Transcription Lesson 2 (FDI Motives)

A multi-national enterprise looks to establish a presence in a foreign location based on four common strategic objectives – or motives. These motives concern natural resources, markets, efficiencies and capabilities. In the figure, note the use of icons to help you remember the core idea behind each. The tree symbolises nature, or in other words, natural resources. The group of people symbolises the number of people in a market. The piggy bank symbolises savings, which is the core goal of efficiency-seeking investors. Lastly, the wired cloud is a symbol of technology today. Capability-enhancing motives see investors trying to keep their organisations relevant through technology and better ways of doing things. Visualise these icons to remember the motives for foreign investment, which I will now explain a little more.

Organisations that have natural resource-seeking motives seek to access particular resources or renewable resources that they need for their production processes. They will assess locations throughout the globe that offer these resources, such as minerals or timber, for the right quality and cost. As an example, renewable energy companies in Denmark, Italy and China, among others, are investing hundreds of millions of Rands in the Northern Cape of South Africa, a region that is a natural home to solar and wind power generation.

Market-seeking investors, on the other hand, go after countries with new customers that are expected to have a strong demand for their products and services. These global companies identify the relevant market and then try to find a central location for sales, marketing and distribution operations. In some industries, such as service industries – think of hotels – the actual production also needs to be located close to the customer. Similarly, manufactured goods that face high transportation costs will want to locate production at or near the point of consumption. Manufacturers of clothing, vehicles, and food and beverages from countries like China, India, and South Africa, for example, are making increased foreign direct investment in African markets like Nigeria, Ghana, and Ethiopia, among others, which largely are untapped markets in a global business world that has previously focused on other continents. Market-seeking investors like these ask, where are our potential future customers, in this case in Africa, and what do we have to do to reach them better than our competitors do?

Efficiency-enhancing FDI is made with the aim of reducing the overall costs of production. MNEs with these motives single out the most efficient locations featuring a combination of scale economies and low-cost factors. The key idea is to make their value chain operate like a well-oiled machine at the lowest cost. They will single out the most efficient locations for each value chain activity as a result. High costs of labour and transportation will, therefore, be a deterrent for them. Desirable features in a location include economies of scale, abundance of a low-cost labour force and suppliers, and good transport and communication infrastructure. BMW, the car manufacturing company, identified South Africa as one of these desirable locations, for example. Over 85% of all BMW 3 Series vehicles produced at their Rosslyn plant in South Africa are destined for BMW markets around the globe. A key draw for them was the Motor Industry Development Programme instituted by the South African Government. This government incentive, lowering the costs of locating a plant in the country, motivated the company to make its billion-rand investment in the Rosslyn plant in the mid-90s and to continue to invest in the South African facility in preparation of the production of future models.

Lastly, capability-enhancing investors, also known as strategic asset seekers, look to access new ideas and technologies that can help them to upgrade their own technological and managerial capabilities. Such entries aim to access the knowledge base of the host country, wanting to pass on this knowledge that may help the entire MNE to advance its organisational learning and growth. They will look for locations that host the latest technologies and ideas that can connect to their own existing technologies and innovation activities, allowing the parent organisation to develop and change. In today's online world, it has become easier to access these host locations virtually. Standard Bank, for example, which is headquartered in South Africa, wants to be the first of its kind to operate in the cloud in Africa. They selected US-based Amazon Web Services to leverage its broad and comprehensive portfolio of cloud services, high levels of security, and strong financial services experience. An AWS Cloud Centre of Excellence will be established within the bank, incorporating a dedicated team who will facilitate the move to the cloud and create AWS training and certification programmes for up-skilling Standard Bank's employees.

And so, you have four key strategic goals for global organisations. However, while they are distinct, they are not mutually exclusive. Organisations may look to achieve several objectives when establishing a particular subsidiary.