



**The effect of colonial legacies on Africa's inward FDI: the  
Case of UK FDI in Ghana**

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## The effect of colonial legacies on Africa's inward FDI: The Case of UK FDI in Ghana

### Abstract

**Purpose** – This paper examines the role colonial ties play in attracting Foreign Direct Investment (FDI) to Ghana, several years after the official end of colonisation in the African continent. Colonisation left behind legacies of institutional framework, social ties and remnants of companies of colonial masters which could potentially offer contemporary businesses from home countries the benefits of country of origin agglomeration.

**Design/methodology/approach** – This paper uses sequential explanatory mixed research design through 101 questionnaires and eight interviews from UK companies with FDI in Ghana. This approach enabled the initial quantitative results to be explored further through the qualitative data.

**Findings** – Colonial ties have limited influence on contemporary flow of FDI to Ghana, despite the institutional legacies between former colonisers and colonies. Majority of UK companies are influenced by agglomeration opportunities in general rather than country of origin agglomeration. However, country of origin agglomeration remains important to over a third of the companies surveyed.

**Research limitations/implications** – The sample was taken from the non-extractive industry in Ghana and caution must be applied in generalising the findings. However, some universal issues concerning agglomeration and institutions are discussed.

**Originality/value** – Although there has been some research on colonial history and its impact on FDI in Africa, existing knowledge on bilateral relations is rather limited. Unlike previous studies, this research provides depth by examining colonial influence on FDI between two countries, using two key concepts: country of origin agglomeration and institutions. It provides UK companies with contemporary views to consider when exploring FDI opportunities in Ghana, particularly in relation to the effects of the colonial history. It also provides investment promotion agencies with empirical results on the importance of various forms of agglomeration and institutions for FDI attraction.

**Keywords** - FDI determinants, Africa, Ghana, UK companies, FDI motives, Institutions, Agglomeration, Bilateral trade, Colonial legacies, Country of origin

**Paper type** - Research paper

## 1. Introduction

The scramble for African countries in the early part of the century as colonies by European countries is extensively documented (Ayres, 2012), and references continue to be made to the phenomenon in academic and practitioner publications. Contemporary international business (IB) literature has attempted to explain the legacies of colonisation in some African countries. Broadly, the streams covered, though not in great detail, include the role of multinational companies (MNCs) in the preservation of the colonial agenda in the continent (Adams, et al., 2018), return on investment during the colonial era (Buelens and Marysse, 2009), internationalisation strategies in colonies (Sluyterman and Bouwens, 2015), the economic legacies of colonisation (Jones, 2013; Wietzke, 2015) and development of institutions (Adams, et al., 218; Bennett, et al., 2017; Buelens and Marysse, 2009; Sluyterman and Bouwens, 2015). Whilst these pieces of research have been essential, there is scope for further studies. This is because, though most of the countries have been colonies at one point or another, and visible colonial legacies remain in Africa, existing research does not capture all African countries and their existing relationships with former colonisers, and how such relationships impact on Foreign Direct Investment (FDI). For instance, many businesses of colonial origin stayed behind in the colonised countries after independence, and forged close links with political leaders, creating legitimacy in the host countries (Decker, 2010; 2008; Milhomme, 2004). The question that remains to be answered is the extent to which such remnants of companies and past relationships contribute to the flow of FDI, many years after colonisation was formally ended. It is legitimate to ask this question because the social and political motives of FDI are to participate or control interests in host economies and to strengthen colonial and friendship ties (Bankole and Adewuyi, 2013). We answer this question by examining two main concepts, country of origin agglomeration (Tan and Meyer, 2011) and institutions (North, 1990, 1991; Peng et al, 2008) from the perspective of UK (coloniser) companies with FDI in Ghana (colony). These concepts have been elaborated further in section 2 of this paper.

This research makes contribution to literature in two different ways. First, it adds a different dimension to the body of literature revisiting and monitoring trade between former colonisers and colonies (e.g. Adams, et al., 2018; Austin and Uche, 2007; Bennett, et al., 2017; Beraho, 2007; Buelens and Marysse, 2009; Head, et al., 2010; Jones, 2013; Makino and Tsang, 2011; Milhomme, 2004; Sluyterman and Bouwens, 2015). We examine the role of country of origin agglomeration (pull effect of existing UK companies in Ghana) and institution factors (similarity of formal and informal rules in the host country due to past colonial ties) (White III, et al, 2015) to understand the extent to which they are relevant to UK FDI in Ghana. Second, this research is timely because studies have just begun on UK's business relationship with Africa post-Brexit (e.g. Mold, 2018). The former UK Prime Minister, Theresa May's first visit to Africa, together with senior ministers and trade delegations, was an opportunity to explore mutually beneficial work and investment between Africa and the UK (Gov.uk, 2018). Additionally, one of the purposes of the former UK Foreign Secretary, Jeremy Hunt's visit to Ghana in 2019 was to explore investment opportunities between the two countries (Gov.uk, 2019). This research highlights some key issues UK companies should consider when exploring the opportunities in Africa, and how the colonial past helps or hinders FDI opportunities, using Ghana as a specific context.

Prior research has shown that colonisation introduced formal institutional factors such as laws, educational systems, tax systems and bureaucracies of the home country which became deep-rooted in the colonies (Amankwah-Amoah, 2016; Boussebaa and Morgan, 2014). These

laws and ideologies potentially contribute as pull factors of inward FDI (Frankel and Rose, 2002; Makino and Tsang 2011).

The rest of the paper is structured as follows: The next section presents the literature review and development of hypotheses, with focus on Ghana as a trading partner and former British colony. It highlights the colonisation influences and legacies in the country. This is followed by analysis of literature concerning FDI inflows into Africa and effects of colonisation. The section concludes with the development of hypotheses, followed by a description of the research design used for the study. This is followed by concluding the foregoing arguments regarding the impact of colonisation as a pull factor for FDI into Africa, with Ghana as a case study. Finally, the limitations of the study and recommendations for further research are presented.

## 2. Literature Review and Hypotheses Development

Ghana was a British colony until 1957 when it became the first African country to attain independence (Adu, 2013; Jones, 2013; Mmieh, et al., 2012). Ghanaians are surrounded by colonial influences and imagery to remind them of their past relationship as a colony of the UK. These include the English language adopted as the national language, and images of the red colour in their flag, which signifies the blood Ghanaians shed in their struggle to gain independence. Also, the image of the Black Star in the middle of the flag denotes the quest for total emancipation of the African continent from colonial rule (Ndzibah, 2010). The historical relationship with the UK has provided many positive legacies, which can be nurtured as common grounds between the two countries to further attract FDI, such as the Commonwealth, the English language, the educational and the legal systems. However, colonisation has also left some scars resulting in some form of antagonism towards the UK. For example, during colonisation, the UK government established the monopolistic Cocoa Marketing Board (CMB) which paid farmers meagre sums of money for crops (Acemoglu and Robinson, 2010). This was considered as pure exploitation and a consequence of colonisation. It must be noted that the legacies of the monopolistic CMB remains, as successive governments maintained the role of government agencies in setting prices paid to cocoa farmer. Recently, the Ghana Cocoa Board was reported to have stated that “the Producer Price Review Committee is the only body mandated by law to set the price of cocoa” (Ghanaweb, 2017). Williams (2009) also stated that the long-term nature of the cocoa tree locks farmers into cocoa production, which means the government can continuously be sure of cocoa supply, even if the prices paid to farmers are reduced. Consequently, Williams (2009) continued by stating that cocoa farmers in Ghana became easy target for marketing board’s exploitation.

These kinds of associations would be considered to have a negative effect on trade. This is perhaps one of the reasons why Ghana wanted to “cut off the umbilical cord of ties” between the country and the UK immediately after independence, a practice somewhat replicated in other Africa countries (e.g. Tanzania) (Amankwah-Amoah, 2016). However, trade between the UK and Ghana has remained buoyant. The UK Government has also been instrumental in assisting Ghana to make an impact in the Commonwealth and further supports British nationals in Ghana (Gov.uk, 2013). According to Jones (2013), governors with high salary were generally sent to colonies which generated high revenues, such as Ghana. These facts underscore how important Ghana was during the colonial days, and it remains an important business partner for UK. These include UK companies already based in Ghana and those who

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3 still export to the country (see Head, et al., 2010). The UK has also been one of the top  
4 destinations for Ghana's exports. According to Mmieh, et al., (2012: 504), UK was the  
5 biggest destination for Ghana's export with between 10.2% and 11.2% of total export from  
6 2000 to 2007. Recently, sector-specific data also indicate that UK remains a significant trade  
7 partner of Ghana. Export of Ghana's palm oil derivatives (excluding crude oil) to the UK,  
8 USA, Netherlands and Spain grew by about 50% on average between 2013 and 2017 (Ghana  
9 Export Promotion Authority) (GEPA) (2018a). Also, Ghana was the second largest exporter  
10 of mangoes to the UK in 2017 (GEPA, 2018b).  
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14 Previous research on trade between colony and coloniser has been extensive. In fact, *Critical*  
15 *Perspectives on International Business* devoted a Special Issue for reflection on management  
16 and organisations from a postcolonial perspective (Banerjee and Prasad, 2008). Existing  
17 research indicates that the colony-coloniser relationship between countries could boost trade  
18 and FDI significantly (Ghemawat, 2001; Guiso, et al., 2009). Historical ties must also be  
19 friendly in order to create positive influence, which will attract FDI. Makino and Tsang  
20 (2011) in their study allude to this, by stating that the impact of historical ties between two  
21 countries can be positive or negative, depending upon how friendly or hostile the colonial ties  
22 were perceived to have been in the past. Evidently, UK colonial relationship with Ghana had  
23 at times been deemed hostile, considering Ghana's quest for independence and the colour  
24 symbolism in the national flag as explained previously (Ndzibah, 2010). Similarly, the  
25 remnant of UK companies from the colonial past, and legacies such as inheritance of UK  
26 common laws and education may be considered positive. Our research clarifies, from the  
27 perspective of managers of UK companies, whether they believe such historical legacies  
28 impact on FDI prospects.  
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33 There has also been increased attention to African countries as previous colonies of both UK  
34 and Europe (Asiedu, 2006; Bankole and Adewuyi, 2013; Naudé and Krugell, 2007).  
35 However, the effects of historical factors on FDI in Africa have not been fully examined,  
36 even though these factors have been explored in other emerging markets (Foad, 2012;  
37 Makino and Tsang, 2011). The notable exception is that of de Mauro (2013) who studied the  
38 incompatibility of colonial legacies in the form of reliance on export of natural resources,  
39 organisation of labour markets, and the structural adjustment programme in Africa as reasons  
40 for lack of investment in Sub-Sahara Africa. Milhomme (2004) also examined the post-  
41 colonial relationship between Africa and the UK but the emphasis was on trade in general,  
42 highlighting how countries have become gradually less dependent on their colonial ties,  
43 especially in areas such as import and export between the countries concerned. Amankwah-  
44 Amoah (2016) also examined the colonial legacies on Africa but only from the perspective of  
45 how they have affected management research, thinking and knowledge without focus on FDI.  
46 Our research departs from the existing research by examining country of origin and  
47 institutions, as presented in the following sections.  
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### 51 2.1. *Agglomeration Opportunities*

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53 The pull factor of agglomeration for UK companies is measured from the perspective of the  
54 presence of other UK companies (country of origin agglomeration) (Tan and Meyer, 2011).  
55 The consensus is that agglomeration positively correlates with FDI, as it offers companies the  
56 opportunities to share liabilities and complement one another. Chidlow et al., (2009: 121)  
57 also hypothesised that agglomeration is a significant motive for inward FDI, and that the  
58 stronger agglomeration factors are represented in a region, the more likely an MNC will  
59 engage in FDI in that region. This is consistent with Waldkirch and Ofosu (2010), who  
60

revealed that the presence of foreign companies has significantly positive productivity effect on foreign companies located in Ghana. Tan and Meyer (2011) advanced the country of origin agglomeration by asserting that it offers a different level of benefits to companies from the same home country clustering in a host country. These benefits include access to local level knowledge, home country-specific resources, trust and legitimacy. They contend that new companies in a country find it difficult to develop trust with local partners, due to their vulnerability and lack of understanding of how businesses operate in the new environment. Therefore, country of origin agglomeration enables newcomers to build the required trust with their compatriot FDI companies. This is because it is believed that people are more likely to be attracted to and trust people with whom they share essential attributes such as ethnic origin (Manev and Stevenson, 2001; Miller, et al., 2008). Besides, companies from the same country may belong to the same formal and informal associations formed for the benefit of members. The following have therefore been hypothesised to confirm the extent to which agglomeration opportunities may influence UK companies to invest in Ghana:

*H<sub>1</sub>: Country of Origin Agglomeration opportunities provided by other UK companies relate positively to UK inward FDI in Ghana regardless of FDI motive.*

*H<sub>10</sub>. Country of Origin Agglomeration opportunities provided by other UK companies do not relate positively to UK inward FDI in Ghana regardless of FDI motive*

## 2.2. Institutional factors

North (1991: 97) defines institutions as “the humanly devised constraints that structure political, economic and social interaction”. The two forms of institutions according to North (1991) are formal (e.g. constitutions, laws, property rights), and informal (e.g. sanctions, taboos, customs, traditions, and codes of conduct). Such institutions provide both written and unwritten rules that govern economic exchanges and interactions (Holmes Jr., et al., 2013; Seyoum, 2011). We adopt North’s definition in this research, and we explain below how institutions have been passed on from the UK to Ghana, which could contribute in presenting familiarity, opportunities and reduction of perceived risk for UK investors in Ghana.

There are many private British companies in former British colonies such as Ghana and Nigeria. However, it is not clear whether history of colonisation has any significance as far as choice of FDI location is concerned. Historically, colonialism has contributed certain formal institutional factors such as laws, educational systems, tax systems and bureaucracies (Amankwah-Amoah, 2016; Boussebaa and Morgan, 2014; Peng, et al, 2008). These provide the institutional framework which pull FDI (Frankel and Rose, 2002; Makino and Tsang 2011). These are relevant for FDI, as MNCs seek to invest in countries with the best institutional facilities to help companies achieve the best value for their core competencies (Dunning, 2000, 2008, 2009). Institutional theory indicates that firms could be hindered or enabled by institutional environment (Bruton, et al., 2010; Story, et al., 2015). For example, culture, described as part of informal institution (Peng, et al, 2008) could influence purchasing behaviour, taste, preferences and general attitude towards specific brands and products. Positive attitude towards UK brands due to the familiarity of culture between the two countries could present positive prospects for UK companies’ market seeking investment.

Formal institutional arrangements, an important colonial influence, potentially reduce agency and transaction costs incurred in investing in emerging economies (Child and Tse, 2001).

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3 These formal bilateral arrangements provide investors guarantee and protection for investors.  
4 This is consistent with Bankole and Adewuyi (2013), who found, through econometric  
5 analysis, that bilateral trade treaties significantly improved FDI between West African  
6 countries and EU countries. Their research confirmed that in West Africa, the UK has  
7 bilateral relationships with several countries, including Nigeria and Ghana. The formal  
8 bilateral institution arrangement goes as far back as the colonial days and continues to have  
9 legitimacy through the Commonwealth, diplomatic relations and trade agreements. These  
10 could potentially increase trade between the countries concerned due to reduction in risk and  
11 uncertainty attributable to relational trust among companies with social and colonial ties  
12 (Makino and Tsang, 2011; Tan and Meyer, 2011; Zhao and Hsu, 2007).  
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16 Apart from formal institutions such as the bilateral treaties, there are also informal ties which  
17 are developed through what Makino and Tsang (2011) refer to as unwritten rules. They argue  
18 historical ties such as colony-coloniser relationship can play a positive or negative role in  
19 attracting trade and investment, depending upon how the historical relationship is perceived.  
20 According to Beraho (2007) Africa countries had to obey their colonisers with little or no  
21 opposition to their authority. For example, raw materials were bought at low prices and  
22 shipped to colonialists' home countries such as France, Portugal, Belgium and Britain. Such  
23 experiences may be considered as negative. However, there are examples of positive  
24 outcomes from the colonial relationships as African countries continue to seek support from  
25 developed countries, some of which are their former colonial masters (Beraho, 2007). In 2019  
26 the former UK Foreign Secretary, Jeremy Hunt, visited Ghana and promised of UK's support  
27 of the country beyond aid by building partnership between the two countries, which further  
28 strengthen their formal institutions (Gov.uk, 2019). The question remains to be answered  
29 regarding which of the above negative and positive experiences investors believe dominate  
30 FDI determinants in Africa. In this research informal ties and informal institutions are used  
31 interchangeably (see Bevan, et al., 2004; Holmes Jr., et al., 2013; Seyoum, 2011). We  
32 investigate the UK investors' perspective on how both formal and informal ties contribute  
33 towards the flow of FDI to Africa, with Ghana as an example. It is believed that colonialism  
34 in Africa was disadvantageous to the African (Muiu, 2010). Besides, Acemoglu and  
35 Robinson (2010) state that Britain did all they could to kill the boom of Ghana, through  
36 monopolistic institutions such as the Cocoa Marketing Board to buy cocoa at cheap prices  
37 from farmers. The colonial masters also refused to develop the country's infrastructure, even  
38 though they had been petitioned to develop the transport infrastructure, especially between  
39 Accra (the capital city of Ghana), and Kumasi (second biggest city) in the country. In spite  
40 of the above negative experiences, we anticipate positive relationship between institutions  
41 and UK FDI, as this research does not focus on the views of Ghanaians who may have had  
42 the negative experience. . Overall, existing research indicates that institutions inherited from  
43 the colonial past still influence trade in former colonies (Awad and Yussuf, 2017; Rose,  
44 2000). Based on the above, the following hypotheses have been proposed:  
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51 *H<sub>2</sub>: The formal and informal institutions have positive effect upon UK FDI in Ghana, in the*  
52 *form of demand for UK products and services regardless of FDI mode.*  
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55 *H<sub>20</sub>: The formal and informal institutions do not have a positive effect upon UK FDI in*  
56 *Ghana, in the form of demand for UK products and services regardless of FDI mode*  
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### 3. Research Design

This study adopted the explanatory mixed research method. It is a data collection approach which combines quantitative data with qualitative data but prioritises the quantitative data (Ivankova, et al, 2006). Quantitative data is first collected and analysed to provide general understanding of the research problem. Based on the results, interviews are conducted to offer further explanation of the results (Harrison and Reilly, 2011; Ivankova, et al, 2006). This method is common among researchers and it has been discussed extensively by various authors (Creswell 2003; 2005; Ivankova, et al, 2006) providing further justification for our research approach. Consistent with the explanatory mixed method, eight sequential interviews with executives were conducted through convenience sampling to enrich the discussion and refine the findings. The interviews were deductively analysed by manually categorising the responses according to the questions asked, to build explanations of the survey findings. Overall, the combination of data from multiple sources within a reliable typology ensures that value (rich qualitative data) is added to the quantitative research (Birkinshaw et al., 2011). Based on information from Ghana Investment Promotion Centre (GIPC), the study targeted all the 286 UK companies located in Ghana at the time of the data collection. GIPC source is appropriate, as they register all FDI in the non-extractive industry in Ghana. Similarly, we focused solely on the non-extractive industry to provide depth and relevance to GIPC, whose remit as an investment promotion agency does not cover the extractive industry. There was no need to discuss sampling methods and sampling errors, as all UK companies identified as having FDI in Ghana were contacted (Bryman and Bell; 2011; Saunders, et al., 2009).

Before the questionnaires were administered, a pilot study was carried out with 4 companies, allowing for errors to be corrected. The revised questionnaire was then sent to the rest of the companies in the population. The questionnaire only targeted respondents in managerial positions who were expected to be familiar with the strategies and objectives of the organisations they represented. The respondents included chief executive officers, general managers, marketing managers, finance managers, communication managers and public relations managers. In total, 101 usable responses were analysed, representing a 35% response rate, which is consistent with other research (Bartels et al., 2014). Five-point Likert Scale was used to measure respondents' perception of the variables, and how they impacted on their investment in Ghana.

Additionally, t-test was used to confirm the extent of the moderating effect of entry mode choice in relation to the above variables. This establishes whether the importance of country of origin agglomeration and institution differs depending upon entry mode. Furthermore, the relationship of FDI motives to the location factors was established using Pearson correlation (presented in Table 3). To statistically measure reliability, Cronbach alpha test was applied to the overall measure (Brace, et al., 2012). With Cronbach alpha score of 0.770, the reliability for this research was deemed acceptable. Additionally, eight interviewees were selected through convenience sampling. Consistent with the selection of respondents of the questionnaire, the interviewees were in managerial positions. Their job titles were CEO, Senior Investment Promotion Officer, Communications Manager, Marketing Manager, Finance Manager, General Manager. The interviewees were given the opportunity to review the transcripts of their interviews. The inclusion of interviews allowed for further elaboration on the findings from the quantitative survey. Lobe and Vehover (2009) believe that combining different measurement techniques improves the validity of the research findings.

## 4. Results

In this section we present the findings concerning how the two main concepts (country of origin agglomeration and institutions) affect inflow of FDI into Africa, using the historical relationship between the UK and Ghana as an example.

### 4.1 Effects of Agglomeration

Companies were asked to confirm whether their FDI in Ghana was motivated by the presence of other MNCs as suggested by the proponents of the agglomeration concept (Bronzini, 2007; Lamin and Livanis, 2013; Procher, 2011; Tan and Meyer, 2011). A separate question was incorporated to ascertain the effect of country of origin agglomeration (whether the presence of UK companies attract other UK companies to host countries which have colonial ties with the home country). Companies in host countries could benefit from perceived economies emanating from localisation (cluster of companies supplying similar goods and services) and urbanisation (cluster of companies providing different goods and services). They could also obtain country of origin agglomeration benefits such as legitimisation, local market knowledge and trust (Tan and Meyer, 2011). Table 1 confirms the results from respondents regarding why they located in Ghana, in relation to the pull effect of other companies, including other UK companies. Companies were simply asked to answer yes or no to the related questions.

	Yes	No	% (Yes)	% (No)
Because we identified other companies already located in the country that could serve as our customers or suppliers	71	30	70.3	29.7
Because we identified companies already located in the country that had assets or expertise to complement our own	61	40	60.4	39.6
Because there were groups of companies in the country we could cooperate with	51	26	66.2	33.8
Because there were other reputable foreign companies located in the country	49	52	48.5	51.5
Because there were other UK companies located in the country	37	62	37.4	62.6

*Table 1: Significance of agglomeration*

From the above, it is evident that majority of the companies accept that the presence of other MNCs in Ghana contributed in their decision to invest in the country. However, the last two statements also confirm that majority of UK companies were not drawn to Ghana because of the presence of other UK companies (country of origin agglomeration) or because reputable companies were already located in the country. They are more interested in seeking customers and suppliers for their products or services, companies with complementary assets and generally companies they could cooperate with. The agglomeration effect could mean that the African governments could target groups of companies rather than companies in isolation, in their marketing strategy. If a company already has existing collaboration in the home country, targeting both may have a greater effect than just one so that the targeted company is assured of the continuous mutual benefits and the market potential in Ghana. Agglomeration generally has a significant effect on FDI inflow due to the benefits it presents to companies. Majority of the companies surveyed are drawn by the presence of other

companies for various reasons. Though the presence of other UK companies does not seem to be significant to most companies, it may be argued that some of the companies that indicated no agglomeration effect of other UK companies may still be influenced by agglomeration – not necessarily because the potential partner is from the UK, but rather because they offer desirable assets.

H<sub>1</sub> additionally sought to confirm if there was any difference between wholly owned subsidiary and other modes of entry in how agglomeration affects inward FDI. A t-test was therefore carried out, and with a p-value of 0.129, there is no significant difference between responses for wholly owned FDI and the other modes of entry. This confirms that the attitude of companies towards agglomeration as a determinant of FDI is similar. Overall, there is a strong evidence of the effect of agglomeration in Ghana, and this is consistent with the theoretical expectations in relation to agglomeration effects, because all companies can potentially benefit from the advantages of agglomeration, whether wholly owned or joint venture (Dunning, 2001; Tan and Meyer, 2011). It has been stated that in Ghana, the fruit processing industry for example benefits from agglomeration (Morrissey, 2012). Foreign companies are located where other foreign companies are located. Also, as companies concentrate in a geographical location, improved infrastructure and concentration of customers and suppliers are provided, which also contributes to making the country more attractive (Ezeoha and Cattaneo, 2012). The presence of other companies also creates what has been called “follow my leader” theory (Knickerbocker, 1973), which was one of the earliest attempts to explain the clustering of FDI.

Agglomeration potentially improves infrastructure; therefore, it is no coincidence that in Ghana, relatively good infrastructure is concentrated in a few urban areas where foreign companies are also clustered (Oke, et al., 2014). It must however be emphasised that majority of the companies surveyed were not influenced by the presence of other UK companies in Ghana. This is contrary to the theoretical expectation, as for example, it is established that co-locating with companies from the same country enhances chances of survival (Tan and Meyer, 2011). Companies were more interested in the availability of companies which offer complementary assets or services, regardless of their country of origin. As a result, the remnant of companies from colonial past have only limited effect on attracting new FDI to Africa and Ghana in particular.

Furthermore, contrary to Ezeoha and Cattaneo (2012) who found the effects of agglomeration to be insignificant in sub-Saharan Africa, the results here are significant if viewed from all companies regardless of home country and any colonial ties. Ezeoha and Cattaneo (2012) attributed their findings to the fact that the bulk of the existing FDI in the sub-Saharan region is in natural resources, which do not rely extensively on agglomeration. Their explanation is consistent with the findings of other studies, which use the scarcity of natural resources theory. It holds that because it may be difficult to find the required natural resources in many alternative locations, some factors which may be deterrent to FDI, may be overlooked (Cantwell, et al., 2010). As companies operating in the traditional natural resources have been excluded from this current research, it is not surprising that agglomeration has been found to be significant. This is therefore a pointer to why country-specific data may be required in some situations, rather than relying on generic assumptions and predictions. Respondent 7, an official from GIPC, revealed an investment promotion strategy below in an interview, which highlights the perceived pull effect of country of origin agglomeration:

*“Sometimes if we are going to a particular country, maybe, England, we might have*

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3 *to convince some English-based businesses in Ghana to tell their colleagues about*  
4 *their investment experience, business experience in Ghana. It's easier for your*  
5 *countrymen to convince you than another person”*  
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8 The above quotation clearly supports country of origin agglomeration effects. However, this  
9 view is contrary to the perception of majority of the companies we surveyed. Generally, the  
10 presence of other companies has the potential of attracting more companies into the country.  
11 However, the survey confirms also that majority of UK companies may not entirely be  
12 convinced by the mere presence of other UK companies acting as the pull a factor despite the  
13 colonial link. They are attracted by companies regardless of the country of origin. This is also  
14 consistent with research findings elsewhere (Lauthier and Moreaub 2012; Ndikumana and  
15 Verick, 2008). Both studies found that high level of private investment in an area attracts FDI  
16 because it indicates to investors that there is a potential for good return on investment. Also,  
17 Nyarko et al. (2011) found agglomeration effect and democracy in Ghana to be significant.  
18 Furthermore, Harvey and Abor (2009) found that local companies with skilled workers and  
19 higher technological capacity attract FDI. It must be emphasised that though majority of the  
20 companies did not believe country or origin agglomeration to be a significant factor in their  
21 investment in Ghana, 37.4 per cent of the companies have been influenced directly by  
22 country of origin agglomeration. That is a significant percentage which cannot be ignored.  
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26 In sum, the above provides minimal support for the positive effects of country of origin  
27 agglomeration. However, there is significant support for the pulling effects of agglomeration  
28 in general. Therefore,  $H_1$  is accepted, and the null hypothesis is rejected.  
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#### 32 *4.2 Effects of Institutions*

  
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34 The effects of colonial ties (as institutional variable) on FDI inflow was measured by asking  
35 companies about the extent to which they believed the colonial past would influence the  
36 people of Ghana to have a favourable attitude towards products of UK companies or the  
37 products of their competitors from other countries. UK Companies were also asked if overall  
38 the colonial ties affected their decision to invest in the host country. Using the five-point  
39 Likert Scale and assuming the neutral point of 3 (Cheng, 2008; Lillis and Sweeney, 2013),  
40 the results confirm that the mere fact of colonial past does not have a significant effect on  
41 choice of host country with mean of less than 3 and median of 3, as presented in table 2. The  
42 result is contrary to what has been hypothesised elsewhere. For example, Andrés et al. (2013)  
43 expect a positive relation between colonial ties and FDI due to institutional factors. They  
44 contend that similarities from colonial days such as common language and social ties reduce  
45 cultural or psychic distance. This reduction in distances minimises liabilities of foreignness.  
46 It has also been suggested that historical ties in relation to colonial rule and occupation could  
47 influence FDI due to knowledge of the environmental dynamics in the host country and the  
48 fact that the institutional framework of the host country was constituted during the colonial  
49 days (White III, et al, 2015). Though the colonial ties present some similar institution factors  
50 (Foad, 2012; White III, et al, 2015) which could result in reduction of risks and uncertainties  
51 (Makino and Tsang, 2011), the most crucial factors to UK investors lie elsewhere. These may  
52 include political stability, market size and agglomeration opportunities (Barthel, et al., 2011;  
53 Harvey and Abor 2009).  
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	Mean	Median	Standard Deviation
Effect of colonial past on choice of host country	2.8	3	1.1
Effect of colonial past on preference for non-UK goods	3	3	1.3
Effect of colonial past on preference for UK goods	3.5	4	1.2

*Table 2: effect of colonial past (institution) on FDI*

Informal institutions (informal ties or unwritten rule) appear to be marginally stronger statistically in Ghana, but surprisingly, to the advantage of the UK investor, with a median value of 4 in a five-point Likert scale. Makino and Tsang (2011) suggest that the effect of colonial history may be positive or negative, depending upon how the period of colonisation was perceived. It has been reported that the colonial experience was not favourable (Acemoglu and Robinson, 2010; Muiu, 2010). We therefore anticipated that the historical past would have negative effect towards preference of UK goods and services. However, from the above results, the surveyed companies relatively perceive a positive attitude towards UK products. This may be because the historical past may have introduced Ghanaians to UK goods and services, which have become part of their culture (Peng, et al, 2008), and therefore emphasis is placed on satisfaction from the product or service itself. Besides, UK products are perceived as of superior quality, compared with those from emerging markets (Acquaah 2009). This view also seems to have been supported in a release by Barclays Bank, which indicated that overall, consumers were prepared to pay as much as 22 per cent premium for British products (Barclays Corporate Banking Trade Report, 2018). Another possible explanation of the positive attitude towards UK products is the fact that this effect was measured from the companies' perspective. The consumers may have a different view to that of the companies.

Furthermore, it has been stated that UK companies actively invest in the old colonies because of the cultural ties (informal institutions) the British established during the colonial times (Milhomme, 2004). Similarly, Makino and Tsang (2011) are of the view that historical ties establish institutional framework (formal institutions) which current companies may still benefit from. For example, Standard Chartered Bank, which used to enjoy monopoly in the then Gold Coast (now Ghana) and in majority of the Anglophone West Africa until 1916 when the Colonial Bank (now Barclays Bank) entered the market (Austin and Uche, 2007), is still one of the major banks in Ghana. Also, the sense of Britishness influenced British investment in Canada in the 19<sup>th</sup> and the 20<sup>th</sup> centuries (Smith, 2013). Market seeking UK companies locate in Ghana because there is demand for British products – demand supported in no small way by the informal historical ties between Ghana and the UK. Therefore, though institutional framework exists because of the historical ties between the two countries, this is not deemed crucial at the formal level by majority of the companies surveyed. However, this is important at the informal institution level. The interviews conducted to probe this unexpected result revealed the following at the formal institution level, when a Finance Manager of a British company operating in the financial sector was asked about the effects of formal institutions on their investment in Ghana:

*It is not directly, except that because we are a subsidiary, whatever laws the UK*

government imposes, first affects our parent company and therefore indirectly will affect us. Obviously the historical and current relationship between Ghana and the UK may impact on laws introduced, which could affect us – but the effect is not direct.

Overall majority of the surveyed companies do not find formal institutions significant, despite the theoretical underpinning of the potential of institutions measured from the perspective of historical ties. This is also consistent with what has been stated elsewhere in relation to social network theory. It alludes that market entry depends on the company's social network within the host country to accelerate information flow rather than on institutional conditions, among other factors such as economic and cultural conditions (Zhao and Hsu, 2007).

From the above results, it is concluded that regardless of the FDI motives, institutional variables were partially important to the surveyed UK investors. As informal ties seemed to be important to UK companies in their perception of attitude of consumers towards UK products, Pearson correlation was additionally run between Informal ties (informal institution) and the market-seeking FDI motive to confirm the relationship. The results are presented in Table 3.

Correlations			
		informal institution/ Ties	To seek markets for our products
informal institution/ties	Pearson Correlation	1	.170
	Sig. (2-tailed)		.117
	N	90	86
To seek markets for our products	Pearson Correlation	.170	1
	Sig. (2-tailed)	.117	
	N	86	96

Table 3: Correlation between informal institutions/ties and market-seeking motive

With the p-value of 0.117, the correlation is positive but insignificant. Furthermore, the individual components of informal institutional variables were also tested to confirm if the combination of the variables had hidden potentially significant correlations which otherwise would have been significant. However, like the above, with the p-values of 0.631 (informal ties in relation to preference for non-UK goods and services), and 0.072 (informal ties in relation to preference for UK goods and services), the null hypothesis is rejected.

Though there appears to be positive correlation, this is not significant, regardless of the FDI motive. It must be noted that these responses have been taken from the investors' perspective. It would be interesting to see if the average consumer in Ghana is influenced by informal institutions or ties in their purchases of goods and services. This is however outside the remit of this research. The insignificant effect of the correlation between market-seeking FDI and informal ties is rather surprising because common ties such as common language and colonial

ties between Ghana and the UK are known to influence international trade (Zhao and Hsu, 2007). However, it has been acknowledged that the same or similar institutions may be associated with different outcomes in different countries (Pajunen, 2008; Seyoum, 2011; White III, et al, 2015), hence the essence of country-specific analysis, as employed in this research

## 5. Conclusion

This paper makes theoretical contribution by presenting arguments in relation to two key concepts: agglomeration (country of origin agglomeration, to be specific) and institutions (which include both written and unwritten rules which govern how transactions take place). Consistent with the contention that context is crucial in critical IB research, we discuss these concepts in the context of Ghana. Dörrenbächer and Gammelgaard (2019), in reference to Westwood (2006) indicated that specific, local, historical, cultural and ideological embeddedness are crucial for knowledge creation in critical IB. By examining the historical relationship between Ghana (former colony) and UK (former coloniser), we able to extend the discussion on institutions and agglomeration using country-specific analysis.

Regarding country of origin agglomeration, the colonial past is only a minimal contributory factor to majority of UK investors in Ghana. Our study, through careful examination of available literature, revealed that some remnants of UK companies from colonial days are still actively operating in Ghana. Though such remnants may be examples to other companies from the UK, this paper contends that they are not a strong determining factor on their own to majority of UK investors operating in the Ghana. This is contrary to expectations, as it was anticipated that UK companies would invest in Ghana with the view to strengthen colonial and friendship ties (Bankole and Adewuyi, 2013), and to exploit country of origin agglomeration (Tan and Meyer, 2011). We are therefore of the view that though orthodoxy would expect country of agglomeration to be significant in attracting FDI, when analysed through the lens of critical IB, using country-specific context of Ghana, country of origin has minimal effect on FDI attraction. Most of the companies examined are more interested in opportunities in host countries regardless of any social or cultural synergy that may be inherited from colonial legacies or remnants of companies from the colonial past, though such legacies contribute to FDI in about a third of the cases. The presence of other companies has the effect of drawing some UK companies to Ghana due to the benefits of agglomeration. Companies creating agglomeration effect in Ghana do not necessarily have to originate from the UK, according to the views of majority of the companies; therefore, the Ghana government assisting in nurturing both domestic and foreign companies in the country has the potential of attracting other UK companies into the country, as a long-term strategy.

This result has policy implications for GIPC and other investment promotion agencies in Africa in general, if they want to attract UK FDI. Country of origin agglomeration is not as important to stress in their policies and marketing communications, compared with agglomeration opportunities in general. Concerning the effects of institutions, it may be concluded that the bilateral relationship between Ghana and the UK and the historical link have some, but limited significance in their current investment in Ghana. Formal institutional factors such as, laws, ideologies, educational systems, tax systems and bureaucracies of the home country inherited by colonies (Amankwah-Amoah, 2016) are anticipated to contribute as pull factors of inward FDI (Frankel and Rose, 2002; Makino and Tsang 2011). There has been a shift in momentum towards further strengthening the relationship between Ghana and the UK at the diplomatic level, evident in UK's delegation to Ghana in 2018 and 2019 to promote trade between the two countries (Gov.uk, 2018, 2019). However, our research

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3 indicates that in the context of FDI in Ghana, the UK companies do not expect such effects to  
4 be significant on their investment in Ghana. This may be because the companies included in  
5 this research were already located in the country without formal assistance from the  
6 diplomatic or formal institutional level. They were convinced of the business opportunities in  
7 the country, therefore any support or synergy at the formal level would not affect their  
8 decision as it had already been made. If data had been obtained from UK companies who had  
9 not already located in Ghana but were considering investment potential in the country,  
10 perhaps government institutional support could have been crucial.  
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13 Informal institutions are marginally important to the UK companies, as they believe in the  
14 Ghanaian context, consumers have positive attitude towards UK products. As previously  
15 discussed, this may be because UK goods and services introduced to the Ghanaian market  
16 have become part of their culture (Peng, et al, 2008). Also, as indicated by Acquah (2009)  
17 UK products are perceived as of superior quality, compared with those from emerging  
18 markets. In spite of the relatively positive attitude towards UK products, we content that  
19 relationship with UK market-seeking FDI is not significant.  
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22 In relation to our contribution to literature, our research has expanded the discussion on the  
23 effects of agglomeration and institutions (both formal and informal) in FDI attraction, to  
24 incorporate colonial legacies in Ghana as a context. Though several studies in different  
25 contexts have identified positive relationship between colonial past and FDI due to  
26 similarities in institutions and effects of agglomeration (Andrés et al., 2013, Foad, 2012;  
27 Makino and Tsang, 2011; Smith, 2013; White III, et al, 2015), our research finds evidence in  
28 supporting views expressed from critical IB that the specific, local, historical, cultural and  
29 ideological contexts are crucial in knowledge creation and application in IB (Delios, 2017,  
30 Westwood 2006). Such contexts may challenge the norms and expectations as we find in our  
31 research. Nevertheless, considering that there are some similarities between some African  
32 countries in terms of colonial history (e.g. Nigeria and Ghana), the findings potentially have  
33 wider implications on UK FDI in Africa in general.  
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## 39 **6. Limitations and Further Research**

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41 The study focused on the effects of the colonial ties between the UK and Africa, using  
42 companies operating in the non-extractive industry in Ghana as an example. It is therefore  
43 suggested that the findings are applied with reasonable caution in terms of generalisation. A  
44 comparative study should be conducted to investigate how the variables examined in relation  
45 to the UK investor in Ghana compare with how the UK investors in other African countries  
46 perceive them. These may include how institutions, agglomeration and overall colonial ties  
47 impact on flow of FDI to Africa and indeed other former colonies. This type of research  
48 should include a study involving African countries which were British colonies, such as  
49 Nigeria, to identify any possible similarities or differences. This will provide further insight  
50 into the relevant determining factors in investing in Africa from the UK companies'  
51 perspective. Then the research could be extended to compare how the same variables are  
52 perceived in former non-British colonies for consolidation of the knowledge on the effects of  
53 colonial legacies on inflow of FDI in Africa.  
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57 Besides, this research did not capture attitude towards UK products from the perspective of  
58 the Ghanaian consumers. Future research could examine the attitude towards UK products  
59 from Ghanaian consumers' perspective, as this research revealed that majority of UK  
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3 companies do not believe the colonial past has significant effect on Ghanaians' choice of  
4 goods and services. This approach will contribute in addressing lack of focus on the host  
5 country context in IB research (Delios, 2017, as cited in Dörrenbächer and Gammelgaard,  
6 2019). The question regarding whether the companies are simply unaware of any potential  
7 advantages or disadvantages which need to be managed, remains unexplored. This is  
8 important as Acquah (2009) identified differences in attitudes of some African countries  
9 towards products from the UK in comparison with products from Brazil, China, South Korea  
10 and India. Future research questions may specifically focus on whether, given the choices,  
11 African consumers may be influenced either way in their attitudes towards the market  
12 offering from former colonial masters such as the UK, France, Portugal and Belgium,  
13 compared with products and services from other countries. Future studies investigating  
14 whether the colonial legacy has any effect on attitude towards UK products should control for  
15 other factors such as price and perceived quality. This study will provide key contribution to  
16 practice in terms of how companies manage any advantages or disadvantages associated with  
17 history of colonisation.  
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