa.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

Well investing in Africa was steered by subjective factors...we are an African firm, so Africa was a natural choice. Culture, language, political ties and historic, as well as colonial ties would all apply!

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

Africa is the flavour of the month, so we need to address this. Another advantage of Africa being flavour of the month, is that we have expats wanting to come back to their home countries, so presently we are able to obtain global skills which these young accountants are exposed to UK and US. We must invest heavily in skills in order to be able to provide the service.

5. What FDI barriers do you face in Africa?

Finding the right talent and skills is an issue in Africa

You have to have the right strategies to cope with the risk. Skills is the biggest risk. Another big risk we face is the client acceptance. So to minimise this risk, we follow strict client acceptance procedures.

To avoid bribery and corruption, we only deal with global multinational companies, because most MNEs will not perform unethically. We therefore do not deal with any local small companies, and also because we don’t know the ethical and governance structure of the different countries, so we try and stick to MNEs, we therefore work with majority of the fortune 500 companies.
Risk of delivery, we have to ensure that the quality of the service across the continent is consistent and of the highest quality and by well-trained individuals.

Language is an issue which we do face in Mozambique and Angola. But we do have our business school where we train people in language skills to reduce risk. We also try to source staff who are proficient in Portuguese. We also try to develop locally, because our strategy is that each office, the core of the staff must be local people.

Another issue is the technology, that is connecting to the internet or video conferencing. This has improved since the underwater cable was installed. Infrastructure is also a problem in Africa. So if you are trying to get to meetings, you have to leave earlier because of the bad road networks. Exchange control is not an issue, because most of the economies in Africa are dollar based. However, Nigeria is an issue with regards to exchange control, because they have some strict controls with regards to foreign currencies.

We are a talent based organisation, so work permits become an issue, especially when we are trying to move staff around the different offices. A problem in Africa, is that most of the economies are protectionist industries, so they prefer that you source locally rather than import talent from other locations.

Different accounting standards are not an issue in most regions in Africa, however in the francophone, that is the OHADA region, it is still a problem, because they use accounting systems and rules based on the old French system, however we would then use the local resources and expertise to deal with this issue.

The auditing standard of ISA 250, that is complying with laws and regulations would ensure that we do comply with the different legislation in all parts of Africa.

There are unethical clients everywhere, and due to difference in culture, what is ethical in one country might not be ethical in another country, so we have to be careful in terms of which clients we take on. However, globalisation has contributed to the increasing governance, that is businesses have become more aware and are becoming more ethical in their approach. We don’t entertain bribery or corruption and we won’t take on clients that have a negative or unethical reputation.

Most regions, we have found the government to be pro, that is we don’t have issues with governments, in any of the regions, because we are providing a service. The only time we do face a little bit of resentment is when we have to carry out forensic services on a state owned company, or a company with government shareholding.

Africa is becoming more democratic, and this is helping businesses to grow, and is helping to reduce the risk overall.

Social media has also contributed because it has a huge impact with immediate repercussions.

6. What FDI barriers do you face for countries outside Africa?

N/A

7. What attracted you to invest in Africa?

By having the local offices in Africa we can provide the clients with the expertise that the client requires. For example, tax structuring is important for our clients, and every company wants to maximise tax position by
having global expertise, we can provide the expertise they require. We tap into our global expertise, and that’s the value we provide to our clients. In Africa all our offices fall under the South African offices. So for example if a company needs financial advice, and there are only 8 partners in the Tanzanian office, but by having access to the South African firm, the company is now able to access the expertise of the entire South African firm with over 400 partners.

8. What attracted you to invest in countries outside Africa?

N/A

9. What are your entry method strategies? Why do you use these strategies?

Our strategy is to amalgamate our offices across the continent, with one support centre, however there are local restrictions, whereby you have to have local partners only in an office sharing profit, which is the case in Kenya.

We have used mainly mergers, to take over partner offices and merge them into one firm.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

Africa is not one country…. you need to understand each country in Africa separately. Do your homework, and make sure you will be able to achieve your objective.

BANK 1

1. Do you perceive a difference between globalisation and internationalisation?

Globalisation and internationalisation is used interchangeably. globalisation is a prospective or mind-set to move across borders. Internationalisation is where we interrogate opportunities for further expansion on an international basis.

2. Please can you tell me the objective reasons for having invested in certain countries, such as for example, the economic environment and labour legislation?

We look at growth indicators, that is GDP, FDI and political stability, as well as the international transparency index before we internationalise. We also determine our risk appetite in terms of revenue pools for specific client segments, and then using credible sources, based on management decisions we expand into certain locations.

In terms of specific locations, we look at opportunity which is normally driven by macro-economic factors and the long term future predictors of the market. We also look at the size and growth of the new market, and the ease of doing business in the new location. Competitors, market share, potential competitors, regulatory landscape, reputational issues and perceived corruption are also issues that we determine before making the decision to invest in a market. Will we have a competitive advantage, that is the ability to compete?

We need to know our internal strengths.

We also had to expand our services in Africa because our client base, that is our corporate clients have moved
and we had to move in order to serve our clients.

With regards to all of our investments we look at the economic conditions, that is product capability, secondly we look at the market conditions and channel capability of the location.

3. **Please can you tell me subjective reasons for having invested in certain countries, such as for example, familiarity with the culture and language, historical ties, etc.?**

In Africa, in terms of legacy, our parent company always maintained a footprint in all the former colonies in Africa, which were all part of the commonwealth. The parent company in terms of their strategy preferred investing in previous commonwealth countries, and therefore in terms of expansion, we with our parent are now expanding our investment, by providing further services in the region, because we already have the footprint and the infrastructure, so it’s about providing a broader service to our clients in Africa. Africa also has similar customers to our retail.

We were also pulled by a want in Africa, in terms of a need for financial services. There is also the overall culture in Africa in terms of unification, whereby an African company would be better than a totally foreign company.

4. **What are your business strategy reasons for investing internationally? for example, is it for expansion diversification or some other reason?**

Diversification of income stream from South Africa. We felt that the relative growth opportunity sits outside South Africa because South Africa has become too mature. Even though Africa is high risk, it has expected high growth. You have to expand to grow because of saturation. The parent company is using us as the vehicle to drive expansion into Africa, and it helps to deepen our presence, that is by expanding on the services we provide and thereby broaden our market share.

5. **What FDI barriers do you face in Africa?**

Being South African can be a barrier. You can’t be arrogant with your investment in Africa. We try and complement the level of skill, and try to be completely localised with our investment, that is with each investment we try and use as much local talent as possible. However, there is a shortage of skills. In Africa foreign exchange is a problem from a global consolidation perspective, because when we translate into one currency we do incur losses. Africa does have competition, because it is a growing market so it is attractive to other global MNEs. Our company’s brand name is a barrier we face in Africa, and therefore we are expanding rather with the parent company’s brand name, because it is a stronger brand. Landownership is a problem because of property rights. Security of IP is a problem; therefore, our goal is to become inimitable. it is important in Africa to get the blessing of government. In Africa skills shortage is a problem, and we try and fill the positions internally by using expats which would then provide a dual role, by providing training, and as we invest in local skill, we then try to localise completely. Most tax legislation in Africa is very complex and there are different regulatory requirements, however we try and ensure that we comply and keep on track with any new developments.

In Africa there are frequent changes in governments, and fiscal policies which does impact on our business model. Other risk faced in Africa is general country risk, high inflation and exchange risk due to continuous volatility of the currencies.
In Africa shopping centres are very scarce, and that’s where we would serve our retail clients.

We have found that we do need to tailor and modify our product and service for the different markets.

6. What FDI barriers do you face for countries outside of Africa?
   N/A

7. What attracted you to invest in Africa?
   Fastest growing economies, and the fact that we already held a legacy footprint via our parent company.

8. What attracted you to invest in countries outside Africa?
   N/A

9. What are your entry method strategies? why do you use these strategies?
   For us using a joint venture is the ideal situation, because we try and identify a partner with a great presence, and use that to promote our strategy. If we feel that the partnership will dilute the brand, then we go Greenfield.

We try and tap into existing infrastructure.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?
   Do your homework on any potential market and alliance.

BANK 2

1. Do you perceive a difference between globalisation and internationalisation?
   There is no difference

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

   Grow business and service clients. Diversify our interest. Emerging markets gave us the growth potential

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

   We believe we can manage African risk and African people. And having consumers in Africa that are similar to those found in South Africa, did make it easier for us to grow the business in Africa.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

   For growth and new markets

5. What FDI barriers do you face in Africa?

   Political risk, underdeveloped infrastructure, some regulatory challenges. Political risk and sizing the risk. Changes in fiscal policy, e.g. Indigenous policy in Zimbabwe. Changes in Fiscal policies. Use local skill. We use a little bit of expats. Competition. Tax issues are different in each company. There are educated people in
Africa, and we train them. We use a small percentage of expats. Competition in the form of Citi Bank is a fact of life. Other local SA businesses is good, because they do use us in Africa. We try and get government’s blessings before investing in any market in Africa.

6. What FDI barriers do you face for countries outside Africa?

Language and culture and political risk. Tax policies. Changes in fiscal policies. Skilled labour, and expats, work permits. competition

7. What attracted you to invest in Africa?

Growing emerging market, and we wish to grow our footprint

8. What attracted you to invest in countries outside Africa?

We find that we are able to pursue growth strategies in emerging markets, and that’s why we ventured into South America.

9. What are your entry method strategies? Why do you use these strategies?

We use minority shareholding with all our investments, that is we do

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

Understand size and nature of the opportunity in great detail, tailor your plans for investment accordingly. Don’t try to do too much too soon.

Due diligence is important. We therefore do an exceptionally detailed due diligence.

We use a different strategy with regards to investment in developed markets and emerging markets.

Africa is different in its component parts, and one of the biggest mistakes people make is when they generalise about Africa. It’s not a place, rather a conglomeration of different places, each with its own currency, governments, fiscal policies, inflation rate, and local conditions.

CELLULAR 1

1. Do you perceive a difference between globalisation and internationalisation?

There is no difference

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

Growth is a key driver of our expansion into Africa. Our shareholders expect to see an increase in our growth profile. We therefore decided on seeking new markets and new opportunities.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

We have found its easier to operate in English speaking countries, but overall language and culture are not
factors that would stop us from entering a market. It does make it easier if the culture and the language is the same.

4. **What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?**

Another key reason is diversification. Presently majority of our investment is in South Africa. We feel that the South African market has matured, and that there is a saturation of growth, this coupled with our diversification strategy, it helps us to expose to a higher growth market, which offsets the danger of diversification.

5. **What FDI barriers do you face in Africa?**

The access to electricity and power is a huge barrier which we face. And therefore we have become the largest buyers of diesel in Africa in order to ensure a continuous supply to our generators across the continent. Therefore, infrastructure is an issue which all companies operating in Africa face. The other issue is the regulatory environment, which we encounter on a continuous basis, but it’s not the government, rather the red tape in the most regions. Each region has a different regulatory environment with its own individual laws and red tapes. We do rely on legal firms of South African origin, because we would use the big legal firm in South Africa, that has offices in Africa to help us wade through the immense red tape which we face as a service provider.

Bribery and corruption is part of the culture in Africa, however as a company we do not engage in bribery in any form whatsoever.

Globalisation has helped in brand recognition and made it easier for us as a company to make investments because of the familiarity of the brand in the present location. Another contributory factor has been the media. Our biggest influence in getting brand recognition has been the internet, and as a service provide, we provide the connectivity which is the absolute conduit of globalisation. From a brand perspective, globalisation has extended the brand recognition across Africa.

As a service provider, an important issue which can be a barrier is spectrum issues, in the form of radio waves and bandwidth. Without the availability of bandwidth, we cannot operate. We have to be able to obtain spectrum licenses from government, and this can be a barrier to entry and is a high risk for us as a company.

Another issue is that the industry is very capital intensive, in terms of satellite, lines, base stations, fibre, switches, IT systems and customer care, so if our entry strategy is not carefully coordinated or properly researched, this can be a huge sunk cost for us as a company.

In Africa these costs are higher because of the lack of infrastructure.

Work permits is not an issue for us, our legal advisors have been able to obtain most permits satisfactorily.

6. **What FDI barriers do you face for countries outside Africa?**

N/A

7. **What attracted you to invest in Africa?**

The market strategy is basically population which is the pulling factor, and whether we will be able to
penetrate the market substantially enough is the most important issue. The second issue is the GDP growth of the market. Other issues which we look at in terms of potential markets is the political stability of the region, and this plays a big role in terms of our decision making. Another factor is the macro environment, that is, is it conducive to our business. Will we be able to enter the market via Greenfield or joint venture are also important issues which we look at before entering a new market.

Competition is another important factor, in terms of the strength of the players in the new market and the coverage of the competitors.

As a service provider, we have to look at licensing conditions, and the regulatory factors present in the region, that is, are they willing to provide us with the licence, and is the regulatory factors easy to be able to operate in the region.

Before entering a new region, one of the key issues for us as a company is to carry out a due diligence on the region, the regulatory environment, and all other processes which will need to be complied with. Based on the due diligence will drive the strategy in terms of potential Greenfield and the result of the study on the demographics and the competition which is present in the region.

A detail due diligence is also carried out on the target company, that is, we require detail knowledge on the quality of management, the full team operating in the company, brand value, the ability to gain market share, and losing market share.

We also carry out detail due diligence on the infrastructure, political stability in the region. We also look at other South African companies, in terms of what are their pros and cons of investing in Africa.

Having other South African companies does provide us with a certain comfort factor and additional confidence in the region.

Also having English as the prevalent business language in the region does help in terms of obtaining a quicker understanding of the regions potentials and risk areas.

By forming alliances in the region and using local skills is a big help in terms of overcoming the language barrier or culture barrier. When we form a new company from start up, and if there is a lack of management skill in the region, we use an expat team from South Africa to provide the skills required and then as the training helps to provide the dividends in terms of getting the local management team up to scratch, we then rely on the local management expertise which has been developed. However, with regards to all other management skills, we do rely initially on the expat team from South Africa in getting the business start-up.

A mandate for Vodacom South Africa is to invest only in Africa whereas the parent company has investments globally.

8. What attracted you to invest in countries outside Africa?

N/A

9. What are your entry method strategies? Why do you use these strategies?

Greenfield, joint ventures or mergers and acquisitions. But each type of entry strategy is dependent on the region and the circumstances available, availability of other businesses in the region.
Historically we have carried out more acquisitions and Greenfields.

Acquisitions are still being carried out, and again Greenfield will depend on the Joint venture or local alliance and the local shareholding. So there is no definite solo strategy followed rather depending on the circumstances available will depend on the entry mode followed.

It is vital for FDI in Africa, to use local partners to assist in understanding the local business culture and to help in finding good outsourcing partners to move equipment across borders especially with start-up costs.

For example, in Mozambique we use local partners and a state owned company to help through understanding the culture and help in obtaining and setting up the company, and satisfying the regulatory requirements.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

One of the most vital issues as a service company is to ensure that you use the local government as an ambassador. Because it is vital to have good relations with the local governments, that is as a company you need to get the blessing of the local government before investing in the country. It helps in terms of the regulatory requirements and the red tape.

Doing your homework thoroughly before entering a market is important, that is, knowing who the competition is, political stability, GDP growth. What are the local nuances, tax rates, buying trends?

Because Africa has a similar customer base as South Africa, especially with the rural market, and the fact that we pioneered prepaid, gave us a confidence to carry out FDI in Africa, with minimal risk.

CELLULAR 2

1. Do you perceive a difference between globalisation and internationalisation?

There is no difference, isn’t it the same?

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

We invested internationally for growth and opportunity, these were the two driving factors, which pulled us into the different regions in Africa, and the Middle east. Our core business is the same, however due to unbundling form Johnnie, we became Cellular 2, and had to strategise a new business model for the company.

We felt that telecom penetration was very low in most emerging markets, and therefore identified an opportunity and we were willing as a company to take the risk as first movers. In terms of security for shareholders, from a financial and regulatory aspect, we had to balance the risk with investments being made.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

We have not entered Latin America, even though we see ourselves as the emerging market player, because of the language and cultural barrier in the region.
Our business strategy is restricted to Africa, South East Asia, Middle east. We also have a tendency and preference for the old British colonies because of the similarity in business culture and language. For us the big driving factor or comfort factor is from the regulatory structure.

4. **What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?**

5. We want to grow the business, and we prefer emerging markets because we understand the landscape. We feel we have the core competencies and skills for emerging markets.

6. **What FDI barriers do you face in Africa?**

Because as a company we create employment, and provide issues, the governments are very pro our investments in the countries.

The barriers we generally face is trying to extract cash from a region, because currencies are very volatile and in most of the francophone regions the local currencies are pegged to the euro, whereas with the rest of Africa, the currencies are pegged to the dollar. If a devaluation of the currency takes place it does impact on our original investment and thereby lengthens our return model. In Africa, repatriation of funds is not really an issue. All our funds are repatriated to Mauritius that is to our holding company and then round trip back to South Africa.

The telecom regulations and financial regulations are another barrier which we face in all regions. Changes in government policies means that the telecom regulatory bodies would introduce new types of telecommunication taxes. Because we have a cash business, it becomes a cash pile for the regulatory bodies. Even though we do contribute 2% to a telecommunications fund, to develop industries, and integration of new technologies, we become an easy target for most governments. We are also the biggest cash acquirers in any region, normally surcharges are imposed. Another issue is the financial regulatory bodies, because tax is the biggest hurdle we face. We try and mitigate by having proper tax consultants and tax structures in place. Also we ensure that we comply with all tax legislation, and ensure that we work with state departments, but there is always an increase which will “spring up out of the blue”.

In Zimbabwe the indigenous policy is a problem, however we try and use as much local representation as possible. Even though most of the key positions are held by expats, there is pressure to reduce, and we are trying to manage this cautiously.

Another problem is minority shareholding. Even though as a company we do have a policy to ensure there is local representation, and we do maintain control, it is important and part of our business strategy to localise the business as much as possible.

Shortage of skill labour is a problem, and we try and develop internally, and ensure that the talent is consistent throughout the regions. We use expats to help us to try and train and then localise, because by localising it’s easier to understand the culture, legislation and language barriers which we would normally face. With all our FDI investments, all positions below senior level are of local talent.

In every region, we do face the problem of having trained staff poached.
Bribery and corruption is prevalent in Africa; however, we maintain a zero tolerance approach. We have implemented proper governance structures to ensure that we have no repeat of any incident relating to bribery and corruption.

Our distribution is to use retail and informal sectors, and different agents, we have not really encountered any issues related to distribution of products. However, depending on the region or country, sometimes it has been necessary to tweak the distribution of the product.

Land ownership is a problem we face in Africa, because we need land on which we place our switch sites. For the masts or towers, we lease land, and end up with a plethora of landlords in every region on whose land the tower or mast is situated. This does lead to some interesting situations.

Our industry is such that we do face competition, however it’s not really a barrier. Based on the due diligence it just becomes part of our strategy.

7. **What FDI barriers do you face for countries outside Africa?**

8. Because as a company we create employment, and provide issues, the governments are very pro our investments in the countries.

9. The barriers we generally face is trying to extract cash from a region, because currencies are very volatile. If a devaluation of the currency takes place it does impact on our original investment and thereby lengthens our return model. Restrictions on repatriation of funds is another issue we face especially in the Middle east. All our funds are repatriated to Mauritius that is to our holding company and then round trip back to South Africa.

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13. In every region, we do face the problem of having trained staff poached.
14. Bribery and corruption is prevalent in the Middle East; however, we maintain a zero tolerance approach. We did have an incident in Iran, but it was an issue that came about due to a disgruntled employee. We have implemented proper governance structures to ensure that we have no repeat of any incident relating to bribery and corruption.

15. Our distribution is to use retail and informal sectors, and different agents, we have not really encountered any issues related to distribution of products. However, depending on the region or country, sometimes it has been necessary to tweak the distribution of the product.

16. Our industry is such that we do face competition, however it is not really a barrier. Based on the due diligence it just becomes part of our strategy.

7. What attracted you to invest in Africa?

Governments in Africa do not invest in infrastructure, so the opportunity was in most countries in Africa. Nigeria has structures in place and does function effectively, though it is a litigious society which can be an issue, but the rule of law does work. Financial system is very good in most parts of Africa, and the financial and regulatory processes work well, and we have had no issues with the tax legislation. Our success in Africa is due to entering before anyone else, which gave us the first mover advantage. We also look at populous markets, so even though the risk might appear higher, there is a better return if you are risk averse. Most of these markets have low penetration levels, so there is the opportunity to grow the business, thereby the value of the investment is created. Affordability is another important criterion for us, when deciding on a market. Existing infrastructure is not important, because we as a company are there to provide the infrastructure. In most countries in Africa, we follow a process, where we have to bid for the license, and go through a “beauty pageant” process. If we are awarded the licence its normally valid for 25 years, and with it come certain obligations. We then roll out the infrastructure and try to reach our milestones in terms of investments made.

We do not experience any antagonism from governments, however we do feel that it is necessary to ensure that we do obtain the government’s goodwill in the region to ensure that if need be, we do have the backing of the government. In terms of obtaining the license, we have not had any issues with regards to security of tenure obtained, as long as we satisfy the obligation requirements per the license awarded, there are generally no issues. Because we are risk averse, we do carry out large scale investments upfront, and not scale it down, as other companies, because if we have identified an opportunity per the due diligence, then we feel we should go all out to ensure we get a return, so the approach is very aggressive.

8. What attracted you to invest in countries outside Africa?

Iran has a 70 million populations of which 60% of the population is under 35. There was an incumbent operator in the region, however based on the due diligence which we carried out, we found that there was opportunity, however we would have to adapt and modify our product for the region. In Saudi Arabia, we found that the structure of the market was such that it was already 100% penetrated.

Europe and US is not attractive for us as a market, because we feel that we are more an emerging market player. There have been opportunities in the first world, but it is heavily penetrated in terms of
telecommunications, and the markets are very competitive. Because our shareholders require us to grow the business, it would not be wise to invest in markets which are shrinking.

We have tried to penetrate the South Asia market, however we have not been successful in securing a good partnership for the region, who understands the culture and language, making it easier for us to operate in the region.

With regards to our investment in the Middle East, we bought a stake in a Lebanese company that already owned licences in several of the Middle East regions, and therefore we found it easier to enter these markets with a ready license.

9. What are your entry method strategies? Why do you use these strategies?

Majority of our investments are via mergers and acquisitions. We normally identify good local partners, and try to maintain minority holding so that we can use the expertise. In Iran we had to use a joint venture, which we were restricted to 49% because of the investment protection law in the country. However, because Iran was so new, this turned out to be a suitable partnership because it helped us wade through the peculiarities of the region.

We generally prefer Greenfield investments because it does give you the first mover advantage and is more profitable, and requires no premium to be paid. Our preference is therefore always to go the Greenfield route, but there are very few Greenfield opportunities available because of low growth factors and fast penetrations in most countries.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

Before you enter a country, understand the industry and the opportunity available. Carry out a detail due diligence of the country, or alliance and of the regulatory and financial framework operable in the region. Localise the business as much as possible and use local people to help you understand the regulatory environment.

Another important factor is to find the right skill internally, that is use your best people to operate, that is experienced internal people to roll out the model and do that on a measured basis.

ENGINEERING 1

1. Do you perceive a difference between globalisation and internationalisation?

I don’t see a difference

2. Please can you tell me objective reason for having invested in certain countries

We wanted to find a new market, labour was not an issue, because if were unable to find skilled labour we normally imported the labour into the new location. So growth and new market were the primary reasons. Africa was seen as the new growth market, and as mentioned earlier, our customers the mining companies were pursuing growth strategies in Africa, and we therefore had to also enter these new markets in order to be close to our customers and to meet their requirements. The reason why we are dominantly in Africa, is
because our customers are in Africa. Our customers are the mining companies, and we supply them with chemicals for explosives. So we are influenced by the movement of our customers.

3. **What are the subjective reasons for investing in certain countries?**

Cultural factors are not a consideration at all, therefore psychic distance is not a factor and neither is consumer characteristics. We did not venture into Africa because of the close proximity or distance to South Africa. Culture and language is not an issue for us.

4. **What are your business strategy reasons for investing internationally?**

To diversify and expand and look for new markets and to be close to our customers. We wanted to diversify our interest out of South Africa. We felt that we had too much interest in one basket.

We also felt that we had a good product and therefore decided to go global with the product. With regards to our chemical products, we had to follow our customers into the new markets in order to serve them. These customers are the large South African mining companies.

5. **What FDI barriers do you face in Africa?**

Integrity of business culture is very important for us, and therefore we do not invest in Nigeria because of the high level of corruption and bribery which exist in Nigeria. The other problem which we find in Africa is the lack of proper financial institutions. This barrier is quite hampering, because we are not able to repatriate funds successfully back to South Africa. Therefore, repatriation policies are an important factor for us. So the incentive or pulling factor is also knowing that a South African bank is operating in the country, makes it easier for us to do business in the region.

However, with regards to other infrastructure, we do not really consider this an impediment, because we generally make a plan, that is if there are no telephones, we use satellite phones, if ports and roads are a problem, we then tend to hold more stock in those particular countries but we would then expect a higher return from these locations.

28% of our R22 billion turnover is from Africa. We definitely use a different style of business culture when operating in Africa compared to our international business in New Zealand and Australia.

6. **What FDI barriers do you face for countries outside Africa**

In Brazil, the legislation is a bit complex, and in some ways, we do face similar problems as we do in Africa. In Australia, it’s the fiscal policies and labour rates which can impact on the bottom line.

7. **What attracted you to invest in Africa**

Our customers who are riding the growth wave in Africa, as well as customers who are looking for resources in Africa.

8. **What attracted you to invest in countries outside Africa?**

Brazil is similar to Africa in that it has resources which are being pursued by the mining houses, and therefore to follow our customers, we invested in Brazil. The same applies for Australia
9. What are your entry method strategies? Why do you use these strategies?

We are involved in new investments. We have done a few mergers and acquisitions, that is we have bought a few established businesses.

We are not keen on any joint ventures at this point in time.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

When venturing abroad, you need to understand and know the market. The second most important thing is to have the right product. If you have a product which other competitors cannot match it does make international expansion easier to accomplish.

FAST FOOD 1

1. Do you perceive a difference between globalisation and internationalisation?

There is no difference

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

We were looking for new opportunities, and therefore decided to expand into other markets. However, we found that most of our expansion was based on chance, that is customer would taste our food at one of the outlets, and then approach us for franchising opportunities. So our investment is a mixture of equity base and franchise.

In terms of partnering with new alliances, it is important that we are compatible in terms of business culture, another issue is knowledge transfer, i.e. investment in a partnership and then we lose what we have built over the years by the new partner who then operates under a new name. Therefore, a proper due diligence is vital.

No decent suppliers will impact on proper business processes which will impact on brand integrity.

Therefore, before we venture into a new market, there are certain key factors which we look at, the first is business culture, that is are we compatible and does their culture fit in with Fast Food 1’s culture, and this is important especially for our franchise business. The franchisee must understand our value systems. If there is no fit, we cut ties, if there is a fit, then we look at the financial viability, in terms of being able to penetrate the market and will the investment help to grow the brand and if it’s a franchise, then will the franchise maintain the integrity and grow the brand. It is important that all business partners understand what our brand is all about, we don’t compromise on certain core values for our company.

In the US, however this was an equity base investment. Fast Food 1s has been listed since 1997, and the brand was well known in South Africa, and we felt that we had grown the brand sufficiently in South Africa, and therefore we were looking for a new market and the US presented a challenge to penetrate a new market and to grow the company. With the UK it was also an equity based investment. We wanted to grow the company and the market, and we wanted to diversify our interest out of one market being South Africa,
which had limited potential. We also had reached saturation point and had to look for new markets for growth. Our business strategy with regards to FDI is to only penetrate markets that are English speaking. Because it helps to provide a common ground. We therefore have no intention on venturing into Europe, because of the language barrier. The US is a new market, and we want to establish ourselves as a fast food company, because investors globally have the perception that if you can get it right in the US you are a leader, and thereby you can get it right anywhere else in the world.

We did however use a different concept in the US which was more of a sit down concept, which is similar to our strategy in the UK. The reason for this was that the standard format of the restaurant was not quite right for the US and the UK market, so we adapted and changed the model for the US and UK market. In Africa and the other developing countries there is still the demand for a takeout concept, whereas in the UK and US it’s the fast casual dining trend. So in the UK and US its 90% dining and 10% takeaway. The US market is more competitive and therefore more of a challenge for us to penetrate and get it right. It will allow us to become a global player which is the ultimate objective of the company, because it will help to realise value and become more attractive as a company. US helps to test ability to test ability to be a global player. So it is a strategic move to invest in the US.

Middle east is franchise base, so is Africa, that is, Botswana, Namibia, Swaziland, Malawi, DRC, and Nigeria, as well as India, Pakistan and Bangladesh.

Business model for developing countries is franchise.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

Cultural familiarity that is language and psychic distance is a driving factor for our expansion. We try and not use expat South Africans, rather we try and use local skill as much as possible. We do not cut and paste our business models into every new location, rather we adapt and modify based on the results of due diligence carried out on the country. Even the stores or restaurant layout has to be adapted and modified for the local culture especially in the Middle East markets. Another example we try and introduce vegetarian dishes to our menus in India, and in the Middle East we introduced meze platters. In China we are contemplating an entry into the market, however we have not been able to find the right partners, and when we do finally invest in China, we will go the franchisee route. We do not intend investing in Russia, because we feel the culture and language is a huge barrier. Brazil and Argentina is also on the agenda, because we feel it is an easier market, because we have chicken suppliers in the region.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason

We had reached saturation point in South Africa with limited growth potential, and therefore we had to enter new markets in order to grow the company. It was also important for us as a company to diversify our risk out of one location.

5. What FDI barriers do you face in Africa?

In Africa, we tried entering into a joint venture with a listed company in Zimbabwe, called Inscore, that was going to do the investments in Africa. They approached us for the franchise rights in order to do the roll out
in Africa. They had the expertise and this gave us the opportunity to roll out with a company that understood
the business culture in Africa. However, the problem with Inscore was that they were not brand driven. Their
concept and strategy was different to what we had envisioned for Fast Food Is in Africa. Their strategy was
to house all brands for which they had secured franchise deals under one roof, and they were commercially
driven rather than brand driven. Their capital expenditure was for the most profitable brand, and therefore
no real commitment to Fast Food Is. This diluted our brand, and our investors were not happy with this
concept. So we decided to end the agreement with Inscore, which was initially difficult to end, but
nevertheless we did manage to get out of the deal.

Our investment in Africa, in countries like Botswana, Namibia, Zimbabwe, Swaziland was a better investment
via franchise. We entered into an agreement with a good franchisee who was later given the master licence
and thereby owns all the stores in Botswana. The fact that all these regions were close to South Africa was a
positive aspect, because we were able to provide supplies easily to all franchisees.

In the DRC it was slightly different. This was an expensive franchisee operation because of the lack of good
suppliers in the region, and the fact that it was geographically further away from South Africa. It was also
difficult to move equipment to the region for the franchisee, because the whole country is landlocked, and
due to proper road networks, it was a challenge.

Most of the products exported from South African to any of the franchisees, we have to consider
infrastructure and geographic distance from South Africa because of the fact that we deal with perishables.
Not every region has a good supplier so we have to ensure the quality of suppliers, and if not whether it
would be possible to source from South Africa and export to the franchisee. Standards have to be maintained
by all franchisees in any region to ensure brand quality and maintenance. All franchisees must comply with
Fast Food Is requirements for quality, and have the same brand philosophy.

A problem we do face is that in most countries, our intellectual property is not secure. So that is a constant
issue which we face in all locations, where the trademark right has been infringed. We normally enter into a
restraint of trade agreement to protect intellectual property loss. With most franchise agreements, the
financial risk is low as brand rights revert back to us if there is non-compliance.

All our franchisees have to pay royalty fees which are repatriated back to us, however in some region, there
is the issue of withholding tax which is deducted, but in some locations, more than the agreed amount is
sometimes deducted, and paid over to government as government tax.

Another issue we encountered in terms of repatriating royalties back to South Africa, was with a location,
Bangladesh, where the government changed its policy and we could not repatriate the funds out of the
country, whereas in some locations, like Qatar, Dubai no paperwork is required to repatriate the funds. These
are the extreme situations, and as a business you adapt and monitor. Having local South African companies
in the region, for example Standard Bank has not added to location attractiveness.

With regards to keeping the consistency of the product, all the marinades for the chickens are made in South
Africa and exported to all locations. With regards to some of the locations, from our due diligence, we do a
culture check and ensure that all ingredients and suppliers comply with certain of the regulations in each
location.
One of the biggest barriers we actually do face is when we have to export our sauces to some of the franchisees, then labelling becomes a huge issue because different legislation requires different labelling requirements. That is the labelling has to be in different languages and in most jurisdictions you can’t use stick on labels, but rather the label has to be part of the production process. Further each country has its own import regulations, and a health certificate has to be attached to comply with import regulations. Some countries keep changing the laws. So for example if the government changes rules, we have our own logistics department, plan and liaise with different regions. The logistics department also have their own agents, that is local agents which are used to ensure compliance and help to preclear shipments. Skills from the local regions are vital to ensure efficient trading in the different locations. Most jurisdictions and countries, we find that they prefer to trade with their own people rather than foreigners, therefore using local skill is an important strategy.

6. What FDI barriers do you face for countries outside Africa?

In the US the biggest barrier we face is competition. Another key issue is intellectual property especially in the developing countries.

Market research in any region is costly but most necessary and vital to ensure sustainable FDI. In the US one of the key factors was to create brand awareness because there was none, and this added to the cost factor of the investment in the US.

Capital investment is very costly in the US because of the market, and we had to go the equity route, because if a franchise can’t make it in the US it would impact on the brand, so by going the equity route, we were taking personal responsibility in the investment in the US, showing our commitment to the investment. In the US a difficult aspect of the market is that each state has its own laws and regulations, so this makes it difficult to ensure compliance with the regulatory issues apparent in the market. Also we had to ensure that proper supply chains were in place, that is we were sourcing products from a good supplier and a reliable supplier that would ensure commitment to the business. We still have to export sauces and marinades from South Africa to ensure consistency of the product. Therefore, we still maintain the production facility in South Africa. We deal in chickens which is the core product so we have to ensure fresh products are sourced regionally in the US. However, the barrier in the US, is that because we have not yet established brand recognition it is difficult to get good suppliers and discounts compared to the UK, where we are now an established brand, because we have 278 stores.

Another barrier faced in the US is that because we are still a new company, then from a franchise perspective, it’s difficult to obtain letter of guarantee from the landlords because they don’t know the company and therefore very difficult to obtain retail space in malls because of not being an established brand. You have to compete against well-known brands for space in most retail centres. So the cost of obtaining space in prime retail positions makes it very expensive. We try and target more the high streets near business centres.

An issue that we face in the UK is intellectual property, where takeout are trading with similar names and selling a similar concept of the Fast Food 1s brand.

7. What attracted you to invest in Africa?

Africa is an emerging market similar to South Africa, and we felt that it was the same consumers as the
South Africa

8. **What attracted you to invest in countries outside Africa?**

The US is a new market, and we want to establish ourselves as a fast food company, because investors globally have the perception that if you can get it right in the US you are a leader, and thereby you can get it right anywhere else in the world.

9. **What are your entry method strategies? Why do you use these strategies?**

We basically enter a market via franchisee route or equity based investment, whereby we do a Greenfield investment.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

Culture is an important aspect, as a company you have to respect local culture of the new market and you must understand it. You cannot be arrogant, and assume you know more than the local culture. You also have to modify and adapt your product to suit the region. With us, this is sometimes difficult, because our product is peri peri, but sometimes it’s necessary to modify the product to the region.

Bribery and corruption, is an absolute no-no, as a company you cannot entertain bribery. For example if your container is stuck at the port, and you have outsourced the clearing of the container, and they pay a backhand, it can be a problem, because you as a company would not know. Therefore, it is important to do a due diligence on all local partners. Presently we want to be brilliant and consolidate what we have.

17. **FAST FOOD 2**

1. **Do you perceive a difference between globalisation and internationalisation?**

Not really

2. **Please can you tell me objective reason for having invested in certain countries**

There are two reasons for carrying out FDI, one is for growth because our shareholders expect us to grow the business and the second reason is to diversify our interest out of South Africa, and to differentiate our products. We are regionally specific and have no great expectation to go beyond the equator.

3. **What are the subjective reasons for investing in certain countries?**

Psychic distance is very important for us, that is the geographic proximity and the familiarity of the language and the culture, and therefore we intend staying in Southern Africa and not to expand to other locations, where we would encounter different languages and culture.

4. **What are your business strategy reasons for investing internationally?**

We felt that we had the expertise to expand, and therefore to grow the company, decided to invest in regions which are familiar to us. So diversification and new markets were the driving impetus for us regarding FDI.
5. **What FDI barriers do you face in Africa?**

Infrastructure, that is utilities, water and electricity is important to our franchisees, otherwise the cost factor is too high. In Zimbabwe, electricity is a problem, however the franchisee bares the cost of installing generators to deal with the shortage thereof.

Cultural factors are a hurdle, as we have to modify food according to local cultures and taste. Globalisation has helped to educate our consumers, i.e. via TV contributing to product identification. In Nigeria, the consumers are more educated and travel more, therefore are more aware of the different brand names.

Repatriation of franchise fees back to SA is a problem in some regions, e.g. in Zimbabwe there is very limited currency with the added legislation problem, we therefore partner with local people to help repatriate franchise fees back to South Africa, because they know how things work in the local economy. We don’t own the stores, it’s all franchised. Sometimes we buy into the franchise especially if it’s a large franchise.

Another problem that we face as a fast food company is the protection of our trademark, we therefore enforce franchise agreements, and only after that do we train the franchisee and set up the supply chain. Otherwise we face the problem where the franchisee learns all about the franchise and subsequently cancels the agreement and opens another fast food outlet under a different name but with our expertise. So knowledge transfer is a concern for us, because once they acquire the expertise they become our biggest competitor in the region.

Bribery and corruption is a problem, that’s why we partner with locals so we don’t sign any agreement, rather it’s the local franchisee who signs the franchise agreement. The next hurdle is to transport our licenced products to the franchisees, and here we face at borders red tape, and hold ups, which is a problem because we have perishables.

In Africa there are other unique factors that can cause certain logistical problems, for example in Botswana, we are not allowed to source chickens from South Africa, rather we can only source the chickens from a farm in Botswana which is owned by the President’s wife, and the same applies in Zimbabwe, where we have to source tomatoes from one of the minister’s farms and not allowed to send our licensed tomato pulp from South Africa. This impacts on the end taste of the product, but again we have to adapt and modify in order to comply with the local legislation.

6. **What FDI barriers do you face for countries outside Africa**

N/A

7. **What attracted you to invest in Africa**

Agglomeration is a big consensus for us, that is our biggest shareholder, which is Fast Food 1s, helps to provide us with the supply chain, as well as other fast food franchises being in the market, makes it easier for us to enter the market, as the distribution is already set up, and thereby reduces location risk substantially. Another key factor is ‘mall culture’, that is with the establishment of shopping malls in the region, makes it easier for us to enter the market because then we have other retailers like Checkers, and Standard bank, which makes it easier for us to repatriate funds back to South Africa.
SADEC region for us is like going to Durban, and the SADEC agreement has helped with red tape and overall business legislation.

In Maputo, infrastructure is not a hindrance, because supply chains already exist, that is South African retailers have already entered the market and therefore makes it easier for us to move goods across borders.

8. **What attracted you to invest in countries outside Africa?**

We feel our brand is not that competitive enough for Australia or New Zealand. However, we are considering the Latin American market, especially Brazil. China is not considered, because we feel that we will be minnows against the competitors who have a head start in the region. Russia, the language and corruption is a huge barrier for us. India is a potential market, we feel that we are familiar with the Indian market, because we have catered for Halaal in South Africa. Size of the Indian market is huge; we know that we have acceptance because fast food is already a good business in India.

9. **What are your entry method strategies? Why do you use these strategies?**

We only use franchise agreements with the consumer end, and we don’t sell master franchise agreements. We start off with just one individual person and if we are happy with that franchisee, we then sell him the master franchise. We generally have 5 year expansion plans, where we start off with a one-year agreement, that is a one year franchise option and if we are happy with the progress of the franchisee we then award a master franchise license agreement. This is followed by setting up a supply chain, and a distribution depot. We also in some cases form alliances with local suppliers and farmers.

Our primary concern before we enter any market is whether we can source the product. Sometimes we have to make concessions in terms of what we require, because of the limitations of the market, but we ensure that we remain faithful to the quality requirements of our brands.

We have resorted to joint venture agreements, whereby we own a portion of a franchisee, this is the case where our investment in the distribution network is quite big, so to cover our risk we go for joint venture agreements.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

In Africa, we have seen growth potential that is, there is both risk and opportunity. For me as the CEO, having lived in some of the regions in Africa has created the familiarity of the culture and the language and therefore reduced the perceived risk in some of the regions, and this is the driving force behind the expansion into Africa.

If I had lived in Russia or China, I would have ventured into these markets, because I would not see the risk as I would be familiar with the market.

**FOODCORP 1**

1. **Do you perceive a difference between globalisation and internationalisation?**

It’s the same
2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

We have investments in Swaziland, Mozambique and Zambia. We only wish to invest in countries close to South Africa. We were part of Foodcorp 2s, and when Foodcorp 2s unbundled, they sold the poultry, feed and the milling plant. The major shareholders bought the agricultural arm of the company. Our shareholders expect us to focus on growth.

In Zambia, there is a hatchery, breeding farm and a chicken farm in Maputo. These operations all existed before the unbundling from Foodcorp 2s, so they were part of Foodcorp 2s initiative.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

Another important strategic decision on the part of the company is that we only wish to expand in markets that are geographically close to South Africa and where English is the dominant business language. Again remember that Zambia and Mozambique were inherited regions as part of the unbundling process from Foodcorp 2s. Future strategy is to invest in regions closest to South Africa.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

We want to only invest in Africa but our goal is to become a specialist in Africa, presently we only have investments in South Africa, and in terms of strategy it is important for us to embark on an expansion programme which would help to diversify our interest out of South Africa.

5. What FDI barriers do you face in Africa?

Africa politically can be unstable, and change in governments means changes in fiscal policies which can impact on the FDI investment in the country.

In Maputo, the Portuguese language is a barrier which we do face in the region. Another issue is with regards to Zambia, is the geographic distance, being further away from South Africa.

In both Zambia and Mozambique, we have to obtain permits for sale of day old chicks. Both these countries are also protectionist countries, which means that they want to protect their own industries against foreign owned businesses, so there is some resentment from government.

In order to expand the business, and open mills we will have to acquire mills, which is impossible, because there are no mills available in Africa, and to build is a huge cost factor, because of the lack of infrastructure and the logistical problems faced in Africa.

Another barrier faced in Africa, is that Brazil as a competitor has entered the market, and are exporting chickens to the region very cheaply, making it very difficult for us to retain a market share.

Another barrier faced is the storage issues, we sell chickens and therefore we have to move stock very quickly, because there is no proper storage due to electricity shortage and lack of proper warehouses, makes storage a huge problem, since our stock are all perishables.

Infrastructure in terms of electricity is a huge problem which we face in Africa. Another problem is skilled
management. When we try to source from South Africa, we face the problem of labour permits. Exchange rates is also a problem which we encounter on a continuous basis because of the volatility of the currencies and changes in fiscal policies.

Another problem we face in terms of FDI in Africa, is the lack of business integrity which does clash with our business culture. We try and use local management that understands the market. Most our investments are fairly small compared to other South African companies, and they have taken place in terms of manufacturers.

6. What barriers do you face outside of Africa.
N/A

7. What attracted you to invest in Africa?
Africa, that is both Mozambique and Zambia, have a very informal market which is similar to South Africa's rural market. Sometimes we use suppliers in the region, and sometimes we use suppliers from South Africa, depending on the circumstances. The chicks are sold when they are a day old. Storage can be a problem in some of these regions. We are dealing with perishables and a very informal market, but because of the similarity of the cultures, it's easier to serve the customers in these regions.

8. What attracted you to invest in countries outside of Africa?
Invest only in Africa

9. What are your entry method strategies? Why do you use these strategies?
With regards to feed and maize acquisitions in Africa, we only use Greenfield investments. In terms of obtaining the local management, we do this via mergers and acquisitions, whereby we maintain a 20%/80% majority, and the 20% would be the skill and management that we acquire. One we feel we understand the environment and the business, we buy out the remaining 20%.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?
Before any acquisitions, we always carry out a detail due diligence, which we feel is vital with regards to FDI in Africa.

We also carry out a due diligence of the company which we are going to acquire or merge with or even the management team on which we intend placing reliance.

FOODCORP 2

1. Do you perceive a difference between globalisation and internationalisation?
Differences between globalisation and internationalisation - Globalisation is more from a global perspective, things being regarded globally, that is impact of global procurement. Internationalisation is more the coming together of nations, so it is more to do with the geographies faced by companies.

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.
Saturation was not a reason for expansion across borders and FDI, however competition was a factor. We found the competitors to be producing similar products, thereby making it difficult for us to find enough growth locally. Another issue is with our retailers who also happen to be our biggest customers are now becoming our competitors due to the branding and manufacturing of their own labels for example the no name brands, and this has created a very competitive market thereby forcing us to strategically consider new markets across the border. Another contentious issue for us as a company with a fairly large share of the local market is the competition commission which does keep a rather watchful eye, and not really allowing growth in terms of mergers and acquisitions.

We do have a large portion of our investments in South Africa, however diversification is not one of the reasons for expansion across the border. Our strategy is to be in fast moving consumer goods in emerging markets, and because we feel that Africa represents one of the strongest emerging markets at the moment, Emerging markets are all different and therefore each country has its own brand preferences. So we have to modify and adapt all our products for the different markets. Another strategy that we use for the emerging markets is to acquire businesses that have established brands. If we introduce new products, we do a detail market study to confirm whether our products or brands would be popular. Zimbabwe is the only region where we would introduce our own brands, because there is no business to acquire with established brands.

Chile we did an objective analysis. Narrowed it down to geographic region whether its palatable. We also use merchant bankers to tell us whether the investment would be viable.

3. Please can you tell me "subjective" reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

In Africa, we ensure that we have good partners. Subjectivity would come into play to determine whether the partner or local alliance is good. So partnering with good partners is key to success in Africa, because it helps us to buy into the local expertise, that understands the language, business culture and environment.

In Chile, which is a generally small economy. We had to ensure that fundamentals which were reflective in the Chilean environment were apparent in the acquisition.

A detail due diligence is vital. We have our own management team doing a due diligence, as well as using merchant bankers and other very good sources. A good due diligence helps to identify all potential risk areas.

In Africa, having other South African retailers does help in a small way with distribution and the supply chain, and has helped raise the profile of the brand. Retailers are also helping to move our products across borders. Shoprite and Massmart’s presence is minute on the continent, so these retailers are not such a big help in moving our products. SA retailers are only servicing high end of the consumers.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

Strategy was a big driving factor. We are a listed company since 1944, and being listed and having shareholders, means that shareholders have expectations of growth and that is organic growth which is growing the company beyond the borders.
5. **What FDI barriers do you face in Africa?**

Reserve bank approval is the first biggest barrier that we face when investing in Africa. The other barrier is the regulatory issues, which differ from region to region. In terms of strategy, one of the barriers we face is supply chain issue, that is getting the right product to the right consumers. Exporting some of our products across borders is a challenge because of the red tape and the issues we face at most borders, which cause delays in getting the products to the intended destinations. Another barrier is that the only port which we can use is Mombasa, and that is a very difficult port. Another barrier we face in Ethiopia, is with regards to shipment of raw materials. We experience problems in Eritrea, and this impacts on the supply chain, which impacts on the production in Ethiopia, sometimes bringing production to a halt.

To overcome the logistics problems, we try and use local management to help us to sort out problems at the ports. In most of our FDI in Africa, we only use local management. One of the few countries where we do use local South African management teams is in Ethiopia, because of the lack of local skill, we use South African expertise to help train management in Ethiopia. Another country is Nigeria, where we also use a South African manager to help manage the team.

Bribery and corruption is a problem in Nigeria, but the government is trying to address the problem. But corruption is an issue in Africa generally.

When we form alliances, one of the key issues is to find partners which have the same business integrity as Foodcorp 2.

Infrastructure like IT is a huge issue which we face, however there has been some progress in that area. Another barrier is the road network, especially in countries like Nigeria, because if it rains, then the whole road network comes to a halt.

6. **What FDI barriers do you face for countries outside Africa?**

In Chile, the infrastructure is really good, however language is a barrier, because they speak Spanish, and that is the business language as well.

Another problem faced in Chile is the difference in the culture. However, to overcome this problem, what we have done is to buy into an existing company, with a 24% interest. This has helped us to utilise the management expertise to overcome the culture and the language issue.

7. **What attracted you to invest in Africa?**

Our investors like us to invest abroad especially in Africa, and this gave us the confidence to proceed with FDI into Africa. Europe and US growth is saturated and Africa is considered a new growing economy, and shareholders have realised that, so they invest in our company prompting us to invest in Africa. We have found recently that our foreign shareholding has increase by 40%. Shareholders see the potential in Africa and invest in Foodcorp 2 to exploit that potential, if they feel that the market will not realise the growth potential, they can easily dispose of the shares.

8. **What attracted you to invest in countries outside Africa?**

As a company in terms of opportunity for growth would be international, and Chile was our first international investment across border, and our first foreign direct investment. We identified ourselves as being specialist
in emerging markets that is why we avoided UK, US and Europe. We identified a company in Chile that did not want to be acquired by a large MNE like Nestle.

9. **What are your entry method strategies? Why do you use these strategies?**

We generally prefer joint venture, because it helps us to buy into the management skills, which would then help to overcome and barriers or issues in terms of language and business culture, and knowhow of the region.

We have not done any Greenfield investments, but perhaps in the future, once we are familiar with the locations and find the risk factors to be lower, we will try Greenfield investments.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

We believe when carrying out FDI, a phased approach has to be undertaken, with regards to attractive areas. Every aspect of entry into the new market has to be satisfied, from the entry to exit of the operations as well as the credibility of the partners. As a company you have to learn to respect the culture, and you cannot be arrogant. You can never assume that you know more than the local culture.

A vital ingredient for a successful FDI venture is to partner with a good local business. Globalisation has helped in terms of brand recognition. Local South African businesses are a confidence booster, because you have confidence in them, e.g. having Standard Bank in the region does help in terms of repatriating the funds back to South Africa.

**IT 1**

1. **Do you perceive a difference between globalisation and internationalisation?**

There is no difference.

2. **Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.**

We are a company that provides technology solutions, that is a variety of software applications, IT and human capital development as well as business process outsourcing.

We also wanted to grow the company, and therefore had to seek new markets thereby allowing us to grow the top line and bottom line. By expanding into Africa, we are able to service other multinational companies, and support South African companies operating in the different countries in Africa. We also have to follow our clients, who have entered new locations in Africa, and need our support services. So we expanded to meet customer needs.

3. **Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.**

There were no subjective reasons for entering any of the markets in Africa. We simply tried to meet the needs of society rather than similarity of cultures. Geographic proximity does help a little, because it means similar cultures, but it is not a pulling factor for us.
4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

We expanded in order to grow the company. South Africa did not provide us with further growth opportunities.

5. What FDI barriers do you face in Africa?

It is important that Africa is not one country, rather different countries, and each country has its own ethics, religion, language, legislation and tax issues. Therefore, each country requires a different strategy. There are regional hubs, in that they tend to be similar with regards to culture and language, but legislation is different. However, it is vital that you have a different strategy for each country in Africa, that is, a country by country strategy.

For example, in Kenya, you do not know the market, however there are no networks and you do not understand the culture, or the ethics of the place. You are a complete foreigner, outsider, stranger to the laws, legislation and overall business culture of the country.

You have to carry out a due diligence, and you cannot be arrogant in your approach. One of the vital factors, is that you must use local skill, that helps to give the business a local face, and helps to obtain the business network and comfort which you need when operating in a totally new region. Forming alliances is a good option, that is they will then hire the required skill, that is local people and use local businesses in terms of securing local suppliers.

It is also important to get government’s backing with regards to any new venture in Africa, so that is no opposition to the company operating in the region. There are barriers in the form of trade barriers in a particular region, whereby you can’t import or export. Another barrier is the bribery and corruption which is prevalent on the continent.

Having local companies operating in the region, does make it easier sometimes, especially having for example standard bank, does make it easier to repatriate the funds back to South Africa.

Infrastructure in Africa is generally a problem, but with regards to the IT infrastructure, because we are a company that provides infrastructure, this is not a barrier rather an opportunity for us to provide the required infrastructure.

Finding skilled labour is another issue which we do continually face in Africa. Especially with our business finding skilled labour is very challenging, because we need specific skills. When we use local South Africans than logistically it becomes a problem, because they have to leave their families and it becomes very costly. Another issue we face when using expats, is that inappropriate people are being sent, and the problem is that it worsens the situation rather than helping. It is paramount when operating in Africa to use local skills, but because we are a very specialised industry, these skills are hard to come by in Africa, therefore the forced reliance on local labour. However, when using the expat skills, we face another issue, and that is it is difficult to obtain labour permits for the expats, and most cases the labour permits get denied, because most countries in Africa are very protectionist countries.

Another important barrier is competition, because there are other companies from other countries operating
in Africa. When we carry out a due diligence, it does help to identify how many competitors there are in the region, potential of being able to operate in the region and the size of the market.

For us the IP protection is not yet an issue, because we have not yet established a brand or trademark.

Political instability is a risk in Africa, and the continuous changes in government policies can impact on the business.

6. **What FDI barriers do you face for countries outside Africa?**

N/A

7. **What attracted you to invest in Africa?**

Africa has a demand and appetite for technology, they need to apply better processes in order to mobilise the economy and develop societies. Countries like Germany does not need our expertise, therefore we are relevant to developing economies, and Africa has developing economies.

8. **What attracted you to invest in countries outside Africa?**

N/A

9. **What are your entry method strategies? Why do you use these strategies?**

We normally use combinations depending on the suitability or availability of partners or alliances. That is, we have carried out joint ventures, Greenfields and we have used franchise and partnerships. Each country or location required a different strategy.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

The most important thing when entering Africa is to use caution. You must do your homework, and when you choose partners or alliances, you must carry out a due diligence of the potential partner or alliance. You cannot enter any region without having carried out a very thorough due diligence of the new location.

Using the appropriate staff in the region is another important consideration when carrying out FDI in Africa. The last but not least factor, is to treat each country in Africa separately. You cannot treat all countries as one, i.e. using a one size fits all strategy. Therefore, you have to have a different strategy for each country in Africa.

You have to enter Africa slowly, that is do not use an aggressive approach. South Africans are generally considered arrogant, so being South Africa already is a liability in Africa. Bribery is part of the culture, but don’t engage in it, otherwise you will get into trouble.

**IT 2**

1. **Do you perceive a difference between globalisation and internationalisation?**

There is no difference, but we feel that globalisation does not exist. I think the difference is an academic debate. For us this is the same.
2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

South Africa is a very limited market and we had reached saturation point here in South Africa and we were a market leader here, and we decide to expand internationally in order to search growth. We first ventured in Europe, Australia and Asia, and the US. Expansion was to serve our clients with global solutions. Our ability to offer global solutions would give us the competitive advantage. We wanted to target multinational companies situated in every country and that was our strategy. Ability to execute across the big geographies. Most of the MNEs major footprint had to be in Europe, Asia and US and Australia. In the US we entered the US market during the dotcom bubble, and we ended up losing a lot of money with our investment in the US, which required a lot of restructuring in order for the company to survive.

In terms of international expansion, we felt that we had the competitive advantage.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

There were no subjective reasons for our investments in any of the western markets. It was purely identifying growth possibilities and becoming a leader and maintaining a competitive advantage. The initial investment in the western world gave us the confidence.

However, with Africa, colonial ties were a pull factor, and we ventured into English speaking countries, which were all previous British colonies. We felt that in these markets, it would be easier to operate as the legal systems are similar as well, but overall the business drive overrode the softer cultural issues.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

Asia and Africa, our ability to compete and win was better in emerging markets. Our strategy is to dominate the market. That is obtain enough market share, be in the top three in order to be able to make money. If you don’t have the competitive advantage, you will only lose money. You have to be able to dominate the market with your product.

Create brand recognition in US was the first step. Work with industry analyst, and try to promote the company, that is if they made our company look good, then other companies started accepting us as a brand leader. This resulted in positive testimonials about us. The last ten years has been investing in emerging markets. In the US we tried to lock down clients, which we did, and now we only concentrate on emerging markets. Strategy for new markets, is acquisition, we acquire a relatively small company and then grow it to become the top 10 company in the region.

We were motivated by our vendors to expand into India, and this allowed us to diversify our risk from one economy. By expanding and becoming a global player we were able to procure at better rates, and thereby also obtain commercial discounts.

5. What FDI barriers do you face in Africa?

We resell other people’s technology, so no big capital investment requirements. Barriers normally faced is localization laws and empowerments. We have zero tolerance for bribery and corruption. We target MNEs
in all countries. Repatriation is a problem in some countries. Forex is a problem in some countries. Due diligence is important, that is we do a thorough check on the people, we acquire people to run our business. In some of the countries it is good to get the government’s approval beforehand. Labour issues differ country by country. If there is too much red tape, it’s not worth investing in a country. Business is difficult and sometimes you have to contract the workforce and at times due to demand you have to increase the workforce. If the labour legislation is too difficult this makes it tough on us as a company to be able to operate efficiently. Political risk in that political stability is a barrier we do face, because most transitions in Africa can be violent impacting on our business, there can also be problems of embargoes or regime change. The other issue is tax on imports, and normally the tax regime is also very strict. The other problem faced is the change in fiscal policies. To maintain brand integrity, it is important to provide a consistent service globally, however sometimes that is not possible in Africa, because the skills are not the same, so we try and mitigate this risk, by providing the training and ensuring that we have the right skill. Bribery and corruption is an issue, however we have zero tolerance for it, but sometimes there is a problem in that one of the managers might have paid bribery and we were not aware of it, and next think you know it’s in the media, and this can impact on the business and ultimately on the reputation of the company. Most African countries are very protectionist countries, which can have the implication of more red tape for foreign owned companies.

Forex can be a problem because there can be instances where the country does not have liquid currency, which makes it difficult to repatriate funds back to the UK, or sometimes they just don’t allow the transfer of money. Locally you also face reserve bank approval which can be very cumbersome. With most emerging markets, the big barrier you face is with regards legal framework because if there are problems which you encounter with another local company, the chances are that the local legal framework will protect the local company or person rather than you the foreign company. Another barrier is that it is generally very expensive to do business in Africa, because of the increasing demand but very small supply, the other problem is to get expats to work in most regions, because in terms of housing, safety and family relocation costs, it can all become very expensive.

6. What FDI barriers do you face for countries outside Africa?

In Asia, not being Chinese in China is already a barrier, and the technology we represent is western and not Chinese, and this creates a barrier for us. Because we are partnering with American companies, this has created resentment. In China, there is the problem of corruption. Business culture and practices is very different in China, and their accounting systems are completely different. But then again this is a problem across all geographies.

India is a great market for us, because we boldly approached state bank of India, and after that we have been able to expand quite successfully in India. We manage all the bank infrastructure and ATMs in India. Referencibility was create once we obtained the bank. In India we are very Indian, because we use only use local skill. Culturally India is more similar to South Africa then America because of being an old English colony. We also target only MNEs in India, which makes it easier for us to avoid issues like bribery and corruption which can be quite rife with the local mom and pop stores. Infrastructure is a problem in India, especially with regards to telecom systems. Another problem we face in India is with regards to repatriation of funds back to South Africa, because of the limitations. Government is pro our investment. In China the government
is a little bit resentful because of us not being Chinese’s. Difficult to find skilled labour, and they keep moving jobs, which means the challenge is to keep employees. We have other multinationals poaching our skilled staff. Knowledge transfer is part of the business, which can be a problem.

India is moving from a wage to value based economy. Keeping skilled people is a challenge for us, because there are other multinationals who have a tendency of poaching trained staff. It’s part of the culture of the industry. Another challenge is knowledge transfer, which is when you have someone who has worked for you tries to replicate the business model with his own business venture. In India or any other country, we tend to use the local legal firms operating in the region, because that way we get the expertise in terms of knowledge of the relevant legislation.

In Europe, competition is one of the barriers we do face, because the European market is a very competitive market, so is the US. However, in the US, the dotcom bubble did help to eliminate some of the smaller players. Culture and language is not an issue for us generally, because we always localize, where ever we are.

Governments in most western countries is not an issue, as long as you comply with all relevant legislation. Infrastructure is well developed in most developed countries, so we provide more value added services whereas in Africa we provide basic and help develop infrastructure.

Brazil, the tax regime is strict and complex. The other barrier is to get good local skill. Language is also a problem, and becomes a barrier, because the prevalent language is still Portuguese. In Brazil you also have to have minority shareholding which is reflective of the demographics of the country. However, the government is pro most investments in the country, and it is a good idea to have government’s blessings. Our business model in Brazil is such that we only cater for large companies, that is MNEs and the commercial sector. But overall barrier we face in South America, is that generally there is more competition. Infrastructure in Brazil is generally better, and corruption is not too bad.

One of the biggest barriers we face here is the language and culture. In Russia there is criminal element, and that’s why we don’t invest in Russia. Infrastructure is normally good in most of Eastern Europe. Tax laws are very complex, and the overall regulatory environment is very strict, therefore a lot of red tape. Again in Eastern Europe, if you are a foreign company, you have to have some local ownership. Most local companies in Eastern Europe prefer to procure our product rather than use our services, and this does not fit in with our business model, so that alone, becomes a barrier for us in terms of investing in eastern Europe. There is lots of competition as most MNEs are scrambling for new markets.

In the US, we bought a few bad acquisitions, because we were arrogant in our approach, and ended up hurting the company, so we had to restructure quickly in order to of load the bad assets. We merged and consolidated in order to get the company back on track. We obviously did not do a proper detail due diligence of the country.

Another challenge in the US is keeping staff, because they are easily seduced by better salaries elsewhere, so you have to keep staff happy by paying them well. Generally, in the US market, if you have an established brand, then the staff are more loyal to the company, but if you are new, they tend to jump companies more easily. The general incentive for most IT companies is Silicon Valley because that’s where most IT companies invest in, however we only recently have made an investment in the region because of new research and
development.

7. **What attracted you to invest in Africa?**

We can dominate a small market, and become a market leader easier. No real competitors. We are used to managing the complex systems, and having the street fighting approach which we have acquired from a South African perspective. Other international companies like the US don’t have respect for culture, and in Africa it is vital that you respect the culture and not be arrogant in your approach in investing in the region.

People come first, and not a system first approach. Our company, uses local people and communities to lead the company. It is important to acquire local companies with the required management and skills and understanding of the local business culture. Our business model is to use local skill and not to use expats.

If there is a shortage of skills then we use expat, but if you use local it helps with client interface. Our business model is local skill.

8. **What attracted you to invest in countries outside Africa?**

We seem to have the ability to service emerging markets, and we generally have the support of our vendors who support our investment in most emerging markets, because they are generally underserviced.

9. **What are your entry method strategies? Why do you use these strategies?**

We prefer mergers and acquisitions, so we generally identify a potential company, and then train and provide our ideology and business strategy, and superimpose our culture. When we want to accelerate our growth in the region, we acquire a company. We are not too keen on joint venture and are a skeptical about the value of a joint venture agreement, because you never share the same objectives, it slows you down, and there are cash constraints. There are instances where we have used a minority shareholding that would be very similar to the concept of a joint venture, but this would be for a short period of time.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

Stay local and don’t expand. South African companies tend to expand for ego reasons. Expand only in markets in which you can dominate and become a market leader. Pick a market, where you think there is an opportunity. Do your homework thoroughly, that is a proper due diligence, that is do the due diligence on the country not just on the company that you are going to acquire.

Another important factor is to look for competitive advantage rather than market size and growth. It is advisable to look for a smaller economy that has better growth. Also if you are going to invest, at least give your investment a chance, that is 2-3 years before you decide to retract. Identify a good local business and then superimpose your business strategy. Become localised as much as possible.

**LEGAL 1**

1. **Do you perceive a difference between globalisation and internationalisation?**

There is no real difference
2. Please can you tell me objective reason for having invested in certain countries

We are a legal firm and provide professional services to our clients which are both South African and international. These companies, which are all multinational have expanded into Africa, and they need a professional firm which can help them in any region in Africa, with legal advice and services in order to understand the legal landscape in the different regions of Africa. We felt it was necessary to grow the company out of a mature market, and seek new markets. Whilst we are a law firm, we are also a business. Therefore, we identified an opportunity in Africa, because our clients are investing in Africa.

3. What are the subjective reasons for investing in certain countries

We invested in other markets because of opportunities, geographic proximity or language is not an issue. In terms of the legal aspect, most of the countries in Africa are old English colonies, and therefore there is the subjectivity in terms of similarity with regards to the language, legislation, because they all use the 1948 companies act for example. However, in the Francophone or luciphone region there is a difference.

4. What are your business strategy reasons for investing internationally?

We also felt that it was necessary to diversify our interest out of South Africa, not in terms of hedge, because we are a service company.

South Africa has recently experienced industrial and political issues and that has impacted on our clients which impacts on our business as the clients try to expand out of South Africa.

5. What FDI barriers do you face in Africa?

One of the biggest barriers we face is the South African exchange control. You need to obtain reserve bank approval, and this can be hampering because its clunky, and inefficient. Immigration with respect to obtaining skilled labour is an issue that is faced in all regions of Africa. We try to second staff from other offices, however this is a painful process which can be costly. Another issue is the tax issue, especially with regards to transfer pricing. There is a lot of red tape which we face in Africa because of the transfer pricing.

The regulatory environment is an obstacle, which we face, because most countries in Africa are protectionist and they try and protect their own legal firms from foreign invasion. In Kenya one of the obstacles which we face is that under the Kenyan law society, only a Kenyan advocate can have an association in a partnership, that is only local Kenyan advocates can form a partnership and share profits only with Kenyan people. So foreign ownership is now allowed unless by association, and not in terms of a partnership. This is an impediment for us, because branding becomes an issue.

Language and culture is not an issue; however system of law differs from region to region. English law is prevalent in most of the African countries, however less active in the francophone and luciphone areas because of the language barriers. We source most of our skill in South Africa, because there are many African students studying in South Africa. We try and source students who are able to speak French and Portuguese.

6. What FDI barriers do you face in countries outside of Africa?

Invest only in Africa
7. **What attracted you to invest in Africa**

However, being considered an African firm, Africa is a natural choice for us as a location. Even though the risk is high in Africa, it is a growing market and has been profitable.

8. **What attracted you to invest in countries outside of Africa?**

We invest only in Africa.

9. **What are your entry method strategies? Why do you use these strategies?**

We tend to go the merger and acquisition route so as to come together with other established lawyers in the region, who share the same business ethic. Or we do the joint venture. However, the entry strategy depends on the region and the circumstances.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

Geography is relevant to a certain extent. Political ties and historic ties help to ensure local ties and this does make it easier to establish an investment in the country.

Corruption and bribery is not a factor, however we do not experience it directly but our clients do, that is private companies operating in the region, so we provide legal advice on how to mitigate the risk of bribery and corruption and how to deal with it legally.

18. **MINING 3**

1. **Do you perceive a difference between globalisation and internationalisation?**

There is no difference.

2. **Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.**

We are manufacturers of by products from primary gold producers, and therefore having other mining companies in the region, is a pulling factor for us as a company. So for example our investment in Burkino Faso, we recycle in order to extract the by-products that are in existence from the primary gold mining companies operating in the region. The attraction factor is having other mining, that is gold mining companies in the region.

3. **Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.**

Well as a company with origins in South Africa, and having a subsidiary in South Africa, we feel that the South African background gives us the competitive edge, because we understand the African culture and having the geographic proximity to South Africa, which is used as a base for our operations in Africa has been a plus factor for operating in Africa. We feel that being partially an African company, we understand Africa in terms of the similarity to South Africa, especially the mining landscape which is very similar to South Africa.
4. **What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?**

An important incentive is to diversify our risk, so we don’t have investments in just one region alone.

5. **What FDI barriers do you face in Africa?**

The regulatory environment in Africa is a barrier. Governments have a tendency to force certain regulatory requirements, and alliances with mining companies operating in Africa.

The security of our people operating the mines in the region is another barrier which we face. This creates a skill shortage, because most expats are not keen to work in regions due to the security risks prevalent in the region, and finding skills in the local region is a huge barrier which we face, because there is definitely a skills shortage in Africa. Training and finding appropriate personnel is a barrier.

Another problem is that Africa is still Africa, that is the continent with the weakest infrastructure. There are ways to overcome the infrastructure problems and issues faced in Africa, however it does add to the cost factor. Because there are other mining companies already operating in the region, we tend to rely on the infrastructure which they have already created. And sometimes we outsource any potential infrastructure problems which we face in Africa to companies operating in the region, to help us overcome any logistical issues. We find that the best solution to overcoming the logistical problem is to work with other competitive companies operating in the region, or to use other mining companies.

Government and state-owned companies try to form alliances with us as a mining company, however because we are not a primary gold producing company, we have been able to avoid these types of alliances.

Due to lack of skills, available in the region, we initially use South African management teams and train local management. Once we feel that the local management team is able, we then retract the expat team, but we still keep some of the expats. So we use a combination of local and South African labour.

Labour legislation is a barrier we face, because we use South African management teams, we have to obtain management permits and by employing local labour, we have to ensure that we comply with local labour legislation.

Repatriation of funds is not an issue for us as a barrier, because we repatriate all funds to our holding company in the UK, which is an offshore based company. Africa has a good financial sector, that is a good banking system, so we as a company have not faced any issues or barriers with the banking system in Africa.

With regards to corporate social responsibility, it is not a driven by repercussion of the community, or because we feel obligated to the community, rather as we have done in Kenya, is that we are very involved in community, by providing labour to the community, so it is more a community driven agenda which we operate on.

In terms of investment in Africa, for example in the Burkino Faso region, knowledge of the region is very important. You cannot enter a region as a company, unless you have carried out a thorough investigation via a due diligence of the region. You must understand the market, the business culture, political landscape. A good due diligence requires the expertise of both a South African and local expertise to get an overall picture of the potential hazards and risk which you as a company face when entering a new region.
6. What FDI barriers do you face for countries outside Africa?
N/A

7. What attracted you to invest in Africa?
We have investments in Kenya and Ghana. The reason for investing in these regions is that there are good growth prospects.

8. What attracted you to invest in countries outside Africa?
N/A

9. What are your entry method strategies? Why do you use these strategies?
We use a combination, depending on the availability and circumstances of the region. We tend to favor acquisition like we did in Kenya. Sometimes we use a joint venture, whereby we start with with certain percentage in the partnership, as we feel, that we have the expertise and knowledge of the region, we buy out the remaining partnership share, so as to obtain full control. In Ghana, we preferred to do a direct investment, and this was also because of the lack of other available or suitable alliances, in the region.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?
Know your market, and do your homework. Understand government’s legislation with regards to your company, and do not antagonise the local government or community by being arrogant. Corporate social responsibility is also an important strategy which you must strive at in order to maintain a good reputation.

LEGAL 2

1. Do you perceive a difference between globalisation and internationalisation?
There is no difference

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.
Africa is considered a new market, and globally we found other economies are not performing that well, especially after the 2007 economic downturn, everyone seemed to be rushing into the African markets. Previously most MNEs that were operating in Africa were either using English, or American or French firms depending on the expertise required. So we decided to expand into Africa based on customer’s needs. We also found that a lot of the South African firms had expanded into Africa and we felt that we could service their needs better by having an office in Africa.

We are also a business, and we felt that Africa could become a new potential market, because it is a growing market. Strategically we expanded into Africa, because we see Africa as the new growth market. It is an expanding economy.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.
We only intend expanding into Africa because we feel that we are an African firm, so we would be able to serve our African clients. Culture and language is not an issue and did not feature in our reason, neither was geographic distance an issue. South Africa is part of Africa. Most of the client who have investments in Africa, require large legal firms that would be able to provide them with the expertise required. In Africa finding a local firm with more than 8 or 20 partners is rare, because most of the firms in Africa are quite small compared to any firm located in developed countries. So by us merging with firms in Africa, we are able to provide an MNE with the expertise required because, that local firm now has access to 200 partners from the South African firm, and this gives the MNE the access to the expertise it requires.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

We see Africa as part of South Africa and to create and maintain that African feel, we want to only remain in Africa. That way we will be able to be the best legal firm in Africa.

5. What FDI barriers do you face in Africa?

In terms of barriers that we face as a legal firm, language and laws applicable to the region, are an important consideration. Africa has four key regions:

- Francophone - which is also known as the OHADA region
- Anglophone region
- Luciphone region
- North Africa

So we use French national with French law expertise in our francophone region together with local expertise that would be available in our merged offices. So language and culture as a barrier is easily overcome by our strategic alliances in the region.

The same would apply for the Anglophone region. Again in the Anglophone region, because of the similarity in language and English Law which is used in the region, we have partners from our London office that we would use to assist us together with the expertise used locally. Unlike other firms, we do not have associations whereby just the brand name is used, rather we have proper offices that are integrated under our South African firm, so every person in Africa i.e. every partner in Africa is paid the same from our office in Johannesburg.

Bribery and corruption is everywhere in Africa, especially in prevalent in South Africa. You have to manage that as a risk. But because we are a legal firm, we don’t experience much bribery first hand, rather it’s our clients that experience bribery and corruption.

Infrastructure is not a problem because as a law firm we have managed the situation. Internet and network cables were a problem, but recently we are not facing that issue anymore and we are able to have video conferencing without any problems or issues.

Knowledge transfer, is not an issue at the moment, and we have not experienced a problem, where partners have taken our methodology and left the firm to open their own practice. We feel that our firm culture has helped to avoid this kind of problem, whereby we treat everyone equally.
We find that governments in Africa are pro our expansion into Africa. We have not experienced any negative sentiments. The reason for this positive reaction from governments in most regions, is because we are training and developing legal practices in Africa rather than taking them over and replacing them with foreign nationals.

Skills is an issue in most countries in Africa, because most young talent in Africa in terms of brain drain tend to leave to work in firms in New York and London. However, what we now do is recruit African students and train them for work in our African offices. Most of the local Universities in South Africa have lots of African students from other regions in Africa, and these are the students which we recruit, to work in our African offices.

The fact that there are financial institutions like Standard Bank does make things a little easier at times, but we also have our own treasury and financial departments.

We find in Africa, Rwanda to be like Singapore in the far east, because the Rwandan government is very strict about corruption. If anyone is involved in corruption they face jail.

Risk is a huge factor in Africa but the benefits outweigh the risk. If you have studied your market well and understand it, and know beforehand what you are getting yourself into, you should be able to manage your risk. It is imperative to carry out a proper due diligence of the market and the local partners with which you intending forming an alliance.

Repatriation and tax and transfer pricing is not an issue because we have tax specialist within the firm that deals with these issues.

We are a service provider, so our biggest asset is the service we provide which comes from our employees. Stability of the market is an important issue, if a market is unstable it does add to the risk factor.

In Africa, we find as a law firm state- owned departments can be an impediment in terms of efficiency and for us to provide the service to our client efficiently. Another contentious issue is courts. If the courts in the different regions are efficient and work well, it makes our jobs easier. South Africa is Roman Dutch law, so the SA legislation is rather unique compared to any other region in Africa, and therefore for us as a legal firm and service provider, it is vital that we find the right local alliances and expertise to help us to provide the proper legal expertise with regards to the local laws.

We do provide expertise in terms of mining rights, exploration rights for mining companies and being in the regions helps us to provide South African mining companies and other MNEs with the expertise and service they require. Operating as an integrated firm makes operations more functional.

For example, there is a huge $7bn deal going down in Uganda by one of the MNEs, then we send a project team to assist our local office in Uganda. That way the MNE has expertise of the entire ENS firm at their disposal, and they have all the expertise that they require instead of the bits and pieces which they would normally get from the American or the UK firm.

6. What FDI barriers do you face in countries outside of Africa

invest only in Africa
19. What attracted you to invest in Africa?
We have found that there is competition in Africa from other legal firms from South Africa but because of our business model, we are unique in our ability. The other firms just have associations whereas we have direct investments in most regions in Africa. Recent development has seen a lot of foreign firms expanding into Africa, because of the number of MNEs entering the African market, and these legal firms are using South Africa as a spring board into the region.

8. What attracted you to invest in countries outside of Africa?
Invest only in Africa

9. What are your entry method strategies? Why do you use these strategies?
By making direct investments in these countries, the government know that we are committed to the region. We therefore use a combination of Greenfield and mergers and acquisitions. The entry strategy depends on the availability of expertise in the form of other practices that are available, and based on the due diligence carried out on the local practice. If their practice and business philosophy does not fit in with our culture, then we go the Greenfield route.

Entry strategy differs region to region and based on availability of expertise.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?
India and Brazil are not an option because we want to be the best in Africa, and in order to become the best, we have to work on just one strategy. We also feel that Brazil and India have competitor firms which we feel they therefore have the expertise in the region already.

MINING 1

1. Do you perceive a difference between globalisation and internationalisation?
There is no difference

2. Please can you tell me objective reason for having invested in certain countries
We invest in Africa because Africa has the resources which we need. We also invested in other countries because of the saturation point reached in South Africa, for example, some of the mining companies are 4-5km deep. We also invest in other markets in order to seek more profit. Capital is not an issue anymore, because initially we obtained our capital from the US and UK markets via our dual listing, but since 2.5 years ago, we raise money by issuing bonds (debt financing). This money raised is then poured back into our investments in Columbia, Africa and Australia.

3. What are the subjective reasons for investing in certain countries
We would like to invest in countries, where we are familiar with the language and culture. For us, culture is an important issue, because there are certain communities that feel that we infringe on their land, and therefore we try and understand the local culture, so as to respect community rights and values, and thereby avoid insulting any traditional values maintained by the community,
4. What are your business strategy reasons for investing internationally?

The key business strategy is to increase the growth of our company, we had to diversify the risk in South Africa, and further South Africa as a market had reached saturation point.

5. What FDI barriers do you face in Africa?

The Africa infrastructure is a huge factor for us, because if there are no proper roads, we have to build infrastructure to make our FDI feasible and this adds to the cost factor. Our second big barrier faced in Africa is the safety factor. If our management and resources are not safe in the environment it acts as a hurdle to investing in a particular region. The safety factor impacts when there is political instability or regional war in the particular country. Another factor is efficiency, if we cannot mine efficiently, which in Africa does become a concern, then again we do not invest in a region. Our primary motive for any FDI is to ensure that we get a decent return on any investments.

6. What FDI barriers do you face for countries outside Africa

In Australia labour inflation is a big barrier, because when labour rates increase it impacts on our return. Another key factor is fiscal policies. When the government proposes fiscal policy changes, this contributes to our return, and we have to restructure in order to minimise the damage from the new proposed changes as made by the Australian governments.

Exchange rate is not a huge factor for Africa but with regards to the rest of the world, especially Australia, this becomes an important factor, because the exchange rate impacts on our cost and return.

7. What attracted you to invest in Africa

The continent is massively endowed with lots of minerals, oil and other resources. It is also the new fastest growing economy in the world. There is a huge growth potential in Africa. Bribery and corruption is a problem in Africa, if we are faced with this, we try and resolve the problem as we refuse as a company to pay any bribery money.

8. What attracted you to invest in countries outside Africa?

We need to diversify and expand, and Australia and Columbia provides incentives in the form of resources as well. They are considered good growth markets.

9. What are your entry method strategies? Why do you use these strategies?

We form alliances in some regions for example in Africa, we form alliances with state owned companies, e.g. we have two investments presently, with a state owned company, OKIMO, and the investments are 10% and 14% by the state owned company. We also have agreements with local governments in order to facilitate the mining in the regions concerned.

By creating these alliances, we are able to realise potentials because of the local expertise, skill and knowledge of the region which is obtainable through the alliances. South Africa’s political relationships does impact on our decision of entry strategy. In Australia, we pursue direct investment and in Columbia, it is an alliance as well.
10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

Consumer characteristics does not impact on our business, however for example in a country like Norway where the purchasing power of the consumer is high, this will impact on our factor of labour inflation, because a high purchasing power creates a high purchasing power creates a high labour rate, and this is the case in Australia.

We tend to regionalise our business with regards to FDI, as we have an Africa office, a US office, an Australia office and a UK office. This helps us to source local management expertise to better understand local business culture. This also helps to minimise the “psychic distance” and the geographic proximity.

Economic agglomeration is not a factor at all, because we tend to be leaders in our field and are not economically dependent on any other companies for any FDI related investments.

MINING 4

1. Do you perceive a difference between globalisation and internationalisation?

There is no difference

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

We also as a mining company, feel that it is appropriate to diversify our risk out of South Africa, especially with all that is happening currently in South Africa, with the labour problems and government interventions. We have investments in Mali and Ivory coast.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

Familiarity and culture was not a factor, however as a South African mining company we are familiar with the African landscape and culture prevalent in the region, and this makes it easier for us to understand Africa. A lot of the South African landscape is very similar to what is found in most of the African regions, and this has helped us as a mining company. Culture in Africa is similar to South Africa as these countries, have the same resources. Mali and South Africa, have historical ties, and this has helped us in terms of operating in the region, and this is a good incentive for us. Another important consideration is that as a mining company, you can literally operate anywhere in the world because you have the expertise.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

We as a company still have the bulk of our investments in South Africa, and from a mining and labour perspective its becoming harder to make a profit, because of the political landscape which is also creating instability.
5. **What FDI barriers do you face in Africa?**

We have encountered animosity towards us as a South African company, because the general feeling in Africa, is that the South African companies are “taking over” the region. We therefore still maintain South Africa as a base, because it’s easier to operate from South Africa.

Other mining companies being in the region, this has been a bit of an issue or barrier as you wish to call it, because we are granted exploration rights in some regions, and other mining companies have also obtained these mining rights. However, by having these other mining companies in the region, does help in terms of obtaining skilled labour.

Having local banks like Standard bank in the region, is not an issue because in Africa, most financial institutions are well developed. In terms of having other South African businesses in the region, e.g. law firms and other construction companies, like Murray and Roberts, then in terms of infrastructure, it helps to sort out any logistical problems because the local construction companies would have offices in most regions in Africa. We would also use South African law firms to help us in terms of compiling contracts for tender for mining exploration rights. Therefore, having South African firms operating in the region makes it easier for us to tender for contracts in the region.

The biggest barrier is the technical skills required in the region and the lack of availability thereof. The conditions you enter as a mining company that is you face government, sometimes a hostile community where the resources are, lack of infrastructure, the actual legal landscape is not easy to understand, the natural ore that is available is so deep below the surface, that it requires a completely different type of mining exploration. There is also the possibility you are stepping over lives in terms of the communities that are living in the region. The communities can become hostile, until they see the benefits of having you as a company operating in the region. The social responsibility is paramount when operating in Africa. It shows that you as a company care about the people living in the region, and you have to show that you as a mining company will give back to the community in the region. With regards to social responsibility towards the community, where the mines are, we try to alleviate any flammable political situations, by investing in local schools to enhance education for the children of the community.

Another barrier, is the actual prospecting rights that you are given also has a time limit. If you do not explore within a certain time limit you lose the cost of exploration as a sunk cost. Ownership of resources is with government, that is it remains with government, which adds to the risk factor. Therefore, negotiation with local governments is vital to be able to survive in the region, and in order to secure certain rights over the mined resources. If the exploration is not completed within the time limit, then that right reverts back to the local government, and they can give that right to another mining company.

There are also certain areas in Africa where it is absolutely difficult to mine because of the rife corruption and bribery which exists in those areas. As a company we have zero tolerance for that, therefore refuse to operate in those regions. When we do operate in a specific region, e.g. Mali, we only use local management teams, because that way we benefit from the skill, knowledge and culture and language of the region. This also helps to avoid costly labour permits for expats from South Africa.
Another barrier, is that most politicians tend to use mining projects in the area for their own agendas depending on the political situation. This creates labour issues depending on the agendas, and the way that a politician will use the issue. We also contribute by providing R100 millions of wages to the community by creating jobs. If these mines close down, workers lose jobs, this adds to the overall risk of the situation.

When operating in Africa, it is important to have alliances with governments, as it does help to create the foreign direct investment. With regards to any investment, we do not do shortcuts, but ensure that we carry out a thorough due diligence review of any region and of any alliance or management team that we will be using in the region. That is, we investigate whether the investment will be viable from the risk perspective to logistical, to political, to infrastructure, to actual resources available, to profit and possible growth.

Across borders, there is the issue of having to move mining equipment, due to lack of infrastructure and lack of proper road networks on the continent. We rely on local South African construction companies operating in the region to help us wade through the logistical problems. We have experienced some issues at borders, and again the local construction companies to which we have outsourced the movement of equipment has helped.

6. What FDI barriers do you face for countries outside Africa?

N/A

7. What attracted you to invest in Africa?

Well there are obviously macroeconomic reasons for our investment into Africa. Africa is seen as a growing economy, and it is currently growing faster than China.

The political atmosphere is also friendlier and more stable than in the past, which makes it more conducive to doing business in the region. But the real pulling factor for us is the economic growth in the region. We believe as a company Africa is set to boom, and it is the only continent with enormous resources. Africa is the next phase of growth in the world.

8. What attracted you to invest in countries outside Africa?

N/A

9. What are your entry method strategies? Why do you use these strategies?

Most of our investments in Africa is via direct investment. We own all our investments in Africa. We tend to recapitalise all new investments. However in some regions e.g. Zambia, government has a share in all mines, and this is an unavoidable situation and considered part of the risk of investing in some regions in Africa. This is compulsory form of alliance with the local government, which we have to enter into with the local governments.

One of the most vital issues that you face as a company, when investing in Africa, is that you have the knowledge about the region and the potential barriers that you will face as a company.
10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

When investing in Africa it is important to be socially responsible, and to make some contributions to the community. It is also important to be on good terms with the government, and to get the buy in from the government.

PAPER MANUFACTURING 1

1. Do you perceive a difference between globalisation and internationalisation?

There is no difference, rather this would be an academic distinction, not a business one.

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

Primarily domestic market very mature, expansion potential was not possible, very consolidated market, limited growth potential, for growth opportunities. We expanded into Austria. The driver behind the expansion was a strong management team, well positioned to help us expand into eastern Europe, it helped us to provide a platform to expand into Eastern Europe. Poland was our next acquisition, utilise the management team as a base to further our acquisitions. We recognised that eastern Europe provided us with low cost production base, better cost structures compared to traditional European competitors. Resources and low cost manufacturing gave us the cost advantages, and therefore we expanded into those regions to exploit the opportunities. In the UK we entered into a joint venture in the UK with a newsprint companies. The joint venture with an established company that was an industry player had the expertise and the market. In the US it was a small investment, we were following our customer base, that work on a global basis, in order to serve customers. The US was to explore new markets, and in order to become a global player, we had to have a manufacturing facility in the US. We also expanded in France and UK, but we retreated from these investments because we realise that the cost advantages were more in the eastern Europe and that's where we could have a competitive advantage. Eastern Europe has also shown structural growth and demand for the products which we produce, whereas in Europe there is contractive growth.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

Expansion into UK, was because we were part of Anglo, and the company had ties in the UK.

So the expansion into UK was because of subjective reasons.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

New growth

5. What barriers do you face in Africa?

There are no investments in Africa. The market is very small and fragmented, so it’s very difficult to get scale in any one of the markets, and in terms of upstream, with regards to plantation and forestry, we face a huge
barrier in Africa in terms of land availability, and this is a highly sensitive issue. Forestry is a long life asset, would involve plantation forests and pulp mills, and this is a long development, so land tenure and political risk are things would make the investment very difficult and including infrastructure with regards to pulp and paper mills. We have a small investment in north Africa, its driven by our European company, where we invested in a packaging industry. We export paper from Europe, to the packaging industry. This is a small investment.

Small fragmented markets, political and fiscal instabilities. Land tenure issues.

6. **What FDI barriers do you face in outside of Africa?**

In Austria, the barrier was language and culture, however we have sourced locally to overcome this problem, and with globalisation English has become the medium for most businesses globally. Russia, Eastern Europe, language is an issue. Exchange control is an issue. We repatriate to the UK. We have to get approval from the Reserve Bank is a huge barrier, its ad hoc and confusing and no one understands it and it is an impediment. Each country has some differences. In Russia, bribery is a bit of a problem, but we maintain a zero tolerance to any form of bribery or corruption in the region. We have a good relation with the Russian government and you have to ensure as a company you pay your due taxes. You cannot be ultra-aggressive with your tax structures and not try to antagonise the government. We also have continuous investments in the community in terms of corporate social responsibility. Projects like schooling, social clubs, ancillary services, fire stations and medical facilities which you would normally spend in a mature market. In Poland, government is pro-business, and as a consequence you get tax incentives, that is tax holidays which makes it a great place to do business in. Investments in project, tax incentives and tax holidays. In Russia, is not that developed in terms of attracting FDI, but we carried out major FDI in terms of modernizing our plant in Russia, and we get received support from government for forestry concessions. Infrastructure is a problem in northern Russia. It’s a constant challenge. Road and rail, and we produce the electricity. IT is not an issue. Poland is very first world in terms of infrastructure.

In Austria, the one barrier is the high tax rates. In the US, time zone is a challenge, for anyone looking at expansion, in terms of communication complicates issues. Similarly, very developed market so it’s very difficult to create a competitive advantage. So competition is a huge factor, because you as a company have to develop your brand in the market in order to create a competitive advantage. It’s very well served by the domestic players. It’s a very mature market in structural decline.

In UK change in tax rates, controlled foreign corporation tax rates. We pay dividends in the UK.

7. **What attracted you to invest in Africa?**

There are no investments in Africa. We don’t have any major or large investments in Africa, just a small investment in a packaging company

8. **What are your entry method strategies? Why do you use these strategies?**

Joint venture in UK and Austria. In eastern Europe, so we use mergers or acquisition. In US, we bought via acquisitions. We prefer to have 100% ownership. In Austria, the seller wanted to retain a minority interest. In our experience most joint ventures don’t really work, and generally you end up in tears. That’s why we prefer acquisitions.
9. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

You have to have a competitive advantage, and how you can leverage in the different markets. A detail due diligence is vital. Entering a new geographic with a new product is a disaster, therefore we try and do one or the other, that is a new product or new market. That is enter a market with an existing product.

No ambition to expand in Australia which we see as a very mature market, it’s like a mini US.

PHARMA 1

1. Do you perceive a difference between globalisation and internationalisation?

NO it’s the same thing

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

Our primary reasons are to diversify our risk of exposure out of South Africa, because presently we are 96% exposed to the South African market.

South Africa is a very advanced market, here you experience the same set of pressure you would find in Europe, but then again there is the culture which is very similar to Africa, especially in terms of the bureaucracy.

3. Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.

India and Africa have similar consumers. Another aspect is that most of the regions we operate in Africa are English speaking, and so is India. There is the cultural heritage and the colonial ties, which we feel makes it easier for us to operate in these regions. The culture is however completely different in both Africa and India, and both have different business cultures.

However historically there has always been a relationship between India and Africa, because India has been manufacturing for Africa. So there is a close link historically and therefore our expansion in Africa is backed by our Indian managements’ understanding of Africa.

4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

We wanted to reduce exposure to South Africa, and we were looking for new growth, because maturity has been reached, and we have experienced saturation in terms of growth here in South Africa.

Technical capabilities are another problem faced in South Africa, that is there is a skill shortage in South Africa which does affect the research development and that is why we had to expand into India in order to tap into their skills market which is very strong in the research and development. India has also helped us to source the skill in our pharmaceutical industry.
In Africa, the lack of skills is another issue, so we acquire business with management skills and expertise, and we also look for management that has experience with other international MNEs. And has a thorough understanding of the regulatory environment.

5. **What FDI barriers do you face in Africa?**

The regulatory environment for pharmaceutical manufacturing is very strict in Africa. Globalisation has upped the sophistication of the whole legislation.

Legislation and the regulatory compliance is a huge challenge for us. Another problem is the logistics, that is transporting products from South Africa to the different outlets in the region. Inefficiencies at the ports and the borders also impacts on our lead times, because we are also dealing with products that have expiry dates, so efficient delivery of the products is vital to our business strategy.

We do ship most of our products to the northern part of Africa, and we use the port Mombasa, in order to get our products to Lagos.

Intellectual property is a big negative factor that we face in Africa, because we find other manufacturers in the region copy our packaging and try and sell their products. This is done by most of the Chinese manufacturers which are operating in the region.

The labour laws in Africa are starting to get very sophisticated, however there are no unions in Africa, which does make trading a bit easier. Every country in Africa has different laws and legislation for labour compliance which does make the issue of labour rather complex. But by having the local management teams who understand the labour and the regulatory framework does help ensure compliance.

The regulatory environment keeps changing which makes it rather challenging for us to operate in Africa.

Sometimes there are certain requirements before you can manufacture in some of the countries in Africa, and you try and meet those requirements, however the dossier from government arrives which shows that there are new requirements which the company has not met.

6. **What FDI barriers do you face for countries outside Africa?**

India is a new market for us, and that in itself is a barrier for us. Patent protection is a problem in India, previously MNEs took products to India, and the manufacturers in India would manufacture the same product for the local consumers in India, and there was no violation of the patent if that was the case. However now all MNEs are forcing the patent issue to avoid any future problems with the manufacturers in India. The other problem is the copying of products by other manufacturers in India is also an issue. In India the pharmaceutical companies would wait for a patent to end its licence right in the first world, and they would then take over that patent and manufacture in India. In India, the pharmaceutical market is very competitive because there are too many other pharmaceutical companies manufacturing generic medicines, and in addition to that there is a huge influx of MNEs from other locations competing for a share of the pharmaceutical industry in India. It is also a very protectionist industry, that is India tries to protect its own pharmaceutical industry from the foreign companies, and they do this via the foreign investment review board, which has a lot of red tape for entry by foreign multinationals. In India each state has its own tax laws, which can be aggravating when you are moving inventory from one state to another state.
There is also the issue of logistics in India which is very poor.

The regulatory environment, is so different in each state of India, that when you try to move product from one state to another you have to have a clearing agent in each state, because of the complexity of the regulatory environment. This also adds to the legal and tax issues, because again each state would have its own legal and tax issues. This makes it time consuming if you do not plan for the different legislations in each state. This will add to the cost of the manufacturing and selling of the product internally which will impact on the price which will in turn affect the Indian consumer.

To manufacture in India, obtaining a patent for the market is essential. In India most of the pharmaceutical companies have been producing drugs using expired patents and then combining these drugs with other drugs, the result is that most of our company’s drugs will not be able to be sold to the local consumer market, because the local Indian consumer has become resistant to most of the international drugs because of the mixing of drugs.

In India you can’t give your patented products to the manufacturer in India because you will lose that product to the masses.

Our strategy for the Indian market is not to carry out any research and development from a South African perspective, rather we have bought the research and development unit in India, and they will continue with the research into new drugs. We will focus more on the distribution and most importantly the infrastructure.

We will therefore have to generate new products for the Indian market. We will have to understand the market, to determine what we can sell, and in most cases we will have to modify and adapt for the local Indian market.

It was vital for our entry into the Indian market, to obtain a thorough understanding of the market, and to be able to understand the market, and to know the players in the market. You have to have a front end business, and a local person to help identify good business opportunities. Indian pharmaceutical market is a very big and expensive market.

It is a very difficult market and the labour is unionised which does make trading harder.

7. What attracted you to invest in Africa?

However, the consumers in Africa are very different, but the similarity is similar to the clients we have in terms of the lower end consumers you would find in South Africa. So as a company operating in South Africa, which is a very much dual economy, we feel that we have the expertise to be able to expand in markets across the globe, rather than on Africa.

But because Africa is geographically close to South Africa and is also the fastest growing economy, we have decided on an aggressive approach in terms of our expansion into Africa.

8. What attracted you to invest in countries outside Africa?

India is again very similar to Africa. It has the same dynamics as Africa. Operating in both Africa and India, requires a very strong distribution capability, because distribution is key in a successful operation in both countries.
9. **What are your entry method strategies? Why do you use these strategies?**

With regards to most of our investments in foreign locations in Africa, we have gone the Greenfield route, that is all the acquisitions are new and we own the operations 100%. In India we decided to go the joint venture route, because it allowed us to obtain the expertise and knowhow which came with the joint venture. The reason also for the joint venture in India, is that we really did not know the environment, and by using a joint venture it helped us to understand the new market, the culture and the legislation.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

Corruption and bribery exists in both Africa and India. And getting products through the borders in an issue in both countries. We have outsourced all our distribution in Africa, that way we feel the risk is diversified.

We are keen to expand further into other BRIC countries, but we have to confirm whether we have the capacity. China is not on the agenda, because it is too different, and the culture and the language is just too foreign for us. Before entering any new market, a proper due diligence is important and you have to expand slowly, an aggressive approach will only end in disaster.

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**PHARMA 2**

1. **Do you perceive a difference between globalisation and internationalisation?**

There is no difference.

2. **Please can you tell me objective reason for having invested in certain countries**

We prioritise markets based on criteria, that is we look at value, complexity and a differentiation factor, to determine if tactically business in the new market will be sustainable. We have an emerging market platform business model, and the markets that we have penetrated via FDI are Brazil, Southern Africa, and Philippines.

The pharmaceutical market is a very fragmented industry. We consider the emerging markets to be very potential because they consist of an emerging middle class consumer, and markets like Brazil are very large, but it is a very protectionist country, that is the government is very protective over its local industries thereby creating a lot of legislation and compliance requirements for new industries entering the market.

3. **What are the subjective reasons for investing in certain countries?**

Brazil as a market is very similar to South Africa, in fact we find that all the BRICS countries have consumers similar to the South African market, and we understand the South African market and therefore are familiar with trading here and this makes us comfortable to trade in BRIC countries. There is also the similar economic climate in BRIC countries, and the business language in all the BRIC countries is English, if not, because of globalisation, and the sophistication of the pharmaceutical industry, you will always find a management team that is able to speak English. Previously language use to be an issue, but with international trends and globalisation this has all changed, that is globalisation has helped to narrow the gap in business culture internationally.
4. **What are your business strategy reasons for investing internationally?**

Diversification is top of our agenda, and growth is also a dominant factor. We feel that there is no meaningful acquisitions in South Africa to expand our business and we are continuously hampered by the competition commission, so growth in South Africa is difficult to achieve. Our growth in the South African market has been phenomenal over the last couple of years, and therefore to maintain that growth we had to expand internationally in order to achieve further growth.

The other reason is economies of scale, that is to move manufacturing to markets which are cost efficient. We also wish to achieve operational synergies and increase the value of our brand equity. Another factor is by expanding abroad, we are able to procure centrally and thereby helps to leverage our cost.

5. **What FDI barriers do you face in Africa?**

An important barrier is to ensure that our intellectual property is protected, that is our patents and trademarks. The business culture is different in Africa compared to that of South Africa, therefore we tend to source local management to help us overcome the business culture barrier. Acquiring local management helps us to understand the market, so with most of our acquisitions in Africa, we purchase 60% of the business including the management team, whereas the operator holds the remaining 40%, and after three years, when we are comfortable to go solo, we buy out the remaining 40%, that way we have acquired the required knowledge in that region.

Legislation and regulatory compliance especially with regards to pharmaceutical products can be a barrier, that’s where the local expertise is a big help.

6. **What FDI barriers do you face for countries outside Africa**

In Australia we have set up manufacturing facilities, however due to the high cost, we are hoping to relocate manufacturing back to South Africa.

Tax legislation is an issue especially with repatriation of funds. It is also complex to realign manufacturing based on different regulatory regimes in the different countries, and the requirement for compliance is generally very complex.

In Australia, because other South African retailers and businesses have flopped, made us wary of the market, therefore we had to ensure that we know our business, and create a risk free model to suit the Australian environment. We therefore bought into a legacy product and extended the product range using the legacy product, thereby helping to leverage the brand and this helped us to increase and expand our product. We also used a local management team in Australia to help us understand the market and acquire the knowledge which we needed in order to penetrate the market.

7. **What attracted you to invest in Africa**

Africa has high growth, and has the second fastest economy in the world which is Ethiopia. It is not a homogenous market, but if you aggregate the market it is equivalent to South Africa.
8. **What attracted you to invest in countries outside Africa?**

Brazil is a huge emerging market, as well as the Philippines which we feel is our gateway to the far east market. Philippines is also very similar to South Africa in that its consumers are very similar to our lower end consumers here in South Africa. We are considering India at the moment, because Indian government is very protective over its own industries, and they have defensive tariffs which are a barrier, as well as the fact that they grant their own pharmaceutical companies tax holidays. China and Nigeria is not an option because of the corruption prevalent in these markets.

9. **What are your entry method strategies? Why do you use these strategies?**

In Sub-Saharan Africa, we use Joint ventures as it helps in terms of collaboration and acquiring knowledge of the market. We also look at each market individually, and determine what the best business model will be for that market, so we ensure that a feasible distribution agreement is in place and that with any acquisition we are able to buy local expertise in order to understand the market.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

Know your business, and understand your product. Be a risk taker, the international market has potential. But you must do your homework, you can’t enter if you have not carried out a due diligence on either the market or the partner with whom you will be entering into some kind of alliance.

**RETAILER 1**

1. **Do you perceive a difference between globalisation and internationalisation?**

There is no difference

2. **Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.**

South Africa is a very saturated market, so to experience further growth for our company, we decided to expand into Africa. Africa was across the border and it was a market which we felt we were familiar with. Europe and Asia and US are considered to be very sophisticated markets, with too many competitors, and therefore fierce competition. Another pulling factor to invest in Africa is that the customers are similar to that of the customers in South Africa.

3. **Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.**

Geographical, language and culture is an important factor for us that is why we invest in Africa, and of course the fact that we are serving customers that are similar to the customers in South Africa.

4. **What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?**

We only had investments in South Africa, and we decided that we needed to diversify our interest out of South Africa. South Africa also has lots of union and political problems, and we felt it was necessary to
diversify some of our interest out of South Africa.

5. **What FDI barriers do you face in Africa?**

For us the difficulty is to find retain space, that is suitable supermarket premises. It is one of the most difficult aspects for us when investing into Africa. So in most regions we have to develop retain properties which means capital investments and if the investment is not profitable, then it becomes a sunk cost for us. To mitigate the risk of the large capital outlay, we try and find investors to invest with us in some of the investments, and this is again another barrier which we often face, because it is difficult to find suitable investors, who are willing to invest in our business model.

The second problem is that the cities are generally very congested in Africa, and this makes it difficult to get supplies to the stores in time, and to be able to move from store to store. But the fact that the cities are congested makes it difficult to obtain land, which is not readily available. So if there is no land, we can’t develop or build retail premises from which we can operate. This is a huge barrier which we face in Africa.

Africa is also lacking in terms of strip centres and shopping malls, again making the task of finding suitable retail space rather difficult.

Infrastructure is another obvious problem faced in Africa, from the road networks, to the electricity, and IT is a problem. Every store which we operate in Africa, has to have generators in order to deal with the electricity problems. But again another problem is to run the generators is that you need sufficient amount of diesel, and this again results in finding storage space for the diesel.

Government in Africa is not against investments in the country, however we feel it is necessary to obtain governments approval before investing in a region and to maintain good relations with the government of every new location in which we enter. So our policy is to get government buy in before we enter a potential new market. So we enter into government agreements to start up operations. Hereby if we experience any problems in the region, we can rely on the local government to help us out to sort out any issues which we face in the country as a foreign investor.

Moving supplies across borders and through to the ports is a big problem which we face in Africa, because of border inefficiencies and bribery and corruption at most border posts and ports, and this impacts on our lead times, which can be cumbersome. The road network across most regions is also a problem. But because we deal with perishables this becomes concern for us, and we have to find alternative means to transport most perishables, because of the expiry date, so we now fly in all our perishables, which does add to the cost factor.

Sourcing from local suppliers is our ultimate goal, however we have a policy whereby we do not buy from agents, only can purchase directly from the suppliers, or the manufacturers.

In Africa we have not really experienced any competition from local retailers, however the expansion of other South African retailers across the border is becoming an issue for us.

In terms of labour, skilled labour is an issue, so we source personnel from South Africa. That is we use one buyer, general manager, and financial manager for each store in Africa is normally sourced from South Africa, all other personnel are from the local country. We provide continuous training to all locals used in the
business for about 4 months. We try and maintain mostly local employees and eventually the goal is to use 100% local employees.

The fact that we have South African banks, like standard bank operating in the region is a plus, however generally the financial system in Africa is quite good, and there are other foreign banks, like Citi Bank which is very efficient and very strong in Africa, and also because they operate in most regions makes it easier for us to deal with them.

Exchange rate is not an issue, because most regions in Africa use dollars, the only time it becomes a problem is when you are repatriating funds back to South Africa.

6. **What FDI barriers do you face in countries outside of Africa**

   invest only in Africa

7. **What attracted you to invest in Africa?**

   Also the fact that South Africa is part of Africa, in terms of historical, colonial and pulling factors is an important reason for our investment in Africa.

8. **What attracted you to invest in countries outside of Africa?**

   invest only in Africa.

9. **What are your entry method strategies? Why do you use these strategies?**

   We only do Greenfield investment and prefer to do the investment all on our own.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

    One needs to go into Africa carefully, because there is no available statistics or trade information. It is vital to get the goodwill of the government, because by getting the goodwill of government, you will be able to get governments help in sorting out any issues which you face in the country. The other reason is that government then also helps to further development of the company in the country.

    Most governments are pro to our investment because we export food, which is good and important for all countries.

RETAILER 2

1. **Do you perceive a difference between globalisation and internationalisation?**

   There is no difference

2. **Please can you tell me objective reason for having invested in certain countries**

   Our country has FDi in five different countries. We are in Botswana, Namibia, Zambia, Swaziland and Lesotho. Proximity to South Africa is an important issue for us, and our original intention with regards to FDI was to extend our business in locations close to South Africa, because we found in these regions there are few barriers to entry and another plus was the SADEC agreement which made it easier to ensure compliance with
the different region’s legislation requirements. Zambia was an extension of our business in Botswana, so the close proximity to an established market made it easier for us to invest in Zambia. The SADC countries also provides low barriers for investment and the region has the same customers as that of the lower end consumers here in South Africa. We have invested in these markets for the last 5 years.

3. What are the subjective reasons for investing in certain countries?

Our FDI decision is to only invest in English speaking countries, and that’s the reason why we have avoided Mozambique and Angola because Portuguese is the dominant language in these regions. The culture in Botswana and Namibia is similar to South Africa and of course proximity is a plus, because it makes it easy to move durable goods across borders because the logistics can be very complex creating a transport problem. So geographically investing in regions close to South Africa reduces the cost factor for transporting durable goods (furniture) across borders. Historical and political relations is not an issue just the similarity of the market.

4. What are your business strategy reasons for investing internationally?

South Africa as a market had reached saturation point, and for expansion we had to venture into new markets. We saw good opportunities in Africa because the target market had similar customers. Diversification did play a part, because it helped us to diversify our risk out of one singular market. We do not open manufacturing plants rather retail outlets, however we are considering franchising some of our retail outlets.

5. What FDI barriers do you face in Africa?

In Namibia and Botswana, we had to scale back our operations due to increase in competition from other retailers.

Labour legislation is a barrier we face in all countries of Africa, because each country has its own unique labour laws. It makes doing business in these regions very complex, since the requirements are quite onerous and the labour laws are quite complex with lots of red tape. Each different category of employee is governed by a different section of the labour law relevant in the country, that is we have to ensure that we do pay in excess of minimum wage requirements and there are different wage returns that we have to fill out for each country. All this cost of compliance adds up.

Skills shortage in the different African countries is a problem, that is finding skilled management, and if we try and use South African managers in some countries, then labour permits for the South African managers are refused, making it difficult to find the right skill required.

With globalisation, legislation for tax, company law is all changing and becoming more sophisticated and altogether complex. We sell insurance to cover the debt of the purchase and to cover goods, and the legislation that governs this process is complex and onerous. Also when we sell televisions we have to ensure that customers have the relevant television licenses, and again this is different for each country making it difficult to ensure compliance.

We have no intention of investing in Zimbabwe even though it is geographically close to South Africa, because of the political instability in the region.
Knowledge transfer is a risk for us, because the locals have a tendency to copy what we sell.

Local funding is another barrier, because we sell our products on credit, and locals struggle to find financing locally, so we are trying to source funding locally to make it easier for us as a business and this will help to minimise currency risk and overall it will reduce our translation risk for the group as a whole.

We transport 80% of our products to Zambia, and only source 20% from local suppliers. However recently some our suppliers from South Africa have moved with us to some of the regions in order to be close to us as retailers.

We have faced challenges at the borders whilst trying to move stock, and adding to that is the logistics of the region, this has generally stopped us from further expansion.

6. What FDI barriers do you face for countries outside Africa

N/A

7. What attracted you to invest in Africa

Agglomeration is a factor in making the African markets attractive because if South African businesses are in the region, it helps us with the supply chain and distribution networks, and thereby helps us to expand our network.

8. What attracted you to invest in countries outside Africa?

We have no investments outside of Africa.

9. What are your entry method strategies? Why do you use these strategies?

Entry method is via direct investment, and we ensure that in each country we have five stores as a minimum, to make the distribution of the products feasible.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

Know your market, and be able to provide a product that is suitable for the market.

RETAILER 3

1. Do you perceive a difference between globalisation and internationalisation?

There is no difference.

2. Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.

We expand into new locations, because of the economic potential, but in most cases, there are a wide range of different reasons why we expand into certain countries.

We would look at whether the potential market is a really big market, because we sell clothing, and we would look at factors like ports infrastructure is good. Countries like Angola for example we would not invest in, because we feel that it is too corrupt, Nigeria is a good market, but then again we face the problem of not
being able to sell shoes in Nigeria so that affects our business model. Another key issue is that we need shopping centres to operate in, and some countries in Africa, don’t have that, for example a big market like Nigeria, only has two shopping centres. We like to invest in markets which we believe we understand and also markets that have substantial growth.

Because we are a fashion retailer, we look for a market with young people and certain amount of disposable income.

Saturation in South Africa is not a reason because our customer profile is still in growth phase, and we feel we can still double our market share.

3. **Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.**

Do we understand the fashion mind set of the country, and do we have the ability to change the mind-set of the young population in the country, is our driving force? So language or geographic distance is not an issue for us, but rather to influence and change the value for fashion.

Culture is a factor, because fashion is considered sexy, you have to consider the culture. For example, rugby and cricket clothing cannot be sold in Zambia.

However, body shape is a big factor for us, because it drives our strategy into the different locations.

The four biggest markets in the world, are India, China, Nigeria and Brazil, and each region has a different body type. For example, in India the population is generally thinner and taller, and China, they are shorter and slightly heavier, and Nigerians are similar to South Africans, and Brazilians are thinner but shorter. So it’s impossible to sell the exact same clothing all over the world, rather you have to modify and adapt the product for the local market. Our company tries to understand the country and try to get 20% market share by modifying and adapting to the location we are in. Another example is fabric, so fabric for South African market will not work in Nigeria, because of the differences in the climate. Another factor is the different regions in the same country would experience different weather patterns, and this can get complex, so we design to suit the country’s needs.

We want to expand into a location, where we feel we have a competitive advantage, otherwise it’s not worth the effort of entering into a country, we also wish to expand further globally via e-commerce.

4. **What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?**

Another paramount reason is that we needed to diversify our interest out of South Africa, because we only have investments in South Africa. However, this was not done quickly, it took us years in terms of testing, detail due diligence, looking for appropriate retain space, labour relations, competition, tax laws and skills levels.

5. **What FDI barriers do you face in Africa?**

Tariff barriers, this is a big issue for us, and the inefficiencies at ports in Africa is another barrier which we face.
Corruption and bribery both at the borders and the ports is a continuous problem. The fact that we can’t export shoes to our stores in Nigeria is also a barrier for us, because it forces us to change our business model for the region based on the restrictions.

In India, China and Brazil, we faced resistance because we were a foreign retailer, and they tend to create huge hurdles for foreign retailers. However, tax breaks in most regions does not really hamper our investment strategy.

Labour, that is skilled labour and obtaining permits does impact, some countries we do face a problem where it is difficult to appoint employees. Labour legislation is also an issue in most countries, because each country operates a different legislation or practice with regards to labour, and we have to ensure that we comply with the different requirements.

Knowledge transfer is a factor, because we have other retailers, trying to copy what we import, however we go the patent and trademark route, that is if there is any infringement we use the legal route to sort out the problem. We have found many of the retailers in the different countries have tried to copy our business model, but we know they will not be able to compete, because we tend to be the dominant competitor in most locations.

Globalisation has contributed to what is fashionable, and this has help benefit the growth of the brand. However, television has not helped, because we find that our target market in most locations do not watch television, but rather are influenced by social media, especially the internet. Therefore, if our target market has access to an internet connection is important for the growth of our market share in a country. Magazines is also not a contributory factor to growing the brand. Therefore, print media in a country is not a factor.

Other South African retailers have not made trading for us easier in any market, for example having standard bank in a country has not made business easier, but knowing that a bank is a South African bank, and is known to do a good job, does give you confidence in using the local bank. The locals are however enamoured if they feel they got a good service from one South African company, then they are willing to support other South African companies, so that does contribute as a growth factor.

With regards to the legal landscape, we tend to rely on the local law firm which will have offices in other countries as well, so its makes it easier to sort out the legal issues faced in different jurisdictions. The legal firms would be used for trademark infringement issues, leases, labour laws, and tax laws.

With regards to suppliers, we try and use local suppliers as often as we can. We prefer South African suppliers, because it’s easier and quicker, because we deal with large volumes and speed, and we find that local suppliers in different countries can’t cope with the demand and the requirements which we have, and therefore very few manufacturers can handle the volume we need. In Nigeria, getting the product on time for the season is a problem, so we plan in advance, that is when item will go on sale, so we plan in order to mitigate for possible logistics problem anticipated. We plan to the day, because of the port inefficiencies. That is why we are planning on the ecommerce, because it will help overcome the logistic problems which we face when dealing with volumes.

6. What FDI barriers do you face for countries outside Africa?

N/A
7. **What attracted you to invest in Africa?**

As a company we do have a competitive advantage in most regions. We also have the ability to deliver the right product to the right customer, which we feel is similar to most of the customers which we serve in South Africa.

8. **What attracted you to invest in countries outside Africa?**

We are considering investing in other countries, however we have not as yet carried out FDI in other locations, but it is part of our growth strategy.

9. **What are your entry method strategies? Why do you use these strategies?**

We have tried different entry models; however, we have found that Greenfield is the popular choice. We have found that generally it is hard to find something suitable to buy, that is a retailer that is already operating in any region, and to try and then tweak that business to suit our business model.

10. **Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?**

13-25 female is our target market, and therefore with regards to any new market we look for countries with that population. Population dynamics is important for us, therefore a market like Japan and Russia would not appeal to us because both regions have an old population. Therefore, we have to find customers to match our DNA. A country that is too poor would not be a target market, because for our strategy, the target market has to be a big market with disposable income. That is do they have the money to spend on trendy items. Political stability is an issue for us, and therefore Egypt which was considered a fantastic market, however based on our due diligence we found the market to be politically very unstable. Entering an unstable market is not going to help achieve the targeted profit margins.

**RETAILER 4**

1. **Do you perceive a difference between globalisation and internationalisation?**

No difference

2. **Please can you tell me “objective” reasons for having invested in certain countries, such as, for example, the economic environment and labour legislation etc.**

There are perceived strong returns, new markets, diversification of interest out of South Africa. Demand in Africa is not satisfied by supply. Especially a demand for food retailers.

Emerging strategy, is to use local suppliers especially with regards to perishables.

3. **Please can you tell me “subjective” reasons for having invested in certain countries, such as, for example, familiarity with the culture and language, historical ties etc.**

Africa is very different and each region is different from South Africa. We believe there is an opportunity to save people money.

We do not really look at subjective reasons.
4. What are your business strategy reasons for investing internationally? For example, is it for expansion diversification or some other reason?

Expanding internationally and achieving returns. We want to achieve greater scale and returns.

5. What FDI barriers do you face in Africa?

Secure title to land, ensure person is owner of land. Bureaucratic requirements. Being able to secure to long term lease. Our mass discount stores, which is a large retail company here, is the only store we are using in Africa. Slightly different model. Economic volatility, liquidity is strained, difficult to get funds out of Africa. Malawi devalued currency, difficult to purchase any currency out of Malawi. Subsidiary of American company, we need to comply with anti-bribery legislation, foreign corrupt practices act, especially with African countries, there are the concerns which we face. infrastructure, is an issue, we would rely on generators, and road network is an issue, especially with regards to the distribution. We are using South African managers, and hope to source locally lately. Work permits is an issue. Delays processes due to bureaucratic issues. Other South African companies are our competitors. Government pro your investment, mixed experiences. Local banks, and legal companies, we don’t have universal banking relationships, depends on region to region. Again the same would apply to legal firms.

6. What FDI barriers do you face in countries outside of Africa?

We only invest in Africa.

7. What attracted you to invest in Africa?

Serve the needs of the consumers, return on shareholders, scale and meet needs and demands of consumers in Africa.

8. What attracted you to invest in countries outside of Africa?

We invest only in Africa.

9. What are your entry method strategies? Why do you use these strategies?

Acquisitions, Greenfields. Joint venture with land owner or property developer. We do have minority shareholders.

10. Is there any other aspect of FDI that you have not already mentioned that you feel is important in deciding to invest in a foreign country?

The currency volatility, infrastructure, political instability, in terms of propensity to corruption. Due diligence on any potential acquisition, but not on the country, we find that it is impossible to do a due diligence of the assessment of the company. Hard economic factors.