EXPANSION STRATEGIES OF MULTINATIONAL CORPORATIONS IN AFRICAN EMERGING ECONOMIES

by

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The declaration of originality

I, Moliehi Florence Thupa (Student No. 50041940) declare that the dissertation titled: "**Expansion strategies of Multinational Corporations in African emerging economies"** is my work and has not previously submitted to any other University or faculty. All the sources I have used or quoted have been properly acknowledged through referencing.

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An abstract

This study investigated the determinants of expansion strategies that are adopted by MNCs that invest in African emerging economies. Literature suggests that expansion strategies have received little research attention, especially in the African context. Previous studies suggest that MNCs initiate their internationalisation process through exportation, and then explore other resource-committed expansion strategies (FDIs) at a later stage. A number of theories have been used to explain the behaviour and decisions of MNCs in this regard. One of the prominent theories in this regard is Dunning's OLI paradigm that has been the most influential and widely used, but this study was premised on internationalisation theory. For the purposes of this study, two expansion strategies of MNCs were identified as greenfield foreign direct investment (FDI) and exports. The study sampled six top African emerging countries rated by the stock size and volume of FDI inflow they had attracted. The study utilised the cross-sectional time-series data for period spanning 1996 to 2016. The data were accessed from statistical records of African Development indicators (ADI), a statistical arm of the World Bank. This quantitative research employed econometrics estimation technique to achieve its objectives, namely OLS regression. The study relied on Durbin-Watson statistics contained in ordinary least squares (OLS) regression to attend to issues of autocorrelation. To establish long run relationship, Johansen's cointegration approach was employed.

Key words:

Determinants; Expansion; Internationalization; Strategies; Exports; Foreign direct investment; Multinational corporations; Host economies, Emerging economies; Africa

Sehlogo:

MAANO A KATOLOŠO YA DIFEME TŠEO DI DIRAGO DINAGENG TŠE NTŠI KA GO DIEKONOMI TŠE DI GOLAGO TŠA AFRIKA

Setsopolwa

Thutelo ye e nyakišitše ditšhupo tša maano a katološo ao a amogetšwego ke dikhamphani tše di dirago dinageng tše ntši (diMNC) tšeo di beeleditšego ka go diekonomi tše di golago tša Afrika. Dingwalo di šišinya gore maano a katološo a filwe šedi ye nnyane ya dinyakišišo, gagolo kemong ya Afrika. Dithutelo tše di šetšego di dirilwe di šišinya gore diMNC di thome tshepedišo ya go oketša tiro ya feme boemong bja boditšhabatšhaba ka mokgwa wa kišontle, gomme ka morago di hlohlomiše maano a mangwe a katološo a boikemišetšo go fa ditlakelo le thušo tše di nyakegago go fihlelela dinepo tše di filwego tša feme nakong ye e tlo latelago. Diteori tše mmalwa di dirišitšwe go hlaloša mokgwa wa go dira le diphetho tša diMNC malebana le se. Ye nngwe ya diteori tše bohlokwa malebana le se, gape yeo e bego e le ye e nago le khuetšo ye kgolo gape e dirišitšwego ka bophara, ke dikgopolo ka ga ka moo dilo di šomago tša OLI go ya ka Dunning, eupša thutelo ye e begilwego bjalo ka matseno go teori ya kgodišo ya difeme gore di dire dinageng tše dingwe. Ka lebaka la morero wa thutelo ye, maano a katološo a mabedi a diMNC a šupilwe bjalo ka peeletšo thwi ge motho a hloma khamphani nageng e šele (FDI) le kišontle. Thutelo e tšeere dinaga tše tshela tša boemo bja godimo tšeo di golago tšeo di lekantšwego ka bogolo bja thoto le bolumo ya ditseno tša FDI tšeo di di tlišitšego. Thutelo ye e dirišitše tshedimošo yeo e hweditšwego ka go lemoga dinomoro tšeo di kgobokeditšwego dinakong tše di fapanego dinakong ka sebaka sa nako seo se lekanago pakeng ya nako ya 1996 go iša go 2016. Tshedimošo e hweditšwe go tšwa direkhotong tša Dipalopalo tša *African Development Indicators* (ADI), lekala la Dipalopalo la Panka ya Lefase. Nyakišišo ka go kgoboketša le go sekaseka datha yeo e hweditšwego methopong ye e fapanego e dirišitše dithekniki tša dipalopalo go kwešiša ditaba tša ekonomi le diteori tša teko go fihlelela maikemišetšo a yona, e lego tswalano go OLS. Thutelo e theilwe go Dipalopalo tša Durbin-Watson tšeo di lego ka tekanyo ya tswalano ka go fokotša palo ya go fapana ga disekwere gare ga dipalo tše di lemogilwego le tšeo di akantšwego go lebelela ditlhagišo tša nyalanyo Go hlola ditswalanyo tša nako ye telele, mokgwatebelelo wa

Johansen wa tatelano ya dikhutlo tša datha ya dinomoro ka go latelana ga tšona o dirišitšwe

Isihloko:

AMACEBO OKWANDISA AMAQUMRHU EZIZWE NGEZIZWE KUQOQOSHO OLUNTSHULAYO KUMAZWE ASEAFRIKA

Isishwankathelo

Esi sifundo siphande izinto ezilawula amacebo okwandisa enziwa ngamaqumrhu amazwe ngamazwe (MNCs) natyala imali kumazwe aseAfrika anoqoqosho oluntshulayo. Uluncwadi olukhoyo luthi amacebo okwandisa awanikwa ngqwalasela yaneleyo kuphando, ngakumbi kwiimeko zaseAfrika. Izifundo ezidluleyo ziveze ukuba iiMNCs ziyiqala ngokuthumela iimveliso zazo inkqubo yokufaka la mazwe kushishino lwamazwe ngamazwe. Emva koko zizama ukuncedisa ngezixhobo nemithombo yokusebenza njengecebo lokwandisa. Ziliqela iingcingane ezisetyenzisiweyo xa kuchazwa indlela yokwenza nezigqibo zeeMNCs ngalo mbandela. Enye yeengcingane eziphambili nesetyenziswe kakhulu kulo mba yekaDunning, neyaziwa ngokuba yi*OLI paradigm*, nangona esakhe isifundo sasisekele kwingcingane yokudibanisa amazwe ngamazwe. Kwesi sifundo kuchongwe amacebo okwandisa amabini asetyenziswe ziiMNCs. La macebo kukutyala ngqo imali nemithombo (*greenfield foreign direct investment - FDI)* nokuthumela iimveliso zazo kuloo mazwe. Esi sifundo sikhethe amazwe aseAfrika amathandathu naphambili xa kubalwa izinto anazo la mazwe, nomyinge wemali nezixhobo ezifakiweyo. Isifundo sisebenzise iinkcukacha ezingamaqela amanani anqumlezanayo (*cross-sectional time-series data*) kwixesha elisukela kunyaka we-1996 ukuya kowama-2016. Ezi nkcukacha zafunyanwa kwiingxelo ezigciniweyo zeZalathisi Zophuhliso LwaseAfrika (*African Development Indicators - ADI*), kwicandelo lezobalo kwiBhanki Yehlabathi. Olu phando lusekelwe kumanani, lusebenzise indlela yokusebenza ngokuqikelela nekuthiwa yi*econometrics estimation technique* ukuze siphumeze iinjongo zaso zobalo olwaziwa ngokuba yi*OLS regression*. Esi sifundo saxhomekeka kwizibalo zikaDurbin-Watson ezifumaneka kubalo lwe*ordinary least squares (OLS) regression* ukuze lujongane nemiba yokuzilungisa. Ukuze simisele ulwalamano oluqhuba ixesha elide, kwasetyenziswa indlela yokuhlanganisa iinkcukacha zikaJohansen.

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List of abbreviations

ADI – African Development Indicators

BRICS – Brazil, Russia, India, China and South Africa

BPO – business process offshoring

CPR – consumer products and retail

CSR – corporate social responsibility

ECOWAS- Economic Community of West African States

EU – European Union

FDI – foreign direct investment

FE- fixed effects

GMM – General method of moments

GDP – gross domestic product

M&A's – mergers and acquisitions

MNCs – multinational corporations

OLS – ordinary least squares

OECD – Organisation for Economic Cooperation and Development

R&D – research and development

RBV – Resource-based view

TMT – technology, media and telecommunication

UNCTAD – United Nations Conference on Trade and Development

UNIDO – United Nations Industrial Development Organisation

US$ – United States dollar

VAR – vector autoregressive regression

Chapter one

Introduction and background

1.1 Introduction

A Multinational Corporation (MNC) is an organisation that has its operations dispersed in more than one country (Hill & Hult 2017). Expansion of MNCs entails entering new markets in other countries. MNCs are vehicles for international trade and investment around the globe; with foreign direct investments (FDIs) being one of the prominent tools that MNCs use when expanding beyond national borders (Aregbeshola 2014b). Contessi and Weinbeger (2009, 63) define FDI as "an international venture in which an investor residing in the home economy acquires a long-term "influence" in the management of an affiliate firm in the host economy." The elimination of trade barriers and globalisation have enabled cross-border trade to flourish globally (Hill & Hult 2017).

Through globalisation of markets and production, MNCs engage in foreign trade and merchandising of investment. The globalisation of markets involves creation of a global marketplace for goods and services while the globalisation of production enables multinational corporations to disperse their production operations to several nations and to procure other elements of production from around the globe (Hill & Hult 2017). The notable increase in MNCs, especially non-U-S mini-multinationals has been attributed to globalisation and fallen trade barriers; as well as the change in FDI trends which have led to many new emerging economies being a lucrative target for cross-border investment (Hill & Hult 2017).

An emerging economy is defined as one with a low to middle per capita income, a fast growing economy that is progressing towards becoming a developed or an advanced economy, assessed by its developments and reforms (Upadhyay 2007). According to Sakr and Jordaan (2016), the world became acquainted with "emerging economies" in 1981 through International Finance Corporation (IFC). The fast growth in emerging economies may be attributed to economic liberalisation (Hoskisson, Eden, Lau & Wright 2000). This liberalisation allows a previously unknown economy to engage in global trade and gain recognition as a potential recipient of FDI. FDI integrates an emerging economy into international trade thereby increasing its trade-

output (Mencinger 2003). According to Sakr and Jordaan (2016, 2), emerging economies are usually measured in terms of "population's living standard often measured as average gross domestic product (GDP) per capita, the pace of economic growth (often measured as the GDP growth rate) and finally economic policies adopted by government to maintain economic growth and improve living conditions of its citizens"

Even though the emerging market economies boast considerable growth prospects, significant risks such as political turbulence, domestic infrastructure problems, volatile domestic currencies and limited equity opportunities are inherent in these economies (Marquis & Raynard 2015). The rapid and turbulent change in emerging economies and Africa is attributed to economic liberalisation, rapid industrialisation and increased integration into the globalised world (Marquis & Raynard 2015). Emerging economies interest investors because they promise sizeable growth prospects due to a large demand base and high purchasing power that result from high population growth (Upadhyay 2007). An emerging market economy is attractive to investors only if there is a healthy balance between benefits, costs and risks in the host economy (Hill & Hult 2017). The benefits are growth prospects and long-run profitability.

Hill and Hult (2017) indicate that attractive developing markets are those with free market systems, lower inflation rates and low private-sector debt. Emerging economies attract FDI due to their rapid economic development, industrialisation and modernisation but it is important to highlight that the level of industrialisation, market liberalisation, degree of integration into the global economy and the rate of economic development and growth differ among the emerging and African economies (Marquis & Raynard 2015). Hill and Hult (2017) warn that these factors escalate or reduce costs of doing business in the host country.

MNCs from industrialised economies have catalysed the transformation and growth in less developed economies into emerging or newly industrialised economies through the injections of FDIs (Aykut & Goldstein 2006). This growth and transformation, according to Aykut and Goldstein (2006); Mosia (2012) and Solomon (2011), resulted from a positive spillover associated with new investments by MNCs in developing economies. These investments include capital injection, technology

transfer, marketing connections, managerial expertise transfer, and integration of the domestic economy of emerging economies with the international supply chain. These spillover effects come with improved benefits of reduced costs of both wage-goods and non-wage goods, reduced inflationary pressures as competition is stimulated in the host economy, improved economies of scale, increased exports and enhanced productivity (Mencinger 2008).

1.2 Background

MNCs started engaging in FDI activities in 1960's when they relocated their operations to countries that were resource-rich, and offered low-cost labour (Verhoef 2016). Initially, the firms from giants of the world economy such as the United States of America (USA) and Britain dominated FDI trade (Hill & Hult 2017). The 1990s marked the beginning of a new era, with emerging economies becoming the preferred destination of FDI and non-US firms gained market share in foreign direct investment trade (Hill & Hult 2017). The past two decades have witnessed a considerable increase in FDI into developing or emerging economies by major investors from developed economies (Organisation for Economic Cooperation and Development, (OECD)); and Africa (Hill & Hult 2017; Antonakakis & Tondl 2012; Asiedu 2002).

When MNCs expand, they make investments into other foreign markets or gain market share into foreign markets. Perez and Nogueira (2015) state that traditional economic and neoclassical theories hold that MNCs internationalise their operations to serve their stakeholders' interests, mainly profit maximisation. Host countries make an effort to persuade MNCs to invest in their economy expecting economic growth prospects that are associated with FDI injections (Aregbeshola 2014a).

According to Eshghi, Eshghi and Li 2016), FDI decisions are shaped by the four objectives of MNCs, which are market seeking, efficiency seeking, natural resources seeking and strategic asset seeking. It is important to note that four types of FDIs are closely aligned with these objectives. The material discussed below clearly integrates the MNC objectives with the definitions of various FDI types.

Market-seeking FDI: Asiedu (2002) states that the aim of investors with this type of investment is to serve the offshore market. As a result, production takes place in the

home country, and the products are sold in the foreign market (Asiedu 2002). Seyoum and Lin (2015) postulate that the prime objective of this type of FDI is to penetrate markets in the host or adjacent markets. The active size of the market is the most important consideration in this regard (Eishghi et. al. 2016).

Efficiency-seeking FDI: the aim with this type of FDI is to minimise costs especially manufacturing, labour, communication, administrative and distribution costs by relocating production and operations activities into low-cost locations (Jongwanich, Brooks & Kohpaiboon 2013). Eishghi et al. (2016, 113) point out that this FDI is motivated by the need to benefit from "common governance of geographically dispersed activities in the presence of economies of scale and scope".

Resource-seeking FDI: the aim here is to take advantage of the availability of low-cost labour, and is often export-oriented (Abala 2014). This FDI is motivated by the need to exploit location-specific factors such as availability of natural and human resources in the offshore location (Seyoum & Lin 2015). According to Jongwanich et al. (2013), investors engage in resource-seeking FDI to gain access to abundant natural resources in the host economy such as oil and gas. It often involves relocation of production operations and facilities to the host country that offer low cost or specific advantage (Abala 2014).

Strategic-asset seeking FDI: the aim with this type of FDI is to benefit from factor endowment, market structure, economic systems and economies of scale and scope, resulting from an efficient process of production (Seyoum & Lin 2015). Jongwanich et al. (2013) note that a foreign company that lacks ownership of certain strategic assets and has therefore pursues strategic-asset seeking FDI are normally motivated to venture abroad to acquire these strategic assets. The authors indicate that emerging markets are the most likely to engage in this type of FDI, directed at developed economies.

1.3 Rationale for the study

Africa is home to a number of emerging economies and has received a much consideration as an FDI destination by MNCs from the developed nations (Achour, Bader, Shelleman, Thomas, Unnikrishnan & Wilburn 2015). While literature suggests that emerging economies have become preferred destination for FDI, Asiedu (2006),

Aregbeshola (2014b), and Chen, Geiger and Fu (2015) argue that African and other emerging economies are still unable to attract the expected amount of FDI that is much needed for capital investment in these regions; despite efforts that has been made to attract FDI.

Boojihawon and Acholonu (2012) contend that international expansion of MNCs is a process that requires considerations of numerous factors, such as risks, distance between markets, resources, activities, and potential clientele. According to these authors, these considerations have implications for how MNCs enter new international markets. For example, these considerations may dictate that an MNC should opt for less committing and risky internationalisation strategies (Boojihawon & Acholonu 2012). The above mentioned factors and their implications ignited the interest in conducting a study on the determinants of expansion strategies of MNCs into African emerging economies. In addition, Asiedu (2006) and Aregbeshola (2014b) have voiced the concern that expansion strategies of MNCs to Africa has been under-researched.

1.4 Problem statement

Nyuur and Debrah (2014) contend that market imperfection theory, internationalisation theory and eclectic paradigm have traditionally been used in studies to shed light on FDI and other activities of MNCs. According to Hitt, Li, and Xu (2015), MNCs' internationalisation strategy is often sparked by location advantages such as market, labour, resources, and policies. Seyoum and Lin (2015) assert that internationalisation of MNCs is explained by Dunning's OLI paradigm, which states that MNCs derive their competitive advantage in foreign markets from ownership (O) advantages, location (L) advantages and internalisation (I) advantages. The theoretical position of Dunning leads to raising a question on how do firms internationalise their operations.

Martin and Li (2015) define international strategy as the activities in which firms engage in foreign countries. These authors further note that research on international strategies of firms covers a range of aspects, including determinants and performance of various foreign entry modes. Rugman (2010) argues that internationalisation theory is used to address the entry mode (expansion strategies) of MNCs. Panabratov and Latukha (2014) indicate that the range of

internationalisation strategies includes contractual agreements, licensing, franchising and FDI (joint venture and wholly owned subsidiary). According to Gaur, Kumar and Singh (2014), internationalisation follows a sequential process that starts with licensing, then exporting, and lastly, greenfield investment in the form of foreign direct investment. The authors further indicate that different motivations, resource requirements, cost structure, risks and consequences determine the choice of expansion strategy or a combination of expansion strategies that is adopted by MNCs. This study will investigate the determinants of expansion strategies that is adopted by MNCs that operate in leading African economies (also known as entry modes). Therefore, the study is significantly premised on internationalisation theory.

The differences in national values, cultures, and economic structures, institutions and histories may strengthen host countries' competitive advantage and by extension, the expansion strategies adopted by MNCs (Aregbeshola 2014b). Due to these differences, expansion strategies implemented in non-African countries may not be successful in African countries (Aseidu 2002). As a result, MNCs may explore various options or combinations of options for expanding, depending on the circumstances in the host economy. For instance, Walmart acquired Massmart when entering the South African market while South African retail businesses such as Shoprite opted to set up their own establishments (greenfield) in other African markets (Dakora & Bytheway 2014).

Despite various governmental efforts to attract FDI into emerging African economies, Africa still fails to attract any significant amount of FDI (Aseidu 2002). It is important to indicate that Africa has increased its share of FDI inflow over time. Despite reports revealing an increase of 38% in global FDIs in 2015 to the value of US$1.76 trillion, Africa recorded a 7% decline in FDI inflows, attracting only US$54 billion (UNCTAD 2016: xi). Therefore, it is necessary to investigate the determinants of expansion strategies adopted by MNCs in the African context.

1.5 Objectives

The main objective of this study is to investigate the determinants of expansion strategies of MNCs into African merging economies. The study aims to shed lights and to provide scientific insights on what influences MNCs to adopt their preferred

internalisation strategy or a combination of strategies when expanding into emerging economies, especially in the context of African emerging economies.

Secondary objectives:

- To investigate if profitability has an impact on MNCs' choice of expansion strategy into African emerging economies
- To investigate if costs have influence on the MNCs' choice of expansion strategy into African emerging economies

1.6 Hypotheses and research questions

Research Question 1: What are the determinants of MNCs' choice of expansion strategy into African emerging economies?

To answer this research question, the following hypothesis was formulated:

H1: Location-specific factors determine MNCs' choice of expansion strategy into African emerging economies.

Research Question 2: Does profitability influence MNCs' choice of expansion strategy into African emerging economies?

To answer the second research question, we raise the following hypothesis:

H2: Profitability has an impact on MNCs' choice of expansion strategy into African emerging economies.

Research question 3: Do cost implications influence MNCs' choice of expansion strategy into African emerging economies?

To answer this research question, we raise the third research hypothesis as follows:

H3: Cost implications have impact on MNCs' choice of expansion strategy into African emerging economies.

1.7 Contribution

Africa has not received much attention in studies on expansion strategies of MNCs as they penetrate emerging African economies, as noted in Section 1.3 of this chapter. This indicates a gap in the body of knowledge in this academic area of study. This study will thus contribute to building much-needed literature on African economic and development topics. This study will use a quantitative approach, which has been used by few researchers in the field. Most researchers used qualitative methods to describe the determinants of the expansion strategies of MNCs. For this study, econometrics approaches will be used to determine possible relationships between the determinants and expansion strategies adopted by MNCs into African emerging economies. The quantitative approach will enable the study to use of a number of variables that have previously been used in other studies, both within and outside of Africa. It is hoped that the study will also uncover scientific evidence that could possibly inform policy formulation by both investors and regulatory authorities, which may benefit Africa's emerging economies.

1.8 Limitations

Aykut and Goldstein (2006) point out that some inconsistencies in the data on FDIs may have arisen due to the offshore activities that are motivated by tax evasion. These authors explain that further inconsistencies may arise when the reinvested components of FDI or capital that is raised abroad are not accounted for in official statistics. Most of emerging economies, including those in Africa lack market efficiency, which is exacerbated by lax accounting standards and weak securities regulation (Aregbeshola 2016), - all that further contributes to inconsistencies in data. Therefore, this study is considered vulnerable to inaccurate or unavailable data on some of the variables that are anticipated to be estimated. For example, missing data for school enrolment, number of fixed telephone subscriptions and corporate tax will have to be generated through a scientific process.

Furthermore and according to Aregbeshola (2014b), missing units in data sets have implications on the quality of a study. The choice of the independent variables to be used in this study may be determined by the availability of relevant data. In this regard, Aseidu (2002) indicates that most developing countries do not have reliable data on significant variables such as real wage rate, trade policies, and income levels. Furthermore, Sakr and Jordaan (2016) note that various global organisations

provide different listings of emerging economies despite the relative convergence achieved through various studies on the concept of an emerging economy. According to these authors, the variation in listing is attributed to variation in data generation process, as well as its accuracy.

Hence, it is admitted that an accurate selection of the sample countries as informed by their categorisation under emerging economic caption, could present a challenge in this study. Aside the data challenges, financial constraint constitutes one of the limitations of this study. The study will depend on free and easily accessible data to avoid the high costs of sourcing data from protected or cost-driven databanks or centres.

1.9 Ethical considerations

This study will rely on secondary data sourced from statistical records, public domain databases, and the internet; therefore, the study will not require participation by humans, and therefore poses no risk of harm to a person. Data and findings are accurately reported. University regulations regarding plagiarism is fully complied with, and all sources used in this study are appropriately acknowledged and listed in the list of references.

1.10 Chapter summary

The key constructs of interest in this study as MNCs, FDI, and emerging economies were discussed in this chapter together with background on trends in MNCs' expansion and the importance of the study. The primary and secondary objectives of the study were stated in this chapter and aspects of the chosen methodology were briefly explained. Further details research methodology are provided in Chapter 4 of this paper. Furthermore, the limitations and the contribution of this study to the body of research were postulated. Lastly, the ethical considerations that guides this research are stated.

Having concluded chapter one, chapter two that follows contains a review of existing literature on the expansion strategies of MNCs as well as the generic determinants of these strategies. Thereafter, chapter three presents a review of previous studies on the application of literature presented in chapter two on emerging economies, especially economies in Africa. Chapter four presents the research methodology

while the results of the analyses are presented in chapter five, with chapter six concluding the study.

Chapter 2

Determinants of MNCs expansion strategies and behaviour in emerging markets-Africa

2.1 Introduction

Although MNCs play a significant role in the global economy (Geratto, Oldenski & Ramondo 2017); Hanson, Mataloni Jr and Slaughter (2001) note that expansion strategies, also called *entry modes* have not received much research attention. In this study, the definition of expansion strategies is aligned with that offered by Achour et al. (2015, 4). According to these authors, investment or expansion is "a full range of strategic, operational, and financial options to tap into the various foreign markets" including African markets. Panabratov and Latukha (2014) indicate that the range of internationalisation strategies includes contractual agreements, licensing, franchising and FDI (joint venture and wholly owned subsidiaries). MNCs engage in FDI in order to own/or control values-added activities in other countries. As noted in Section 1.5, the primary objective of this study was to investigate the determinants of expansion strategies of MNCs in African emerging economies using quantitative, econometrics estimation techniques. Most previous studies on the determinants of expansion strategies of MNCs have been exploratory in nature, while others have been conducted outside of the African context.

Crescenzi, Pietrobelli and Rabellotti (2013) posit that policy makers offer incentives to attract FDI from MNCs, while Shah (2018) contends that MNCs are drawn by location specific factors such as market munificence, macro-economic development, availability of basic infrastructure and ease of doing business, all of which enable firms to employ their resources optimally. This study aimed to find out if these pull factors have any influence on strategic entry options of MNCs into the host economies. Lastly, this study aims to contribute to the body of literature on the approaches and strategies adopted by MNCs when venturing into African markets, as well as the economic implications of those strategies for the host African economies.

2.2 Expansion strategies

Literature reveals that internationalisation of MNCs' operations occurs in many different ways in terms of pattern, pace and intensity (Boojihawon & Acholonu 2012). These authors note that MNCs have a wide choice of expansion options. Guar, Kumar, and Singh (2014) refer to these strategies as "a package of international operating strategies." According to Meyer and Tran (2006), MNCs enter foreign markets through three basic strategies, namely, greenfield, acquisition and joint venture. Hill and Hult (2017) include exporting, licensing, franchising, turnkey projects and wholly owned subsidiaries as modes of entering foreign markets. These strategies are explained below:

- **Greenfield investment**

Greenfield investment entails setting up a new operation in a foreign country (Mwilima 2003). According to Hill and Hult (2017), this can also be referred to as establishing a wholly owned subsidiary or more than one subsidiary. As companies set up new operations abroad, they may also locate or relocate their headquarters to foreign economies or set up divisional headquarters (Lunnan et al. 2015). MNCs may be forced to localise their headquarters and products due to competition pressures and an emphasis on consumer needs (Hitt et al. 2015). These divisional headquarters are essential for handling the increasing size, operational diversity and geographic dispersion of the organisation (Lunnan et al. 2015). Greenfield ventures demand high commitment of financial and other resources, making them risky ventures but they also promise greater returns (Guar et al. 2014). Hanson et al. (2001) argue that companies set up these "high-fixed-cost headquarters or one or more production plants" to avoid the high cost associated with exporting in the presence of trade barriers. Greenfield ventures come with full ownership of operations as well as unshared returns and risks. Expanding into a foreign country through greenfield ventures mitigates the liability of foreignness, because MNCs hire and train local staff and instil the MNCs' administrative heritage (Klossek, Linke & Nippa 2012).

- **Acquisition and mergers**

Acquisitions involve buying an existing firm in the host economy (Hill & Hult 2013). Acquisitions are the most dominant form of FDI, accounting for about 70% of all FDI,

according to the United Nations Conference on Trade and Development (UNCTAD 2016: xi). However, this organ recorded increments in investments through mergers and acquisitions (M&As) in 2015, while greenfield investments remained the same. Meyer and Tran (2006) break down the acquisition strategy into the following categories and explain them as follows:

- Conventional acquisition: entails acquisition of a single firm in the host economy on which it aims to build a new operation. This is considered a non-aggressive strategy for entering and penetrating the host market;
- Staged acquisition: allows an investor to acquire part of a local firm with the possibility of acquiring the entire firm later;
- Multiple acquisitions: multiple small firms in the host economy are bought by an expanding MNC; this is a rapid and aggressive strategy for entering new market economies; and
- Brownfield acquisition: this strategy combines aspects of greenfield investment and the aggressive strategy of multiple acquisitions. In this strategy, the post-investment value is normally greater than the value of the initial acquisition. This, according to Meyer and Tran, involves restructuring the local operation and replacing previous domestic resources, but retaining integral assets such as brand names, licences and distribution channels.

Given the above categories of acquisitions, some level of consideration should be given to the decision to acquire cross-border operations. M&As have merits as well as drawbacks, which should be weighed by both the acquirer and the target before entering into such a transaction. Yang (2015) explains that a misinformed decision to acquire a foreign operation may come with risks associated with incompatibility between the acquirer and the target firm but that private information about the target operation may be difficult to solicit. Dakessian and Feldmann (2013) note that there are compelling challenges in merging two organisations with different cultures, stemming from their different national cultures. These cultural differences, according to Dakessian and Feldmann, may lead to cultural conflicts, which may have negative consequences for the organisation’s performance. Cultural differences may be exacerbated by managers from the acquirer organisation not being familiar with domestic management and control systems in the host economy. This may

result in challenging inefficiencies in the implementation of strategies, labour conflicts, and possible lawsuits (Lunnan et al. 2015).

Yang (2015) highlights the significance of ownership in foreign M&As. According to this author, acquisitions of procured operations could be partial or full. Yang (2015) is of the view that rewards and risks associated with level of ownership could determine the success of M&As. The level of ownership has a correlational relationship with the level of control and level of risk, with the level of risk resulting from greater involvement in decision-making and commitment of resources. Ahmad (2012) also buttressed this position. Furthermore, literature suggests that full acquisitions may expose the acquirer to environmental disturbances and risks in the host market (Yang 2015).

M&As are attractive for MNCs aiming to enhance their competitive advantage and performance by gaining access to assets such as natural resources, product differentiation, and achieving economies of scale to name a few (Nicholson & Salaber 2013). Furthermore, M&As enable MNCs to penetrate foreign markets faster, as MNCs take over or merge with a going concern that already has an established client base and distribution networks (Nicholson & Salaber 2013). A practical example is the merger of Danone (a French diary Company), which acquired West Africa's largest dairy producer, Fan Milk International, in 2013. This acquisition granted Danone easy access to consumers in Ghana, Nigeria, Togo, Burkina Faso and Cote d`Ivoire (Deloitte 2016). These acquisitions are also associated with established goodwill, and the acquirer does not have to build trust in the host country's market (Chen & Aybar 2015).

- **Joint ventures**

In a joint venture, investors partner with one or more independent local businesses (Hill & Hult 2017). Firstbrook and McManus (2011) indicate that investors partner with established firms that have knowledge of the local market, which assists the investor to bypass obstacles and instantly gain a market share. Through partnering with companies such as Castel, CRE, Efes and Coca-Cola, SABMiller has become a market leader in a number of African countries (Deloitte 2016). Partnering allows a foreign partner to share the local partner's legitimacy and gain access to local resources (Hitt et al. 2015). According to Panibratov

and Latukha (2014), this relationship involves collaborative efforts to attain shared objectives through a division of labour between partners, which benefits both partners. The independence of the involved partners is the key feature that distinguishes joint ventures from other types of partnerships. Hennart (2012) argues that in some countries, foreign MNCs are restrained from accessing land and natural resources and collaborating with local businesses may grant them access to these strategic assets.

Literature have categorised the equity modes as types of FDI (Temiz and Gokmen 2014). These authors state that FDI is a fixed investment that is made through international business ventures, merger and acquisitions, greenfield investments, turnkey projects and management contracts. As indicated earlier, this study categorises FDI as an equity investment, and efforts will be made to indicate clearly where there is form of deviation from this categorisation.

Non-equity strategies

Contractual agreements in the form of exporting, licensing, franchising and turnkey projects are regarded as non-equity expansion strategic options available to MNCs (Teixeira & Grande 2012). Non-equity strategies are ideal when there is a great physical distance between MNC and the host economy, or in the face of increasing uncertainty in the host market (Hitt 2015). Non-equity strategies do not require MNCs to acquire non-easily reversible assets such as land and labour in the host economies. These strategies could be conceded to domestic owners of land and other complementary assets at a lower cost (Hennart 2012). Each of these strategies will be explained briefly below:

- Exporting: is defined by Arasa and Gideon (2015, 367) as “the marketing and direct sale of domestically-produced goods in another country.”
- A licensing agreement: “involves granting a foreign entity (the licensee) the right to produce and sell the firm’s products in return for a royalty fee on every unit sold,” (Hill & Hult 2017, 231).
- A franchising agreement is similar to licensing but involves longer-term contractual agreements and, in addition to the intangible property involved, it comes with the strict rules to which a franchisee must adhere and the franchisee is provided with continuous assistance in the running

the business (Hill & Hult 2017). Frey, Ansar and Wunsch-Vincent (2014) indicate that the franchisor licenses its whole business model to a franchisee.

- A turnkey project: is an agreement between a local contractor and a foreign client whereby the local contractor executes the entire project on behalf of the foreign client. Upon completion of the project, the local contractor hands it over to the foreign client for operation (Hill & Hult 2017).

Greenfield developments, M&As, joint ventures, and wholly owned subsidiaries resort under equity modes of expansion, meaning that they involve ownership. On the other hand, exporting, licensing, franchising and turnkey projects are contractual arrangements, and are therefore categorised as non-equity modes of expansion (Arasa & Gideon 2015). Gaur, Kumar, and Singh (2014) are of the view that internationalisation occurs in steps, starting with licensing (less complex) to exporting and FDI. MNCs usually acquire experience in foreign markets through exports before they set up affiliates in these markets (Garetto et al. 2017). Furthermore, MNCs can export to a third country and/or back to their country of origin from their affiliates that are set up in the host economies (Rath & Samal 2015; Gerrato et al. 2016). As MNCs gather critical knowledge and identify new opportunities over time, they explore more complex forms of internationalisation (Guar et al. 2014). Some companies even opt for establishing their headquarters or relocating their headquarters to foreign locations, but, in most cases, the headquarters remain located in the country of origin (Lunnan, Benito & Tomassen 2015).

MNCs generally initiate their internationalisation process with exports and then explore other resource-committed expansion strategies (such as greenfield FDIs) at a later stage (Lunnan, Benito & Tomassen 2015; Guar, Kumar & Singh 2015). Conconi, Sapir, and Zanardi (2010) observe that MNCs use a small quantity of exports to test markets; this may lead to exit or an increase in export quantity or a total shift to FDI. Guar et al. (2015) further reveal that exporting poses low risks, and requires comparatively low resource commitment together with ease of reversing such commitments. Exporting enables MNCs to scout foreign markets before more resource-committed strategies are implemented in these markets (Gaur et al. 2015).

In addition to the merits of exporting discussed above, the approach is also seen to hold double-advantages to both the home and host economy. For instance, exports from an MNC's country of origin are imports in the host economy. Fung (2013) posits that imports complement local production and ultimately boost the export capacity of the receiving country, especially if the imports are for further processing in the receiving country. According to Fung (2013), gross trade statistics reveal that products are made of components sourced from various suppliers around the globe, which are fondly referred to as "made in the world." Exportation and importation flourish when barriers to foreign trade have been eliminated or meaningfully reduced. Some of the known trade barriers include import controls and foreign exchange restrictions (Acquaah, Adjei & Mensa-Bonsu 2008).

2.3 Determinants of MNCs expansion strategies

The resources available to foreign firms may influence the choice of strategy or combination of strategies adopted in the host market (Meyer & Tran 2006). MNCs largely see successful entry strategy as a bridge to restrictive measures of local authorities, hurdles erected by local business and control of distribution networks by competitors in the host economy (Meyer & Tran 2006). It is therefore important that MNCs adopt an efficient entry strategy when deciding on penetrating foreign markets (Meyer & Tran 2006). Firstbrook and McManus (2011) point out that various barriers to entering a foreign market may exist, necessitating the selection of an entry strategy that is appropriate for a specific market or region.

Firstbrook and McManus (2011, 7) argue that "the choice of which route to take should reflect a company's goals and priorities, the size of the market opportunity, the state of the local market development and specific nature of any entry barriers." Alemu (2016) adds that firms' strategic decisions are guided by factors in the business environment. For instance, Dakora and Bytheway (2011) observe that most South African MNCs in the retail sector entering other African markets opt for their own stores with only a few pursuing franchising. Limited collaborating and acquisitions are prevalent in the presence of cultural incompatibility with partners and the diverge management style in the markets (Dakora & Bytheway 2011). Another reason is a preference to have control over operations in the foreign market (Dakora & Bytheway 2011).

According Marszk (2015), the decision to opt for a certain strategy over another is often prompted by the advantages of internationalisation such as a reduction in transaction costs; information asymmetries, and to protect valuable knowledge assets. Dakora and Bytheway (2011) highlight that each strategy comes with unique benefits and challenges in terms of costs, speed of entry, control, financial commitment and risks. Firstbrook and McManus (2011) indicate that an expansion strategy should be consistent with the company's corporate strategy and the distinctive features of the potential host market. Furthermore, it is observed that each market may require a tailor-made approach. The following table adapted from Texeira and Grande (2012) shows the determinants of expansion strategies of MNCs:

Table 2.1 Determinants of expansion strategies

Expansion strategy	Determinants				
	Costs	**Assets**	**Risks**	**Trade barriers (openness)**	**Market size**
Joint venture	-Cost minimisation: fixed , exit and entry costs - Transaction costs associated with corruption	Exploitation of overseas capabilities and location-specific complementary assets	Weak enforcement of law on intellectual property		
Greenfield	-Requires high commitment of financial and other resources (Guar et al 2014)	Possession of adequate resources e.g. strong market linking capabilities, technological resources, competitive assets, international experience	Politically risky environments	Existence of trade barriers	Large market size
Mergers and acquisitions	High entry costs		High political risk (opt for majority shareholding)		Large market size
Non-equity strategies	High costs due to market imperfections	Technology intense assets encourage licensing	-Weak or absence of legal protection of intellectual property -High corruption encourages contractual strategies	High tariffs and high requirements for local content	

Wu (2015) asserts that businesses incur various types of expenditures in the process of expansion, including protection expenditure. This protection expenditure may extend to "off-the-records" transactions and convenience fees paid to officials to secure protection and operational licences (Wu 2015). The author further indicates that corruption may have an adverse impact on capital flows and capital productivity at a national level. The Initiative for Global Development (2011) reports that the risks arising from political instability and corruption may hinder the processes for MNCs seeking an operational licence to establish new subsidiaries in a foreign market.

Godinez and Gorita (2015) highlight the role of corruption on MNCs' decision-making. The authors point out that MNCs exercise caution when choosing where to locate their subsidiaries, taking into consideration various uncertainties and additional operational costs associated with corrupt activities.

In emerging markets where corruption is rife, Teixeira and Grande (2012) argue that non-equity modes such as licensing, contractual agreements and exports are preferred, as they come with minimal demands and interaction with corrupt officials. However, Abu, Karim and Aziz (2015) postulate that corruption may increase efficiency when bribes are paid to expedite permits issuance, licence processing and approval of contracts. Gossel (2018) states that the level of corruption in Africa is crippling its socio-economic development and governance, especially because a notable portion of government revenues is eroded through financial leakages.

Teixeira and Grande (2012) indicate that corruption has a significant influence on the attractiveness of host economies to FDI. According to Montiel, Husted and Christmann (2012), corruption deteriorates institutional contexts, which affects enforcement of regulations and erodes trust in both public and private institutions. These authors further argue that the institutional context has an impact on firms' production and transaction costs; and, ultimately, their profitability and survival. For instance, corruption increases the cost of doing business in overseas markets and it further erodes potential yields on investment and capital outlay. Wu (2016) states that the World Bank estimates that activities associated with corruption meaningfully erode global GDP annually.

Inefficient institutional reforms and unstable governments negatively affect capital inflow, leading to MNCs opting for long-term binding contracts when entering such markets (Aleksynka & Havrychyk 2012). In a recent study, Young, Tsai, Wang, Liu and Ahlstrom (2014) opine that institutional conditions in emerging economies are turbulent, even in the face of pro-market reforms that have been implemented in many African economies. These pro-market reforms are regarded as foundation for macroeconomic stability, enlargement of the private sector, and opening markets for new foreign and domestic competition (Banalieva, Tihani, Devinney & Peterson 2015). According to these authors, these market reforms and stable democratic governments should naturally mitigate the perceptions of economic uncertainty that

MNCs might hold of African economies. Conconi et al. (2010) observe that economies that are committed to the process of implementing trade liberalisation reforms will experience high imports at first, and FDI will increase at a later stage.

In addition to the determinants discussed above, institutions and institutional environments in host economies do influence the strategic behaviour of MNCs (Virches & Cahen 2017). For instance, when legal systems for protecting intellectual rights and law enforcement are weak in a foreign market, MNCs will opt for a joint venture or non-equity strategies for expanding into such markets (see Table 2.1, above). Virches and Cahen (2017) further indicate that stable institutions coupled with the reliable legal system in the host economy attract the entrance of MNCs through equity modes.

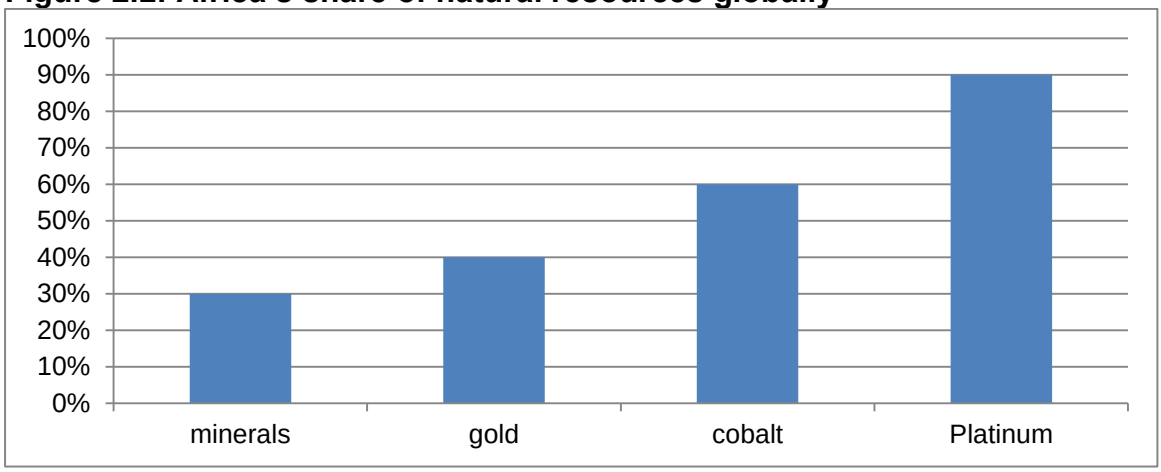
George et al. (2016, 377) document that Africa has 1.1 billion inhabitants with half being under the age of 25 years. From these population estimates, it is projected that Africa will have about 450 million workforce between 2010 and 2035 (George et al. 2016, 378). Shah (2018) opines that MNCs whose operations have many high technological components need a great amount of skilled human capital. Foreign investors are in constant pursuit of labour-cost savings; hence, the availability of a large, skilled population has a positive impact on FDI inflows (Bekana 2016). MNCs often relocate their labour-intensive operations to locations where there is an abundance of cheap labour (Luo & Jayaranman 2013). This relocation constitutes greenfield FDI. Conconi et al. (2010) point out that exporting MNCs need a distributor in the host market, which makes availability of labour in the host country important.

Virches and Cahen (2017) remark on the commendable growth of African markets while Amankwah-Amoah (2017) raises the concern that many African market opportunities remain unexploited. The unprecedented estimated population growth in Africa (George et al. 2016, 379) is expected to translate into a considerable market for greenfield ventures and M&A's (Texeira & Grande 2012). Shah (2018) highlights the importance of a large host market, noting that it holds the possibility of economies of scale. In practice, a firm may relocate an entire value-creation process to a host economy in order to serve the domestic market there (Goncalves & Smith 2017). Bekana (2016) posits that MNCs' primary objective when engaging in FDI

activities is to exploit the domestic market in host country. Therefore, the size of the market in the host country influences the decision on the expansion option of MNCs. Similarly, exports require a large foreign consumer market. Assefa (2017) indicates that demand and market size in the host country influence MNCs export decisions. Furthermore, growth potentials in the market promise greater profits for the investors (Panibratov & Ermolaeva 2015), as is the case in countries with a rapid active consumer population growth.

According to KPMG, Africa also has an abundance of natural resources; 30% of the world's minerals are found in Africa, as well as the largest reserves of precious metals. In addition, more than 40% of world's reserves of gold, 60% of cobalt, and 90% of platinum are in Africa (George et al. 2016). In Goncalves and Smith's (2017) view, MNCs often relocate the resource-sensitive parts of their business operations in order to gain easier access to natural resources in the host economies. MNCs may set up subsidiaries and export back to their country of origin or to a third country (Gerrato et al. 2016). Regarding economies that depend on export trade, Saqib et al. (2013) highlight the importance of trade liberation ('trade openness' in table 2.1) and conducive FDI policies. For countries dependant on export merchandise, good export performance will alleviate poverty and increase the national income (Assefa 2017). However, the abundance of its resource has resulted in Africa still relying on exports of mineral commodities and a few agricultural cash produce in the international markets (Alemu 2016). This reality is documented in Figure 2.1 as gleaned from the work of George et al. (2016):

Figure 2.1: Africa's share of natural resources globally



Source: George et al. (2016, 379)

According to Figure 2, Africa boasts the highest level of platinum deposit in the world, closely followed by cobalt. In addition, gold deposit in the continent is also very considerable and respectable. However, none of the countries that host these resources engages in meaningful beneficiation. By implication, the huge resource deposit would attract MNCs that specialises in extraction, and possibly beneficiation.

Further, on the determinants of MNCs expansion strategy, government policies in the host country and in the country of origin may have implications for the choice of strategy when expanding abroad. For instance, India's investments into Africa and Asia in the 1990s were made through joint ventures due to restrictive political and regulatory policies of India as the sending country (Andreff 2015). In addition, government policies such increased taxes for foreign-owned subsidiaries, local content requirements and expropriation of foreign-owned assets may compel MNCs to enter into joint ventures with local firms to avoid these risks (Slangen 2013). To buttress this point, Shah (2018) contends that removing these trade and investment barriers will open host markets to investments and may lead to increased FDI. According to Hitt (2015), political and social openness correlate with the survival of foreign subsidiaries.

Notwithstanding these restrictive government policies, a foreign firm may set up a wholly owned subsidiary when entering highly restrictive foreign markets, to protect its propriety knowledge from being leaked to a local partner, as may occur in the case of joint venture (Slangen 2013). Luu, Trinh and Vu (2016) contend that high trade openness boosts the import-export activities of economies. Hanson et al.

(2001) highlight that trade barriers in the host country may escalate the cost of MNCs exports (imports in the host).

Furthermore, the availability of high-quality infrastructure in the host country is essential for effective and optimal operation of foreign affiliates of MNCs (Shah 2018). Rath and Samal (2015) indicate that basic physical infrastructure comprises transportation, communication systems, water, power lines, to mention a few, while soft infrastructure includes system that are necessary to sustain economic , health, cultural and social standards. Aregbeshola (2014a) states that investors often choose to invest in countries that have operational infrastructure rather than incurring costs of setting it up. Similarly, Assefa (2015) highlights the importance of the availability of a well-developed infrastructure in the host country, specifically transport facilities for export trade. The availability of such infrastructure reduces operational and other related incidental costs (Bekana 2016).

Bandeire-De-Mello, Ghauri, Mayhofer and Meschi (2015) opine that transactional, institutional, learning and cultural determinants can influence the choice of expansion strategy. Government stability and institutional efficiency regarding contract enforcement, and property rights enforcement, may encourage investors to enter a foreign market (Aleksynka & Havrylchyk 2012). Banalieva and Dhanaraj (2013) state that market imperfections and institutional diversities, especially institutional inefficiencies do raise transaction costs when firms enter new foreign markets. As indicated in Table 2.1, non-equity strategies are suitable where market imperfections prevail, while M&As and joint ventures are preferred when a firm wants to avoid the fixed and entry costs associated with greenfield ventures. Despite much criticism of institutional deficiencies and government instabilities in African markets, George et al. (2016) assert that Africa is gradually moving towards stable institutional efficiencies and governance through peaceful, democratic elections.

Entry, transactional and exit costs also shape the strategic decisions of MNCs when expanding offshore. When the host country poses a high level of uncertainty, MNCs normally opt for partnering with local businesses, rather than a wholly owned subsidiary. The exit costs associated with joint ventures are lower; should the MNC decide to exit the market when a new policy is unfavourable (Slangen 2013). However, Slangen (2013) argues that greenfield operations can present the benefits

of low exit costs in the earlier stages since the construction and acquisition of assets happen over time, enabling the MNCs to exit the market at a lower cost if an unfavourable policy is introduced before resources are fully committed. Moreover, non-equity strategies are ideal to avoid costs resulting from market imperfections while M&As enable MNCs to incur lower entry costs in the host economy (as shown in Table 2.1), more specifically, MNCs will choose to serve foreign markets through exports when trade costs are low (Hanson et al. 2001).

Aregbeshola (2014b) claims that lower taxes are one of the determinants of FDI inflow. Siddiqui and Aumeboonsuke (2014) and Faulkender and Smith (2016) concur, stating that lower corporate tax rates generate wealth for investors. As the primary aim of MNCs is to maximise profits, corporate tax rates in a host country will influence their expansion decisions. Therefore, higher tax rate discourages investment inflow (Lautier & Moreaub 2012). Eshghi et al. (2016) suggest that highly competitive tax regimes in a host country attract labour-intensive industries. Perez and Nogueira (2015) contend that low taxation of a foreign-source of income influences the decision to locate new foreign subsidiaries or parent firms. In this regard, it is important to note that some African economies have the highest tax rates globally (Achour et al. 2015).

Okereke and Ebulison (2016) argue that sluggish economic growth rates repel FDI inflow, which is evident in some African countries such as Ghana and Nigeria, and of late, South Africa and. These authors indicate that the USA invests in manufacturing sectors in fast-growing economies such as Germany, Britain, and France in order to boost patronage for their products. Ezenwakwelu (2015) asserts that growth in a country's GDP (economic growth) leads to an increase in income per capita, which increases the purchasing power of the active market. Therefore, economic growth coupled with a large active market size promises large profits for foreign investors, and therefore acts as a determinant of expansion strategy to be adopted by MNCs.

2.4 The impacts of expansion strategies of MNCs on their offshore performance

According to Gabrielsson, Sepalla and Gabrielsson (2016), the global high-technology market and MNCs' evolution through various phases of globalisation have implications for the competitive strategies and performance of MNCs. Chen

and Aybar (2015) opine that the performance of MNCs largely depends on a competitive advantage that accrues to the organisation. The performance of an MNC can be defined in terms of its competitiveness and profitability in the host economy. Andersson, Forsgren and Pedersen (2001) state that entry modes' performance has been evaluated using criteria such as profitability, growth, market access, and longevity in some studies. According to Hsu, Lien, and Chen (2014), MNCs internationalise their operations to seek knowledge in other sophisticated economies to enhance their technological capabilities, upgrade their existing products, and develop of new products. These authors observe that similar expansions are targeted at sustainability in developing economies.

According to Harzing, Pudelko and Reiche (2016, 680), performance of MNCs in offshore market is best explained though the concept of knowledge base. These authors (on page 680) describe the knowledge-based concepts as the "differentiated networks of globally dispersed knowledge resources" that convey valuable information among business units for the success of companies. In an earlier study, Fang, Wade, Delios and Beamish (2013) are of the view that the success of a firm with international subsidiaries is reliant on the effective transfer of valuable, inimitable, and rare information by the sender, and the effective absorption and utilisation by the recipient. For example, greenfield foreign subsidiaries need an effective transfer of technological information for manufacturing and marketing knowledge to gain a competitive edge in the host economy (Fang et al. 2013). Chen and Aybar (2015) further argue that sustainable competitive advantage is rooted in intangible resources that are inimitable, difficult to learn, codify or traded by competitors.

As firms internationalise, they acquire experience in combating foreign liability and mitigating the complexities of international business, and find it easier to identify profitable opportunities in foreign markets (Hsu et al. 2014). However, foreign expansion exposes an MNC to market imperfections and institutional diversity, which raises the transaction costs of expanding beyond the national borders (Banalieva & Dhanaraj 2013). Efficiency of institutional frameworks reduces transaction costs, and increases the profitability of firms (Dakessian & Feldmann 2013). Yang (2015) argues that expansion strategies that are based on ownership stand a better chance of performing well, as management dedicates much attention to the successful

implementation of corporate strategies. In particular, greenfield ventures, such as a building manufacturing plant rely heavily on low-cost labour to be profitable, while non-equity forms thrive on the efficiency of socio-institutional frameworks (Crescenzi et al. 2013). For instance, MNCs operating in Mauritius seem to be more successful due to the strong infrastructure and transparent tax systems (an institutional factor) (IGD and Dalberg Global Development Advisors Report 2011).

When considering labour-intensive operations to foreign locations to save on the costs of labour, MNCs determine the magnitude of saving by performing transaction cost analysis (TCA) (Luo and Jayaranman 2013). TCA include the quantifiable costs of poor policies, small offshore markets, high infrastructural costs and strong labour union. In addition, wage and tax savings increase the profit margins of MNCs (Simone, Huang & Krull 2017). For example, Apple avoided tax burden in the USA by relocating their intellectual property offshore, so that profits could be diverted to offshore tax havens (Simone et al. 2017). This kind of process is called business process offshoring (BPO). More importantly, an MNC could opt to set up a wholly owned subsidiary, or going into a joint venture, or seek a provider in the host country, depending on the favourability of the TCA (Luo & Jayaraman 2013).

Furthermore, Yeaple (2001) opines that MNCs normally prefer to move production facilities to locations where manual labour costs are low and headquarter services such as research and development (R&D) to locations where the cost of skilled-labour is low. In summary, the profitability of a firm is based on the following factors in the host economy: availability of a viable market, availability of quality and efficient resources, favourable government policies, generous incentives, good infrastructure and skilled and productive labour (Nyuur & Debrah 2014).

2.5 Economic growth and expansion strategies in the host country

Various studies have established the fact that MNCs' offshore expansion does positively influence economic growth in the host market (Aregbeshola 2014a, b; Asiedu 2006; Simone, Huang & Krull 2017). According to these authors, market size could be improved by not only an increase in population size but more specifically, by an improvement in the economic buoyancy of the host country (economic growth). This section looks at the impact of expansion strategies on the economic growth of the host country. There have been inconclusive debates on the impact of

FDI inflow on economic growth, with some researchers arguing that FDI slows down the host's economic growth, while others argue that FDI has a positive effect (Aregbeshola, 2014a; Curwin & Mahutga 2014; Bayar 2014).

Theoretically, FDI has been postulated to catalyse economic growth in the host country, as it brings capital, technology, and management expertise to the host country, where they have been lacking (Almfraji, Almsafir & Yao 2013). Ojewemi and Akinlo (2017) claim that FDI also contributes to economic growth by enhancing the efficiency of domestic firms in the host through contracts and demonstration effects, technological improvement and transfer, thereby increasing exports, complementing domestic investment and creating new jobs (Amoroso & Muller 2018). Zhang (2013) postulates that MNCs contribute to economic growth of the host by introducing and developing news skills, and increasing productivity through transferred technology, and local firms gain opportunity to upgrade their production methods as they imitate MNCs's operational processes. Amoroso and Muller (2018) indicate that greenfield FDI contributes to economic growth through the creation of new jobs when new firms are established in host economies.

It has been postulated that M&As offer lower growth prospects than greenfield ventures in host economies (Eren & Zhuang 2015), because cross-border M&As involve transfer of ownership and control to foreign acquirers of the local firms, while greenfield expansions add capital stock to the host economy (Eren & Zhuang 2015; Amoroso & Muller 2018). In addition, Amoroso and Muller (2018) argue that M&As use arbitrage strategies without any value-adding contributions to the host economy, such as technology transfer or innovation. The host country may further benefit from MNC setting up an affiliate in the host country and export back to the MNCs' country of origin or to other countries in a way that boost host country's export capacity (Gerrato et al. 2016; Rath Samal 2015). MNCs, in turn, use the export expansion strategy to access other markets from the host economy. Udude and Okulengu (2012) claim that export trade is perceived to be a significant driver of economic growth.

Udude and Okulengu (2012) posit that export expansion contributes to economic growth through specialisation and spill-overs associated with the export sector, such

as diffusion of modern technology across industries, and increase in economies of scale, industrialisation and importation of capital goods. Countries that promote export trade, and liberate their trade and FDI policies, accompanied by the availability of educated labour and a sound infrastructure, realise economic growth (Saqib et al. 2013). Mah (2015, 175) posits that as firms penetrate global markets through export expansion, economic growth can be realised due to positive spill-overs and economies of scale linked to expanded sales opportunities. However, over the past decades, Africa has suffered from prolonged sluggish economic performance due to low diversification in export commodities and volatile commodity prices and exchange rates (Alemu 2016).

2.6 Considerations when intending to expand

There are three basic considerations when MNCs intend to expand into foreign economies: which foreign market to enter, timing of entry and the scale of expansion (Hill & Hult 2017). These authors argue that the choice of foreign market is influenced by potential profits to be earned in the long run, while the timing of entry is based on first-mover advantages such as possibility of earning brand loyalty. The scale of entry is determined by the amount of resources that an MNC is willing to commit. The entry mode is important, as it determines the amount of resources to be committed in different target markets, which poses various risks, in terms of control and expected profits, as well as long term competitive strategy (Ripolles, Blesa & Monferrer 2011, cited by Dakora & Bytheway, 2014; Arasa 2015; Hitt et al. 2015).

The strategic intent of an MNC is the major consideration when expanding offshore. It is a known fact that strategy dictates the entry mode and amount of resources to be committed, and these two important strategic considerations should be closely aligned (Cui & Jiang 2009). Rui and Yip (2008) suggest that an MNC should first analyse its internal and external environments before opting for an expansion strategy and method of implementing such strategy. This analysis identifies the strengths and weaknesses of the MNC, reflecting its capabilities to pursue expansion and entry mode into new foreign markets. This analysis includes identifying company resources, management characteristics, the firm's characteristics that include competitive and international advantages, as well as host-country factors (Panibratov & Latukha 2014, 34).

The removal of global trade and investment barriers, and improved telecommunication and information technology capabilities have created an interconnected business world, leading to global rivalry among MNCs (Luo & Jayaraman 2013). MNCs need to consider their ability to compete when entering new foreign markets, as well as the state of the competition in the new markets. MNCs normally invest in emerging economies to exploit their competitive advantage (Cui & Jiang 2009). Firm-level resources, and management, and firm characteristics are enablers in building competitive and international advantages in host economies (Panibratov & Latukha 2014). Dakessian and Feldmann (2013, 464) argue that competitive advantage emanates from ownership of specific resources and capabilities, internalisation of key activities and the favourable geographical location of expanded operations.

Expanding MNCs should familiarise themselves with the legal, economic and political environments of the host economies. In many of these environments, there are institutions that guide the political, economic, and social interactions of MNCs (Marquis & Raynard 2015). Provisions by the institutions shape the management practices of MNCS in the host economies (Dakessian & Feldmann 2013). As these institutions establish regulatory frameworks, the freedom of MNCs might be constrained, and/or certain economic behaviours may be encouraged (Cuervo-Cazurra 2015). MNCs' practices in their country of origin may be in conflict with regulations of the host economy; therefore, it is essential that MNC gain the necessary knowledge about the target international markets, in order to determine the appropriate entry mode and resources to be committed for expansion (Ahmad 2012).

Ahmad (2012) indicates that knowledge about the host economy normally lowers the risks and transaction costs associated with such markets, leading to increased commitment. As noted in literature, the institutional environment varies from one country to another (Hitt 2015), and there is no one appropriate expansion strategy for expansions into foreign markets.

2.6.1 Motives for expanding

Multinational corporations expand with the prime reason of maximising profits while the host countries make efforts to persuade multinational corporations to invest in

their economies, expecting economic growth prospects associate with FDI injections (Aregbeshola 2014b). As indicated in section 2.5, MNCs expand overseas in search of new markets, natural resources, efficiency gains, and strategic assets (Knoerich 2010; Nicholson 2013). In addition, MNCS may also adopt foreign expansion strategies in order to seek market opportunities beyond their national borders due to intensified competitive pressures at home. This normally happens as big international brands and companies enter home markets (Gülsoy, Ozkanli & Lynch 2013).

More importantly, these MNCs disseminate their operations to various foreign destinations to increase efficiency, lower costs and speed up production processes (Fung 2013). As noted in section 2.3, Hill and Hult (2017) indicate that MNCs are motivated to venture abroad by the potential to create more corporate wealth over a long run. Furthermore, stiff competition in developed markets has shrunk the profit margins leading to the need for companies to seek other profitable markets in emerging economies, such as in Africa (Munyiri 2014).

The strategic motivation to venture abroad is normally driven in two-folds. In practice, MNCs may be pushed to venture overseas due to pressure from home market or pushed itself to expand as a result of strategic aspirations. They may be pushed when confronted with deficiencies in their local macro-level institutions, such as inadequate property rights, capital distortions, a weak legal system and high political risks (Jormanainen and Koveshnokov 2012).

On the other hand, positive push factors to expand include promotional policies and liberalisation or regulatory policies in foreign countries that may be too good to ignore (Jormanainen and Koveshnokov 2012). For example, China encourages outward FDI by providing “preferential bank loans of Export-Import Bank of China” for resource exploration in other economies (Aleksynka & Havrylchyk 2013). MNCs may also be pulled by location-specific advantages in the host economy, such as natural resources and access to sophisticated technology (Jormanainen & Koveshnokov 2012). In practical terms, these pull and push factors are often interconnected (Jormanainen and Koveshnokov 2012).

In addition, MNCs may also internationalise in response to institutional voids in their home economies (Hilb 2015). Jormanainen and Koveshnokov (2012, 703) define

institutional voids as “deficiencies in macro-level institutions such as high savings, inefficient corporate ownership structure, limited property rights, capital market distortions, weak legal systems and high political instabilities.” Hilb (2015) asserts that MNCs attempt to fill these institutional voids by investing in foreign markets that have better functional institutions (escapism), which are important when exploiting experience acquired in dealing with complex institutional contexts (institutional leverage). Firms may seek affiliation with overseas business groups if economic and political environments at home are uncertain (Guar et al. 2014). On the other hand, institutional voids in the targeted country such as low entry barriers, less regulation and uncomplicated bureaucratic processes, could present investment opportunities and may expedite the MNC’s market penetration (Virches & Cahen 2017).

Luo and Jayaranman (2013) argue that MNCs disperse labour-intensive operations to emerging economies where they can reap cost savings without compromising quality. According to Cui and Jiang (2009, 435), “emerging economies have developed a competitive advantage in low-cost production”. By implication, firms located in emerging economies derive their competitive advantage in global markets from this low-cost advantage in the form of availability of natural resources and low labour costs (Ciu & Jiang 2009). Relocating jobs to a low-cost location is referred to as *international sourcing* and may involve an affiliated or non-affiliated enterprise (Hunya 2012).

2.6.2 Enablers of international expansion

In the last two decades, the international markets have witnessed tremendous changes as a result of advances in transportation, innovations in communications technology and eradication of trade barriers (Hitt 2015; Fung 2013; Banalieva & Dhanaraj 2013). These changes have created more interconnected national economies, growth in the number of MNCs and emerging economies have become important players in this global competitive landscape (Hitt 2015). The distances between nations have shrunk due to advances in transportation; dissemination of important business information has become easier, faster, and cheaper due to innovations in communications and doing business across borders has never been this easy and free. Hunya (2012) asserts that the free movement of goods and capital advocated by trade institutions and the collapse of the Soviet Bloc have

catalysed the global expansion of direct investment and integration of a global trade system and, has increased the stock and flow of FDI.

Pro-market policies have been vital in enabling international expansion. Cuervo-Cazurra (2015, 73) defines pro-market reforms as “the transformations in the norms, rules and regulations that influence the behaviour of economic actors toward supporting market interactions.” Examples of these transformations include structural reforms, improvements in national governance, institutional changes and the Washington Consensus (Cuervo-Cazurra 2015). Acquaah et al. (2008) argue that the effects of globalisation have urged emerging economies in Africa and elsewhere to implement economic liberalisation policies such as elimination of foreign trade barriers, foreign exchange restrictions and price control to name a few. These pro-market reforms have catalysed the internationalisation of businesses; realising what Fung (2013) refers to as ‘an enabling policy environment.’ However, these reforms have not been fully adopted by regulatory institutions in emerging economies.

To conclude this section, it is important to note that a number of scholars have adopted a strategic tool, named the resource-based view, as the best measure to gauge a firm’s resource capability (Guar, Kumar & Singh 2014; Hitt et al. 2015). The resource-based view (RBV) holds that a firm’s resources and capabilities are the key determinants of the firm’s strategic choices (Guar et al. 2014). For example, Yeaple (2013) postulates that firms with abundant organisational capital can sustain large global operations, while Hitt et al. (2015) posit that firms that have adequate resources are able to penetrate foreign markets much quicker.

It is also important to note that some strategies require considerable of resources to pursue. In this regard, Guar, et al. (2014) note that non-equity strategies such as exports require fewer resources while FDI (normally greenfield ventures) require greater resources. They further point out that emerging MNCs encounter setbacks due to a lack of traditional resources but they usually tap into non-traditional, network-based resources to address the shortage of resources when they internationalise. Availability of the resources enables MNCs to compete favourably in foreign as well as domestic markets (Guar, Kumar & Singh 2014).

2.7 Selection of foreign markets

The attractiveness of a market does determine the foreign economies in which MNCs would invest. The attractiveness of a market is established through an analysis on its benefits, risks and costs (Hill & Hult 2017). Large markets are attractive because they are associated with economies of scale and large profits (Hilb 2015). The entry mode into a desired market will also depend on the trade-offs between risks and returns (Ahmad 2012). Businesses may internationalise their operations to respond to ever-changing environmental risks and opportunities (Hitt et al. 2015). If environmental risks escalate in a market, MNCs may divest and move their investments to foreign markets that offer lucrative opportunities and minimal environmental risks. Risks inherent in the host market are summed together with other factors such as distance between markets, resources; activities and size of client base. All these inform MNCs' decisions about the entry mode into the new foreign market (Boojihawon & Acholonu 2012). Lunnan et al. (2015) indicate that local characteristics such as low costs, access to resources, solid transportation infrastructure, reliable Internet, a skilled workforce, and political stability do motivate MNCs to locate their operations in a particular economy.

Ahmad (2012) argues that MNCs expand to neighbouring markets before going to distant foreign markets as a result of distance. Banalieva and Dhanaraj (2013) add that MNCs will expand to distant foreign markets gradually as they learn about these markets. Hitt et al. (2014) posit that sharing certain attributes such as language, will accelerate the internationalisation of a business to a country. According to Jormanainen and Koveshnokov (2012), commonality reduces the liability of foreignness.

It is worthy of note that many MNCs from African countries have successfully expanded into their neighbouring countries due to the similarity in language, and culture as well as easy accessibility by road or air (Deloitte 2016). MNCs often avoid equity-based modes such as joint ventures, acquisitions, and greenfield ventures in distant markets (Hitt 2015). As MNCs gain international and business experience, they tend to consider more distant markets, but will prefer to enter markets they believe they understand best in terms of customs and legal systems, coupled with

considerations regarding level of education of workforce, industrial development and degree of trade openness (Ahmad 2012).

Foreign firms may choose to expand into markets with a shorter or a longer, positive institutional distance, depending on the home country's institutional efficiency (Aleksynska & Havrlchyk 2013). According to Alesksynska and Havrylchyck (2013), institutional distance is the institutional differences between countries. By implication, similarities translate into short institutional distances. For instance, firms from emerging economies will often opt to invest in other less developed economies (shorter institutional distance) where regulatory policies are poor and corruption is rife, because they are familiar with these prevailing conditions (Jormanainen & Koveshnokov 2012). On the other hand, emerging MNCs may choose to expand into developed economies (larger positive institutional distance) to benefit from technology spillover (Jormanainen & Koveshnokov 2012). Furthermore, firms prefer market opportunities that are complementary to their existing knowledge, skills, and capabilities (Amankwah-Amoah 2014).

2.8 Chapter summary

This chapter provided an overview of the literature on MNCs expansion strategies and the determinants of expansion strategies. The chapter also covered the motives for internationalisation by MNCs, and the consideration when MNCs intend to internationalise. It also highlighted how MNCs select foreign markets to venture into and the factors that enable their foreign expansion.

It must be remembered that African emerging economies constitute the primary scope of this study. To that effect, it is considered important to focus specifically on the effects of these strategies and their determinants on African continent. The next chapter (chapter three) provides a discussion on the theoretical framework for MNCs' expansion strategies into African economies.

Chapter 3

The intricacies of MNCs' expansion in emerging economies (Africa)

3.1 Background information on MNCs

Hilb (2012) suggests that it is imperative to understand the context in which companies operate in foreign markets when considering expansion to those markets. In Boojihawon and Acholonu's (2012) view, internationalisation is a context-dependent, dynamic and complex process. It is essential that the theory that relates to MNCs expansion is understood. According to Aregbeshola (2014b), the theory of MNCs originates from two schools of thought, namely, location-specific advantage theory and the industrial organisation theory. Location-specific advantage theory holds that MNCs will invest in the host nation that offers a unique competitive advantage over other nations, assessed in terms of their resources, market, political economy, geophysics, human capital and technology (Aregbeshola 2014b, 558). An earlier study conducted by Kinoshita and Campos (2002) lays a ground for Aregbeshola's views regarding these factors, adding favourable tax treatment and low labour costs to the list. Factors such as geographic economic advantages, financial market stability, and favourable interest- and exchange rates are key considerations in location-specific advantage theory (Aregbeshola 2014b).

3.1.1 Types of FDI

Four types of FDI were discussed in section 1.2 of this dissertation, namely, market-seeking, efficiency-seeking, resource-seeking and strategic-asset seeking. Virches and Cahen (2017) observe that Africa seems to attract new investments that are motivated by the growth of its markets, availability of natural resources and the demand for infrastructure projects. Gonclaves and Smith (2017) contend that resource-seeking FDI has been the most prevailing type in Africa since 1990s and is still prevalent in most African resource-rich countries such as Nigeria (oil), Angola (oil), and Zambia (copper). The authors also note a new development in Africa - the emergence of production facilities for consumer goods and investment goods such as machinery and construction materials.

3.1.2 Benefits of FDI to the host economy

Abala (2014) postulates that the positive spillovers of FDI become evident when the host economy grows as a result of FDI inflows complementing domestic investment and domestically mobilised savings, facilitating entry of the host country into export markets and strengthening export capabilities of the host country. Literature suggests that FDI enhances local firms' productivity by transferring knowledge, technology and industry infrastructure (Dau, Ayyagari, & Spencer 2015). Zhang (2014) asserts that FDI enhances industrial productivity, and ultimately, the industrial competitiveness of the host economy. FDI is also regarded as a transfer of set of assets such as capital, advanced technology, know-how, and best management practices to name a few (Forte & Moura 2013). Through FDI, producers of local products gain access to the international market (Lautier & Moreau 2012). In addition to the mentioned positive spillovers, FDI in emerging economies may contribute to the welfare of the host society through investment in education and health care, as documented in many African economies (Lehnert, Benmamoun & Zhao 2013). FDI also increases the host revenues through taxes (Fauzel, Seetah & Sannassee 2015a). Moreover, FDI may also foster entrepreneurial activities in the host country- in both MNC's industry and downstream (Dau et al. 2015, 1870).

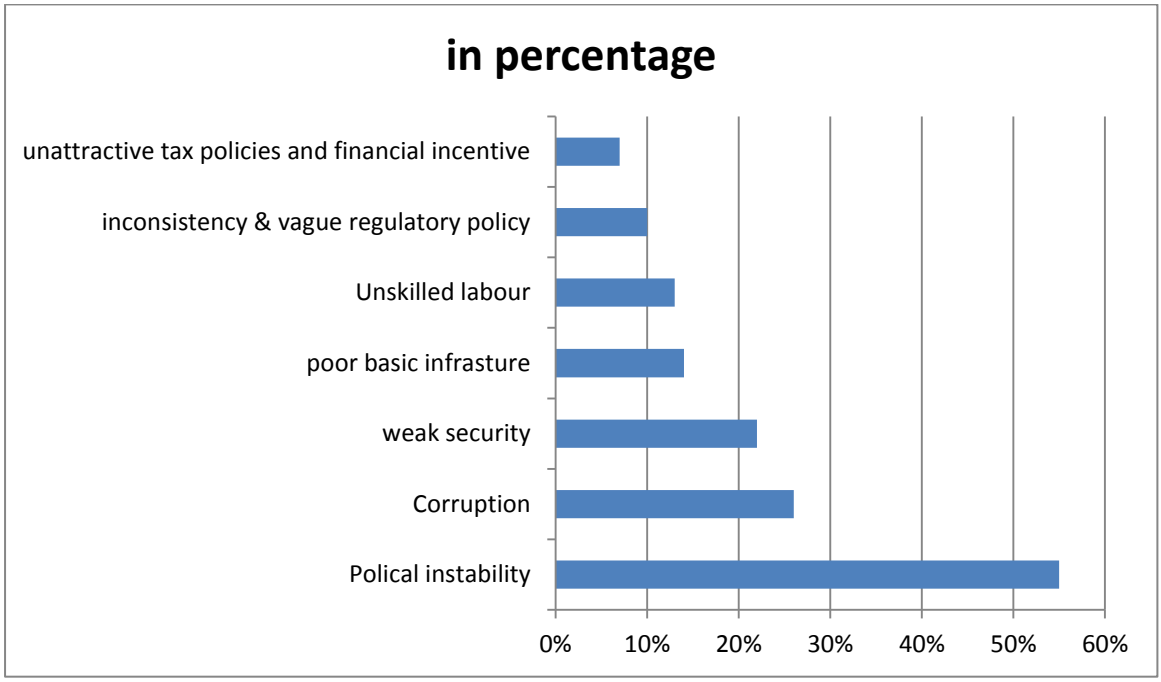
3.1.3 The attractiveness of African economies to FDI

Evidence has shown that Africa did not benefit much from the surge in FDI in developing economies that occurred in the mid-1980's to 1990's, despite political efforts geared towards attracting FDI (Aseidu 2002). Taal (2014, 2) reports that Africa has for long, been perceived to possess "small markets with low growth rates, poor infrastructure, high indebtedness, slow progress in introducing new product markets, weak private sector oriented reforms and low levels of technological capabilities". However and in the face of these perceptions, a few countries were able to attract some level of FDI (Asiedu 2002). Taal (2014, 2) points out that Africa had received an annual average FDI of about US$3billion; but that FDI inflow had decreased in the 1990's. By 2015, global FDI had recovered from the economic and financial crisis of 2008-2009, which led to a 38% increase in FDI during that year, to the value of US$1.76 trillion (UNCTAD 2016). However, a decrease of 7% in FDI in

Africa was recorded, with stock of inflow that totalled $54 billion in 2015 (UNCTAD 2016:xi).

The figure below depicts the perceived barriers to inflow of FDI to African countries. According to the figure, political instability constitutes the strongest barrier to Africa's attractiveness to inflow of FDI:

Figure 3.1: Perceived barriers to FDI in Africa



Source: EY Africa Attractiveness Survey (2015, 5)

The Figure further suggests that corruption, poor business and household security, as well as poor basic infrastructure (such as road network, power supply, amongst other) are equally important deterrents to Africa's FDI attraction.

However, Mawanza (2015) argues that, despite the prevailing risks on Africa's emerging economies, opportunities associated with these markets cannot be ignored. Literature indicates that Africa offers attractive investment and trade opportunities in various sectors such as agriculture, retail, banking, infrastructure, natural resources and telecommunications (Zoogah, Peng & Woldu 2015). In Taal's (2014) view, the growth of an emerging middle class has facilitated FDI in consumer-oriented industries, including food, information technology, tourism, finance and retail. Due to a fast-growing consumer class and rising urbanisation, Africa presents lucrative opportunities in technology, media and telecommunication; financial

services; and consumer products and retail, as well as opportunities in real estate, hospitality and construction (EY 2015). It is surprising to note that all these strides are insufficient to galvanise Africa's attractiveness to inflow of FDI.

The telecom industry has experienced a boom growth in recent years (Cissé 2015). Notable suppliers of technology and services in this sector are South Africa's MTN, France's Orange, the Middle East's Celtel, Sweden's Ericsson and China's Huawei (Sánchez 2008, Cissé 2015). A number of Africans both within and outside emerging economies have benefitted from financial technology transfer, although they are confronted with lack of market depth and infrastructure deficits that create hurdles for its efficient application (Nellor 2007). In an attempt to overcome these hurdles, Nigeria's Jumia and Konga e-commerce platforms collaborated with MTN to provide access to online financial platforms. These platforms have helped to mitigate infrastructure and logistics setbacks, as well as address low market penetration challenges, given that the platforms are more easily accessible to larger population (Deloitte 2016).

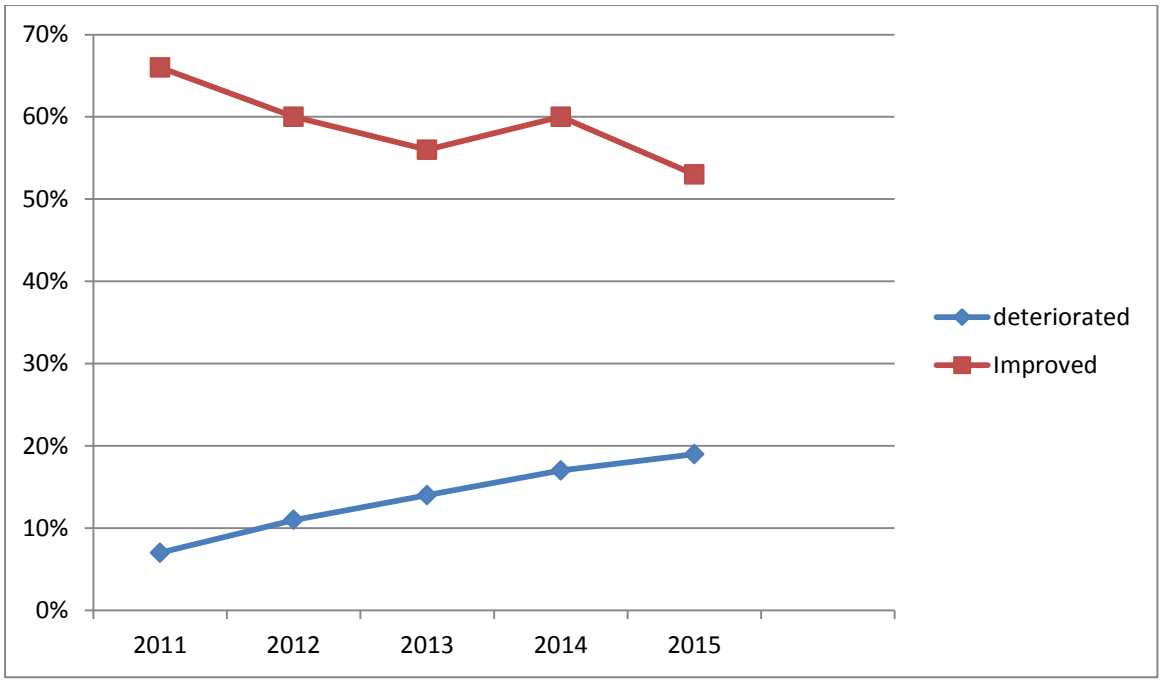
In the face of various strides documented in the previous paragraph, attractiveness of Africa to FDI remain weak. For instance, while global FDI inflows recovered after the 2008 economic crisis, FDI inflows into Africa has continued to decline in value (UNCTAD 2016) and in the number of projects (EY 2015); that is, in both stock and flow respectively. This is attributed to deteriorating commodity prices of crude oil, metals and minerals, which are the major attractors of FDI (UNCTAD 2016). African emerging economies rely heavily on export-oriented commodity trade unlike their counterparts in Asia, who are manufacturing-oriented (United Nations Industrial Development Organisation (UNIDO) 2015). In addition to commodity prices deteriorating, investors have documented the following factors as impediments to Africa in attracting new investments: political instability, corruption, security issues, poor basic infrastructure, lack of skilled labour, inconsistent regulatory policies, unattractive taxation and a lack of financial incentives (EY 2015). The other challenges include inadequate transport- and power infrastructure, and the low disposable income of local mass market (Deloitte 2016). To mitigate infrastructural and logistics deficiencies, China and African Union launched an initiative to construct roads, railways and air transport routes to connect African cities in 2016, but the cost

of this promising project would ultimately be too huge for the beneficent countries to bear (Deloitte 2016).

In specific terms, although, quite a number of countries in Africa still face challenges relating to political stability, there has been an improvement in governance and crisis management accompanied by the ease of repatriation of profits as well as exemptions and incentives. However, corporate tax rates remain high in some countries (Achour et al. 2015). Emerging economies in Africa have implemented economic reforms such as elimination of trade barriers, removal of price controls and subsidies directed to domestic production, as well as monetary and bank reforms (Acquaah et al. 2008). These reforms, referred to as *pro-market* reforms Cuervo-Cazurra (2015, 74) include privatisation of state-owned companies, deregulating of industries and price liberalisation. However, there is still concern regarding institutional voids in African markets, such as a lack of market-support institutions, weak contract-enforcing mechanisms, insufficient specialised intermediaries and inefficient transport and communication networks (George et al. 2016, 377). These institutional voids taint the attractiveness of Africa as an FDI destination. Of great concern is that, according to EY (formerly Ernst & Young) (2015), Africa's attractiveness keeps deteriorating over years.

Notwithstanding Africa's deteriorating attractiveness as an investment destination and a decline in FDI projects in Africa, FDI levels were still above pre-2008 levels in 2014 (EY 2015). The EY Africa Survey also revealed that Africa was the second largest global recipient of FDI in 2014, especially Nigeria. Nigeria is one of the largest economies in Africa, and it is three times the size of the 14 members states of the Economic Community of West Africa States (ECOWAS) combined (IGD & Dalberg Global Development Advisors 2011). South Africa is also considered one of the largest economies, and has a highly developed financial system (Deloitte 2016).

Figure 3.2: Africa's Aatractiveness: Investors' perceptions



Source: EY Africa Attractiveness survey (2015, 5)

3.2 Sources of FDI in Africa

According to Chen et al. (2015), new partners such as Brazil, Russia, India, China, and South Africa (BRICS) are investing heavily in Africa, overtaking the traditional investors from the USA and the European Union (EU), but the focus is still extensively on commodity. Bandeira-De-Mello et al. (2015) assert that investments from emerging economies in Africa are growing exponentially, but there is need to diversify the economy quicker. The authors state that firms from BRICS countries are threatening firms from Europe especially those from France and Britain.

Another driver of Africa's attractiveness is intra-Africa investment. Over the past few years, a few emerging economies have been gaining recognition in international trade; for example, South Africa is becoming one of the major sources of FDI in Africa (Figueiras & Ribeiro 2013), so also is Nigeria and Angola (Taal 2014). In 2014, South Africa invested about 50% of its FDI outflow in Africa and Asia (UNCTAD 2016). On the other hand, Chen et al. (2015) observe that investments from traditional investing nations have declined considerably over the past decades.

Dakora and Bytheway (2014) indicate that a new trend has brought new developments in retail trade in Africa. International retailers, as well as South African retailers such as Woolworths and Shoprite are entering the rest of Africa (Dakora & Bytheway 2014). The tradition of developed countries directing FDI to developing countries has changed; now FDI activities flow both ways. This is evident in the major market share that China acquired in FDI trade in recent years (mainly dominated by investments in resources in Africa), despite it being an emerging economy. Knoerich (2010) points out that Chinese MNCs are intensifying their global FDI activities by acquiring businesses from others nations. For example, Lenovo acquired US-based IBM's PC division and Nanjing Automobile and Shanghai Automotive Industry Corporation (SAIC) purchased UK-based MG Rover. As mentioned in section 2.1, Chinese companies have also become major role players in the telecommunication industry in Africa. Emerging economies such as Vietnam, Indonesia, South Africa, Turkey and Argentina (VISTA) are becoming important sources of FDI to developed and other emerging economies (Hennart 2012).

3.3 MNCs operating in Africa

Bedell (2016) highlights that the persistent deterioration of oil and other commodity prices has led to a downgrade of petrochemical and mining firms on the rankings of MNCs in Africa. Countries affected include South Africa, Angola and Nigeria among others. Bedell (2016) also notes that other countries such as Ghana and Cote D'Ivoire are showing a notable growth as the deterioration in oil prices continue, while Morocco is welcoming investors from the automobile industry such as PSA Peugot, Ford and Renault as a result of implementation of major business and economic reforms. According to Chiwanza (2017), the following are the 10 biggest MNCs that are operating in various African countries and across the globe:

Table 3.1 The biggest companies in African economies

Name of MNC	Industry	Country/Region
1. Sonatrach (Algeria)	Exploration, production, pipeline, transportation, processing and marketing of hydrocarbons and by-products.	Algeria, Europe, Latin America and USA
2. Sonangol (Angola)	Oil production, with subsidiaries in railways, transport, refinery and telecommunications	Angola and across the world
3. Sasol Ltd (South Africa)	Manufacturing of industrial chemicals and energy	
4. MTN Group (SA)	Telecommunications	South Africa, 16 African countries and Middle East
5. Bidvest Group (South Africa)	Travel, food services, stationary, medical waste management and industrial lighting	Four continents
6. Eskom (South Africa)	Energy and power production	
7. Shoprite Holdings (South Africa)	Retailing	South Africa, Namibia, Zambia, Tanzania, Mauritius and other African countries
8. Sanlam (SA)	Life and health insurance, Finance and investment	South Africa, Botswana, Namibia, Malawi, Swaziland, Zambia, Rwanda, Kenya, Tanzania, Uganda, Mozambique, Malaysia, India and the UK
9. Vodacom Group (South Africa)	Telecommunications	South Africa and other countries
10. Imperial Holdings (South Africa)	**Automobile and rentals**	**South Africa, Europe, the UK, USA, and Australia**

Source: www.africanexponent.com

3.4 Investment opportunities in Africa

As noted in section 3.1.1, Africa has plentiful investment opportunities in various economic sectors, many of which, according to Amankwah-Amoah (2014) have remained untapped. Zoogah et al. (2015) opine that these opportunities can be found in sectors such as agriculture, retail, banking, infrastructure, natural resources, and telecommunications. Notwithstanding the challenges inherent in African markets, these economies offer great consumer demand, less rivalry and few foreign investors unlike their developed counterparts (Zoogah & Mburu).

Alemu (2016) indicates that most African economies rely on exports of agricultural and mineral commodities for foreign trade and earnings. Africa's recent growth is attributed to the commodity exports, specifically oil and metals (UNIDO 2015). Busia (2017) noted there have been major discoveries of oil, gas, and minerals in some African countries over the past decades, and this has aided the attraction of foreign participation in resource-endowed countries. Gedicks (2015) opines that there is a demand for a number of metals and energy sources such as coal, oil, gas and uranium globally. This demand creates lucrative export opportunities for mineral-rich African counties. However, the International Monetary Fund (2015) reports that competitiveness of commodity exporters has declined in recent years, and it is most

likely going to continue. The table below shows African countries and their main commodity exports (Alemu 2016, 2):

Table 3.2: Selected African countries and their main commodity exports

country	Exports
Angola	Oil, diamonds, minerals, coffee, fish, timber
Benin	Cotton, palm oil
Botswana	Diamonds, copper, nickel, beef
Burkina Faso	Cotton, animal products, gold
Burundi	Coffee, tea, sugar, cotton, hides
Chad	Cotton, oil, livestock, textiles
Democratic Republic of the Congo	Diamonds, copper, coffee, cobalt, crude oil
Republic of the Congo	Oil, timber, plywood, sugar, cocoa, coffee, diamonds
Cote d'Ivoire	Cocoa, coffee, tropical woods, petroleum
Equatorial Guinea	Petroleum, timber, cocoa
Ethiopia	Coffee, hides, oil seeds, beeswax, sugarcane
Gabon	Crude oil, timber, manganese, uranium
Kenya	Tea, coffee, horticultural products, petroleum products
Mali	Cotton, gold, livestock
Niger	Uranium, livestock products
Nigeria	Petroleum, petroleum products, cocoa, rubber
Rwanda	Coffee, tea, hides, tin ore
Senegal	Fish, peanuts, petroleum products, phosphates, cotton
South Africa	Gold, diamonds, metals , minerals, cars, machinery
Sudan	Oil, cotton, sesame, livestock & hides, gum Arabic
Zambia	Copper, minerals, tobacco

Source: Alemu (2016, 2)

Although Africa has traditionally relied on export of commodities and minerals for international trade, Chen et al. (2015) posit that Africa is gradually moving from a focus on extractive sectors to services and manufacturing sectors, which is attracting technologically-imbibed FDI inflow. For instance, non-oil exporters such as Tanzania, Zambia, Uganda and Ethiopia have been the beneficiaries of FDI inflows in manufacturing sectors while the majority of manufacturing FDI went to Mozambique, South Africa, Nigeria, Ghana, Zambia and Ethiopia between 2011 and 2014 (Chen et al. 2015). According to Pigato and Tang (2015), Chinese manufacturing firms are major investors in African economies such as Nigeria, South Africa, Sudan and Zambia, and are spreading their activities to other African countries.

While investment in service industry is growing, the banking sector remains underdeveloped. Bending et al. (2015) note that not all African countries' banking

sectors in Africa meet the global standards, even though they are well capitalised and profitable. However, Bending et al. (2015) further note that African countries have implemented fundamental changes over the past 20 years. Some of these reforms include financial liberalisation and related banking and financial reforms. Notwithstanding these achievements, the majority of Africa's population has limited access to financial services; banking costs are high and unaffordable, and the limited rivalry in these sectors impedes competition and diversification (Bending et al. 2015).

According to Taal (2014), an emerging middle class in many African countries has stimulated FDI in consumer-oriented industries, including food, information technology, tourism, finance and retail. The considerable growth in retail is attributed to growing middle class, consumer spending, urbanisation, poverty reduction initiatives, and consumer connectivity (Dakora, Kalitanyi, Mutematemi, Gyogluu, Bagui & Mason 2016). South African retail companies such as Shoprite, Massmart, Woolworths, Truworths and Mr Price are expanding into economies outside of South Africa, and thereby boosting consumer choices in those economies (Dakora et al. 2016). In addition, South African retailers are presently leading this sector on the continent. Dakora, Bytheway and Slabbert (2014) warn that these retailers are likely to encounter stiff competition from their global counterparts as they spread their operations across the continent, especially in the long run.

In the telecommunications industry, liberalisation of mobile markets in Africa has created lucrative opportunities for African and foreign companies (Sánchez 2008). This development has resulted in Chinese telecommunication companies collaborating with local telecom operators in Africa (Cissé 2012). In line with this, China's market-seeking activities have resulted in ZTE and Huawei being major competitor in this sector against other MNCs such as Nokia, Ericsson and Alcatel (Cissé 2012). Huawei has even gone as far as dispersing its R&D centres beyond its national borders, creating vigorous rivalry in the telecommunication industry globally (Cissé 2012). Additionally, the costs of establishing the necessary infrastructure for landline networks, network coverage hurdles, the liberalisation of telecom facilities and sparsely populated territories have led Huawei and ZTE to identify investment opportunities in African markets (Cissé 2012). Not only are Chinese firms active in this sector; African firms such as South Africa's MTN are also investing in other African countries (Sánchez 2008).

3.5 Challenges associated with MNCs in a host country (Africa)

The emergence of MNCs in international trade has had various ramifications for both the investors and the host economies (Sethi 2014). This author identify low wages as one of the main drawbacks, in that MNCs tend to offer low wages to employees as a result of competition to gain employment. Another challenge is poor and hazardous working conditions, and non-enforcement of regulations against pollution and environmental degradation. MNCs often face challenges such as institutional voids and instability in emerging economies, including those economies in Africa (Getachew & Beamish 2017). Furthermore, Nikoi (2016) asserts that Africa's environmental issues, high unemployment rate, poverty, trade deficits and structural adjustment hurdles are attributable to Africa being a passive recipient of investment and victim of opportunistic behaviour from MNCs.

3.5.1 Challenges to the host countries

As much as there are advantages associated with the presence of MNCs in host economies, challenges cannot be overlooked. According to Nikoi (2016), MNCs may meddle in local politics to persuade government to formulate policies that serve their interests, rather than those of the host country. A number of these examples can be found in Africa, especially in countries like DRC, Côte d'Ivoire, Sudan and Liberia. The author further indicates that, sometimes, these MNCs do not inject the required external capital into the host's economy as they resolve into alternative of raising the funds domestically. Due to the desperate need to attract FDI inflow, many countries resort to tax reductions and other incentives (Duarte, Kedong & Xuemei 2017). Host governments may opt to grant "tax holidays, free or low lease based on the provision of land, duty free importation of capital goods and export tax exemption" to foreign investors to attract FDI inflows (Bekana 2016, 142). These incentives constrain the sources of revenue of the host governments.

Moreover, Ndikumana (2015) asserts that policies and institutions in African economies build a high-cost and low-returns environment in an attempt to attract private investment and facilitate international trade. The author posits that African economies create policies and an institutional environment that becomes "hostile to transactions", impeding industrialisation and exacerbating the dependence on commodity trade. As a result, this leaves African economies with limited

opportunities for diversification in their economies. With the prolonged price deterioration of primary commodities such as oil and other minerals, growth prospects in African countries such Angola, Nigeria, and South Africa are shrinking rapidly. Busia (2017, 146) opines, “Commodity prices often rise and fall in painful patterns of vulnerability, risks and crises”. This trend has left African mineral-rich countries and companies operating in the extractive sector with uncertain growth prospects.

Another concern is that MNCs threaten the existence of local firms. This may result in strategic firms or even the industry eventually being controlled by foreign investors, which control they usually gain through M&As (Eren & Zhuang 2015). Lehnert et al. (2013) further indicate that governments often view FDI inflows as a potential threat to their sovereignty. Given the significant power of MNCs, African governments are exposed to losses when desperately attracting them (Nikoi 2016). According to Sethi (2003), MNCs often manipulate desperate host governments to be in favour of their own interests even when their actions are conflicting with legislation in their countries of origin and the dominance of MNCs then reduces the role of the state in the host countries (Nikoi 2016).

In addition, MNCs’ presence in host economies may result in deficits in the balance of payments. This occurs when MNCs import input materials and other goods that may not be available locally or when those locally produced input resources do not meet quantity and quality requirements of the MNCs (Forte & Moura 2013). Repatriation of profits by MNC’s subsidiaries also put a strain on the balance of payments (Forte & Moura 2013).

In addition, trade liberalisation reforms have exposed economies to unprecedented domestic and international competition (Acquaah et al. 2008). This increased competition have compelled local firms to adjust their investment strategies (Dau et al. 2015). Weaker local firms face the harsh possibility of being driven out of the market as competition increases which leads a crowd out effect on local investment (Dau et al. 2015). This was experienced in the textile industry of Cape Town, where many local manufacturers have been driven out of the marketAccording to Forte and Moura (2013), MNCs gain their competitive advantage from international integration and economies of scale and, in most cases, MNCs are larger than local firms are.

When smaller domestic businesses shut down due to the increased competition, jobs are lost. When job losses exceed jobs created by the MNCs, the economy suffers.

Developing and emerging economies are vulnerable to be used as pollution havens. Kahouli, Omri and Chaibi (2014) argue that an environment is likely to be degraded when international trade and FDI form part of the economy unless effective regulations aimed at protecting environment are implemented and enforced at national and international levels. In emerging economies of Africa, such regulations are often absent, or enforcement is lax. In most cases, such neglect by host government is part of the efforts to attract FDI (Ojewumi & Akinlo 2017).

Ndikumana (2015) argues that, while Africa has been integrated into global economy since the arrival of Europeans, this integration has been exploitative or extractive. According to Draper (2010), Africa and international development partners have strived to achieve the aim of incorporating Africa into global trade systems; however, African economic integration has failed for various reasons, which include overlapping membership in trade blogs, unfulfilled commitments and unrealistic goals (Draper 2010).

3.5.2 Country-specific challenges to the MNCs (Africa)

African economies are often characterised by risky political environments and institutional weaknesses (Virches & Cahen 2017), coupled with policy uncertainty. Slangen (2013) argues that new or established governments may suddenly introduce new policies or changes that might be detrimental to MNCs' survival and profitability. A new government may increase income taxes, impose quota and local content requirements or expropriate assets of foreign companies without compensation (Slangen 2013). Institutional voids encompass underdeveloped markets, poor infrastructure and non-enforcement of rules and regulations (Virches & Cahen 2017). Poor and weak institutions escalate the costs of doing business in the host economies, especially in emerging African countries (Egan 2013). Guar et al. (2014) further indicate that institutional voids create malfunctions in market-based exchanges. However, Virches and Cahen (2017) opine that these institutional voids may actual present opportunities such as rapid market penetration and lucrative financial returns.

Another challenge associated with African markets is infrastructural inadequacies. Zoogah and Mburu (2015) opine that these inadequacies impede business expansion beyond national borders, and may escalate cost of imports due to communication and logistical hurdles. Chen et al. (2015) assert that unstable supply of electricity and poor trade logistic escalate the costs of doing business in Africa. Matji and Ruiters (2015) postulate that efficient and productive infrastructure forms the basic foundation for economic growth and competitiveness.

Africa's economy is less diversified than other continents. Bending et al. (2015) assert that low economic diversification and weak infrastructure hinder developments in African economic sectors. Chen et al. (2015) opine that undiversified manufacturing is characterised by low value-adding FDI, even when such countries do manage to attract significant FDI inflows. Low diversification also impedes developments of financial sectors in Africa (Bending et al. 2015). Gui-Diby and Renard (2015) suggest that African countries need FDI inflows to finance their venture into diversification to escape the reliance on primary commodity exports. The persistent fall in commodity prices poses adverse prospects for MNCs that have invested in mineral-rich African countries.

Information asymmetry is another obstacle for foreign investors when entering new foreign markets. Moran (2016) explains that information asymmetry occurs when the host firm is in possession of better information than the potential investor. Such asymmetry may be due to corruption in both private and public institutions (Montiel et al. 2012). This creates uncertainty in foreign investors when they engage in new economic activities in the host market (Moran 2016). Chen, Ghoul, Guedhami and Wang (2017) assert that information asymmetry leads to firms' investment being sensitive to the movements in stock prices. Information symmetry may also result in underinvestment where investors suspect that local managers are filtering information (Chen et al. 2017).

Moreover, navigating the formal and informal institutions can present challenges to MNCs (Yin & Jamali 2016). In Rottig's (2016) view, informal institutions play an important role in filling institutional voids, specifically lack of market intermediaries. Getachew and Beamish (2017) argue that emerging market present "striking contrasts", requiring two mechanisms to address, namely economising and

strategizing mechanisms (Getachew & Beamish 2017). According to these authors, economising is necessary due to the increased transaction and transformation costs resulting from high levels of institutional voids or instability. On the contrary, strategizing mechanism holds a view that institutional voids act as entry barriers into the host economy, which grant MNCs already operating in such markets greater power and rent-seeking opportunities (Getachew & Beamish 2017). The authors further argue that Africa has the highest level of institutional voids in the world, which has dire consequences for foreign investment in Africa.

Lack of knowledge about local culture and expectations pose another obstacle for MNCs operating in emerging economies (Yin & Jammali 2016). Culture is an important component of informal institutions that shapes the formal institutions of any country (Holmes Jr. et al. 2011). Cultural disparities may lead to miscommunication between the foreign investors and the host economies, especially when there is a considerable cultural distance between the parties. Hitt (2013) emphasises the role of culture in shaping formal institutions. The author indicates that both formal and informal institutions are fundamental in shaping and guiding the behaviour of individuals and business organisations. Hence, it is considered important to understand the culture of a host economy, in order to avoid problems associated with cultural differences.

3.6 Corporate social responsibility, institutional voids and MNCs in Africa

Yin and Jamali (2016) note that corporate social responsibility (CSR) has contributed to reshaping the global competitive landscape in which MNCs operate. CSR has had a notable influence on discourses, policies and practices in African context (Amaeshi, Adegbite & Rajwani 2016). CSR includes corporates pursuing their interests within the confines of the law and engaging in actions for social good (Amaeshi et al. 2016). According to Santos, Pache and Birkholz (2015), business organisations have embraced the notion that their businesses have to be “more than business” and cater for societal expectations. These authors posit that businesses are exposed to demands from various interest groups, such as local and central governments, activist groups and customers. Institutional theory provides the link between organisations and their social environments. This theory holds that organisations’ structures and actions are influenced by their social environment

(Rottig 2016). Yin and Jamali (2016) opine that wealthy and resourceful MNCs are expected to assist in the development of host economies at local, regional and national level.

However, Yin and Jamali (2016) highlight that institutional voids such as underdeveloped institutional environments, lax regulatory monitoring, and weak civil society institutions may create opportunities and challenges in positioning and implementing CSR. Muthuri (2012) argues that corporate irresponsibility and complicity in Africa are attributed to Africa's institutional context, which is by corruption and poor governance. However, Amaeshi et al. (2016) argue that corporate social irresponsibility is a corporate strategic choice of MNCs, rather than a result of institutional inadequacy. Unstable institutional environments in emerging economies may present opportunities for MNCs to exploit when they find loopholes in rules and regulations which may be to the detriment of local social and environmental interests (Rottig 2015).

Concerns have emerged regarding MNCs deliberately behaving irresponsibly in emerging economies (Yin & Jamali 2016). Irresponsible behaviour is sometimes tolerated by host governments in their pursuit of FDI, which phenomenon is prevalent in African and other emerging economies. Chetty, Naidoo and Seetharam (2015) opine that CSR standards in Africa have not evolved to match those of the rest of the world. It is important that MNCs operating in Africa enshrine CSR policies within their operations in host communities. Santos et al. (2015) warn that failure to do so may cause businesses to face boycotts from activist groups in the host country.

3.7 Chapter summary

This chapter elaborated on the background on MNCs, by sketching the profile of African markets and the sources of FDI into African economies. It further explained the investment opportunities in various sectors of African economies. The challenges associated with the presence of MNCs in African economies are well-documented, and can adversely affect both the host economy and the MNCs. This chapter also elaborated on the issue of CSR and its implication for MNC investments in Africa.

The next chapter provides a detailed explanation of the methodology used to test the hypotheses as well as the methods used to analyse the data.

Chapter 4

Research Methodology

4. Introduction

This chapter contains a detailed explanation of the methodology used in this study. The chapter elaborates on data sourcing, processes for collecting data, the research design, sampling and estimation and data analysis. The proposed hypotheses of this study are stated as informed by the research questions.

4.1 Population and Sampling

The population for this study was African emerging economies and the top six emerging economies were selected on the basis of their economic strength and attractiveness for FDI. These emerging economies were ranked according to the stock and volume of FDI they attract. Gamiet (2016) identified the nine top emerging economies in Africa as South Africa, Nigeria, Kenya, Ghana, Angola, Tanzania, Mozambique, Ethiopia and the Democratic Republic of the Congo (DRC). According to EY's attractiveness Program Africa (2017), the top ten recipients of FDI inflow are South Africa, Kenya, Morocco, Egypt, Nigeria, Ghana, Mozambique, Ethiopia, Cote d'Ivoire, Tanzania and Uganda.

The difference between Gamiet's (2016) and EY's (2017) listings can be attributed to annual changes in FDI inflow and stocks attracted by each country. Further, the categorization might have been influenced by currency volatility, which might have influenced the monetary value of these investments. In this study, the top six countries on the latter listing comprised the sample. The other countries were excluded because data on some explanatory variables could not be accessed.

It is important to note that there may be different listings of emerging economies depending on the institution generating the reports. Sakr and Jordaan (2016) raise the concern that various global institutions produce different listings of emerging economies despite the relative convergence that has been reached through various studies.

4.2 Research design

This study followed a quantitative design. Marais (2012) explains that quantitative research employs numerical indicators and statistics. Frels and Onwuegbuzie (2013, 185) indicate that quantitative research is also useful for providing answers to questions of "who, where, how many, how much and what is the relationship between specific variables". According to Harwell (2011, 149), quantitative methods "attempt to maximise objectivity, replicability, and generalisability of findings, and are typical interested in prediction". In quantitative research analysis, descriptive and inferential statistics are employed to make inferences (Frels & Onwuegbuzie 2013).

In most cases, quantitative designs are premised on probability theory. Harwell (2011) reveals that probability theory is one of the important basics relied on to test research hypotheses in quantitative designs. In this study, econometrics techniques were used to test the stated hypotheses. The study was non-experimental. Non-experimental, which entails investigating research questions without manipulating the variables of the study in order to uncover the unbiased truth about the variables under investigation (Salkind 2014, 269).

The research design was an explanatory research, which aims to determine correlational relationships between variables, especially where large amounts of data are generated, using statistical analyses to determine the strength of the relationships (Strydom 2013). The main purpose was to investigate the determinants of MNCs' expansion strategies. While correlational relationships can be determined, quantitative research cannot address the questions of 'how' and 'why' (Frels & Onwuegbuzie 2013).a

4.3 Data collection

The study utilised cross-sectional time-series data on six emerging economies over a period of 20 years— 1996 to 2016 within the panel arrangement. Data on the following variables were collected: FDI inflow (US$), imports as a percentage of GDP (exports from MNCs' country of origin), percentage of trade balance to GDP, GDP per capita (US$), corporate tax rate (annual %), inflation rate (%), government expenditure (% of GDP), school enrolment (annual %), natural resources endowment (% of GDP), and the number of telephone line subscriptions (per 100

people). Some of the variables selected have been used in similar studies (Siddiqui and Aumeboonsuke 2014; Aregbeshola (2014b); Aseidu's (2006).

4.4 Data source

Secondary data were used in this study, which were not obtained from the original source, but from previous research in the field (Khan 2011). This secondary data serves as the primary data in this present study. The sources of data for this study were the African Development Indicators, which is the statistical records of African Development Bank (ADI). The dataset is considered credible because of the stringent collection procedure that is established by the parent body of the collector - the World Bank. The World Bank database is in the public domain and is freely accessible. For missing data units on some variables, the five-year moving average technique (forward and backward) was used to generate the missing data. Excel spreadsheets was used to compile, store and present the collected data for analyses. Eviews statistical package was employed for the analyses.

4.5 Data analysis

4.5.1 Descriptive statistics

Descriptive statistics were used to describe the data, also referred to as the *initial diagnostic statistics* (Zsohar 2012). Researchers use descriptive statistics to describe important features and behaviour of data, and to ensure the usability of data as regards normal distribution assumptions (Devore 2012, 4). Salkind (2014, 230) explains that descriptive statistics describe the characteristics of the data by painting a detailed picture of the data. This initial diagnostic analysis also helps to uncover the dispersion of the dataset from the mean (standard deviation, skewness and kurtosis), which is normally used in multivariate analyses (Liu, Parelius and Singh 1999). Descriptive statistics can also be illustrated graphically, for example, histograms, boxplots and scatter plots to show the pictorial behaviour of the dataset (Devore 2012, 4).

4.5.3 Estimation techniques

Salkind (2014) indicates that when a study involves the investigation of the relationship between more than two variables, appropriate statistical estimation

techniques include regression analysis, factor analysis or canonical analysis. In this study, regression analysis was preferred because it helps to identify the relationship between the variables as well as their explanatory powers.

Regression analysis

Regression analysis is used to determine the kind of relationship that exists between identified variables. According to Mertler and Vannatta (2002, 13), regression analysis is appropriate for investigating the relationship among two or more quantitative variables. Sykes (1993, 1) explains that regression analysis estimates the quantitative effect of one variable on the other and it helps to determine the statistical significance of the relationship. For the purpose of this study, ordinary least square (OLS) regression was used in the analysis, using the following equation:

$$Y= \alpha + \beta x+ \varepsilon \quad (1)$$

Where Y is the dependent variable and X is the explanatory or exogenous variable, α is the constant, β is the effect of X and ε is the noise term (Sykes 1993, 5). OLS estimator can be used to consistently estimate unknown parameters when there is no correlation between covariates and the error term $u_{it,}$ that is, in the absence of serial correlation (Zsohar 2012). OLS estimator has widely been used in a panel setting to investigate relationships among variables (Aseidu 2002; Dakessian & Feldmann 2013; Seck 2014; Vuko & Cular 2014; Jongwanich et al. 2013; Ahmad, Kaliappan & Ismail 2017). The equation for pooled data is specified below (Croissant & Millo 2018, 2):

$$y_{it}= \alpha + \beta^{T}x_{it}+ u_{it} \quad (2)$$

4.6 Hypotheses and models

This section lists the hypotheses and the hypothesised effects formulated from the research questions and objectives of the study. The section also presents the model specifications for each hypothesis.

4.6.1 Proposed hypotheses

The hypotheses of this study were premised on the research questions. Hypothesised effects were guided by the literature reviewed in Chapters 2 and 3. The proposed research hypotheses are as follows:

Table 4.1 Proposed research hypotheses

Dependent variables	Determinants	Hypothesised effect
Part 1: **(i)** Foreign Direct Investment (FDINFL)	Trade openness (total trade % of GDP) (OPEN)	Positive
	Government expenditure (% of GDP) (GVTEX)	Positive
	Infrastructure (no. of telephone subscriptions per 100 people)(INFRA)	Positive
	Human capital (primary school enrolment %)(HUM)	Positive
	Natural resources endowment (total natural resources rents as % of GDP) (NRE)	positive
(ii) Imports of goods and services (% of GDP) (IMP)	Trade openness (total trade % of GDP)(OPEN)	Positive
	Government expenditure (% of GDP)(GVTEX)	Positive
	Infrastructure (no. of telephone subscriptions per 100 people) (INFRA)	Positive
	Human capital (primary school enrolment %) (HUM)	Positive
	Natural resources endowment (total natural resources rents as % of GDP) (NRE)	Irrelevant
part 2: **(i)** Foreign direct investment (% of GDP) (FDINFL)	Active market size (% of population growth) (AMS)	Positive
	Growth rate (GDP per capita at constant price 2010 US$) (GDP)	Positive
(ii) Imports of goods and services (% of GDP) (IMP)	Active market size (% of population growth) (AMS)	Positive
	Growth rate (GDP per capita at constant price 2010 US$) (GDP)	Positive
part 3: **(i)** Foreign direct investment (% of GDP) (FDINFL)	Inflation (annual %) (INFL)	Negative
	Corporate tax rate(Total tax on commercial profits)(COPT)	Negative
	Corruption (Control of corruption) (COR)	Positive
(ii) Imports of goods and services (% of GDP) (IMP)	Inflation (annual %) (INFL)	Positive
	Corporate tax rate(Total tax on commercial profits)(COPT)	Positive
	Corruption (Control of corruption) (COR)	Positive

Using the above, the following proposed hypotheses were formulated to gauge the statistical importance of various determinants on the entry strategies (FDI – greenfield investments that represents equity stakes, and imports of goods – export strategy that represents arms-length strategies) adopted by MNCs in the sampled emerging African economies, which was tested in Part 1 of the analyses. In Part 2, we examine the effects of market size on entry strategies, and we conclude the

analyses with an investigation of the possible effects of institutional variables on entry strategies adopted by MNCs:

Part 1 (i):

There is a positive relationship between FDI (FDINFL) inflow and the following covariates:

(i) trade openness (total trade % of GDP) (OPEN);

(ii) government expenditure (% of GDP) (GVTEX);

(iii) infrastructure (no. of telephone line subscriptions per 100 people)(INFRA);

(iv) human capital (primary school enrolment %)(HUM);

(v) natural resources endowment (total natural resources rents as % of GDP) (NRE)

Part 1 (ii):

There is a positive relationship between imports of goods and services (% of GDP) (IMP) and the following covariates:

(i) trade openness (total trade % of GDP) (OPEN);

(ii) government expenditure (% of GDP) (GVTEX);

(iii) infrastructure (no. of telephone line subscription per 100 people)(INFRA)

(iv) human capital (primary school enrolment %) (HUM), as well as

(v) an insignificant relationship with natural resources endowment (total natural resources rents as % of GDP) (NRE).

Part 2 (i):

Part 2 dealt with market size. In this section, we looked at the possible impacts of current and potential market size on the entry strategy adopted by MNCs in the sampled countries. In this Part, we proposed that there is a positive relationship between FDI inflow (FDINFL) and:

(i) active market size (% of population growth (AMS) and

(ii) growth rate (GDP per capita at constant price 2010 US$).

Part 2 (ii):

There is a positive relationship between imports of goods and services (% of GDP) (IMP) and:

(i) active market size (% of population growth) (AMS) and

(ii) growth rate (GDP per capita at constant price 2010 US$).

Part 3 (i):

Part 3 of the estimation looked at the deterministic effects of institutional weaknesses on the entry strategies adopted by MNCs. In this model, we proposed that there is a negative relationship between FDI inflows (FDINFL) and variables of institutional measures. Part 3(i) specified the relationship between institutional variables and FDI as an entry strategy:

(i) inflation (annual %)(INFL)

(ii) corporate tax rate (Total tax on commercial profits) (COPT)

(iii) corruption (Control of corruption)(COR)

Part 3 (ii):

This Part proposed a negative relationship between export strategy, which is represented by imports of goods and services (% of GDP) (IMP) and institutional weaknesses that are represented by the following covariates:

(i) inflation (annual %)(INFL)

(ii) corporate tax rate (total tax on commercial profits)(COPT)

(iii) corruption (Control of corruption)(COR)

4.6.2 Model specifications

The following models were formulated with consideration of the research questions and the objectives of the study, as literature in Chapters 2 and 3. Three models were specified, each divided into two equations (as contained in the hypotheses specified above), to investigate the two expansion strategies that were considered in this study.

Model 1:

This model, which was used to address Hypothesis 1, considered location-specific factors. It was argued in literature chapter (chapter three) that location specific-advantages do serve as determinants of the entry strategy adopted by MNCs. In this section of the methodology chapter, we propose a possible equation to estimate that relationship:

$$FDINFL_{it} = \alpha_{it} + \beta_1 OPEN_{it} + \beta_2 GVTEX_{it} + \beta_3 INFRA_{it} + \beta_4 HUM_{lt} + \beta_5 NRE_{it} + u_{it} \quad \textbf{(i)}$$

$$IMP_{it} = \alpha_{it} + \beta_1 OPEN_{it} + \beta_2 GVTEX_{it} + \beta_3 INFRA_{it} + \beta_4 HUM_{lt} + \beta_5 NRE_{it} + u_{it} \quad \textbf{(ii)}$$

where:

FDINF= foreign direct investment inflow
IMP= imports
OPEN= trade openness
GVTEX= government expenditure
INFRA= infrastructure
HUM= human capital
NRE= natural resource endowment
ε= error term
i= represents the country
t=represents time

Model 2:

Model 2 was used to test hypothesis 2, which investigated the relationship between profitability and expansion strategies. It was assumed that active market size and economic growth rate would have implications for the expansion decisions of MNCS. According Cala, Manjon-Antolin and Arauzo-Carod (2014), the size of the local market impacts MNCs' profitability in the host country. These authors further indicate that GDP and markets size are perceived to have an impact on profitability, and have been found to have an influence on selection of the entry mode in developed countries. Therefore, the model was specified as follows:

$$FDINF_{it\ t} = \alpha_{it} + \beta_1 AMS_{it} + \beta_2 GRO_{it} + \beta_3 GVTEX_{it} + u_{it} \quad \textbf{(i)}$$

$$IMP_{it} = \alpha_{it} + \beta_1 AMS_{it} + \beta_2 GRO_{it} + \beta_3 GVTEX_{it} + u_{it} \quad \textbf{(ii)}$$

where:

FDI and IMP were as used before in Model 1.

AMS= active Market Size

GRO= economic growth

Model 3:

This model was formulated based on the assumption that MNCs aim to incur minimal costs when conducting business in host economies in order to maximize their profitability. Taxes and corrupt activities (bribes or convenience fees) escalate the costs of doing business in the host country. According to Wu (2016), corrupt activities include informal protection fees and convenience fees paid to officials in the host country. Inflation also increases the cost of doing business in the host country, and therefore reduces earnings of MNCs in the local currency (Boateng, Hua, Nisar & Wu 2015). The model formulated below was used to investigate the relationship between costs and expansion strategies.

$$FDINFL_{it} = \alpha_{it} + \beta_1 INFL_{it} + \beta_2 COPT_{it} + \beta_3 COR_{it} + u_{it} \quad \textbf{(i)}$$

$$IMP_{it} = \alpha_{it} + \beta_1 INFL_{it} + \beta_2 COPT_{it} + \beta_3 COR_{it} + u_{it} \quad \textbf{(ii)}$$

Where:

INFL= inflation
COPT= Corporate tax rate

COR= Corruption

4.7 Defining variables

The selection of variables for this study was based on the literature reviewed in Chapters 2 and 3. A detailed explanation of these variables is provided in this section. The section further provides proxies for variables used and the motivation for using them.

4.7.1 Dependent variables

The dependent variable for this study was the expansion strategies of MNCs. Two internationalisation or expansion strategies were of interest: FDI inflow and exports (imports to the host economy). The decision to use FDI and exports only as expansion strategies was based on similarities among equity strategies and the fact that researchers provided several definitions of strategies. For example, Hill and Hult (2017) posit that FDI occurs in two forms, namely, greenfield which involves an establishment of a new facility; and acquisition of an existing local firm (through M&A).

Additionally, Rath and Samal (2015) indicate that foreign investments occur through M&As, joint ventures, transfer of technology, and expertise, or investing in a new set-up. Other researchers categorise equity strategies under FDI, while they consider joint ventures and wholly owned subsidiaries as types of FDI (Panabratov & Latukha 2014; Virches & Cahen 2017). Guar et al. (2014) also identify FDI and exports as two expansion strategies. Temiz and Gokmen (2014) state that FDI is a fixed investment made through international business ventures, M&As, greenfield investments, turnkey projects, and management contracts. Therefore, in this study, FDI inflow to GDP and imports as a percentage of GDP were used as proxies for the two expansion strategies of interest. The variables under consideration are explained below:

1. FDI inflow was one of the dependent variables. According to Munemo (2015), FDI net inflow incorporates equity capital, reinvestment of earnings, other long-term capital and short term capital. MNCs expand into new markets beyond their national borders through one or a combination of greenfield investments, M&As, joint ventures (equity strategies) and non-equity strategies (Virches & Cahen 2017). FDI inflow is measured as net FDI inflow as a ratio of GDP. This proxy has been used in previous studies (Aregbeshola 2014b; Aseidu 2002; Munemo 2015).

2. Exports: are sales from MNCs to other markets (Geratto et al. 2017).These exports are basically imports to the host economy. Therefore, imports were used as a proxy of MNCs' export strategy. MNCs usually initiate their internationalisation with exporting before exploring other resource-committing

strategies. Furthermore, MNCs may also export their products to other countries or to their country of origin from their subsidiaries in the host country (Gerratto et al. 2017).

4.7.2 Explanatory variables

The explanatory variables were: economic openness, active market size, corporate tax rate, growth rate, inflation rate, government policy, infrastructure, human capital and natural resources endowment. Definitions of the aforementioned variables are as follows:

1. *Trade openness*: is the degree of a country's involvement in international trade and investment (Aregbeshola 2014b). McNelis (2014) indicates that trade openness is often measured by the ratio of total trade to GDP. In the view of Luu, Trinh and Vu (2016), a high level of trade openness boosts import-export activities, and that trade openness in turn attracts investment inflow. Economic openness enables locally operating businesses to establish international links and distribution networks (Jongwanich et al. 2013).
2. *Government expenditure:* literature has documented the use of government expenditure as an indicator for government policy (Aregbeshola 2014b). Flexible economic policies create a vibrant investment climate in host economies (Luu, Trinh & Vu 2016). Furthermore, government policies stimulate the efficient use of resources and capabilities of firms to create and protect wealth, and thus incentivise entrepreneurial activities of firms (Holmes Jr, Zahra, Hoskisson, DeGhetto & Sutton 2016). Government consumption has been used as proxy for government expenditure in previous studies (see Adusei 2016).
3. *Infrastructure*: in this study, represents the number of fixed telephone subscriptions per 100 people. This is considered an appropriate measure to capture infrastructure, as it is an essential component of the infrastructure needed for businesses to function efficiently (Aseidu 2002). Bekana (2016) postulates that good-quality, and sufficient infrastructure attracts FDI inflow. It is normally assessed by access to electricity, road

transport and telecommunications, internet services, mobile phones, air transport, and railways (Bekana 2016).

4. *Human capital*: is expressed as the percentage of primary school enrolment (of both sexes). The level of education of a country's people is considered a good indicator of the quality of human capital (Otchere, Soumare & Yourougou 2015). Cala et al. (2016) note that human capital characteristics include education and skills, and Adusei (2016) argues that education increases the stock of human capital and improves productivity. Literature suggests that the availability of cheap educated labour is one of the strong determinants of FDI inflow.
5. *Natural resources endowment*: according to Bekana (2016), attracts FDI inflow. One study revealed that foreign companies are attracted to expanding into foreign countries that have plentiful natural resources such as emerging economies in Africa (Virches & Cahen 2017). In this study, total natural resources rent as a ratio of GDP was used as a proxy for natural resource endowment
6. *Active market size* was measured by population growth, which Aregebeshola (2014b) indicates is an appropriate measure of market size. Cala et al. (2016) opine that market size is an appropriate proxy for the demand for goods and services, which has implications for a firm's profit. Virches and Cahen (2017) postulate that potential lucrative financial returns motivate companies to invest in host markets. Presumably, a larger market size promises greater financial returns. The prime aim with FDI in the host economy is to acquire a share of the host's market (Bekana 2016).
7. *Growth rate*: represents the attractiveness of the host country's market (Aseidu 2002). Luu, Trinh and Vu (2016) reported a bi-directional relationship between economic growth and FDI; which suggests that economic growth attracts FDI inflow, and FDI inflow, in turn, stimulates economic growth. GDP per capita at constant price has been used as a proxy for growth rate. In a previous study (Duarte, Kedong & Xuemei 2017) used GDP per capita as a proxy for economic growth rate.
8. *Inflation rate*: is used to measure the stability of the economic environment of a country (Aseidu 2002*). A good control of i*nflation has been found to

attract FDI inflows (Alobari, Paago, Igbara & Emmah 2016). High level of inflation signifies problems in an economy (Saqib, Masnoon & Rafique 2013). Furthermore, Siddiqui and Aumeboonsuke (2014) note that inflation impacts profits through cost implications. In the study, inflation is represented by the inflation rate of consumer goods.

9. *Corporate tax*: is a tax charged on a company's profits (Hardwick, Longmead & Khan 1999). Aregbeshola (2014b) states that the imposition of corporate tax is a strategic mechanism to promote local manufacturing, and the rate of corporate tax can either attract or repel FDI. Siddiqui and Aumeboonsuke (2014) opine that lower tax enables investors to earn greater profits. However, Kinda (2014) notes that evidence has shown the negative impact of corporate tax in advanced economies while evidence in developing countries has been limited and inconclusive.
10. *Corruption*: off-the-record activities which range from payment of bribes to officials for favours, and irregular exchanges between businesses, to malfunctioning of economic, legal, and political institutions such as the police, and municipal or national departments (Wu 2016). In this study, control of corruption was used as a proxy for corruption. A high positive index signified a low corruption rate while the low and negative index signifies high corruption rates. This index has been used in a previous study (Danakol, Estrin, Reynolds, & Weitzel 2013).

4.8 Diagnostic techniques

4.8.1 Reliability

A credible study is one in which reliable data are collected and correctly analysed, producing valid results or finding. Reliability requires that the same findings should be made when the study is replicated by other researchers within the same setting (Marias 2012). OLS regression was used in this study; therefore, the Durbin-Watson statistic was adopted to gauge the reliability of the study. Aregbeshola (2014a) indicates that this diagnostic technique, which is embedded in OLS regression, is commonly used to enhance reliability. The author further explains that the technique is used to test the first order autocorrelation or serial correlation in variables. In that

regard, weakness of an estimation on low Durbin Watson statistics would render the result of such an estimation unreliable and invalid.

4.8.2 Heterogeneity

According to Wilson and Butler (2007), pooled panel data are prone to unit heterogeneity. The authors attribute this unit heterogeneity to the failure of a researcher to control for relevant local factors that were not explained by the observed independent variables. Two approaches are often used to address unit heterogeneity, namely, fixed- and random effects (Lechner et al. 2015). Torre-Reyna (2007) suggests that fixed effects (FE, hereafter) should be used when determining the impact of variables that change over time. To control for inconsistency resulting from unit heterogeneity, FE treats the individual error component u_i "as a further set of *n* parameters in estimations, as if in the general model $\alpha_{it} = \alpha_i$ for all *t*," (Croissant & Millo 2018, 3). Bell and Jones (2015) contend that FE models are not vulnerable to heterogeneity because they estimate within effects.

For OLS estimator to be consistent in a panel setting, Croissaint and Millo (2018) suggest that FE, which is often estimated by OLS on transformed data, should be employed. FE approach has been used in a number of studies to mitigate bias that might arise from a failure to control for unobserved effects (Vuko & Cular 2014, Wu 2016, Seck 2014). However, a few studies have effectively utilised OLS within balanced panel setting (as done in this study) and incidence of estimation biases were unnoticed (Ahmad et al. 2017, Dakessian & Feldmann 2013).

4.8.3 Omitted variables

Aregbeshola (2014a) notes the concern of omitted variables in econometrics, which may cause bias. However, Clarke (2005) points out that there is no evidence in mathematics of regression analysis that supports the notion that omitted variables generate any disturbing effects in estimations.

4.8.4 Unit root and cointegration

Sørensen (2005) explains that cointegration exists when two time series are integrated of order one, this also means that a unit root exists. Lin (2008) contends that the existence of a unit root and cointegration may lead to invalid or misleading inferences when determining causality among variables, while they are essential relationships when estimating correlation. Sørensen (2005) highlights that when the error term u_{it} in OLS regression follows the unit root, spurious regression is bound to occur. The author suggests that, whenever OLS regression results reveal a very high R^2 (above 95%) and very low Durbin-Watson values, the existence of a unit root should be investigated. Mitra (2018) suggests that pre-testing for a unit root should be the first step in cointegration modelling. However, the same author posits that in the instance of cointegrating equation, the possibility of unit root is atoned, because equations will not cointegrate in any order if the variables adopted in the equation are not stable. Unit root tests is not adopted in this study because of weak variation in the small sample size.

Ajide et al. (2019) and Fauzel et al. (2015b) highlight that it is necessary to investigate the existence of long-run relationships using panel co-integration test. The study intends to employ Johansen cointegration estimator to establish the existence of long-run relationship. According to Dwyer (2015), the Johansen test is a multivariate generalisation of the augmented Dickey-Fuller test. This generalisation investigates unit roots in linear combinations of variables (Dwyer 2015). The Johansen cointegration test employs two likelihood ratio tests of significance, namely the trace test and maximum eigenvalue test (Hjalmarsson & Osterholm 2007). Hjalmarsson & Osterholm (2007) suggest that the maximum eigenvalue is useful for attending to spurious relationships that were not rejected by trace test (initial maximum eigenvalue). However, Hjalmarsson and Osterholm (2007) indicate that even though Johansen test is employed in a setting where all variables in the system are integrated at level, the unit root pre-test is not necessary to determine the order of integration.

Ojewumi and Akinlo (2017) assert that the detection of at least one co-integrating relationship in the series necessitate the application of vector error correction model (VECM, hereafter). The detection of cointegration signifies the existence of a long-

run relationship and the application of VECM investigates the existence of the short-run relationships in the cointegrated series (Asari, Baharuddin, Jusoh, Mohamad, Shamsudin and Jusoff 2011). It was concluded that in the absence of cointegrating vectors, VECM is not necessary (Asari et al. 2011). However, in this study, the incidence of small sample size make the adoption of VECM impossible, and attempts to reduce the restriction bounds of VECM yielded spurious results.

4.9 Chapter summary

Chapter 4 explained all aspects of the methodology used to generate and analyse the empirical results. These aspects included the sources from which the data were collected, the type of data that were collected, the research design, and the population and sample selection for the study. Furthermore, the model of investigation was specified in relation to the research questions and hypotheses. Three models were formulated from the hypotheses; each divided into two equations. The variables of interest in this study were delineated. Lastly, the issues of reliability and appropriate diagnostic tools to address possible bias associated with pooled panel data and regression were discussed.

The next chapter presents the data, application of the methodologies and the empirical results. The empirical analyses were then interpreted, and conclusions were made are discussed in the subsequent chapter.

Chapter 5

Data analysis and interpretation

5.1 Introduction

The previous chapter articulated all the aspects of the methodology that was employed in the study. The hypotheses of the study were revisited and the econometrics models, as informed by the hypotheses, were provided. This chapter presents the empirical results. The results of the models are reported in the sequence in which they were presented in Chapter 4. The analyses started with descriptive statistics, followed by cointegration tests and, finally, OLS regression analysis. This sequence of reporting the results will be followed for all three models.

5.2 Analyses for Model 1

Model 1 was divided into two parts. Part (i) investigated the relationship between FDI inflow (FDINFL) and location-specific factors in the host economies while Part (ii) investigated the relationship between the same location-specific factors and exports (IMP).

5.2.1: Descriptive statistics

Table 5.1: Descriptive statistics for Model 1(i) and (ii)

	FDI inflow (% of GDP)	*total imports (% of GDP)*	*Total trade(% of GDP)*	*Gov. Exp (% of GDP)*	*Infrastructure*	*School enrolment*	*Natural Resources*
Mean	2.005837	33.32071	61.62677	14.42203	4.925236	79.54415	9.35192
Standard Error	0.198791	1.004681	1.53835	0.371873	0.412887	1.073455	0.759155
Median	1.2956	31.60655	59.2899	14.41935	2.75895	83.4051	6.30125
Mode	#N/A	#N/A	51.2802	#N/A	#N/A	#N/A	2.7245
Standard Deviation	2.23142	11.27752	17.26794	4.174259	4.63464	12.0495	8.521497
Sample Variance	4.979234	127.1824	298.1817	17.42444	21.47989	145.1905	72.61591
Kurtosis	2.478384	0.403638	0.41913	-1.05286	-1.12481	-1.37735	1.977149
Skewness	1.661311	0.726124	0.656643	-0.25216	0.571295	-0.15041	1.528654
Range	9.5106	56.456	94.6015	15.7352	15.5985	38.9822	37.8128
Minimum	0.0064	10.7902	21.4469	5.1528	0.1019	59.4474	0.3062
Maximum	9.517	67.2462	116.0484	20.888	15.7004	98.4296	38.119
Sum	252.7354	4198.409	7764.973	1817.176	620.5798	10022.56	1178.342

In the descriptive statistics contained in Table 5.1, our focus was on kurtosis, skewness, and standard deviation. Table 5.1 above presents the descriptive statistics for Model 1. The results for kurtosis statistic of normal distribution of the variables suggest that the Variables under consideration are not totally normally distributed but they all revert to the mean. This is a good indication that the dataset proposed for the analyses would yield reliable and valid results.

Similarly, the skewness statistics revealed that the distributions vary smoothly around the mean. Although, the rule of thumb suggests that a skewness statistics of 0 indicates a perfect normal distribution while the sign of the statistic indicates either the positive or the negative skewness of the distribution. As seen in Table 5.1, above, the results showed that the five variables, namely FDINFL, IMP, OPEN, INFRA and NRE were positively skewed, and GVTEX and HUM showed negatively skewed distributions. In all, the level of dispersion around the mean is smooth enough to suggest an acceptable distribution pattern.

The third and final consideration is the standard deviation. Standard deviation is the variability measure commonly used in quantitative research. The results for standard deviation revealed the following: FDINFL (mean=2.0058 less than the standard deviation of 2.2314); INFRA (mean= 4.9252 and standard deviation=4.6346, slightly less than the mean); and NRE (mean=9.3519 and standard deviation=8.5215, slightly less than the mean). These results indicate that we have smooth variability of the data values around the mean. The results further revealed that the distributions of OPEN, GVTEX, INFRA and HUM have low variability of data values with their standard deviation values being lower than their mean values.

5.2.2. Cointegration test

As discussed in the research methodology chapter, the Johansen test was employed to examine the existence of cointegration in the dataset. Motivation for using the Johansen test was provided in Chapter 4, in section 4.9.2. The result of the cointegration test for model 1(i) (FDI strategy) is presented in Tables 5.2 and 5.3:

Table 5.2: Cointegration (FDI) for Model 1(i)				
Unrestricted Cointegration Rank Test (Trace) - Lags interval (in first differences): 1 to 4				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.289679	104.1066	95.75366	0.0118
At most 1	0.198792	62.71989	69.81889	0.1615
At most 2	0.118483	35.90203	47.85613	0.4013
At most 3	0.088144	20.64255	29.79707	0.3803
At most 4	0.055345	9.477478	15.49471	0.3230
At most 5	0.021164	2.588318	3.841466	0.1077

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*

According to Kusolpalalert (2018: 39), hypotheses for trace test are as follows:

H_0: r=0 H_1: 0<r<g

The results of the trace test as contained in Table 5.2 revealed that there was one cointegrating vector, indicating rejection of the null hypothesis. Therefore, H_0 should be rejected at the 0.05 error level with a *p-value* of 0.0118. The existence of a cointegrating vector suggests that there is a long-run relationship between a pair of variables included in the estimation (Kusolpalalert 2018).

We discussed the result of the Trace test in Table 5.2, and consider it important to also analyse cointegration using the eigenvalue. The result of the eigenvalue analysis is presented in Table 5.3:

Table 5.3: Cointegration (FDI) for Model 1(i)				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue) - Lags interval (in first differences): 1 to 4				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.289679	41.38669	40.07757	0.0354
At most 1	0.198792	26.81786	33.87687	0.2732
At most 2	0.118483	15.25948	27.58434	0.7274
At most 3	0.088144	11.16507	21.13162	0.6308
At most 4	0.055345	6.889160	14.26460	0.5023
At most 5	0.021164	2.588318	3.841466	0.1077

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*

From Table 5.3, the result is a bit different from that of Table 5.2. Here, the use of eigenvalue yields a different interpretation as the conitegrating results diminish as the lag level increases, but it reverses as the lag length moved beyond 4. As suggested under section 4.8.4 in chapter 4, the use of eigenvalue to determine cointegration is only recommended if the trace test fails. To that extent, the assumption of long run cointegration is accepted for Model 1(i).

To support our decisions, the hypotheses for maximum eigenvalue are framed as follows (Kusolpalalert 2018: 39):

H_0: r=0 H_1: 0<r+1

Based on the results of the maximum eigenvalue, depicted in Table 5.3, the null hypothesis (H_0), which states that there is no cointegration among the variables, should be rejected. The significant *p-value* of 0.0354 indicated rejection of H_0 at the 0.05 error level. The results suggested that there was one cointegration vector in the series and the significance level is also very strong.

Model 1(ii) Export strategy

Cointegration test for the second part of model 1 is conducted and the result appears in Table 5.4. in more specific term, Table 5.4 reports the results for the Johansen test for Model 1 (ii):

Table 5.4: Cointegration (EXPORT) for Model 1(ii)

Unrestricted Cointegration Rank Test (Trace) - Lags interval (in first differences): 1 to 4

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.223124	100.7094	95.75366	0.0218
At most 1 *	0.198802	70.16002	69.81889	0.0469
At most 2	0.165622	43.34078	47.85613	0.1245
At most 3	0.093379	21.43140	29.79707	0.3313
At most 4	0.053242	9.569646	15.49471	0.3153
At most 5	0.024082	2.949565	3.841466	0.0859

Lags interval (in first differences): 1 to 4
Trace test indicates 2 cointegrating eqn(s) at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

For the purpose of this study, the cointegration hypotheses were framed as follows:

Trace test hypothesis: H_0: r=0 H_1: 0<r<g

Based on the results revealed in Table 5.4, two cointegrating vectors existed. The results revealed that *p-values* of 0.0218 and 0.0469 indicated rejection of the null hypothesis (r=0) of no cointegration at the 0.05 error level. The results further revealed that there were long-run relationships among variables at most 1. Furthermore, the *p-values* of at most 2 to at most 5 suggested that the null hypothesis (r=0) was true. Therefore, there are no cointegrating vectors; meaning cointegration did not exist among the variables (IMP, GVTEX, INFRA, NRE, HUM, and OPEN) in the series from at most 2 to at most 5.

As done in Model 1(i), we also analysed the cointegration for this model by using the eigenvalue as the basis for our decision. The result of that analysis is presented in Table 5.5:

Table 5.5: Cointegration (EXPORT) for Model 1(ii)

Unrestricted Cointegration Rank Test (Maximum Eigenvalue) - Lags interval (in first differences): 1 to 4

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.223124	30.54934	40.07757	0.3885
At most 1	0.198802	26.81924	33.87687	0.2731
At most 2	0.165622	21.90938	27.58434	0.2251
At most 3	0.093379	11.86176	21.13162	0.5614
At most 4	0.053242	6.620081	14.26460	0.5350
At most 5*	0.024082	2.949565	3.841466	0.0859

** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-value*

We specify the eigenvalue model as follows:

Maximum eigenvalue; H_0: r=0 H_1: 0<r+1

The results of maximum eigenvalue in Table 5.5 above suggest that the null hypothesis (H_0) which states that there is no cointegration between the variables should be accepted. For instance, the *p-value* 0.3885, which is statistically insignificant, indicated acceptance at the 0.005 error level. The results further suggested that the null hypothesis (r=0) was true for at most 1 to at most 4. The result is different for at most 5, which is statistically significant at less than 10% error level. (0.0858). Therefore, while there are evidence of weak cointegration using this method, the method still support the assumption of long run relationship. According to Kusolpalalert (2018), the presence of cointegrating vectors suggests that there are long-run relationships or short-run relationship among variables in the series.

5.2.3 OLS Regression analysis

The decision to use OLS estimator in this study was informed by the notion that OLS estimator is equivalent to FE, and therefore both estimators produce the same results, in a case where balanced pooled data is used. This justification was presented in section 4.5.3 of chapter 4. The use of OLS on panel data assumes that unobserved factors do not exist, such that α_i is constant for all countries: $\alpha_t = \alpha_i = \alpha$ (Wilson & Butler 2007), so is the case in FE.

Model 1 investigated the relationship between expansion strategies and location-specific factors, as well as institutional factors, in the host economies. Expansion

strategies of interest in this study were *FDI inflow* (FDINFL) and exports from abroad (*Imports to the host*) (IMP). The location-specific variables were *Government expenditure* (GVTEX) (proxy for government policy), *infrastructure* (INFRA), natural resource rents (NRE, a proxy for *Natural resources endowment*), school enrolment a proxy for human capital (HUM) and total trade as a ratio of GDP (OPEN) (a proxy for *Trade openness*).

Table 5.6: OLS regression (FDI) for Model 1 (i)
Dependent variable – FDINFL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GOV__EXP____OF_GDP_	0.131388	0.047006	2.795125	0.0060
INFRASTRUCTURE	-0.249462	0.047493	-5.252647	0.0000
NATURAL_RESOURCES	0.128071	0.021700	5.901895	0.0000
SCHOOL_ENROLMENT	0.081338	0.019211	4.233807	0.0000
TOTAL_TRADE___OF_GDP_	0.041864	0.009343	4.480911	0.0000
C	-8.907972	1.457823	-6.110462	0.0000

R-squared	520639	Mean dependent var.	2.005837
Adjusted R-squared	0.500666	S.D. dependent var.	2.231420
S.E. of regression	1.576801	Akaike info criterion	3.795121
Sum squared resid.	298.3562	Schwarz criterion	3.930182
Log likelihood	233.0926	Hannan-Quinn criter.	3.849992
F-statistic	26.06667	Durbin-Watsonstat	1.794427
Prob(F-statistic)	0.000000		

Notes:
No d.f. adjustment for standard errors & covariance
**** p<0.01, ** p<0.05, * p<0.1*

Based on the results produced by the OLS regression as shown in Table 5.6, the model had a moderate deterministic power with an *adjusted* R^2 value of 50% and F-statistic of 26.06667***. The Durbin-Watson statistic fell in the range of 1.8 and 2.0, which indicated no autocorrelation because the value is close to 2. Based on the mentioned statistics, the model consistently and reliably estimated the relationship of FDINFL with the location-specific covariates.

The results revealed that all five explanatory variables (GVTEX, INFRA, NRE, HUM, and OPEN) were significant in predicting FDINFL. With a positive coefficient 0.131388***, GOV_EXP had a predictive relationship with FDINFL. The positive coefficient signified that there was a positive relationship between the mentioned variables. The positive relationship means that an improvement in government policy (GVTEX) may result in the increase in FDI inflows (FDINFL). The results corroborate literature that clear and vibrant investment and economic policies are essential for

attracting FDI (Aregbeshola, 2014b). Literature states that Africa has recently implemented pro-market institutional reforms, and that a number of countries are making efforts to attract FDI and become favourable investment destination (Asiedu 2006).

Furthermore, the results showed that the INFRA had a deterministic effect on the FDINF. The coefficient -0.249462*** revealed an inverse relationship between INFRA and FDINFL. This means that an improvement in infrastructure results in a decline in FDI. However, literature postulates that a well-developed infrastructure is essential for optimal operation of MNCs' affiliates in host economies (Shah 2018). The findings of this study therefore contradict the proposed literature that states that an improvement in infrastructure will have a positive influence on FDI inflow. This exception may be due to the fact that infrastructure is not important to the kind of investors that venture into the African emerging economies.

The results further revealed that the availability of natural resources (NRE) has deterministic power over FDINL. At 0.128071***, there was a positive relationship between NRE and FDINFL. This relationship means that the abundance or availability of natural resources is a predictor of increased FDI. The results substantiate the discussion in literature that availability of natural resources attracts FDI inflow. MNCs are motivated to expand into a new market in order to exploit the natural resources available there (Aleksynka & Havrylchyk 2013; Jormanainen & Koveshnokov 2012). As seen in Table 5.6 above, the findings revealed that a change in the rate of school enrolment, a proxy for human capital (HUM) caused a change in FDINFL. A positive coefficient 0.081338*** indicated a positive relationship between the variables. This means that an increase in human capital will increase in FDI inflow. The finding confirms the hypothesised effect and assumptions in literature regarding the effect of HUM on FDINFL.

The last variable in Model 1 (i), OPEN (trade openness) had a significant predictive ability regarding FDINFL. The results revealed a positive relationship between trade (OPEN) and FDINFL. This means that the more countries open their economies to free trade of goods and services with other countries, the more stock and volume of FDI they will attract. Advocates of trade openness (Luu, Trinh & Vu 2016; Slangen

2013) have for long argued that free flow of trade stimulates FDI and the results shown in the above table are consistent with this argument.

Table 5.7: OLS regression (EXPORT) for Model 1 (ii)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GOV__EXP____OF_GDP_	-0.333555	0.092224	-3.616799	0.0004
INFRASTRUCTURE	-0.421005	0.093178	-4.518267	0.0000
NATURAL_RESOURCES	-0.435927	0.042574	-10.23917	0.0000
SCHOOL_ENROLMENT	0.164028	0.037692	4.351811	0.0000
TOTAL_TRADE___OF_GDP_	0.661774	0.018330	36.10309	0.0000
C	-9.548915	2.860185	-3.338566	0.0011

R-squared	0.927760	Mean dependent var.	33.32071
Adjusted R-squared	0.924750	S.D. dependent var.	11.27752
S.E. of regression	3.093615	Akaike info criterion	5.143005
Sum squared resid	1148.454	Schwarz criterion	5.278066
Log likelihood	-318.0093	Hannan-Quinn criter.	5.197876
F-statistic	308.2268	Durbin-Watson stat.	1.685347
Prob(F-statistic)	0.000000		

Notes:
No d.f. adjustment for standard errors & covariance
**** p<0.01, ** p<0.05, * p<0.1*

The result of OLS analyses presented in Table 5.7 indicate that Model 1 (ii) had a high predictive ability regarding the estimates, with *adjusted* R^2 of 92% and a statistically significant F-statistic of 308.2268***. However, the Durbin-Watson statistic ranging between 1.68 raised some slight concern about the reliability of the model. The Durbin-Watson statistic suggested that positive autocorrelation may existed, but there is no conclusive reason to indicate a strong autocorrelation. When we consider the high value of F-statistics, we may argue for low possibility of autocorrelation and accept the model as being valid.

All the five predictors were significant in predicting IMP. In specific, the results shown in Table 5.7 indicated that GVTEX (government policy) had deterministic power over IMP (exports from abroad). A negative coefficient (-0.333555***), indicated an inverse relationship with IMP, which means that an improvement in GVTEX had an adverse impact on IMP. Therefore, government expenditure has an inverse impact

on imports. It could be that the governments in the sample had adopted policies favourable to FDI activities rather than imports, such as encouraging import substitution and promoting export-oriented FDI.

The results further revealed that INFRA had a significant predictive relationship with IMP. INFRA had a negative coefficient (-0.421005***) which signified an inverse relationship between INFRA and IMP. The results go against the hypothesized positive effect of infrastructure on imports. Shah (2018) indicates that a well-developed infrastructure is required for effective functioning of foreign affiliates in the host country, which is contradicted by the findings of this study.

Furthermore, the results showed that natural resources endowment (NRE) had significant power to influence IMP. The negative coefficient (-0.435927***) revealed an inverse relationship between NRE and IMP. Therefore, an increase in natural resources results in a decrease in imports to the host economy. The findings corroborate the literature that posit MNCs often choose to establish operations in locations where there is an abundance of the natural resources they require, and will then sell the products locally or export these from the host economies.

School enrolment, a proxy for human capital (HUM), showed a positive coefficient (0.164028***). This means that availability of human capital in a host economy has a positive influence on exports from abroad (IMP). MNCs need human capital in the host economies for distribution of their exported products and services. School enrolment rates determine the availability of skills and knowledge in host economies.

The last explanatory variable in Model 1 (i), OPEN had a positive predictive relationship with IMP. A positive coefficient (0.661774***) was statistically significant in predicting OPEN. This indicated that the free flow of goods and services between economies stimulates imports. Free trade requires the removal of tariffs and other trade barriers instituted against other economies.

5.3 Analyses for Model 2

Model 2 had two parts that were formulated based on the two expansion strategies identified for this study. Part 1 investigated the relationship of FDINFL with profitability covariates which were population growth and GDP at constant price

2010, proxies for active market size (AMS) and economic growth rate (GRO) respectively, Part (ii) uses the same predictors regressed against IMP.

5.3.1 Descriptive statistics

To analyse model 2, we follow the same process that we followed when we analysed model 1, starting with the analysis of descriptive statistics. The result of the descriptive statistics is contained in Table 5.8.

Table 5.8 Descriptive statistics for Model 2 (i) and (ii)

	Pop. Growth		*GDP at constant price 2010*
Mean	2.077315		2619.535
Standard Error	0.050366		181.4329
Median	2.2998		2012.28
Mode	2.6709		7623.13
Standard Deviation	0.565358		2036.58
Sample Variance	0.31963		4147657
Kurtosis	-1.14783		0.916647
Skewness	-0.58544		1.488909
Range	1.7589		6786.89
Minimum	0.9338		836.24
Maximum	2.6927		7623.13
Sum	261.7417		330061.4

Table 5.8 reports the descriptive statistics for the explanatory variables for Model 2. The descriptive statistics of FDINFL and IMP, which were the dependent variables of interest were presented and discussed in the preceding sections. Commencing with the kurtosis statistics, the results showed that both variables had qualities of normal curves, and their dispersion from the mean is very moderate. Similar observation could be held for the skewness statistics for both variables. Although, AMS had a negative skewness statistic (-0.5854) and it was therefore expected that AMS distribution would reveal a negatively skewed graphical illustration, while GRO also had a positive skewness statistic (1.4889) which was expected to have a positively skewed graphical illustration. However, in both instances, the dispersion of the variables from the mean was moderate, thereby making a case for the assumption of normal distribution.

The results for the standard deviation revealed a low variability for the distribution of AMS with a standard deviation (0.5654) that was significantly lower than mean

(2.0773) while the results showed high variability for GRO distributions (mean=2619.53; standard deviation=2036.58). This result further strengthens the argument for normal distribution, especially when we look at the moderate dispersion from the mean.

5.3.2 Cointegration test

As we did for Model 1, we also analyse cointegration for Model 2. Table 5.9 contains the result for the cointegration test for Model 2(i):

Table 5.9: Cointegration (FDI) test for Model 2 (i)

Unrestricted Cointegration Rank Test (Trace) - Lags interval (in first differences): 1 to 3

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.111031	28.39673	47.85613	0.7962
At most 1	0.053517	14.15586	29.79707	0.8318
At most 2	0.032315	7.500544	15.49471	0.5202
At most 3*	0.028719	3.525873	3.841466	0.0604

Trace test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

From the result of the Johansen cointegration test contained in Table 5.9, it was indicated that there is only one cointegrating pair of variables for trace test (at most 3). As a result of this cointegration, the null hypothesis (r=0) could not be accepted at the 0.05 error level. As a process of robustness check, the eigenvalue approach is also adopted, and the result is presented in Table 5.10:

Table 5.10: Cointegration (FDI) test for Model 2 (i)

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.111031	14.24087	27.58434	0.8057
At most 1	0.053517	6.655318	21.13162	0.9662
At most 2	0.032315	3.974671	14.26460	0.8620
At most 3*	0.028719	3.525873	3.841466	0.0604

Max-eigenvalue test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

The maximum eigenvalue test contained in Table 5.10 revealed the same results - there was only one cointegrating vector. The null hypothesis (r=0) also did not hold true for the eigenvalue test. Therefore, there was a possibility for long-run or short-run relationships among the variables under consideration.

Table 5.11: Cointegration (EXPORT) test for Model 2 (ii)				
Unrestricted Cointegration Rank Test (Trace) **Lags interval (in first differences): 1 to 3**				
Hypothesized No. of CE(s)	**Eigenvalue**	**Trace Statistic**	**0.05 Critical Value**	**Prob.****
None	0.122791	35.03504	47.85613	0.4462
At most 1	0.085801	19.18290	29.79707	0.4798
At most 2	0.038740	8.328284	15.49471	0.4310
At most 3*	0.028893	3.547554	3.841466	0.0596

Trace test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

Table 5.11 reports the results of the Johansen cointegration test for Model 2 (ii). The results of the trace test revealed that there was only one cointegrating vector in the series (at most 3). The null hypothesis (r=0) was true at the 0.05 error level for most of the series. The results further revealed that from at most 1 to at most 2, there were no cointegrating vectors. According to Kusolpalalert (2018) the absence of cointegrating vectors suggests that there are no long-run or short-run relationships among variables in the series. However, the statistics was different for at most 3, where a long run relationship among the variables was discovered.

Table 5.12: Cointegration (EXPORT) test for Model 2 (ii)				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue) **Lags interval (in first differences): 1 to 3**				
Hypothesized No. of CE(s)	**Eigenvalue**	**Max-Eigen Statistic**	**0.05 Critical Value**	**Prob.****
None	0.122791	15.85214	27.58434	0.6783
At most 1	0.085801	10.85461	21.13162	0.6618
At most 2	0.038740	4.780730	14.26460	0.7692
At most 3*	0.028893	3.547554	3.841466	0.0596

Max-eigenvalue test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

From Table 12, the maximum eigenvalue test yielded the same results. The null hypothesis (r = 0) could not be rejected at error level 0.05 for most of the variables, save for at most 3. The null hypothesis (r = 0) for at most 1 to at most 2 could not be rejected. Therefore, there was a single cointegrating vector and therefore one long-run relationship or short-run relationships among variables tested.

5.3.3 OLS regression analyses

Table 5.13: OLS regression (FDI) for Model 2 (i)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_AT_CONSTANT_PRICE_20	-0.000113	0.000116	-0.977599	0.3302
GOV__EXP____OF_GDP_	0.127628	0.059037	2.161840	0.0326
POP__GROWTH	0.933315	0.424749	2.197333	0.0299
C	-1.476529	1.479532	-0.997971	0.3203

R-squared	0.559663	Mean dependent var.	2.005837
Adjusted R-squared	0.536540	S.D. dependent var.	2.231420
S.E. of regression	2.190272	Akaike info criterion	4.437160
Sum squared resid.	185.2695	Schwarz criterion	4.527200
Log likelihood	-275.5411	Hannan-Quinn criter.	4.473740
F-statistic	2.580257	Durbin-Watson stat.	1.374778
Prob(F-statistic)	0.056650		

Notes:
No d.f. adjustment for standard errors & covariance
**** p<0.01, ** p<0.05, * p<0.1*

Table 5.13 reports the results of the regression analysis for Model 2 (i), in which the response variable was FDINF. The regressors were GDP at constant price 2010 as a proxy of economic growth (GRO), population growth was the proxy of active market size (AMS), and GVTEX served as a control variable. The model had moderate predictive ability with an adjusted R^2 of 54%. However, the Durbin-Watson statistic (1.774778) is slightly lower than the acceptable range of 2.0 to 2.5, leaning towards the possibility of autocorrelation. The F-statistic was significant (2.580257*), which reinforces assumption for reliability and validity of the proposed model.

The results revealed that (GRO) had insignificant predictive ability. This contradicts a notion that economic growth has a positive effect on FDI inflow. The assumption is that MNCs invest in rapidly growing economies with an expectation of higher earnings as these economies continue to grow. According to Ezenwakwelu (2015), increases in growth or GDP are matched by increases in income per capita. This increased income per capita increases the purchasing power of the active market. The possible explanation for this result is that market size does not influence the decision of the kind of investments that are attracted in the sampled countries.

The impact of the control variable (GVTEXP) was discussed in section 5.2.3. Researchers use control variables to mitigate omitted variable bias (Asongu & Nwachuku 2017), which is statistically significant with positive coefficient. The results revealed that government expenditure had a positive effect on the attractiveness of sampled countries to FDI inflow. This is true in most emerging African countries where government spending strongly influence household incomes.

Still on Table 5.13, population growth (AMS) had a high deterministic power over FDINFL. This variable had a positive coefficient (0.933315**), revealing a positive relationship. This means that an increase in or availability of a large market results in an increase FDINFL in the host economy. Literature suggests that a large market attracts FDI inflow; more especially if the investors are motivated by market-seeking objectives (see Section 1.3). The size of the active market determines whether an MNC should enter by establishing a subsidiary in that country (Conconi et al., 2010).

Following the same pattern that was adopted in the preceding paragraphs, we also analysed the dataset using OLS regression approach for Model 2(ii). T5he result of that analysis is contained in Table 5.14:

Table 5.14: OLS regression (EXPORT) for Model 2(ii)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_AT_CONSTANT_PRICE_20	-0.002940	0.000527	-5.575892	0.0000
GOV__EXP____OF_GDP_	1.406182	0.268321	5.240669	0.0000
POP__GROWTH	-0.474959	1.930478	-0.246032	0.8061
C	21.72852	6.724449	3.231272	0.0016

R-squared	0.563669	Mean dependent var.	33.32071
Adjusted R-squared	0.545563	S.D. dependent var.	11.27752
S.E. of regression	6.795468	Akaike info criterion	7.432948
Sum squared resid.	11706.04	Schwarz criterion	7.522989
Log likelihood	-464.2757	Hannan-Quinn criter.	7.469529
F-statistic	8.56212	Durbin-Watson stat.	1.322356
Prob(F-statistic)	0.000000		

Notes:
No d.f. adjustment for standard errors & covariance
**** p<0.01, ** p<0.05, * p<0.1*

This section provides the results of the OLS regression in which the dependent variable was IMP and the independent variables were GDP at constant price 2010 as a proxy of economic growth (GRO) and population growth as a proxy of active market size (AMS), while GVTEX served as a control variable. As contained in Table 5.14, Model 2 (ii) shows that one of the profitability proxy variables (GRO) had a statistically significant predictive relationship with IMP, but the coefficient is very weak and it is negative (-0.002940***).

This result signified the existence of an inverse relationship between GRO and IMP. This means that an increase in economic growth of the host country may result in a decrease its imports. This contradicts the hypothesised effect of GRO on IMP, which was expected to be positive. The control variable (government expenditure) showed a statistically significant relationship with export strategy and the coefficient is also very strong, suggesting a high predictive effect.

The findings further revealed that AMS (population growth) had an insignificant predictive negative relationship with IMP. The *p-value* (0.8061) was above acceptable error levels. It can thus safely be said that the result for this model was inconclusive.

5.4 Analyses for the model 3

Model 3 aimed to determine the relationship between expansion strategies (FDINFL and IMP) and the cost-related explanatory variables inflation (INFL), corporate tax (COPT), and control of corruption (COR, a proxy for corruption rate).

5.4.1: Descriptive statistics for Model 3

Table 5.15 Descriptive statistics for Model 3 (i) and (ii)

	Inflation %		*Corporate tax*		*Control of Corruption*
Mean	9.046111		40.54921		-0.48058
Standard Error	0.635572		0.731263		0.047108
Median	8.3		37.1		-0.42305
Mode	5.7		49.6		-0.9333
Standard Deviation	7.134277		8.208403		0.528782
Sample Variance	50.89791		67.37788		0.27961
Kurtosis	6.640193		-1.64785		-0.78983
Skewness	2.023367		0.148372		0.189437
Range	46.2		25.7		2.1641
Minimum	0.4		28.7		-1.4312
Maximum	46.6		54.4		0.7329
Sum	1139.81		5109.2		-60.5537

Table 5.15 above reports the descriptive statistics for Model 3. Three variables were used namely, inflation rate (INFL), corporate tax (COPT) and control of corruption (COR). The kurtosis statistic revealed that COPT and COR had evidence of normal distribution with kurtosis statistics that range between -1.6479 and -0.7898 respectively, while kurtosis statistic for INF revealed that the variable had a peaked distribution when illustrated on the graph.

The results for skewness showed that the distributions of all three variables show weak qualities of normal distribution. All three variables had positive skewness statistics: INFL: 2.0234, COPT: 0.1484 and COR: 0.1894, which reverts gently back to the mean. The table also shows the standard deviation statistics. The results showed that the distribution for INFL with a standard deviation of 7.1342 and a mean value of 9.0461 had high variability. COPT distribution had low variability with a standard deviation of 8.2084 and a mean value of 40.5492, while COR's distribution had high variability with a standard deviation of 0.5288, and a mean -0.4806. Although, the dispersion from the mean was meaningful, the range of the distribution indicate that we cannot safely assume abnormal distribution.

5.4.2 Cointegration tests for Model 3

Table 5.16: Cointegration test (FDI) for Model 3 (i)				
Unrestricted Cointegration Rank Test (Trace) Lags interval (in first differences): 1 to 3				
Hypothesized No. of CE(s)	**Eigenvalue**	**Trace Statistic**	**0.05 Critical Value**	**Prob.****
None	0.105380	30.01017	47.85613	0.7185
At most 1	0.074155	16.53612	29.79707	0.6740
At most 2	0.046730	7.213313	15.49471	0.5530
At most 3	0.011688	1.422586	3.841466	0.2330

Trace test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

As contained in Table 5.16, the cointegration results of the trace test for Model 3 (i) for FDINFL indicated that the null hypothesis (r = 0) could not be rejected. These findings imply that there were no cointegrating vectors among variables at the 0.05 error level. The trace test findings further indicated that there were no cointegrating vectors from at most 1 to at most 3. Therefore, there is a possibility of weak long run relationship among the variables used in the series.

For a robustness check, we adopt eigenvalue cointegration test. The result of the analysis is contained in Table 5.16:

Table 5.17: Cointegration test (FDI) for Model 3 (i)				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue) Lags interval (in first differences): 1 to 3				
Hypothesized No. of CE(s)	**Eigenvalue**	**Max-Eigen Statistic**	**0.05 Critical Value**	**Prob.****
None	0.105380	13.47404	27.58434	0.8571
At most 1	0.074155	9.322810	21.13162	0.8056
At most 2	0.046730	5.790727	14.26460	0.6402
At most 3	0.011688	1.422586	3.841466	0.2330

Max-eigenvalue test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

According to Table 5.17, the maximum eigenvalue revealed the same result as in Table 5.16. Here again, the null hypothesis of no cointegration could not be rejected, which meant that there were no cointegrating pairs of variables at the 0.05 error level. With regard to the results for at most 1 to at most 3, there were no cointegrating vectors as well. Therefore, there was no statistical justification to assume long-run and short-run relationships among variables.

As done in the other Models, we also conduct conitegration tests for Model the second entry strategy under consideration. The result of the analysis is presented in Table 5.18:

Table 5.18: Cointegration test (EXPORT) for Model 3(i)

Unrestricted Cointegration Rank Test (Trace)
Lags interval (in first differences): 1 to 3

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.131615	42.08801	47.85613	0.1563
At most 1	0.116790	25.01248	29.79707	0.1610
At most 2	0.058904	9.985254	15.49471	0.2819
At most 3	0.021576	2.639330	3.841466	0.1042

Trace test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

Table 5.18 presents the results of the Johansen cointegration test for Model 3 (ii). The results of the trace test indicate that there is no cointegration among the variables. The null hypothesis (r=0) could not be rejected at error level 0.05. The results of at most 1 to at most 3 revealed that null hypothesis (r=0) could not be rejected. The result here is similar to the one recorded for Model 3(i) above.

Again, for robustness check, we conduct cointegration test for the series using the initial maximum eigenvalue test. The result of that analysis is presented in Table 5.19:

Table 5.19: Cointegration test (EXPORT) for Model 3(i)

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)
Lags interval (in first differences): 1 to 3

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.131615	17.07553	27.58434	0.5735
At most 1	0.116790	15.02723	21.13162	0.2870
At most 2	0.058904	7.345925	14.26460	0.4491
At most 3	0.021576	2.639330	3.841466	0.1042

Trace test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

As contained in Table 5.19, the maximum eigenvalue test indicated that the null hypothesis (r = 0) could not be rejected at the 0.05 error level. This suggested that there were no cointegrating vectors. From at most 1 to at most 3, there were no cointegrating vectors. We can therefore safely conclude that there were no cointegrating vectors in Model 3(ii) among the variables IMP, INFL, COPT and COR.

The results of maximum eigenvalues test implied that there the possibility of long-run and short-run relationships among variables is very weak.

Given that the two series of cointegration tests conducted for Model 3 (both Models 3(i) and 3(ii) yielded weak possibility of either short run or long run cointegration, any attempt to draw a regression estimation on the model would most possibly yield a spurious result (Sørensen 2005). To avoid drawing an unreliable conclusion from a spurious regression, we terminated further analysis for Model 3 and treat the outcome of the analysis as inconclusive.

5.5 Chapter summary

This chapter discussed the implementation of the methods and techniques that were proposed in Chapter 4, in the discussion on the research methodology. The analyses started with descriptive statistics of the variables. For descriptive analyses, the focus was kurtosis, skewness, and standard deviation. Johansen cointegration was employed to diagnose any possible existence of unit roots and to establish cointegration among the variables. The null hypothesis tested was stated that there is no cointegration among the variables (r = 0). The analysis was concluded with OLS regression analyses, with focus on the adjusted R^2, F-statistic, the Durbin-Watson statistic and the coefficients of the predictor variables.

In the analyses, we were able to establish the statistical significance of Models 1 and 2. The analyses from descriptive statistics through to the cointegration tests all point to the possibility of stable and reliable analyses. As a result of which we proceeded to regression analyses. The findings from the regression analyses show clearly that both market size and profitability considerations influence the major entry strategies (FDI inflow and export) adopted by MNCs in African emerging economies. The analyses of the third Model on the expansion strategies of MNCs and cost-related considerations yielded inconclusive results.

The next chapter presents the summary of the results regarding the relationships between the variables. Inferences are drawn based on the results, and this is accompanied by policy recommendations.

Chapter 6

Conclusions and policy recommendations

6.1 Introduction

The previous chapter reported the empirical results of this study. The analyses contained in the chapter followed the pattern of model specification as contained in chapter four. The models specified in chapter four were deemed appropriate to achieve the research objectives and to examine the validity of the stated hypotheses. As a recap, **t**he primary objective of this study was to investigate the determinants of expansion strategies that MNCs adopt as they venture into African emerging economies. The secondary objectives were to investigate the impact on proxies for profitability on the expansion strategies that are adopted by MNCs and the impact of costs variables on the expansion strategies of MNCs in African emerging economies.

6.2 Summary of the results and conclusions

The summary of the results is presented in the sequence in which the models were specified in chapter four and estimated in chapter 5. This is summarized in the following table below:

Table 6.1: Models 1 (i) and (ii)

Explanatory variables	**Expansion strategies**			
	FDI inflow (FDINFL)		**Exports (IMP)**	
	Hypothesized effect	**Empirical result**	**Hypothesized effect**	**Empirical result**
Trade openness (OPEN)	Positive	Positive	Positive	Positive
Government expenditure (GVTEX)	Positive	Positive	Positive	Negative
Infrastructure (INFRA)	Positive	Negative	Positive	Negative
Human capital (HUM)	Positive	Positive	Positive	Positive
Natural resources endowment (NRE)	Positive	Positive	Insignificant	Negative

The results in Table 6.1 presents the hypothesized assumptions as regards the models specified, which were meant to achieve the research objectives. The main question this research aimed at answering is whether location-specific variables, profit consideration, as well as cost-related variables play any statistically significant roles in the kind of entry strategy adopted by MNCs in emerging African countries. The findings for Model 1 confirm that all five location-specific variables of interest in

this study, namely trade openness, government policy, infrastructure, human capital and natural resources endowment have a deterministic influence on the expansion strategies (FDI and exports) adopted by MNCs that venture into African emerging economies.

Table 6.2: **Model 2 (i) and (ii)**

Explanatory Variables	**Expansion strategies**			
	FDI inflows (FDINFL)		**Exports (IMP)**	
	Hypothesized effect	**Empirical result**	**Hypothesized effect**	**Empirical result**
Active market size (AMS)	Positive	Positive	Positive	Insignificant
Growth rate (GRO)	Positive	Insignificant	Positive	Negative

Table 6.2 presents a summary of results for Model 2. The model investigated the impact of profitability variables on expansion strategies of MNCs into African emerging economies. The study focused on active market size and economic growth rate as the profitability variables of interest. The findings revealed that active market size is a determinant of FDI inflow, but the impact of market size on imports (exports from abroad) is insignificant. The empirical results further revealed that growth rate is an insignificant influence when MNCs choose FDI as an expansion strategy, while it had deterministic power with regard to exports strategy. Therefore, it can be safely suggested that considerations for profitability plays a strong deterministic role on the choice of export strategy adopted by MNCs that seek markets for their products in emerging African economies.

Table 6.3: **Model 3 (i) and (ii)**

Explanory variables	**Expansion strategies**			
	FDI inflows (FDINFL)		**Exports (IMP)**	
	Hypothesized effect	**Empirical result**	**Hypothesized effect**	**Empirical result**
Inflation (INFL)	Negative	Insignificant	Positive	Positive
Corporate tax (COPT)	Negative	Negative	Positive	Positive
Control of corruption (COR)	positive	Positive	Positive	Positive

Model 3 was employed to establish the impact of cost variables on the choice of expansion strategy of MNCs in emerging African countries. Table 6.3 above, shows a summary of the assumptions before the cointegration tests were conducted. However, the results of the cointegration tests indicate no short term or long run relationship in the series. Given the possibility that spurious regressions may result, we terminated the analyses and conclude that the deterministic properties of model 3

is inconclusive. We can therefore, not draw any conclusions on an inconclusive result.

6.3 Policy recommendations

Notwithstanding the notable developments in trade reforms and the positive impact thereof on FDI and imports, African policy-makers need to further facilitate the attractiveness of the continent to foreign investments and participation in international trade (through imports and exports promotions). Seck (2014) suggests that trade facilitations could significantly reduce transaction costs in international trade, which are associated with corruption, infrastructure deficits and institutional voids. Trade facilitation should include conducive trade regimes, and attractive investment policies that will enhance Africa's competitiveness as an investment destination. The policies should encourage greenfield investments channeled into export-oriented industries, in order to stimulate job creation, increase African economies' output, and ultimately create economic advances and development. Although Africa have initiated various policy reforms to boost political stability and reduce corruption, a lot more still remains to be done given the poor ranking of African emerging economies on corruption indexes.

Over the past centuries, Africa has always been able to attract natural-resource-seeking FDI, but Africa needs to diversify its economies in order to rectify overdependence on natural resources. The diversification of industries in African economies can be accelerated by attracting greenfield FDI into various industries in the economy. Investors should be encouraged to invest in other, unexploited industries, such as manufacturing, agriculture, pharmaceutical and other industries. Africa needs FDI that will facilitate backward and forward linkages within its economies, so that Africa can benefit in positive spillover associated with FDI inflow. Resource-seeking FDI has failed to facilitate the linkages among industries in African economies. The fact that market size doesn't matter to the kind of FDI attracted in African emerging economies speaks to that fact that these set of investors are mainly interested in repatriating raw materials from sources in Africa. It will thus be important to enact policies that will compel some form of mineral beneficiation within the African shores.

Furthermore, Africa needs FDI inflow that will create jobs, given the projections of its population growth, which promises the availability of abundant human capital. Market-seeking FDI should be attracted and guided to include relocation or location of new establishments or subsidiaries that will produce the goods in the African emerging economies. As documented in the literature review, it is only manufacturing FDIs that create sustainable and decent jobs and benefit current account balances of the host country. This should be the focus of policy makers on the African continent in order to address infrastructural gaps, to alleviate poverty and to improve the quality/standard of living on the continent.

It is also important to note that market-seeking foreign investments require a fast-growing economy, which is a major concern in African countries. Therefore, Africa may also attract FDI that are directed at export-oriented industries. These industries will increase the output of economies and stimulate economic growth and development. Policy makers should court export-oriented FDI and create an institutional environment that enables businesses to flourish in the host African countries. Policy makers should also enact trade policies that ease export for export-oriented industries.

As much as African economies need to export more than they import to improve their balance of payments account, they have to, at same time, develop and protect key industries that could accelerate economic gains. To achieve this, corporate tax could be used as a protectionist measure (Aregbeshola 2014b). African countries need to carefully consider their tax regimes, as the results of this study showed that tax regimes have adverse impacts on FDI inflow but a positive impact on exports from abroad. Extreme protectionist measures may trigger retaliation from other economies and lead to trade wars among economies, resulting in economic disintegration. While Africa has successfully implemented trade and economic reforms that enabled free flow of trade in African economies and have integrated African economies into the global role-play, policy makers should strive to further open their economies to international trade especially intra-Africa trade.

It could be safely concluded that for African economies to enjoy the maximum positive spillover from FDI inflow such as enhanced technology, managerial know-how, and knowledge transfer, policy makers should ensure domestic firms' inclusion

in MNCs' activities through, for example, partnerships between foreign investors and domestic firms. These partnerships will give domestic firms access to new technologies, knowledge, and skills, which are resonant with MNCs. Knowledge and skills acquired by domestic firms through training, imitation and adoption of foreign investors' technologies and methods will enhance production processes and output. This will also stimulate industrial development in African emerging economies, which will, in turn stimulate economic growth of these economies.

6.4 Chapter summary

This chapter presented summary of results of the analyses conducted and reported in Chapter 5, together with conclusions. The study found that location-specific variables play significant deterministic roles in the expansion strategies adopted by MNCs that venture into African emerging economies. A further conclusion could also be drawn that profitability variables are also active determinants of expansion strategies of MNCs. The overall conclusion was that policy reforms are required to improve the attractiveness of African countries to greenfield FDI rather than export-oriented investment. Unfortunately, most of African economies are open to cheap imports from China, and Beijing rarely has any notable manufacturing facility outside its country. This is not good news for Africa's sustainable development and policy interventions are required to address these ill thoughts.

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